Luminor

INTERIM REPORT

Q2 2020

The interim report has been prepared in accordance with the IAS 34 Interim Financial Reporting and requirements set by the Bank of Estonia for quarterly reporting by credit institutions.

LUMINOR BANK AS, Estonia

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CEO COMMENT

The second quarter of 2020 witnessed the peak of the first wave of COVID-19 pandemic, which impacted lives of us all and required joint efforts to face it.

The way how the current crisis has been handled in the Baltics so far demonstrates well what can be achieved through combined effort, with different stakeholders having mobilised quickly and acted decisively. Constructive cooperation between governments, supervisors, banks and customers made it possible to provide the early and necessary support to private individuals, as well as companies during those difficult times.

The Baltic governments have launched programs to mitigate the negative effects from the pandemic and to stimulate the economies. Luminor is utilising the state guarantees to the benefit of our customers. In addition to continuously providing financing, we are helping to mitigate the economic impact of the pandemic by offering simplified grace period solutions to all of our qualified customers. We are supporting our customers further by extending the loan principal payment moratoriums until the end of September 2020 while retaining the existing conditions.

Throughout the crisis, Luminor kept its customer service centres open while implementing strict measures to protect our customers and employees. To prevent the spread of virus, we were able to mobilise over 75% of our employees to working remotely in a very short time. This experience has changed our ways of working and even coming out of the crisis, we have further adopted flexible working time and place principles and encourage our employees to split their working days between office and remote work.

Luminor continued the year with a strong financial standing, which is a solid platform to be there for our customers throughout the crisis and to support them in coming out of it. Our funding structure was further improved with a continuous increase in deposits. By reaching loans to deposits ratio of 93%, Luminor has achieved fully independent funding structure and paid back the utilized part of credit line from DNB and Nordea, while retaining the credit line as a stand-by facility. Net profit in the second quarter amounted to 13.5 million EUR compared to negative result in the previous quarter, when larger loan loss provisions were recognised due to the spread of COVID-19.

Despite the timelines being impacted by the pandemic, continuous progress was made with the carve-out across all three countries. During the second quarter of 2020, Luminor finalised the migration of customers in Lithuania to the common technology platform, becoming fully independent of the systems of both DNB and Nordea. By the end of June, also more than 99% of Luminor’s customer base in Latvia was using our common independent technology platforms, with the remaining customers being migrated in July.

While the volume of deposits in the Retail Banking segment increased by 245 million EUR in the second quarter of 2020, the pandemic impacted new sales across the product groups. One of the top priorities for Retail Banking in the second quarter was to optimise its processes to improve the experience for customers and staff. The range of online services was expanded further by launching remote customer onboarding in Lithuania, after having successfully implemented it in Latvia. The service will be extended to Estonia in the third quarter of 2020. Retail banking also continued with the transformation to strengthen its customer service process and advisory concept.

The top priority for the Corporate Banking team in the second quarter of 2020 was to help corporate customers cope with the impact of COVID-19 on their businesses. Principal payment grace periods were granted for approximately 15.2% of the total corporate loan portfolio. Loan loss provisions totalled 12 million EUR, which was half less than in the first quarter. Loan volumes contracted by 5% in the second quarter as demand for new loans dropped significantly in March and only started to slightly recover in June.

The second quarter of 2020 saw continuous growth for the Wealth Management segment with the assets under management of Private Banking reaching 1.5 billion EUR and pension assets 1.4 billion EUR, a 9% increase for both from same quarter in 2019 and 11% from the first quarter of 2020. The growth was supported by the high interest of existing and newly onboarded customers towards the new Luminor investor platform.

Luminor focuses continuously on being proactive and vigilant in preventing and detecting financial crime. During the second quarter of 2020, the financial crime risk management framework to prevent, detect, manage and report potential financial crime risk was further enhanced, supporting its conservative approach towards money laundering and financial crime.

While the economic impact of the COVID-19 outbreak is sure to be significant, the Baltic economies were strong when entering the crisis, with a private and public sector debt in relation to GDP among the lowest in Europe. The Baltic states have also managed to contain the virus outbreak relatively well. This may cushion the economic shock and promote a subsequent recovery from the pandemic. All our joint efforts should now concentrate on restarting economies while keeping in mind safety considerations.

We are grateful to our customers for turning to us for advice and support during those trying times and we assure them that we will continue to be here for them when coming out of the crisis.

Erkki Raasuke

CEO

MANAGEMENT REPORT

General information

Luminor Bank AS (Luminor) was established on 1 October 2017 through the merger of the Baltic operations of DNB Bank ASA (Commercial Register no. 984 851 006, DNB) and Nordea Bank Abp (Commercial Register no. 2858394-9, Nordea) to create a new-generation financial service provider for local businesses and financially active people.

On 30 September 2019 it was announced that the transaction signed on 13 September 2018 between DNB, Nordea and US-based private equity firm Blackstone had been concluded and as a result a consortium led by private equity funds managed by Blackstone acquired a 60.1% majority stake in the bank. The bank's initial owners Nordea and DNB each retained a 19.95% equity stake in Luminor, but an arrangement has been made by the consortium and Nordea for the purchase of Nordea's remaining stake over the coming years.

Luminor is the third-largest provider of financial services in the Baltics, with some 900 000 clients, 2 494 employees, and market share of 15.6% in deposits and 17.6% in lending as at the end of June 2020. Luminor has total shareholders' equity of 1.6 billion EUR and it is capitalised with a CET1 ratio of 22.0%. Luminor's core business is serving entrepreneurial people in the Baltics with a primary focus on local companies and the financially active people.

Luminor offers its customers a wide range of products and services through all possible channels, digital and physical, with 34 customer service centres in total in Latvia, Lithuania and Estonia, of which nine are meet-up points. Luminor owns 363 ATMs throughout the Baltic states, and additionally provides services through 100 ATMs in partnership with other financial services providers.

30 June 2020				
	Estonia	***Latvia***	***Lithuania***	**Total**
Number of customers	*~130 000*	*~222 000*	*~558 000*	~910 000
Market shares				
Lending	*12.6%*	*22.4%*	*19.4%*	17.6%
Deposits	*8.9%*	*15.7%*	*20.8%*	15.6%
Number of client service centres, including meet- up points	*8*	*10*	*16*	34
Number of employees	*595*	*883*	*1 016*	2 494

Macroeconomic overview

The economic implications of the COVID-19 outbreak are certain to be significant as the pandemic has severely impacted growth across all the regions of the world, including the euro area. The June 2020 World Economic Outlook of the International Monetary Fund projects that global growth will contract by 4.9% in 2020, which will constitute the worst downturn since the Great Depression. Global output is expected to rebound by 5.4% in 2021. The uncertainty around this forecast is however greater than usual. Recent data from economic surveys point towards economic stabilisation though, and to recovery taking hold in countries that have moved further towards taming the virus and lifting lockdown restrictions.

The impact on the euro area, including the Baltic economies, is likely to be concentrated in the first half of 2020, and the recovery will take hold from the third quarter of the year. The euro area is the key destination for Baltic exports, and it had already been hit quite evidently by the pandemic and the deteriorating economic environment in the first quarter of 2020. Particularly notable was that the euro area turned from soft annual growth of 1% over the year at the end of last year to a drop of 3.1% over the year and 3.6% over the quarter in the first quarter, reflecting the substantial drag imposed by both consumption and investment on top of contracting trade. The Baltic economies are famously open and were the fastest growing euro area economies in the past three years, but the trend in their growth was gradually moderating well before the outbreak of COVID-19 as global trade became more muted. The deceleration in growth in the first quarter was however more modest than the average in the euro-area as yearly growth held up at -0.8% in Estonia, -1.5% in Latvia and 2.4% in Lithuania. This can be attributed to labour markets being strong before the pandemic hit, which supported domestic demand.

The Baltic states have managed to contain the virus outbreak relatively well. External borders were swiftly closed and a quarantine period was introduced with proportional and partial lockdown measures as needed to limit the spread of the virus immediately after the first COVID-19 positive domestic cases were confirmed in mid-March. The number of new virus cases each day was brought down to single digits as early as mid-May, with no second round outbreaks occurring after the economies reopened from the partial lockdown measures that were brought in to limit the spread of the virus. Each of the three Baltic states followed its own strategy and medical plan to contain the spread of the virus as was the case in the other euro area countries. A common characteristic was that no full lock-down of the economies was deemed necessary as manufacturing industry largely continued to fulfil orders and several non-food shops, such as building materials stores, remained open during the quarantine period in Estonia and Latvia. Furthermore, the medical systems successfully maintained sufficient free capacity even as the spread of the virus was contained by the broad-based distancing measures.

Growth in the Baltic economies has been robust in recent years, as GDP growth has outpaced the euro area average by a significant margin. Baltic private and public sector debt in relation to GDP meanwhile has stood in stark contrast to where it was going into the Global Financial Crisis as it has been among the lowest in Europe, and this may cushion the economic shock and promote a subsequent recovery from the pandemic. Domestic demand and business activity held up well in the region until the pandemic started, as very tight labour markets supported wage growth in high single digits and strong consumer demand. This strong starting point explains the relatively soft contraction in the Baltic economies in the first quarter, but it does not entirely insulate the region's economies from the impact of the pandemic.

Sharp recessions in the Baltic economies, concentrated in the second quarter, are likely to be followed by a fairly swift recovery from the third quarter onwards, assuming that there is no major re-emergence of the pandemic in Europe. A combination of factors will facilitate this. Firstly, the key trading partners of the Baltic states, including Germany and the Nordic countries, have weathered the pandemic quite well and have already taken substantial steps to reopen their economies, with economic data improving. Secondly, April and May probably saw the lowest point in activity in the Baltics as retail sales started to rebound from May while economic confidence recovered in both the two months after April once restrictions were lifted. Consumer demand has benefitted from fiscal support with unemployment keeping growing. Furthermore cross-border travel restrictions between the three Baltic states were lifted from mid-May, after which the EU Commission recommended that Schengen Associated States lift their internal border controls by 15 June. Tourism is, however, expected to recover only gradually in Europe.

Overall the recovery from COVID-19 has already started in the Baltic states following their re-opening. The European Central Bank (the ECB) has delivered substantial support to the euro area as a whole, and the Baltic states will benefit on top of this from targeted extraordinary fiscal support measures at both the national and EU levels to mitigate the consequences of the crisis. Targeted economic policy continues to cushion household losses and provide support to firms to boost demand. There is no doubt that the loss of activity in the coming quarters will be significant, but it is crucial that the economies can recover swiftly as the spread of the virus remains contained and the recovery in European economies gets underway with substantial economic policy support in the pipeline.

COVID-19 impact on Luminor

The impact of COVID-19 on the economies of the Baltic states is still being assessed, and some sectors and companies will not recover for some years yet. It is natural in that case that, for direct or precautionary reasons, many customers will need to ask their banks for grace periods for their financial obligations.

To help our customers withstand the crisis, Luminor is offering simplified grace period solutions to both private individuals and corporate customers in all three Baltic states. As at the end of the second quarter 2020, Luminor had granted grace periods to corporate customers representing 15.2% of the corporate loan portfolio volume, and grace periods to private customers that covered 8.0% of mortgage loans and 2.8% of other loans, mostly leases and consumer finance, across the Baltic states.

The Estonian, Latvian, and Lithuanian governments have followed those in other countries around the world by launching programmes to stimulate their economies in order to mitigate the harm caused by the pandemic. Luminor is utilising the state guarantees to the benefit of our customers. Our main partners in this in the second quarter were Kredex in Estonia, Altum in Latvia, and Invega in Lithuania, and we expect that we will soon start working with the Estonian Rural Development Foundation and the Lithuanian Agricultural Credit Guarantee Fund as well.

Luminor kept its customer service centres open throughout the crisis but put strict measures in place to protect our staff and customers.

To prevent the spread of virus, over 75% of our employees were working remotely. After the crisis has ended, we are returning to offices, but also encourage our staff to split their working days between the office and remote work.

Business development

Luminor completed its cross-border merger on 2 January 2019 and continues its operations in all the three Baltic countries through the bank headquartered in Estonia and its branches in Latvia and Lithuania. After the completion of the merger, all assets, rights and liabilities of Luminor Bank AS (Latvia) and Luminor Bank AB (Lithuania) were transferred to Luminor Bank AS in Estonia. The bank continues its activities in Latvia and Lithuania through its locally established branches. A new organisational set up and a new governance structure were also introduced, and new members of management bodies were appointed.

The deposits and financial instruments of the depositors and customers using the investment services of Luminor Bank AS and its Latvian branch and Lithuanian branch are guaranteed by the deposit guarantee and investor protection scheme established and operated by the Estonian Guarantee Fund.

As at the end of the second quarter of 2020, by reaching loans to deposits ratio of 93%, Luminor has achieved fully independent funding structure and paid back the utilized part of credit line from DNB and Nordea, while retaining the credit line as a stand-by facility.

The timelines for the technology programme were impacted by COVID-19, but continuous progress was made even so in the carve-out (separation from DNB and Nordea systems) across all three countries. During the second quarter of 2020, Luminor finalised the migration of customers in Lithuania to the common technology platform we are targeting, and from the end of June we are operating technology platforms that are fully independent of the systems of either DNB or Nordea. Work to finalise the migration and decommissioning of historical data is currently ongoing so that we can finally stop using the technology services provided by DNB and Nordea under the Transitional Service Agreement.

Phased customer migration made further progress in Latvia, and more than 99% of Luminor's customer base was using our common independent technology platforms by the end of June. The remaining customers were migrated in July, after which work will commence on migrating and decommissioning historical data.

The testing of the new banking platform continued in Estonia, and it was launched for pilot- users in July. Market launch and customer migration are planned for the fourth quarter of 2020. The adverse impact of COVID-19 has delayed the launch, but we are still expecting that the carve-out in Estonia will be completed in 2020.

PRODUCT AND DIGITAL DEVELOPMENT

Luminor further strengthened its Daily Banking offering in the second quarter of 2020 by continuing the launch and promotion of new services and products that had got going in the first quarter. Following the success in Latvia, remote customer onboarding was launched in Lithuania in the second quarter. The service will be extended to Estonia in the third quarter.

The e-Commerce Gateway, which was launched for Mass Business customers at the end of the first quarter, received 310 applications and converted 159 of them into agreements. The e-Commerce Gateway provides card acquiring services that let businesses accept VISA and Mastercard cards, and it uses the Open Banking application programming interfaces (APIs) of major banks so that account-to-account payments can be acquired.

Luminor also launched its Black Card in Lithuania. This credit card is an excellent value proposition for domestic and overseas use and the aim is for it to become the target credit card for Luminor customers in all three countries.

THE RETAIL BANKING SEGMENT

The volume of deposits in the Retail Banking segment increased by 245 million EUR in the second quarter of 2020, which was a significant step up from the increase of 65 million EUR in the same period last year.

COVID-19 meant that plans for marketing communications had to be adjusted and a number of campaigns and other activities aimed at gaining new customers had to be postponed. New sales of mortgages were down by 6.2 million EUR compared to previous quarter. Interest from customers in taking housing loans had returned by early May to where it was before the pandemic, but stricter scoring criteria were held in place to limit potential risk exposure. The lending strategy was revised at the same time, and the gradual implementation of it started to support the acquisition of target customers. A training programme on housing loans was created for frontline staff and was launched in all three countries with six different training sessions and workshops.

One of the top priorities for Retail Banking in the second quarter was to optimise its processes to improve the experience for customers and staff. A number of processes were simplified and changes like the e-Commerce Gateway and remote onboarding were introduced.

Retail Banking started the transformation process in the second quarter through which it will support Luminor's strategic goal of becoming a Digital Retail bank. This process includes a redesign of the customer service process and advisory concept, and an optimisation of channels and the organisational structure.

THE CORPORATE BANKING SEGMENT

The top priority for the Corporate Banking team in the second quarter of 2020 was to support our corporate customers to cope with the impact of COVID-19 on their businesses. Principal payment grace periods have been granted to corporate loans, representing 15.2% of the total Baltic corporate loan portfolio volume.

Loan volumes contracted by a further 5% in the second quarter as demand for new loans dropped significantly in March and only started to recover in June. More than 80% of the loan book continued to be amortised to its original schedule. Deposit volumes were unchanged and we continued to work to improve the granularity of our deposit base. Overall income increased slightly on the back of a rise in net interest income that came from both higher margins on lending and lower costs for funding.

THE WEALTH MANAGEMENT SEGMENT

The second quarter of 2020 saw continuous growth for the Wealth Management segment.

The focus on growing Private Banking meant that assets under management reached 1.5 billion EUR in the second quarter, which was 9% more than in the same quarter of 2019 and 11% more than in the first quarter of 2020. The growth was supported by the high interest of existing and newly onboarded customers towards the new Luminor investor platform, and high customer satisfaction with provided Private Banking services.

Pension assets increased to 1.4 billion EUR, which was 9% more than a year earlier and 11% more than in the previous quarter. By the end of the second quarter Luminor had approximately 289 000 second pillar pension customers and 62 000 third pillar customers.

CORPORATE SOCIAL RESPONSIBILITY

The safety and well-being of Luminor employees and customers remained our top priority in the second quarter of 2020 in all our activities. Even as we continued to offer banking services to our customers and kept our branches open, we took comprehensive measures to assure the safety of our staff and customers. We used remote working as far as possible, with over 75% of our employees working off-site, and we paid extra attention to cleaning and to the availability of disinfectants in our facilities and ATMs, while also providing protective equipment to all our staff who needed it.

We also encouraged our customers to use digital services as much as possible, and we had more people advising customers at our call centres and extended the working hours of those call centres. The remote onboarding service, which was already operating in Latvia, was also introduced in Lithuania in the second quarter. Online meetings, video meetings and a pre-booking system were introduced for Customer Service Centres to increase the share of remote services provided. All new payment cards or reissued payment cards were sent to customers by post, and the Baltic ratio for this was 95%.

To help our customers to mitigate the economic impact caused by the pandemic, Luminor is offering simplified grace period solutions for both private individuals and corporate customers and is extending the lending moratoriums until the end of September while retaining the same conditions.

Multiple webinars were held in each of the three countries that provided Luminor customers insightful and practical information about working remotely, leading teams, developments in credit markets, and information security.

The community investment project *Here for You* was successfully completed in the second quarter as Luminor helped nine different businesses and NGOs in the Baltic states to build their e-Commerce Gateway capabilities and launch online shops. Tutorial web pages were launched in Estonia and Latvia to educate customers further and to give them useful guidance about building online shops.

Tablets were provided to seven families in Lithuania through *Save the Children* programme in order to support home schooling and remote studying.

EFFORTS TO PREVENT FINANCIAL CRIME

Luminor remains vigilant about financial crime and is committed to preventing and detecting it. We regularly review our anti-financial crime (AFC) practices and invest in the human and technological resources that are needed. We constantly work to get a better understanding of our customers and their transactions, and to manage and report any potential financial crime risk. Luminor predominantly serves residents of Estonia, Latvia and Lithuania, and customers who have a strong personal or business connection to the Baltic states.

During the second quarter of 2020, Luminor further enhanced its financial crime risk management framework in order to prevent, detect, manage and report potential financial crime risk even better, and this has been supported by its conservative approach towards money laundering and financial crime. The framework covers the technology, policies and procedures employed to detect financial crime, assess risks, run training and awareness-raising, and monitor new and developing financial crime risks continuously.

Luminor is subject to a wide range of legal requirements, and so we are transparent in all our activities and we work closely with all the supervisory and regulatory authorities. Luminor also follows the international guidelines, recommendations and standards issued by the regulatory and supervisory authorities, international bodies, local banking associations, and by the financial intelligence units in each Baltic state.

Luminor continued to invest in systems and processes so we can adapt in a constantly changing environment - an example is that full domestic payment screening was introduced in the second quarter of 2020. The bank is further developing its common monitoring and screening solution in all three Baltic states and has envisaged several further developments that will be delivered during 2020 and the first half of 2021.

Luminor considers that work to raise awareness is an important component of the financial crime risk management framework. In the second quarter, 34 training events related to AFC and corporate compliance areas were held on 18 different topics.

OTHER EVENTS

The Estonian Financial Supervision and Resolution Authority (the FSA)in June 2020 published its ruling on the misdemeanour proceedings against Luminor Pension Estonia AS. The FSA stated that the information published in 2019 in the Key Investor Information Documents by Luminor Pensions Estonia AS about the ongoing charges for managed pension funds was incomplete, and so it set a penalty of 170 000 EUR. Luminor Pensions Estonia AS had already published the corrected information to its customers in February 2020.

The Shareholders Meeting of Luminor Bank AS in June 2020 appointed Maria Elena Cappello as a new member of the bank's Supervisory Council.

EVENTS AFTER 30 JUNE

Johan Pedersson Lilliehöök has resigned from the Supervisory Council of Luminor Bank AS as of 1 August 2020.

Financial results

Net profit in the second quarter was 13.5 million EUR, which is 6.8 million EUR more than in the same quarter of last year. The loan-to-deposit ratio came down to 93.0% from 117.1% a year earlier. It was supported both by an increase of 1.0 billion EUR in deposits and a decrease of 1.4 billion EUR in lending portfolio.

Net interest income was 55.9 million EUR in the second quarter having been 67.0 million EUR in the same quarter last year, (please, refer to additional information at Note 1) and this decline is explained by the planned effort to reprice and rightsize the balance sheet. Net commission income was 24% less than in the same quarter of last year, mainly because customer activity was lower as a consequence of COVID-19. The lower level of customer activity was visible in the reduced number of transactions and volumes during the lockdown period, but customer activity recovered at the end of the quarter.

Total operating expenses in the second quarter were 64.8 million EUR, which is 3.9 million EUR less than a year earlier (please, refer to additional information at Note 1). Exceptional costs in the second quarter reached 23.5 million EUR, which is 18% more than the comparable exceptional costs for the same period last year*. The largest part of the exceptional costs in the second quarter of this year were IT expenses, which constituted 85% of them, while staff costs constituted another 11%. Total operating expenses excluding exceptional costs were 15% lower in the second quarter than in the same period last year. The underlying business performance continues to improve, which is reflected in improved cost-to-income ratio and return on equity excluding exceptional costs. Cost-to-income ratio excluding exceptional costs decreased from 54.6% in the second quarter last year to 51.3% this year (6 month result was 55.2% in 2019 and 51.1% in 2020) and return on equity excluding exceptional costs increased from 5.3% in the second quarter last year to 9.2% this year (6 month result was 8.2% in 2019 and 5.7% in 2020, explained by loan loss provisions in the first quarter this year as a result of the COVID-19 pandemic).

**The comparable exceptional cost for the first quarter 2020 was 30.7 million EUR, and it was 19.8 million EUR in the first quarter 2019.*

Key figures and ratios of Luminor**

thousand EUR	Q2 2020	Q1 2020	Q2 2019	January - June 2020	January - June 2019	Full Year 2019
Net profit	13 463	-21 192	6 711	-7 729	33 078	53 997
Average equity	1 616 621	1 621 160	1 718 147	1 627 731	1 705 734	1 714 685
Return on equity (ROE), %	3.3	-5.3	1.6	-1.0	3.9	3.1
Average assets	13 357 895	13 492 719	14 081 334	13 603 840	14 662 559	14 522 261
Return on assets (ROA), %	0.4	-0.6	0.2	-0.1	0.5	0.4
Net interest income	55 878	54 080	66 950	111 685	132 155	244 167
Average interest earning assets	13 080 712	13 194 251	13 315 122	13 307 405	14 313 703	14 192 831
Net interest margin (NIM), %	1.7	1.6	2.0	1.7	1.9	1.7
Cost / Income ratio (C/I), %	80.5	89.0	77.0	84.8	77.1	77.6
Credit impairment ratio, %***	0.13	1.05	0.38	0.60	0.06	0.22
Loans to customers	9 616 727	9 927 897	10 979 181	9 616 727	10 979 181	10 222 547
Deposits from customers	10 344 572	9 958 280	9 374 812	10 344 572	9 374 812	10 235 443
Loans / Deposits ratio, %	93.0	99.7	117.1	93.0	117.1	99.9
CET1 ratio, %	22.0	20.5	18.0	22.0	18.0	19.7
NPL ratio (gross), %	4.0	3.9	4.3	4.0	4.3	3.8
Net interest income / Loans, %	2.3	2.2	2.4	2.3	2.4	2.4

** Quarterly ratios (ROE, ROA, NIM, C/I, Credit impairment ratio) are expressed on an annualised basis

*** If loan recoveries prevail, the ratio is negative

Explanations

Average equity (belonging to the owners of the company) = (equity at the end of the reporting period + equity at the end of the previous period) / 2
Return on equity (ROE) = Net profit / Average equity * 100
Average assets = (assets at the end of the reporting period + assets at the end of the previous period) / 2
Return on assets (ROA) = Net profit / Average assets * 100
Average interest earning assets = (interest-earning assets at the end of the reporting period + interest-earning assets at the end of the previous period) / 2
Net interest margin (NIM) = Net interest income / Average interest earning assets * 100
Cost / Income ratio = Total operating expenses / Net total operating income * 100
Credit impairment ratio = Net losses or reversal on loans to customers / Net loans, average * 100
Loans / Deposits ratio = Loans to customers / Deposits from customers * 100
CET 1 ratio = Common Equity Tier 1 Capital / Risk-weighted Assets
NPL (non-performing loan) ratio = Gross impaired loans (Stage 3 loans) / Gross loans * 100

LENDING AND DEPOSITS

The lending portfolio continued to decrease and it was down to 9.6 billion EUR at the end of the second quarter from 11.0 billion EUR a year earlier. The composition changed slightly over those 12 months as the share of lending to individual customers increased from 53% to 57% and the share of lending to business customers declined from 45% to 41% at the Baltic level. Luminor's share of the lending market in the Baltics decreased from 19.6% to 17.6% over the 12 months.

Lending thousand EUR	30 June 2020				
	Individual customers	Business customers	Public sector	Financial institutions	Total
Total	5 476 739	3 978 102	148 883	13 003	9 616 727
Estonia	*1 303 559*	*1 134 105*	*63 305*	*9 086*	*2 510 055*
Latvia	*1 560 151*	*1 272 165*	*8 128*	*3 033*	*2 843 477*
Lithuania	*2 613 029*	*1 571 832*	*77 450*	*884*	*4 263 195*

Deposits thousand EUR	30 June 2020				
	Individual customers	Business customers	Public sector	Financial institutions	Total
Total	4 048 307	3 700 354	2 201 215	394 696	10 344 572
Estonia	*497 006*	*810 001*	*384 484*	*200 566*	*1 892 057*
Latvia	*1 292 342*	*1 057 308*	*188 853*	*97 421*	*2 635 924*
Lithuania	*2 258 959*	*1 833 045*	*1 627 878*	*96 709*	*5 816 591*

Deposits from customers continued to increase and they totalled 10.3 billion EUR at the end of the second quarter, up from 9.4 billion EUR a year before. The composition changed slightly over the year as the share of deposits from the public sector increased from 17% to 21% and the share of deposits from business customers declined from 39% to 36% at the Baltic level. Luminor's share of the deposit market in the Baltics decreased from 16.7% to 15.6% over the 12 months.

ASSET QUALITY FOR Q2 2020

The adverse impact of COVID-19 had also affected asset quality at Luminor.

The severest impact was felt by industries like accommodation, tourism and aviation. Luminor's exposure towards these economic sectors is relatively small, but the trends were also negative in the overall portfolio as other industries were hit quite severely as well. As a result, requests for modifications including grace periods reached 1.1 billion EUR at the end of June 2020, covering 12% of the total credit portfolio. The flow of modification requests stabilised throughout May however, and was insignificant in June. The total value of modifications approved reached almost 1.0 billion EUR at the end of June 2020.

Approximately 70% of the requests for modifications came from business customers. The reasons why business customers applied for modifications earlier than individual customers did, might be that:

- business customers were affected first; moreover, professional financial management leads business customers to approach their bank immediately, if they foresee a need for modifications;
- individual customers can often access unemployment benefits.

The largest part of the requests from business customers for modifications came from industries like real estate activities, transportation and storage, wholesale and retail trade, and manufacturing.

The most common modification requested was a grace period on principal payments. Luminor allows a full grace period covering both principal and interest payments in exceptional cases only.

The volume of overdue loans is fluctuating and not yet showing any clear negative trends, however, depending on the development of the pandemic and measures taken by governments, this might accelerate significantly during the second half of 2020.

Luminor’s loan loss provisions reached 3.2 million EUR during the second quarter. Around two thirds of the loan loss provisions were for Stage 3 exposures, while the rest were for Stage 1 and Stage 2. Stage 1 and Stage 2 loan loss provisions mainly increased because of changes in the macroeconomic outlook and downgrades. Stage 3 loan loss provisions were largely driven by forbearance measures applied to mortgage loans that triggered non-performing status. Loan loss provisions for the first quarter were 26.4 million EUR, bringing the total for the first half of 2020 to 29.6 million EUR.

The share of non-performing loans, or the NPL ratio, was 4.0% at the end of the quarter, which is an increase of 0.1 percentage point from the previous quarter and was due to a decline in the total portfolio. The NPL ratio for the mortgage loan portfolio was 3.0%, which is an increase of 0.1 percentage point that was mainly due to the forbearance measures that were applied.

Total allowance for expected credit losseson the balance sheet were 191.9 million EUR at the end of the quarter, of which 137.1 million EUR were for Stage 3 exposures. Non-performing loans totalled 393.8 million EUR at the end of second quarter.

Asset quality of Luminor as at 30 June 2020

	30 June 2020			
thousand EUR*	**Total**	***Estonia***	***Latvia***	***Lithuania***
Financial institutions				
Stage 1				
Gross carrying amount	7 880	6 425	639	816
Allowance for expected credit losses	-77	-70	-2	-5
Carrying amount	**7 803**	**6 355**	**637**	**811**
Stage 2				
Gross carrying amount	5 212	2 743	2 394	75
Allowance for expected credit losses	-108	-97	-9	-2
Carrying amount	**5 104**	**2 646**	**2 385**	**73**
Stage 3				
Gross carrying amount	96	85	11	0
Allowance for expected credit losses	0	0	0	0
Carrying amount	**96**	**85**	**11**	**0**
Total carrying amount for financial institutions	**13 003**	**9 086**	**3 033**	**884**
Public sector				
Stage 1				
Gross carrying amount	148 495	63 328	8 128	77 039
Allowance for expected credit losses	-32	-25	0	-7
Carrying amount	**148 463**	**63 303**	**8 128**	**77 032**
Stage 2				
Gross carrying amount	42	2	0	40
Allowance for expected credit losses	0	0	0	0
Carrying amount	**42**	**2**	**0**	**40**
Stage 3				
Gross carrying amount	378	0	0	378
Allowance for expected credit losses	0	0	0	0
Carrying amount	**378**	**0**	**0**	**378**
Total carrying amount for the public sector	**148 883**	**63 305**	**8 128**	**77 450**
Individual customers				
Stage 1				
Gross carrying amount	5 050 488	1 224 536	1 418 197	2 407 755
Allowance for expected credit losses	-9 495	-1 192	-2 599	-5 704
Carrying amount	**5 040 993**	**1 223 344**	**1 415 598**	**2 402 051**
Stage 2				
Gross carrying amount	326 581	65 984	94 496	166 101
Allowance for expected credit losses	-17 195	-1 920	-6 303	-8 972
Carrying amount	**309 386**	**64 064**	**88 193**	**157 129**

Stage 3				
Gross carrying amount	176 049	18 786	88 308	68 955
Allowance for expected credit losses	-49 689	-2 635	-31 948	-15 106
Carrying amount	**126 360**	**16 151**	**56 360**	**53 849**
Total carrying amount for individual customers	**5 476 739**	**1 303 559**	**1 560 151**	**2 613 029**
of which mortgage loans				
Stage 1				
Gross carrying amount	4 287 014	975 095	1 246 757	2 065 162
Allowance for expected credit losses	-5 642	-556	-1 775	-3 311
Carrying amount	**4 281 372**	**974 539**	**1 244 982**	**2 061 851**
Stage 2				
Gross carrying amount	212 830	47 278	82 011	83 541
Allowance for expected credit losses	-14 387	-1 609	-5 965	-6 813
Carrying amount	**198 443**	**45 669**	**76 046**	**76 728**
Stage 3				
Gross carrying amount	137 108	14 937	78 024	44 147
Allowance for expected credit losses	-37 652	-1 752	-28 183	-7 717
Carrying amount	**99 456**	**13 185**	**49 841**	**36 430**
Total carrying amount for mortgage loans	**4 579 271**	**1 033 393**	**1 370 869**	**2 175 009**
Business customers				
Stage 1				
Gross carrying amount	2 777 741	814 177	816 890	1 146 674
Allowance for expected credit losses	-12 279	-6 394	-1 209	-4 676
Carrying amount	**2 765 462**	**807 783**	**815 681**	**1 141 998**
Stage 2				
Gross carrying amount	1 098 372	281 122	411 301	405 949
Allowance for expected credit losses	-15 612	-5 918	-2 369	-7 325
Carrying amount	**1 082 760**	**275 204**	**408 932**	**398 624**
Stage 3				
Gross carrying amount	217 299	95 623	68 518	53 158
Allowance for expected credit losses	-87 419	-44 505	-20 966	-21 948
Carrying amount	**129 880**	**51 118**	**47 552**	**31 210**
Total carrying amount for business customers	**3 978 102**	**1 134 105**	**1 272 165**	**1 571 832**
Totals				
Gross carrying amount Stage 1	7 984 604	2 108 466	2 243 854	3 632 284
Gross carrying amount Stage 2	1 430 207	349 851	508 191	572 165
Gross carrying amount Stage 3	393 822	114 494	156 837	122 491
Total gross carrying amount	**9 808 633**	**2 572 811**	**2 908 882**	**4 326 940**
Allowance for expected credit losses Stage 1	-21 883	-7 681	-3 810	-10 392
Allowance for expected credit losses Stage 2	-32 915	-7 935	-8 681	-16 299

Allowance for expected credit losses Stage 3	-137 108	-47 140	-52 914	-37 054
Total allowance for expected credit losses	**-191 906**	**-62 756**	**-65 405**	**-63 745**
Total carrying amount	**9 616 727**	**2 510 055**	**2 843 477**	**4 263 195**
Gross Stage 3 loans vs Gross loans (NPL ratio), %	4.02	4.45	5.39	2.83
Gross Stage 3 mortgage loans vs Gross mortgage loans (NPL ratio for mortgage loans), %	2.96	1.44	5.55	2.01
Allowance for expected credit losses Stage 3 vs Gross Stage 3 loans (Stage 3 impairment ratio), %	34.81	41.17	33.74	30.25
Allowance for expected credit losses vs Gross loans (Impairment ratio), %	1.96	2.44	2.25	1.47

* Excluding Loans to Credit Institutions
Table above contains POCI contracts in Stage 2 in the amount of 38 912 thousand EUR (Estonia – 2 498 thousand EUR, Latvia – 1 453 thousand EUR, Lithuania – 34 961 thousand EUR) and in Stage 3 in the amount of 18 664 thousand EUR (Estonia - 398 thousand EUR, Latvia – 5 561 thousand EUR, Lithuania – 12 705 thousand EUR).

Explanations:

Gross Stage 3 Loans vs Gross Loans (NPL ratio) % = Gross Stage 3 Loans / Gross Loans

Gross Stage 3 mortgage loans vs Gross mortgage loans (NPL ratio for mortgage loans), % = Gross Stage 3 Mortgage Loans / Gross Mortgage loans

Stage 3 Impairment ratio % = Allowances Stage 3 / Gross Stage 3 Loans

Impairment ratio % = Total Allowances / Total Gross Loans

The credit quality of loans as at 30 June 2020 is disclosed in the table below using the risk scale set in the Luminor Credit Manual: the probability of default for low-risk rating grades (1 to 4) is in the range of 0.00% to 0.75%, for moderate-risk rating grades (5 to 7) it ranges from 0.75% to 3.00%, and for high-risk rating grades (from 8 to 10) it is from 3.00% to 40.00%.

Loans to customers, 30 June 2020 thousand EUR	Stage 1	Stage 2	Stage 3	Total
Low risk	5 022 935	88 701	0	5 111 636
Moderate risk	2 823 847	861 130	0	3 684 977
High risk	137 822	480 376	0	618 198
Default	0	0	393 822	393 822
Gross	**7 984 604**	**1 430 207**	**393 822**	**9 808 633**
Allowance for expected credit losses	-21 883	-32 915	-137 108	-191 906
Net	**7 962 721**	**1 397 292**	**256 714**	**9 616 727**

Economic sectors

The following table breaks down the loans and advances to customers at their carrying amounts, as categorised by the economic sectors of our counterparties.

thousand EUR	Amount as at 30 June 2020	%
Private individuals*	5 229 809	54.4%
Real estate activities	1 156 031	12.0%
Wholesale and retail trade	726 896	7.6%
Other industries	606 607	6.3%
Agriculture, hunting, forestry, fishing	536 481	5.6%
Manufacturing	484 130	5.0%
Transport, storage, communication	377 565	3.9%
Construction	184 446	1.9%
Electricity, gas, water supply	148 146	1.5%
Public sector	112 414	1.2%
Financial intermediation	54 202	0.6%
Total	**9 616 727**	**100.0%**

*Private individuals do not include non-profit organisations and self-employed individuals.

Information about credit-impaired loans and collaterals

The amount of credit-impaired loans is reported together with the value of related collateral held as security in the tables below. Credit-impaired loans are most often secured by real estate and movable assets. The value for such collateral is equal to its market value and not its liquidation value, and this is updated shortly after the default has been identified.

30 June 2020 thousand EUR	Gross	Allowance for expected credit losses	Net	Fair value of collateral
Business customers	217 773	-87 419	130 354	166 403
Individual customers	176 049	-49 689	126 360	152 636
Total	**393 822**	**-137 108**	**256 714**	**319 039**

* Finacial institutions and public sector Stage 3 loans included

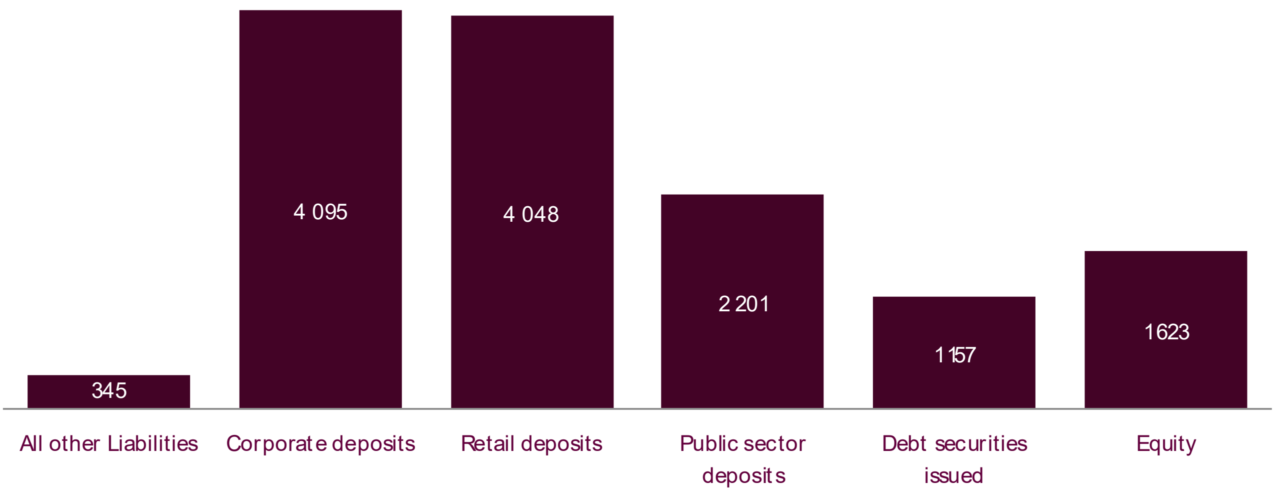
FUNDING

One of the main objectives for Luminor is to create a self-sustaining combined banking group. A key requirement for achieving this is that the funding from former parents provided in equal parts by DNB and Nordea should gradually be replaced by other forms of funding such as deposits and wholesale funding from third parties. As at the end of June 2020 Luminor was a fully self-funded banking group with zero outstanding funding from former parent banks under the debt facility agreement.

This has been achieved over time through reduced lending volumes and also through an improved funding structure. Deposits from customers stood at 10 344 million EUR at the end of the second quarter of 2020, and at 9 959 million EUR at the end of the first quarter. In March 2020 Luminor issued its inaugural five-year covered bond for 500 million EUR, which received a long-term rating of Aa1 from Moody's. The total nominal value of the bonds outstanding under the Euro Medium Term Note or EMTN programme was 1 150 million EUR at the end of the second quarter of 2020 as Luminor had 650 million EUR of senior unsecured bonds outstanding. The senior unsecured bonds issued under the EMTN programme have been assigned a rating of Baa2 by Moody's. There were no new issuances during the second quarter of 2020.

Luminor has a committed funding facility agreement with its former parent banks that is provided in the form of a syndicate, with each partner in the syndicate providing 50% of the funding. At the end of the second quarter of 2020 the total facility stood at 2 337 million EUR and was fully unused, while at the end of the first quarter Luminor had used 150 million EUR of the credit line. The amount of the facility has been committed for five years from 1 October 2019, with an initial commitment for three years and the option for Luminor to extend it by up to two years, and it can be drawn with maturities of one, two or three years. The facility is partly secured, as Luminor had assigned mortgage loans to it with a carrying value of 1 667 million EUR at the end of the second quarter of 2020 and of 1 762 million EUR at the end of the first quarter. The total commitment was reduced by 700 million EUR in July 2020 to 1 637 million EUR following a voluntary cancellation by Luminor.

Structure of Liabilities and Equity:



On 2 April 2020 Luminor received its minimum own funds and eligible liabilities (MREL) requirement in a decision of the Single Resolution Board (the SRB) dated on 20 December 2019 that was executed for Luminor by a decision of the Estonian Financial Supervision and Resolution Authority, dated on 1 April 2020. The MREL decision sets the following MREL requirements for Luminor:

- Luminor Holding AS (the parent company of Luminor Bank AS) shall comply with the MREL at the consolidated level of Luminor Bank AS of 17.28% of total liabilities and own funds at all times, and 11.97% of total liabilities and own funds shall be met with subordinated instruments;
- Luminor Holding AS shall have a transitional period until 30 June 2022 to comply with these requirements.

As at the end of the second quarter of 2020 the total MREL ratio stood at 16.6% at the consolidated level of Luminor Bank AS, down from 17% as at the end of the first quarter, while 11.8% of total liabilities and own funds were subordinated instruments as at the end of the second quarter of 2020 and 12.1% as at the end of the first quarter. It should be noted that the MREL requirements were set using data as of 31 March 2019, which means the decision does not consider any subsequent events.

Rating

On 13 September 2018 Moody's assigned Luminor long and short-term, foreign and local currency deposit ratings of Baa1/Prime-2, with a stable outlook. There have been no changes to Luminor's ratings since then. On 25 March 2020 Moody's issued an updated credit opinion for Luminor.

On 11 March 2020 Moody's assigned a definitive Aa1 rating to the mortgage covered bonds issued by Luminor Bank AS under the Estonian Covered Bonds Act.

LIQUIDITY

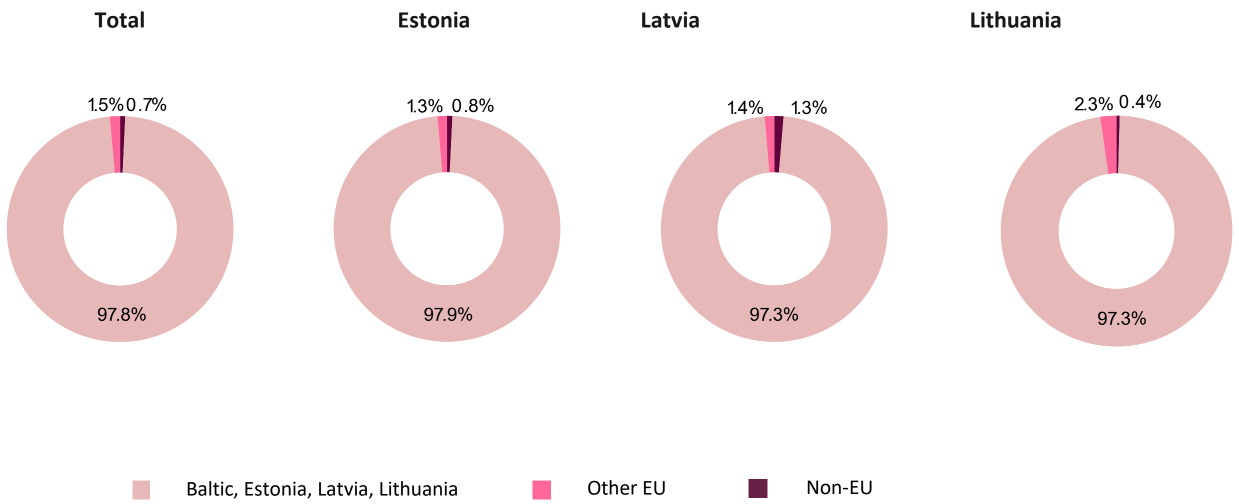
Luminor's structural liquidity risk is conservative and well-balanced, and it is based on metrics that measure liquidity risk and is appropriately adapted to the current economic and regulatory environment. Luminor uses a range of metrics to measure liquidity risk, one of which is the Liquidity Coverage Ratio (LCR). The LCR for Luminor was 159% as at the end of the second quarter of 2020 and 144% as at the end of the first quarter under the definition of the LCR given in the Capital Requirements Regulation (CRR). The ratio increased as liquidity increased because lending volumes were lower. The liquidity buffer is composed of highly liquid central-bank-eligible securities and cash. Long-term liquidity risk is measured as the Net Stable Funding Ratio (NSFR). Luminor's NSFR rose to 133% during the second quarter of 2020 from 126% at the end of the first quarter. It increased mainly because lending volumes were reduced and beneficial changes occurred in the structure of deposits that moved it towards more stable deposits.

	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
LCR	159.0%	143.7%	149.8%	144.3%	132.5%
NSFR	133.2%	126.0%	123.0%	118.0%	127.4%

Deposit structure

Deposits from customers are predominantly from residents of the Baltics. In total, 99.3% of all deposits in terms of volume are from EU residents.

Deposits by residency per country:



CAPITAL

Luminor's common equity tier 1 (CET1) ratio increased to 22.0% by the end of the second quarter of 2020 from 20.5% in the previous quarter, making it comfortably above the internal target of 17%. Risk Exposure Amount (REA) has decreased to 7.2 billion EUR primarily due to decrease of corporate exposures and the implementation of adjusted SME supporting factor. As at the end of the second quarter of 2020 Luminor had 1 587 million EUR in own funds and they were fully composed of Common Equity Tier 1 (CET1) capital, meaning the Tier 1 and total capital ratios of Luminor stood at the same level as the CET1 ratio.

The leverage ratio, calculated in accordance with the CRR, was 11.2% as at the end of the second quarter of 2020. The leverage ratio is calculated as total Tier 1 own funds divided by the total risk exposure measure, including the risk position on assets and off-balance-sheet liabilities.

Capital ratios

Position	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Leverage ratio	11.23%	11.46%	10.88%	10.89%	10.59%
CET 1 ratio	22.04%	20.54%	19.66%	18.73%	17.99%
T1 capital ratio	22.04%	20.54%	19.66%	18.73%	17.99%
Total capital ratio	22.04%	20.54%	19.66%	18.73%	17.99%

The prudential requirements, which are the Pillar 2 requirement set by the ECB in the 2019 Joint Decision on Capital, and the Systemic Risk Buffer and Countercyclical Risk Buffer requirements set by the Latvian, Estonian and Lithuanian Supervisory Authorities, obliged Luminor to hold capital exceeding 10.1% of CET1 and 14.5% of Total Capital as at 30 June 2020. In response to COVID-19 the Bank of Estonia lowered the systemic risk buffer requirement to 0% from the previous 1.0%, and the Bank of Lithuania reduced its countercyclical buffer requirement to 0% from 1.0%, applicable from the second quarter of 2020.

Own funds requirements

thousand EUR	30 June 2020	31 December 2019
TOTAL RISK EXPOSURE AMOUNT	7 198 610	7 969 099
1. RISK-WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	6 490 171	7 252 440
1.1 Standardised approach (SA)	6 490 171	7 252 440
1.1.1 SA exposure classes excluding securitisation positions	6 490 171	7 252 440
Central governments or central banks	0	0
Regional governments or local authorities	12 707	13 445
Public sector entities	2 215	674
Institutions	51 416	54 281
Corporations	3 106 095	3 742 611
Retail	1 228 118	1 347 232
Secured by mortgages on immovable property	1 527 662	1 532 931
Exposures in default	291 198	292 472
Items associated with particularly high risk	145 983	134 498
Equity	6 431	5 778
Other items	118 347	128 517
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	26 286	19 232
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	662 456	679 644
TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	19 697	17 784

Statement of the Management Board

The interim report of Luminor Bank AS for the second quarter of 2020 consists of the following parts and reports:

- The Management Report;
- The Condensed Consolidated Interim Financial Statements.

The data and additional information presented in the interim report of Luminor Bank AS for the second quarter of 2020 are true and complete. The Condensed Consolidated Interim Financial Statements have been prepared according to the principles of the International Accounting Standard IAS 34 Interim Financial Reporting as adopted by the European Union and the requirements established by the Credit Institutions Act for the disclosure of information.

Luminor Bank AS and the Bank’s subsidiaries are going concerns.

Erkki Raasuke

CEO and Chairman of the

Management Board

Tallinn, 17 August 2020

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

thousand EUR	Notes	01 January 2020 to 30 June 2020	01 January 2019 to 30 June 2019	Q2 2020	Q2 2019
Interest income calculated using the effective interest method	4	113 486	122 669	55 274	62 964
Other similar income	4	23 918	29 184	11 506	14 339
Interest and similar expense	4	-25 719	-19 698	-10 902	-10 353
Net interest income		**111 685**	**132 155**	**55 878**	**66 950**
Fee and commission income	5	46 161	52 788	21 876	27 529
Fee and commission expense	5	-12 920	-13 688	-6 405	-7 143
Net fees and commission income		**33 241**	**39 100**	**15 471**	**20 386**
Net gain on financial assets and liabilities designated at fair value through profit/loss		-194	389	288	81
Net gain on debt securities at fair value through profit or loss		3 071	527	3 895	475
Net gain on financial assets and liabilities held for trading		2 269	6 209	946	4 857
Net gain from financial derivatives		4 877	805	-2 438	-4 820
Net gain from operations with foreign currency		4 683	4 971	4 214	5 206
Dividend income		346	58	328	29
Other operating income		3 468	2 342	2 884	-271
Other operating expenses		-2 772	-5 061	-1 045	-3 670
Net other operating income		**15 748**	**10 240**	**9 072**	**1 887**
Salaries and other personnel expenses	6	-48 946	-61 372	-25 189	-25 689
Other administrative expenses	7	-81 324	-71 753	-36 627	-39 705
Depreciation and impairment of property, plant and equipment and intangible assets		-5 929	-6 855	-2 939	-3 284
Total operating expenses		**-136 199**	**-139 980**	**-64 755**	**-68 678**
Share of profit from an associate		658	485	347	271
Net impairment (-)/ reversal on loans to customers, excluding off-balance sheet commitments	3	-29 648	-3 215	-3 237	-10 491
Net impairment (-)/ reversal on off-balance sheet commitments		-3 035	-830	-1 397	-1 351
Other non-operating expenses		-57	-1 462	-21	-492
Profit before Tax		**-7 607**	**36 493**	**11 358**	**8 482**
Tax expense		-122	-3 415	2 105	-1 771
Profit (loss) for the period		**-7 729**	**33 078**	**13 463**	**6 711**
Items that will be reclassified to profit or loss					
Changes in the fair value of debt securities at fair value through other comprehensive income		0	8	0	0
Total items that will be reclassified to profit or loss		**0**	**8**	**0**	**0**

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Items that will not be reclassified to profit or loss				
Changes in the fair value of equity securities at fair value through other comprehensive income	4	2 031	0	1 902
Total Items that will not be reclassified to profit or loss	**4**	**2 031**	**0**	**1 902**
Total other comprehensive income	**4**	**2 039**	**0**	**1 902**
Total comprehensive income	**-7 725**	**35 117**	**13 463**	**8 613**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

thousand EUR	Notes	30 June 2020	31 December 2019
Assets			
Cash and balances with central banks	8	3 293 669	2 924 019
Due from other credit institutions	9	99 194	141 645
Loans to customers	11	9 616 727	10 222 547
Financial assets held for trading	17	9 489	3 021
Financial assets at fair value through profit or loss	17	255 750	227 896
Derivative financial instruments	10	47 117	59 217
Financial assets at fair value through other comprehensive income	17	140	140
Investments in associates		6 291	5 639
Intangible assets		8 241	8 199
Property, plant and equipment and right-of-use assets		64 097	67 472
Investment properties		1 110	2 427
Current tax assets		9	-
Deferred tax assets		6 704	3 031
Other assets		60 350	73 340
Non-current assets and disposal groups held for sale		128	71
Total assets		**13 469 016**	**13 738 664**
Liabilities			
Loans and deposits from credit institutions	12	103 124	980 692
Deposits from customers	13	10 344 572	10 235 443
Debt securities issued	14	1 157 038	651 716
Derivative financial instruments	10	43 707	58 304
Tax liabilities		1 522	3 845
Lease liabilities		55 071	57 051
Other financial liabilities	15	61 597	45 303
Other liabilities		72 353	69 793
Provisions		6 840	4 248
Total liabilities		**11 845 824**	**12 106 395**
Shareholders' Equity			
Issued capital		34 912	34 912
Share premium		1 412 243	1 412 243
Retained earnings		173 067	183 916
Other reserves		2 970	1 198
Total shareholders' equity attributable to the shareholders of the Bank		**1 623 192**	**1 632 269**
Total liabilities and shareholders' equity		**13 469 016**	**13 738 664**

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

thousand EUR	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Total equity as at 1 January 2019	**34 912**	**1 628 274**	**4 460**	**126 941**	**1 794 587**
Profit (loss) for the period	0	0	0	33 078	**33 078**
Other comprehensive income	0	0	2 039	0	**2 039**
Total comprehensive income for the period	**0**	**0**	**2 039**	**33 078**	**35 117**
Increase in share capital	216 031	-216 031	0	0	**0**
Decrease of share capital	-216 031	0	0	0	**-216 031**
Other	0	0	-286	979	**693**
Total equity as at 30 June 2019	**34 912**	**1 412 243**	**6 213**	**160 998**	**1 614 366**
Total equity as at 31 December 2019	**34 912**	**1 412 243**	**1 198**	**183 916**	**1 632 269**
Profit (loss) for the period	0	0	0	-7 729	**-7 729**
Other comprehensive income	0	0	4	0	**4**
Total comprehensive income for the period	**0**	**0**	**4**	**-7 729**	**-7 725**
Transfer to mandatory reserve	0	0	1 768	-1 768	**0**
Other	0	0	0	-1 352	**-1 352**
Total equity as at 30 June 2020	**34 912**	**1 412 243**	**2 970**	**173 067**	**1 623 192**

* On 28 May 2019 Luminor's shareholders decided to carry out a bonus share issue, followed by a reduction of share capital. The bonus share issue is based on the bank's interim balance sheet as of January 2, 2019 and involves a partial conversion of share premium in the amount of 216 030 920 EUR into share capital. Following the bonus issue, the share capital of the bank has been reduced by the same amount and was paid out to the shareholders in September 2019.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

thousand EUR	Notes	01 January 2020 to 30 June 2020	01 January 2019 to 30 June 2019
Cash flows from operating activities			
Profit before tax		**-7 607**	**36 493**
Adjustment for:			
-Net impairment (-)/ reversal on loans to customers, excluding off-balance sheet commitments	3	29 648	3 215
-Net impairment (-)/ reversal on off-balance sheet commitments		3 035	830
-Dividend income		-346	-58
-Share of profit from an associate		-658	0
-Loss/(profit) from foreign currency revaluation		547	-4 971
-Depreciation, amortisation and impairment		5 929	6 855
-Other adjustments		57	1 462
-Interest income	4	-137 404	-151 853
-Interest expenses	4	25 719	19 698
Cash flow from operations before changes in operating assets/liabilities		**-81 080**	**-88 329**
Change in operating assets/liabilities			
Increase (-) / decrease (+) of lending to customers		573 820	504 272
Increase (-) / decrease (+) of other assets		-1 211	-7 839
Increase (+) / decrease (-) of client deposits	12, 13	139 357	-1 690 159
Increase (-) / decrease (+) of liabilities		4 561	27 551
Interest received		137 821	141 143
Interest paid		-25 051	-17 343
Income tax paid		-6 127	-8 860
Cash flow from operating activites		**823 170**	**-1 051 235**
Investing activities			
Acquisition of property, equipment and intangible assets		-3 610	-2 742
Proceeds from disposal of property, equipment and intangible assets		1 256	613
Proceeds from disposals of investment property		1 075	11 083
Dividend received		346	58
Cash flow from investing activities		**-933**	**9 012**
Financing activities			
Debt securities issued	14	503 500	298 809
Payment of principal on parent funding	12	-1 155 000	0

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Proceeds from parent funding	12	250 000	0
Payments of principal on leases		-1 334	-1 683
Cash flows from financing activities		**-402 834**	**297 126**
Net increase/(decrease) in cash and cash equivalents		**338 323**	**-833 426**
Cash and cash equivalents at the beginning of the period	8,9	2 952 815	3 310 517
Effects of currency translation on cash and cash equivalents		-547	4 971
Net increase/(decrease) in cash and cash equivalents		338 323	-833 426
Cash and cash equivalents at the end of the period		**3 290 591**	**2 482 062**
Cash and cash equivalents comprises			
Cash on hand	8	124 241	172 918
Non-restricted current account with central bank	8	3 067 211	2 197 023
Due from other credit institutions on demand or with original maturity of three months or less	9	99 139	112 121
Total		**3 290 591**	**2 482 062**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

CORPORATE INFORMATION

Luminor Bank AS (Luminor, the Bank or the Group) is a local credit institution whose parent company is Luminor Holding AS that is ultimately controlled by BCP VII, an investment fund managed by an affiliate of Blackstone Group Inc. Other shareholders of Luminor Holding AS - Nordea Bank Abp and DNB BANK ASA - are considered to be the entities with significant influence over the Group. The Luminor Bank's registered legal address is Liivalaia 45, 10145, Tallinn, Republic of Estonia.

New company Luminor Holding AS, established on the 14th of May 2019, is the new parent company of Luminor Bank AS since 23 September 2019. Until 23 September 2019 the parent company was Luminor Group AB.

On 2 January 2019 Luminor Bank AS has completed its cross-border merger and continues its operations in all Baltic countries through the Estonian registered bank, Luminor Bank AS, and its branches in Latvia and Lithuania.

On 30 September 2019 a consortium led by private equity funds managed by Blackstone acquired a 60.1% majority stake in the Luminor Holding AS, the owner of Luminor Bank AS. Luminor Bank AS previous owners, Nordea Bank Abp ("Nordea") and DNB BANK ASA ("DNB"), each retained a 19.95% equity stake in the Bank.

In the current interim report, "Bank" (or Luminor Bank AS) refers to Luminor Bank AS. "Group" refers to the consolidated financial statements of Luminor Bank AS and its subsidiaries.

As at 30 June 2020 Luminor Bank AS directly or indirectly owned majority in the following subsidiaries (100%):

Registered country Republic of Estonia:
- Luminor Liising AS
- Luminor Pensions Estonia AS
- Promano Estonia OÜ

Registered country Republic of Latvia:
- Luminor Asset Management IPAS
- Luminor Finance SIA
- Luminor Latvijas atklātais pensiju fonds AS
- Luminor Līzings SIA
- Luminor Līzings Latvija SIA
- Promano Lat SIA
- Realm SIA
- Salvus SIA
- Salvus 2 SIA
- Salvus 3 SIA
- Salvus 4 SIA
- Salvus 6 SIA
- Trioleta SIA
- Baltic ipasums SIA

Registered country Republic of Lithuania:
- Industrius UAB (under liquidation)
- Intractus UAB
- Promano Lit UAB (under liquidation)
- Recurso UAB (under liquidation)
- Luminor Investiciju Valdymas UAB
- Luminor Lizingas UAB
- Gėlužės projektai UAB (under liquidation)

As at 30 June 2020 Luminor Bank AS had ownership in the following associated companies:
- ALD Automotive AS (25%)
- ALD Automotive SIA (25%)
- ALD Automotive UAB (25%)
- SIA Kredītinformācijas Birojs (22,61%)

BASIS OF PREPARATION

The condensed consolidated interim financial information of Luminor Bank AS (Luminor, the Bank or the Group) was prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union. The condensed consolidated interim financial information does not contain all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements of Luminor Bank AS for the year ended 31 December 2019.

The accounting policies adopted in the preparation of the condensed consolidated interim financial information are consistent with those followed in the preparation of the Luminor Bank AS annual financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments and interpretations apply for the first time in 2020, but do not have a material impact on the interim condensed consolidated financial statements of the Group.

IFRS Interpretation Committee agenda decision regarding deferred tax related to investments in subsidiaries

Both Estonia and Latvia have replaced the traditional profit-based tax regimes with distribution-based tax regimes where corporate income tax is not payable on profit but rather on distribution of dividends. In accordance with IAS 12.52A and 57A, in distribution-based tax regimes no current or deferred tax liability is recognised in respect of undistributed profits until a liability to pay dividends is recognised. As a market practice in Estonia, this accounting policy has been applied consistently to all undistributed profits in the group, regardless of whether those profits accumulated in the parent or in the subsidiaries.

In June 2020, IFRS Interpretation Committee made an agenda decision where it concluded that the principle set out in IAS 12.52A and 57A only applies to undistributed profits accumulated in the parent company and does not apply to undistributed profits accumulated in the subsidiaries. Instead, the principles described in IAS 12.39-40 should be followed in respect of undistributed profits in subsidiaries, stipulating that a deferred tax shall be recognized in respect of such accumulated profits, unless it is probable that they will not be distributed to the parent in the foreseeable future.

Luminor is currently assessing the potential impact of the IFRS Interpretation Committee agenda decision on its financial statements and will reflect the impact, if any, in its 2020 annual financial statements.

The Group presents financial information in interim report in the same format as it was presented in the annual financial statements of Luminor Bank AS for the year ended 31 December 2019, except for several changes in classification within the Consolidated statement of profit or loss and other comprehensive income as described below.

Change in presentation

Content of statement of profit or loss and other comprehensive income has been reviewed for the Interm Report. Based on the review results reclassifications were made for better understanding of the presented financial information.

Reclassification was made for following statement of profit or loss and other comprehensive income items:

thousand EUR	01 January 2019 to 30 June 2019			Q2 2019		
	As restated	Change	As previously reported	As restated	Change	As previously reported
Interest income calculated using the effective interest method	122 669	+1 084	121 585	62 964	+920	62 044
Other similar income	29 184	-1 084	30 268	14 339	-920	15 259
Interest and similar expense*	-19 698	+5 061	-24 759	-10 353	+3 670	-14 023
Other operating expenses*	-5 061	-5 061	0	-3 670	-3 670	0
Net gain on financial assets and liabilities designated at fair value through profit/loss	389	-527	916	81	-475	556
Net gain on debt securities at fair value through profit or loss	527	+527	0	475	+475	0
Net gain on financial assets and liabilities held for trading	6 209	-805	7 014	4 857	+4 820	37
Net gain from financial derivatives	805	+805	0	-4 820	-4 820	0
Other operating expenses**	0	+8 578	-8 578	0	+4 025	-4 025
Other administrative expenses**	-71 753	-8 578	-63 175	-39 705	-4 932	-34 773
Other non-operating expenses	-1 462	+830	-2 292	-492	+2 258	-2 750
Net impairment (-)/ reversal on off-balance sheet commitments	-830	-830	0	-1 351	-1 351	0

*Cash contributions to resolution funds and quarantee schemas
** Reclassification of other operating expenses to other administrative expenses due to review results which showed that by nature these expenses were closer to administrative expenses rather than operating expenses (legal expenses and VAT taxes for example).

Reclassification impacted the following condensed consolidated statement of cashflows items:

thousand EUR	01 January 2019 to 30 June 2019		
	As restated	Change	As previously reported
Interest and similar expense*	19 698	-5 061	24 759
Interest paid	-17 343	+5 061	-22 404

*Cash contributions to resolution funds and quarantee schemas

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and applies assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities. Estimates and judgements are continuously evaluated and are based on management's experience and expectations of future events. In the first half of 2020, COVID-19 pandemic affected many economies, individuals and companies and thus also required Luminor to react and make certain judgements which inter alia had the effect on the impairment amounts.

IMPAIRMENT OF FINANCIAL INSTRUMENTS

The Group recognizes credit losses in accordance with IFRS 9. The Standard applies a forward-looking expected credit loss (ECL) approach. The Group is required to recognize an allowance for expected losses for all loans and other debt financial assets not held at fair value through profit or loss (FVPL), together with loan commitments and financial guarantee contracts. The assets to test for impairment are divided into three groups depending on the stage of credit deterioration. Stage 1 includes assets where there has been no significant increase in credit risk since initial recognition or which are classified as low credit risk (credit rating indicating investment grade). The allowances for stage 1 assets are based on the expected credit losses associated with the probability of default in the next twelve months (12-month expected credit loss). Stage 2 includes assets where there has been a significant increase in credit risk. The allowances for stage 2 assets are based on the expected credit losses associated with the probability of default over the life of the asset (lifetime expected credit losses). Stage 3 includes credit-impaired (defaulted) assets, and the allowances reflect the lifetime expected credit losses. Material assets in stage 3 are tested for impairment on an individual basis, while for immaterial stage 3 assets a collective assessment is performed. Loss allowances based on lifetime expected credit losses are calculated also for an additional category - purchased or originated credit-impaired assets (POCI) - regardless of the changes in credit risk during the lifetime of an instrument.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- evaluating the criteria for assessment of significant increase in credit risk and allocation of loans to stage 1 or 2; identification of unlikely to pay criteria and assignment of loans to stage 3;
- classification of forbearance and Watch list;
- assessing accounting interpretations and modelling assumptions used to build the models that calculate ECL, including the various formulas and the choice of inputs;
- the modelling and calculation of key parameters of ECL model, including probability of default (PD), loss given default (LGD) and exposure at default (EAD);
- determining the macro-economic indicators and incorporating forward-looking information into the ECL model;
- estimating the above-mentioned indicators for reliable future period and for three different scenarios (baseline, optimistic and pessimistic) and assigning probabilities to those scenarios;
- estimating ECL under base case and risk case scenarios for stage 3 material assets individual assessments and assigning probabilities to those scenarios;
- setting principles for stage 3 immaterial assets collective assessment.

The model applied (including triggers for significant increase in credit risk) was not changed in the first half of 2020. The macroeconomic parameters were reviewed to reflect the outlook due to COVID-19.

More qualitative and quantitative information on an impairment of financial assets in light of COVID-19 is provided in Note 3 General Risk Management Policies.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. For the fair value of financial assets and liabilities refer to Note 17.

3. GENERAL RISK MANAGEMENT POLICIES

The information where no major changes have been implemented during first half of year 2020 is not disclosed in this interim financial statements and can be found in the Luminor Bank AS annual financial statements as at 31 December 2019. The interim financial statements discloses information on changes directly initiated as part of the bank's response to the COVID-19 pandemic and aditional information about changes implemented during the reporting period not directly related to COVID-19 pandemic in further sections of this note.

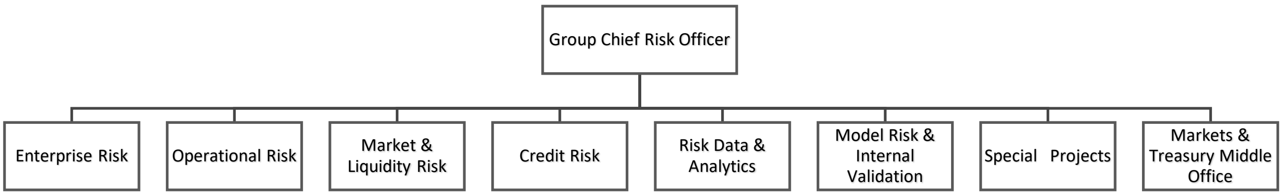
MAIN GOALS

The aim of risk management at Luminor is to achieve an optimal balance between the risk of losses and the earnings potential in a medium- and long-term perspective.

Luminor's Risk Management function is organised in order to ensure efficient and effective risk management and full implementation of the principles and requirements outlined in Luminor's Risk Policy and Strategy. The Risk Division is a structural unit of Luminor, which executes risk management function and reports to the Group Chief Risk Officer.

In the light of COVID-19 pandemic developments in Europe, the ECB-led Comprehensive Assessment (i.e. both the Asset Quality Review and Stress Test exercises) has been put on hold until further notice. Revised dates or timelines have not been disclosed yet. Luminor continues to focus on a COVID-19 impact assessment and has performed institution-wide stress tests under COVID-19 macroeconomic scenarios and financial shocks. These scenarios are updated on an ongoing basis.

As part of the ongoing revision of tasks performed within the risk management function as well as to further facilitate the use of synergies between departments, the Risk Division will be reorganized as of 1st of July 2020. The reorganization focuses on two main goals. The first goal is to establish a clear split of responsibilities between the First and Second Line of Defense in regard to Market & Liquidity Risk Management. The second goal is to significantly enhance synergies in the Risk Division by merging most of data and modelling related activities into one central department. The new organisational chart can be seen below.



The Enterprise Risk Department is a centralized centre of expertise and manages risk management tools and processes which run across different risk types. The control function for operational risk lies under the responsibility of the Operational Risk Department. The Market & Liquidity Risk Department is responsible for market risk and liquidity risk control. The First Line of Defence tasks previously performed by the Market & Liquidity Risk Department were extracted into the Market & Treasury Middle Office, which is planned to be moved out of the Risk Division to the First Line of Defence. The control function for credit risk is under the responsibility of the Credit Risk Department. The newly established Risk Data & Analytics Department combines now most of the activities related to data and modelling. The Model Risk & Validation Department owns the model risk framework and respective validation activities. The Special Projects Department is newly set up to directly support the CRO on various ad-hoc projects and tasks. The Risk Division is part of the Second Line of Defence and the organisational departments within the Risk Division report directly to the Group Chief Risk Officer (CRO).

CREDIT RISK

COVID-19

The COVID-19 pandemic and the preventive measures imposed by most of the European countries had an adverse impact on the economies in the first half of 2020. In particular the social- and economic constraints imposed by the governments across Europe and also in the Baltic states implied a significant reduction of economic activity, including businesses being almost entirely shut down in certain sectors, and increasing unemployment as a consequence. Since Luminor is one of the largest banks in the Baltic region, many of Luminor's customers are directly or indirectly affected by this situation.

Luminor has been monitoring the spread of COVID-19 since early 2020 and has adjusted its risk management to the new operating environment. Luminor is further aware of its important role for the Baltic economies and communities and thus chose to be as constructive as possible in its support towards customers early on and throughout the crisis. On the other hand, Luminor is also charged with the responsibility to protect its depositors, and to make sure that Luminor's balance sheet and the Baltic financial system do not become overburdened by companies for which there is no viable business model after the crisis. Unfortunately, some customers need to be significantly restructured due to the COVID-19 induced economic crisis, and in cases where even that is no longer feasible, some businesses might have to be wound down in an orderly manner.

Luminor Bank AS in Estonia and its branches in Latvia and Lithuania have joined the industry-wide private moratoria initiatives in each country, which comply with the European Banking Authority's (the EBA) Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 pandemic. The moratoria are applicable for performing COVID-19 affected customers experiencing temporarily financial difficulties, yet had acceptable payment discipline during 12 months leading up to the crisis. The terms of postponements are the following:

- for individual customers, a grace period on principal payments might be granted up to 12 months for mortgage loans and up to 6 months for consumer credits and leasing agreements;
- for business customers with an exposure below 5 million EUR, the period of payment postponement is up to 6 months for amortising products.

Modification gains/losses were immaterial for 3 and 6 months 2020 period. In total Luminor prolonged 15% (volume) of corporate loan portfolio and leasing's by 3-6 months, 8% mortgages by 6 months and 3% private other loans and leasing.

Any other conditions shall not be changed, and the grace period can be granted only once. The moratoria remain in force until the deadline set by the EBA; originally by 30 June 2020, currently extended until 30 September 2020. The modifications under the moratoria are not classified as forbearance if no other SICR indicators are present. For the cases not meeting moratoria conditions, an individual assessment is performed.

Impairment policies

Luminor recognises credit losses in accordance with the requirements of IFRS 9. IFRS 9 applies a forward-looking expected credit loss (ECL) approach. For more detailed information on the impairment policies, please refer to the Note 5 General Risk Management Policies of the Luminor Bank AS Annual Report 2019. In the first half of 2020 the impairment methodology remained unchanged.

Different authorities – the ECB, the EBA, the European Securities and Markets Authority (the ESMA), the IFRS Foundation, the Basel Committee on Banking Supervision (the BCBS) – have announced various measures to deal with the crisis and minimise the effect on the economies. Luminor acts in line with the above mentioned institutions' guidance. The modifications granted for COVID-19 affected customers do not automatically indicate Significant Increase in Credit Risk (SICR), nor a classification to forbearance or default status. However, Luminor's obligation to assess for unlikeliness to pay (which consequently triggers default status) remains in place.

Following the ECB guidance, excessively procyclical forecasts of macroeconomic variables were avoided in the first half of 2020. Luminor's macroeconomists updated the forecasts of macroeconomic variables used in the PD and LGD modelling at the end of the second quarter of 2020 with projections and assumptions over three years, assuming not only the nearest short-term downturn, but also the recovery period in the market after that. Starting from the fourth year it is assumed that risk parameters (PD and LGD) converge to their long-term average levels (estimated over the cycle).

30 June 2020

Estonia

Macroeconomic variables	Scenario 1					Scenario 2 (Baseline)				Scenario 3			
	2019	2020F	2021F	2022F	2023F	2020F	2021F	2022F	2023F	2020F	2021F	2022F	2023F
Probability for scenario, %	30%					60%				10%			
Annual change in real GDP, %	4.3	-6.7	5.7	5.4	3.4	-8.1	6.0	6.8	3.1	-11.7	2.9	6.4	4.2
Unemployment rate, %	4.4	7.7	7.5	5.5	5.1	10.2	9.1	6.5	5.7	10.8	12.8	9.8	8.5
Annual change of residential real estate price, %	7.0	-2.0	0.1	4.5	5.6	-2.0	0.1	4.5	5.6	-6.2	-6.5	3.5	4.9

Latvia

Macroeconomic variables	Scenario 1					Scenario 2 (Baseline)				Scenario 3			
	2019	2020F	2021F	2022F	2023F	2020F	2021F	2022F	2023F	2020F	2021F	2022F	2023F
Probability for scenario, %	30%					60%				10%			
Annual change in real GDP, %	2.2	-4.8	5.9	5.2	3.0	-7.5	6.3	5.4	3.3	-9.4	2.9	5.5	4.6
Unemployment rate, %	6.3	8.6	7.3	6.4	6.2	9.5	9.0	7.6	6.7	10.9	11.8	9.0	7.5
Annual change of residential real estate price, %	9.0	2.2	0.5	8.4	5.5	-0.4	-5.0	6.1	5.1	-2.2	-11.3	3.9	6.5

Lithuania

Macroeconomic variables	Scenario 1					Scenario 2 (Baseline)				Scenario 3			
	2019	2020F	2021F	2022F	2023F	2020F	2021F	2022F	2023F	2020F	2021F	2022F	2023F
Probability for scenario, %	30%					60%				10%			
Annual change in real GDP, %	3.9	-5.1	8.3	4.8	3.5	-6.4	6.0	5.3	3.1	-9.5	3.2	4.9	2.6
Unemployment rate, %	6.3	8.2	7.7	6.6	6.2	9.6	9.3	7.6	6.7	10.8	12.3	10.7	8.8
Annual change of residential real estate price, %	6.8	1.8	4.3	7.0	6.0	-1.5	-1.5	6.8	5.0	-4.8	-8.5	2.5	4.0

Gross amount and expected credit loss allowance amount for loans and leases as at 30 June 2020 and 31 December 2019 are disclosed in the tables below:

30 June 2020 thousand EUR	Note	Gross	Allowance for expected credit losses	Net
Due from banks and other credit institutions	**9**	**99 216**	**-22**	**99 194**
Financial institutions	**11**	**13 188**	**-185**	**13 003**
Public sector	**11**	**148 915**	**-32**	**148 883**
Business customers	**11**	**4 093 412**	**-115 310**	**3 978 102**
Loans		2 950 778	-96 077	2 854 701
Factoring		184 086	-2 058	182 028
Leasing		958 548	-17 175	941 373
Individual customers	**11**	**5 553 118**	**-76 379**	**5 476 739**
Mortgage loans		4 636 952	-57 682	4 579 270
Consumer and card loans		121 883	-1 487	120 396
Other loans		309 748	-12 936	296 812
Leasing		484 535	-4 274	480 261
Total		**9 907 849**	**-191 928**	**9 715 921**

31 December 2019 thousand EUR	Note	Gross	Allowance for expected credit losses	Net
Due from banks and other credit institutions	**9**	**141 654**	**-9**	**141 645**
Financial institutions	**11**	**29 378**	**-123**	**29 255**
Public sector	**11**	**174 732**	**-17**	**174 715**
Business customers	**11**	**4 523 201**	**-111 037**	**4 412 164**
Loans		3 156 365	-95 544	3 060 821
Factoring		278 511	-1 691	276 820
Leasing		1 088 325	-13 802	1 074 523
Individual customers	**11**	**5 680 911**	**-74 498**	**5 606 413**
Mortgage loans		4 689 319	-56 080	4 633 239
Consumer and card loans		132 862	-1 452	131 410
Other loans		325 119	-11 938	313 181
Leasing		533 611	-5 028	528 583
Total		**10 549 876**	**-185 684**	**10 364 192**

The credit quality of loans to customers as at 30 June 2020 and 31 December 2019 are disclosed in the tables below according to the internal risk scale for performing customers: probability of default for low risk rating grades (1 to 4) is in the range from 0.00% to 0.75%, for moderate risk rating grades (5 to 7) it is from 0.75% to 3.00%, for high risk rating grades (from 8 to 10) it is from 3.00% to 40.00%.

The portfolio distribution as at 30 June 2020 shows an increase in Stage 2 (mostly due to inclusion of customers in Watch-list and downgrades) and slight increase in Stage 3 (inflow of new non-performing exposures slightly outweighs the outflow) compared to the end of year 2019. The increase was driven by consequences from COVID-19.

The main drivers for allowances for expected credit losses in the first quarter of 2020 were consequences from COVID-19 (~70% of all impairment) and oil price shock (~20%). Second quarter numbers are mostly driven by COVID-19. COVID-19 together with the oil price shock are drivers for ~90% of loan losses in first half of 2020.

30 June 2020

Loans to customers total

thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	5 121 359	85 240	0	3 460	**5 210 059**
Moderate risk	2 824 636	846 448	0	14 682	**3 685 766**
High risk	137 821	459 356	0	21 022	**618 199**
Default	0	0	370 938	22 887	**393 825**
Gross	**8 083 816**	**1 391 044**	**370 938**	**62 051**	**9 907 849**
Less: Allowance for expected credit losses	-21 902	-32 664	-132 887	-4 475	**-191 928**
Net	**8 061 914**	**1 358 380**	**238 051**	**57 576**	**9 715 921**

Loans to Business customers

thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	996 635	37 013	0	157	1 033 805
Moderate risk	1 707 743	733 592	0	13 136	2 454 471
High risk	73 362	294 036	0	20 439	387 837
Default	0	0	201 767	15 532	217 299
Gross	**2 777 740**	**1 064 641**	**201 767**	**49 264**	**4 093 412**
Less: Allowance for expected credit losses	-12 278	-15 429	-85 247	-2 356	-115 310
Net	**2 765 462**	**1 049 212**	**116 520**	**46 908**	**3 978 102**

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31 December 2019

Loans to customers total

thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	5 331 187	45 287	0	3 345	**5 379 819**
Moderate risk	3 734 582	355 456	0	3 421	**4 093 459**
High risk	206 944	445 362	0	34 462	**686 768**
Default	0	0	364 946	24 884	**389 830**
Gross	**9 272 713**	**846 105**	**364 946**	**66 112**	**10 549 876**
Less: Allowance for expected credit losses	-16 479	-25 896	-138 920	-4 389	**-185 684**
Net	**9 256 234**	**820 209**	**226 026**	**61 723**	**10 364 192**

Loans to Business customers

thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	1 041 722	9 655	0	180	1 051 557
Moderate risk	2 573 433	258 234	0	1 469	2 833 136
High risk	127 960	258 961	0	33 549	420 470
Default	0	0	201 959	16 079	218 038
Gross	**3 743 115**	**526 850**	**201 959**	**51 277**	**4 523 201**
Less: Allowance for expected credit losses	-7 945	-7 175	-93 816	-2 101	-111 037
Net	**3 735 170**	**519 675**	**108 143**	**49 176**	**4 412 164**

Information about credit loss allowances

The following tables disclose the changes in the credit loss allowances and gross carrying amount for loans to customers between the beginning and the end of the reporting period. For the purposes of the movement schedules below, the Group assess Stages only at the reporting date and transfers between the Stages reflect this. Movements between stages are measured at the beginning of the reporting period.

30 June 2020

Loans to customers total

	Credit loss allowances					Gross carrying amount				
thousand EUR	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**TOTAL**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**TOTAL**
As at 31 December 2019	**-16 472**	**-25 896**	**-138 918**	**-4 389**	**-185 675**	**9 131 062**	**846 105**	**364 943**	**66 112**	**10 408 222**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	3 794	-6 668	2 874	0	**0**	-853 622	871 704	-18 082	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	945	2 699	-3 644	0	**0**	-43 883	-63 690	107 573	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-5 597	4 278	1 319	0	**0**	113 953	-104 274	-9 679	0	**0**
New originated or purchased	-4 884	0	0	0	**-4 884**	566 097	0	0	103	**566 200**
Derecognised and repaid during the period	1 749	2 432	14 367	114	**18 662**	-929 004	-158 801	-50 690	-3 877	**-1 142 372**
Changes to ECL model assumptions and effect from changes in Stages	-1 417	-9 509	-32 013	-487	**-43 426**	0	0	0	0	**0**
Total movements with impact in credit loss allowances charge for period	**-5 410**	**-6 768**	**-17 097**	**-373**	**-29 648**	**-1 146 459**	**544 939**	**29 122**	**-3 774**	**-576 172**
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	23 130	287	**23 417**	0	0	-23 130	-287	**-23 417**
As at 30 June 2020	**-21 882**	**-32 664**	**-132 885**	**-4 475**	**-191 906**	**7 984 603**	**1 391 044**	**370 935**	**62 051**	**9 808 633**

Explanations
Stage 1 (12 - months ECL)
Stage 2 (Lifetime ECL for SICR)
Stage 3 (Lifetime ECL for Credit Impaired)
POCI (Lifetime ECL for Purchased or Originated Credit Impaired)

Loans to Business customers

	Credit loss allowances					Gross carrying amount				
thousand EUR	Stage 1	Stage 2	Stage 3	POCI	TOTAL	Stage 1	Stage 2	Stage 3	POCI	TOTAL
As at 31 December 2019	-7 945	-7 175	-93 816	-2 101	**-111 037**	3 743 115	526 850	201 959	51 277	**4 523 201**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	2 943	-3 449	506	0	**0**	-741 615	743 387	-1 772	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	578	355	-933	0	**0**	-25 113	-36 732	61 845	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-1 009	608	401	0	**0**	38 152	-36 761	-1 391	0	**0**
New originated or purchased	-3 468	0	0	0	**-3 468**	332 451	0	0	10	**332 461**
Derecognised and repaid during the period	1 253	806	11 769	25	**13 853**	-569 250	-132 103	-37 755	-1 938	**-741 046**
Changes to ECL model assumptions and effect from changes in Stages	-4 630	-6 574	-24 293	-365	**-35 862**	0	0	0	0	**0**
Total movements with impact in credit loss allowances charge for period	-4 333	-8 254	-12 550	-340	**-25 477**	-965 375	537 791	20 927	-1 928	**-408 585**
Movements without impact on credit loss allowances for the period										
Write-offs			**21 119**	**85**	**21 204**	**0**	**0**	**-21 119**	**-85**	**-21 204**
As at 30 June 2020	**-12 278**	**-15 429**	**-85 247**	**-2 356**	**-115 310**	**2 777 740**	**1 064 641**	**201 767**	**49 264**	**4 093 412**

Explanations
Stage 1 (12 - months ECL)
Stage 2 (Lifetime ECL for SICR)
Stage 3 (Lifetime ECL for Credit Impaired)
POCI (Lifetime ECL for Purchased or Originated Credit Impaired)

Due from banks and other credit institutions

Balances due from banks and other credit institutions mainly comprise nostro and custody cash account balances with Luminor correspondent banks.

All banks are risk classified and risk limits are established. In case the external rating for a bank is not available a conservative expert judgment serves as basis for the Group internal rating, which reflects the bank's credit strength, derived from macroeconomic factors and bank's own solvency and liquidity factors, together with qualitative non-financial adjustments. The internal risk grade and probability of default (PD) of banks is based on the available risk classifications from rating agencies Moody's, Standard & Poor's and Fitch.

In Luminor a separate dedicated Financial Institutions unit acts as a single core competence center and ensures holistic overview of the Group's credit limits/exposure on banks and countries. Since March 2020, the Financial Institutions Department has switched from quarterly to daily portfolio monitoring. A Financial Institutions Credit Commitee is organised on a regular basis to follow-up the latest market developments and review if any changes/restrictions are needed for established credit limits towards banks and countries.

The Group's portfolio consists of reputable investment grade correspondent banks that have not seen internal credit rating downgrades during the second quarter of 2020, however some Nostro counterparts (3 banks) faced external rating downgrade by 1 notch from one of the three large rating agencies, mostly related to COVID-19 uncertainty or Parent downgrade (UniCredit Group). Yet, all the downgraded banks are still at investment grade level.

Debt securities

Debt securities exposure (Note 17: except for debt securities - Other financial corporations) of the Group at the end of the second quarter of 2020 was 246.7 million EUR compared to 214 million EUR at the end of 2019. Most of these debt securities are issued by the governments of Lithuania and Latvia. The other part consists of level 1 assets (using Liquidity Coverage Ratio terminology), including Estonian and Austrian sovereign bonds, and covered bonds issued by French companies. Lithuanian and Estonian corporate bonds within the trading debt portfolio forms the remaining very small part. The average weighted duration of the total portfolio is 4.2 years compared to 3.1 years at the end of 2019. Debt securities investments are performed in accordance with the limits set by Luminor's Management Board and Supervisory Council. Limit utilization is monitored on a daily basis.

Economic sectors

The following tables break down Loans to customers at their carrying amounts as categorised by the economic sectors of our counterparties.

Cash and loans to central bank, credit institutions, and customers

Group thousand EUR	30 June 2020	31 December 2019
Cash on Hand	**124 241**	**140 518**
Central Banks	**3 169 428**	**2 783 501**
Credit Institutions	**99 194**	**141 645**
Financial Institutions	**13 003**	**29 255**
Public Sector	**148 883**	**174 715**
Individual Customer	**5 476 739**	**5 606 413**
Business Customers	**3 978 102**	**4 412 164**
Agriculture, forestry and fishing	314 321	337 080
Mining and quarrying	14 875	23 658
Manufacturing	482 210	571 675
Electricity, gas, steam and air conditioning supply	122 027	132 176
Water supply	28 998	31 948
Construction	184 702	197 785
Wholesale and retail trade	720 909	937 197
Transport and storage	338 980	394 660
Accommodation and food service activities	45 951	48 768
Information and communication	22 648	26 558
Real estate activities	1 140 126	1 132 767
Professional, scientific and technical activities	222 684	210 089
Administrative and support service activities	186 937	209 227
Public administration and defence, compulsory social security	158	5 358
Education	5 733	7 106
Human health services and social work activities	21 854	21 432
Arts, entertainment and recreation	12 824	13 607
Other services	112 165	111 073
TOTAL	**13 009 590**	**13 288 211**

MARKET RISK

The Group has a low risk appetite for market risk, which is defined as the risk of losses in on- and off-balance sheet positions arising from adverse movements in market parameters such as interest rates, credit spreads, currency exchange rates, equity prices or commodity prices. Based on internal risk self-assessment, the most significant parts of the market risk for the Group are interest rate risk, credit spread risk and foreign exchange risk, which all stayed well within internal Risk Appetite Framework and lower level limits, while the exposures where at the similar levels as they were in the last reporting quarter. The significance of other risks is lower, as the Group does not have any open positions in equity instruments for trading, while all commodity deals with customers are hedged in the market with back-to-back transactions.

With regard to the spread of the COVID-19 pandemic, the major negative impact to the Group in terms of market risk could arise from credit spread risk. This risk is mitigated by limits as well as certain quality requirements for the bond portfolios. The Bank follows a rigorous framework for debt securities management. Bond portfolios managed by Treasury and Asset and Liability Management and Markets Departments are restricted in size, level of quality, region available and counterparty, limiting credit risk exposure. However, the bank measures the stressed spread impact to its liquidity bond portfolio as part of the Risk Appetite Framework. Assuming a 100 basis points spread widening towards risk-free alternative investments of matching maturity profile for A-rated bonds and a 50 basis points spread widening for corresponding AA-rated bonds, the projected decrease in market value of the bonds would be the following:

thousand EUR	30 June 2020	31 March 2020
Market value loss projection due to increase in credit spreads	7 850	6 523

LIQUIDITY RISK

Liquidity risk is defined as the risk that the Group is unable to meet its financial obligations in time, the risk of incurring losses due to sudden decrease in financial resources (e.g. a financial crisis situation may result in a delay of incoming payments) or an increase of the price of new resources for refinancing. The consequence of liquidity risk may be failure to meet obligations to repay depositors and fulfil loan commitments. The Group uses a range of liquidity metrics for measuring, monitoring and controlling liquidity risk including the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR), internal liquidity limits and trigger events, survival horizon metric as part of liquidity stress testing.

Liquidity risk is managed to ensure a constant ability to settle contractual obligations. The Group has developed a set of early warning indicators for a timely identification of liquidity crises, and business and funding contingency plans to manage the Group's liquidity during market disruptions. The liquidity risk management strategy is reviewed at least annually or after any significant change in the internal or external environment the Group operates in.

Liquidity risk is managed across the three Lines of Defence:

- The First Line of Defence comprises the Group's Treasury and Asset and Liability Management (TALM) and the business areas. TALM is responsible for the daily liquidity management and funds transfer pricing (FTP). To ensure the funding in situations where Luminor is in urgent need of cash and the normal funding sources do not suffice, Luminor holds a liquidity buffer that consists of central bank cash and high quality securities that can be readily sold or used as collateral for funding operations;
- Market and Liquidity Risk Department is the Second Line of Defence and is responsible for providing independent oversight and control of liquidity risk and the First Line of Defence;
- The Internal Audit function is the Third Line of Defence, which is responsible for providing independent assurance over the First and Second Lines of Defence activities.

Liquidity risk management has a focus on short term obligations and more structural long-term liquidity risk. Both short term and long-term liquidity risks are measured and limited with different internal and external metrics. The main metrics used to monitor liquidity risk are LCR, NSFR and Surivival Horizon. The aim of intraday and short-term liquidity management is to meet the daily need for funds to ensure compliance with the reserve and liquidity requirements set by the ECB, as well as compliance with internal liquidity limits. Short-term liquidity is maintained through the daily monitoring of the liquidity status, day-to-day funding and trading the appropriate financial instruments for liquidity purposes. Long-term liquidity risk management is supported by analysing the estimated future cash flows considering deposit and loan portfolio growth, as well as possible refinancing sources.

For the purpose of liquidity risk assessment, the liquidity gap is analysed considering the maturity of cash flows. The liquidity risk is restricted by imposing internal limits on the liquidity gap. Utilisation of this limit is subject to regular monitoring and reporting to management bodies in the Group. The liquidity gap is calculated by analysing the Group's net refinancing situation within one week, one month and three months applying a "business as usual" approach. Liquid assets and short-term liabilities are included in liquidity gap calculations for respective terms (1 week to 3 months).

The LCR is calculated as the ratio of a credit institution's liquidity buffer to its net liquidity outflows over a 30-calendar-day stress period and is expressed as a percentage. The LCR is intended to promote the short-term resilience of the Group's liquidity risk profile and requires the holding of risk-free assets that may be easily liquidated to meet required payments for outflows net of inflows during a thirty-day crisis period without support from the central bank. The minimum regulatory limit of LCR is set at 100%, however the Group has a substantial buffer over it.

The Net Stable Funding Ratio (NSFR) is defined as the amount of available stable funding relative to the amount of required stable funding over a one-year time horizon. The minimum requirement for NSFR is 100%, however the Group has a substantial buffer and maintains a higher ratio.

The Group has set the limits in place for various measures, including LCR, NSFR, liquidity gaps, and manages those within the set limits by ensuring the proper maturity structure of its assets and liabilities, for example, via issuing long dated debt.

The liquidity risk analysis of the Group main balance sheet items per remaining maturity is as follows:

Carrying amount 30 June 2020 thousand EUR	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	TOTAL
Cash and deposits with central banks	3 293 669	0	0	0	0	**3 293 669**
Due from other credit institutions	99 161	0	0	33	0	**99 194**
Financial assets held for trading	0	0	229	3 835	5 425	**9 489**
Derivative financial instruments	28 831	1 775	5 135	11 362	14	**47 117**
Financial assets at fair value through other comprehensive income	0	0	0	0	140	**140**
Financial assets at fair value through profit or loss	18 547	0	5 359	179 182	52 662	**255 750**
Loans to customers	373 073	407 699	1 685 928	4 042 682	3 107 345	**9 616 727**
Other Financial Assets	12 170					**12 170**
Total assets	**3 825 451**	**409 474**	**1 696 651**	**4 237 094**	**3 165 586**	**13 334 256**
Derivative financial instruments	22 363	2 626	6 585	12 072	61	**43 707**
Loans and deposits from credit institutions	72 825	300	0	29 999	0	**103 124**
Deposits from customers	9 035 213	414 241	824 892	65 105	5 121	**10 344 572**
Debt securities issued	0	0	6 549	1 150 489	0	**1 157 038**
Lease Liabilities	604	1 106	4 799	21 508	27 054	**55 071**
Other financial liabilities	61 597	0	0	0	0	**61 597**
Total liabilities	**9 192 602**	**418 273**	**842 825**	**1 279 173**	**32 236**	**11 765 109**
Shareholder's equity						
Net financial assets / (liabilities)	**-5 367 151**	**-8 799**	**853 826**	**2 957 921**	**3 133 350**	**1 569 147**
Irrevocable and off-balance sheet commitments	1 813 039	0	0	0	0	**1 813 039**
Liquidity gap arising from financial instruments	**-7 180 190**	**-8 799**	**853 826**	**2 957 921**	**3 133 350**	**-243 892**

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Initials I.S. Date 17.08.2020

Carrying amount 31 December 2019 thousand EUR	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	TOTAL
Cash and deposits with central banks	2 924 019	0	0	0	0	**2 924 019**
Due from other credit institutions	141 589	37	0	19	0	**141 645**
Financial assets held for trading	0	2 181	16	725	99	**3 021**
Derivative financial instruments	28 839	901	4 864	24 220	393	**59 217**
Financial assets at fair value through other comprehensive income	0	0	0	0	140	**140**
Financial assets fair value through profit or loss	0	0	45 116	117 487	65 293	**227 896**
Loans to customers*	339 420	396 790	1 955 895	4 063 073	3 467 369	**10 222 547**
Other financial assets	29 113	0	0	0	0	**29 113**
Total assets	**3 462 980**	**399 909**	**2 005 891**	**4 205 524**	**3 533 294**	**13 607 598**
Derivative financial instruments	28 377	793	3 098	24 279	1 757	**58 304**
Loans and deposits from credit institutions	30 244	0	950 448	0	0	**980 692**
Deposits from customers	8 739 645	545 949	868 407	76 475	4 967	**10 235 443**
Debt securities issued	0	0	1 892	649 824	0	**651 716**
Lease Liabilities	425	851	3 761	19 030	32 984	**57 051**
Other financial liabilities	45 303	0	0	0	0	**45 303**
Total liabilities	**8 843 994**	**547 593**	**1 827 606**	**769 608**	**39 708**	**12 028 509**
Shareholder's equity						
Net financial assets / (liabilities)	**-5 381 014**	**-147 684**	**178 285**	**3 435 916**	**3 493 586**	**1 579 089**
Irrevocable and off-balance sheet commitments	1 788 816	0	0	0	0	**1 788 816**
Liquidity gap arising from financial instruments	**-7 169 830**	**-147 684**	**178 285**	**3 435 916**	**3 493 586**	**-209 727**

*Carrying amounts for Loans to Customers as of 31 December 2019 were restated as compared to the disclosures made in the Annual report for the year ended 31 December 2019, being in compliance with the updated calculating methodology.

Disclosure of contractual undiscounted cash flows for liabilities as at 30 June 2020:

Carrying amount thousand EUR	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	TOTAL
Derivative financial instruments	22 363	2 626	6 585	12 072	61	**43 707**
Loans and deposits from credit institutions	72 825	301	0	29 850	0	**102 976**
Deposits from customers	9 035 347	414 652	826 676	66 392	5 427	**10 348 494**
Debt securities issued	0	0	9 711	1 163 700	0	**1 173 411**
Lease Liabilities	727	1 350	5 847	25 712	29 878	**63 514**
Other financial liabilities	61 597	0	0	0	0	**61 597**
Total liabilities	**9 192 859**	**418 929**	**848 819**	**1 297 726**	**35 366**	**11 793 699**

Disclosure of contractual undiscounted cash flows for liabilities as at 31 December 2019:

Carrying amount thousand EUR	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	TOTAL
Derivative financial instruments	28 377	793	3 098	24 279	1 757	**58 304**
Loans and deposits from credit institutions	30 244	0	956 458	0	0	**986 702**
Deposits from customers	8 739 645	546 625	872 496	78 183	5 117	**10 242 066**
Debt securities issued	0	0	10 067	662 961	0	**673 028**
Lease Liabilities	546	1 091	4 804	23 523	38 346	**68 310**
Other financial liabilities	45 303	0	0	0	0	**45 303**
Total liabilities	**8 844 115**	**548 509**	**1 846 923**	**788 946**	**45 220**	**12 073 713**

Off-balance sheet items

The analysis of nominal off-balance sheet items by remaining maturity is as follows:

30 June 2020 thousand EUR	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	TOTAL
Loan commitments	1 189 875	0	0	0	0	**1 189 875**
Financial guarantees	96 098	0	0	0	0	**96 098**
Performance guarantees	149 237	0	0	0	0	**149 237**
Other commitments*	377 829	0	0	0	0	**377 829**
Total	**1 813 039**	**0**	**0**	**0**	**0**	**1 813 039**

* Other commitments given include different type of guarantees (warranty, payment and advance payment quarantees, etc)

31 December 2019 thousand EUR	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	TOTAL
Loan commitments	1 134 434	0	0	0	0	**1 134 434**
Financial guarantees	110 655	0	0	0	0	**110 655**
Performance guarantees**	98 372	0	0	0	0	**98 372**
Other commitments*	445 355	0	0	0	0	**445 355**
Total	**1 788 816**	**0**	**0**	**0**	**0**	**1 788 816**

* Other commitments given include different type of guarantees (warranties etc).
** Comparative figures were changed due to reclassification

Liquidity buffer and collateral management

Luminor has a contractual agreement for funding in place with shareholders DNB Bank ASA and Nordea Bank Abp. This strongly mitigates the likelihood of funding liquidity risk which may be caused by deposit run off, wholesale funding risk (roll over and new issuance), unexpected outflows from off-balance sheet obligations and legal risks (e.g. not being able to issue funding due to legal restrictions). As the Group is moving towards more reliance on self-funding rather than on support from shareholders, other funding sources are being established or are already in place for diversifying the funding base. Luminor also relies on the stability of current customer deposits.

The Group is taking part in the ECB's Eurosystem open market operations. In particular, the Group is a user of the ECB Targeted Long Term Refinancing Operations (TLTRO). In addition, a significant part of funding is attracted through retail and corporate deposits. Moreover, the Group has already issued 650 million EUR of its own senior debt securities and 500 million EUR of covered bonds, and is considering to increase this amount in the future even more, which would further diversify the funding opportunities.

The main part of the liquidity buffer is held with the Central Bank Accounts where the Group held 3.1 billion EUR at the end of June 2020. This buffer can be utilized at any time when the need arises.

Survival horizon

The key metric for liquidity risk appetite set in the Risk Appetite Framework is the survival horizon analysed across different stress scenarios. The survival horizon is defined as a period with a positive cumulative cash flow. It is used to capture the liquidity buffer available outright to be used in liquidity stress situations within 12 months. The outcome of liquidity stress testing is the number of days the Group can withstand a liquidity crisis considering Luminor's mitigating capacity, for example the liquidity buffer.

Three different scenarios are considered while measuring survival horizon: bank-specific, market-wide and the combination of the most severe assumptions from the previous two. Stress testing assumptions include but are not limited to severe deposit withdrawals, including early termination of term deposits and run-off of top 5 depositors, deterioration of financial assets, decrease of loan repayment levels, increase of utilization of credit commitments, as well as limited availability of credit lines from shareholders based on the existing Facility Agreement.

The liquidity buffer for the survival horizon metric is strongly affected by the assumption of outgoing deposits in the first few days and weeks of the turbulence period, with the smaller continuous run-off occurring in the following months. Due to rather high concentration of top depositors, the Group tests resistance towards a run-off of the 5 largest depositors as well. Total funds of the top 5 largest depositors amounted to 1 287 million EUR at the end of the second quarter of 2020 compared to 1347 million EUR at the end of 2019. Despite that the Group has sufficient liquidity and can survive for longer than 1 year period without any additional support. On top of that, Luminor has substantial unused credit line from shareholders which can be utilized at any time based on the mutual Facility Agreement. Furthermore, the majority of liquid buffer consists of cash held within central banks and highly liquid debt securities which substantially softens the consequences of deteriorating liquidity in case of high outflows.

Therefore, even during the COVID-19 pandemic, the Group's liquidity situation is sufficiently strong to survive severe external shocks.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. Operational risk in Luminor includes the following sub-risks: Legal risk, Compliance risk, Fraud and Financial Crime risk, Conduct risk, ICT risk, Information Security risk, Data Management and Protection risk, People risk, Third Party/Outsourcing risk, Change/Project risk, Process & Reporting risk and excludes Reputational risk and Business Model risk.

Operational risk management in Luminor is governed by the Operational Risk Policy and Subsidiary Governance Framework documentation. Each manager and process owner within the bank is responsible for the management of risks inherent in the activities and processes within their respective area. This includes fostering a sound risk culture in their respective reporting lines to ensure that employees understand the operations that are performed by them, the risks inherent in these, and the importance of controls they execute or oversee the execution of.

A key objective of the Operational Risk Department is to identify any deviations of Luminor's operational risk profile from the desired risk level that is stated in the Risk Appetite Framework, and to do so in a timely manner to ensure any deviations can be effectively managed without significant detriment to the bank, its customers or other stakeholders.

The second quarter of 2020 saw a stabilisation in operational risk management across Luminor following the outbreak of COVID-19 in the first quarter of 2020. The crisis management committee stood down in May, and staff incrementally began to return to work in Luminor's offices throughout the quarter, in accordance with relevant social distancing rules and precautions. None of Luminor's business processes or client services were significantly interrupted as a result of COVID-19, and the Bank's management of the situation evidenced Luminor's ability to operate under it's business continuity plans during crisis conditions.

Luminor management is kept updated on the status of operational risk through periodic and ad hoc risk reporting.

CAPITAL MANAGEMENT

Luminor's regulatory capital consists fully of Tier 1/Common Equity Tier 1 (CET1) capital. Tier1/CET1 capital consists of ordinary shares, share premium, mandatory reserve, retained earnings of the previous financial year, the audited profit of the current financial year and less the intangible assets, deferred tax assets, revaluation profit of investment properties, current year losses, if any, and other deductions.

The capital is calculated and allocated for risk coverage following the regulations in the CRD IV and CRR of the European Union and the local legal acts. The Group's objectives in capital management are as follows:

- consistency with Luminor Group's long-term strategy (including meeting the risk appetite of the Group) and the Dividend policy;
- the ability to pursue the business objectives;
- fulfilment of both internal and external capitalisation targets (capital adequacy);
- sufficient and proper composition of capital that would withstand stressful events.

The capital adequacy assessment is performed on a quarterly basis in accordance with the information guidelines for the risk management and capital adequacy disclosure (Pillar 3) report.

Quantitative information regarding the capital managed by the Group is presented below:

thousand EUR	30 June 2020	31 December 2019
OWN FUNDS		
1. TIER 1 CAPITAL	1 586 884	1 566 637
1.1. COMMON EQUITY TIER 1 CAPITAL	1 586 884	1 566 637
1.1.1. Capital instruments eligible as CET1 Capital	1 447 155	1 447 155
Paid-up capital instruments	34 912	34 912
Share premium	1 412 243	1 412 243
1.1.2. Retained earnings	153 291	129 919
1.1.3. (-) Other intangible assets	-7 890	-7 848
1.1.4 Other reserves	2 706	938
1.1.5 Adjustments to CET1 due to prudential filters	-1 744	-1 281
1.1.6 CET1 capital elements or deductions - other	0	0
1.1.7 Accumulated other comprehensive income	265	261
1.1.8 (-) Additional deductions of CET1 Capital due to Article 3 CRR	0	0
1.1.9 (-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-6 549	-2 155
1.1.10 (-) Goodwill	-351	-351

According to the prudential requirements, the Pillar 2 requirement set by the ECB in the 2019 Joint Decision on Capital and the Systemic risk and Countercyclical risk buffer requirements set by the Central Banks of Latvia, Estonia and Lithuania, Luminor Group is required to hold capital exceeding 10.1% CET1 and 14.5% Total capital. Total capital and CET1 capital requirements consist of the following components:

	Total capital	CET1
Minimum Pillar 1 requirement	8.0 %	4.5 %
Pillar 2 requirement	2.0 %	1.1 %
O-SII (other systemically important institution) buffer	2.0 %	2.0 %
Capital conservation buffer	2.5 %	2.5 %
Systemic risk buffer*	0.0 %	0.0 %
Countercyclical buffer*	0.0 %	0.0 %
Total regulatory requirement	14.5 %	10.1 %

* As response to the COVID-19 pandemic, the systemic risk buffer was set to 0% starting from 1 May 2020 and the countercyclical buffer was set to 0% starting from 1 April 2020.

According to the Regulatory Requirements for Calculating the Minimum Capital Requirements, the Group shall provide own funds, which must at all times exceed or equal the sum of the capital requirements for:

- credit risk;
- market risk;
- operational risk.

In compliance with these regulations, the Group calculates the credit risk and market risk minimum capital requirements by using the Standardised approach. The Group does not apply any Value at Risk (VaR) or other internal models for the calculation of the market risk capital requirement and applies the Basic Indicators Approach for calculating the operational risk capital requirements.

The risk-weighted assets are measured by means of risk weights classified according to the nature of each asset and counterparty, taking into account the collaterals and guarantees eligible for risk mitigation. A similar treatment with some adjustments is adopted for the off-balance sheet exposures.

The Group reviews and improves the risk identification and management policies and procedures according to changes in the Group's activities and financial situation at least once a year. Amendments and updates are mostly done during the annual internal capital adequacy assessment process when significant risks are to be reassessed or identified and assessed.

The Group complied with all externally imposed capital requirements during the reporting period.

GOING CONCERN

The Luminor's management is fully convinced of a stable and balanced performance going forward and, based on that, prepared these financial statements on a going concern basis.

4. NET INTEREST INCOME

thousand EUR	01 January 2020 to 30 June 2020	01 January 2019 to 30 June 2019	Q2 2020	Q2 2019
Interest income calculated using the effective interest method:				
Loans and advances to customers at amortised cost	112 596	120 601	54 934	61 489
Deposits with other banks	890	2 068	340	1 475
Total interest income calculated using effective interest method	**113 486**	**122 669**	**55 274**	**62 964**
Other similar income:				
Finance Leases	23 673	28 802	11 392	14 129
Other interest	245	382	114	210
Total other similar income	**23 918**	**29 184**	**11 506**	**14 339**
Total interest income	**137 404**	**151 853**	**66 780**	**77 303**
Interest expense:				
Loans and deposits from credit institutions	-7 294	-9 056	-2 437	-4 946
Deposits from customers	-5 612	-7 300	-2 105	-3 944
Impact of hedging activities	611	785	412	735
Debt securities issued	-5 206	-2 716	-2 655	-1 421
Other*	-8 218	-1 411	-4 117	-777
Total interest expense	**-25 719**	**-19 698**	**-10 902**	**-10 353**
Net interest income	**111 685**	**132 155**	**55 878**	**66 950**

* Parent funding off balance loan commitment interest for period 01 January 2020 to 30 June 2020 in the amount of 6 829 thousand EUR (Q2 2020 - 3 360 thousand EUR), for period 01 January 2019 to 30 June 2019 in the amount of 465 thousand EUR (Q2 2019 – 275 thousand EUR) is included in this row.

5. NET FEE AND COMMISSION INCOME

thousand EUR	01 January 2020 to 30 June 2020	01 January 2019 to 30 June 2019	Q2 2020	Q2 2019
Securities	374	404	161	232
Clearing and settlement*	15 778	17 106	7 679	8 946
Asset Management	3 229	3 408	1 546	1 748
Custody	476	503	218	274
Payment services*	9 422	13 391	4 363	6 852
Collective Investments commission	1 388	1 577	680	805
Insurance commission	1 453	1 843	758	916
Loan commitments given	1 604	2 092	848	1 238
Financial guarantees given	3 163	2 333	1 717	1 102
Factoring	1 145	2 530	472	1 522
Other*	8 129	7 601	3 434	3 894
Total fee and commission income	**46 161**	**52 788**	**21 876**	**27 529**
Clearing and settlement*	-10 363	-10 472	-5 213	-5 258
Custody	-165	-213	-102	-132
Financial guarantees received	-28	-121	-6	-112
Other*	-2 364	-2 882	-1 084	-1 641
Fee and commission expense	**-12 920**	**-13 688**	**-6 405**	**-7 143**
Net fee and commission income	**33 241**	**39 100**	**15 471**	**20 386**

* Fee and commission are recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, fees for cash settlements, collection or cash disbursements, as well as, commissions.

The breakdown of net fee and commission income division by segments is the following:

thousand EUR	01 January 2020 to 30 June 2020	01 January 2019 to 30 June 2019	Q2 2020	Q2 2019
Corporate	12 597	14 972	6 071	8 028
Retail	20 397	21 850	9 629	11 202
Wealth Management	1 022	1 112	509	580
Other	-775	1 166	-738	576
Net fee and commission income	**33 241**	**39 100**	**15 471**	**20 386**

6. PERSONNEL EXPENSES

thousand EUR	01 January 2020 to 30 June 2020	01 January 2019 to 30 June 2019	Q2 2020	Q2 2019
Wages and salaries	-39 612	-47 265	-20 464	-19 743
Social security cost	-6 982	-8 363	-3 623	-3 520
Indirect personnel cost (recruitment, training)	-2 352	-5 744	-1 102	-2 426
Total	**-48 946**	**-61 372**	**-25 189**	**-25 689**

Social security tax payments include a contribution to state pension funds. The Group has no legal or constructive obligation to make pension or similar payments beyond the social security tax.

7. OTHER ADMINISTRATIVE EXPENSES

thousand EUR	01 January 2020 to 30 June 2020	01 January 2019 to 30 June 2019	Q2 2020	Q2 2019
IT related expenses	-56 953	-41 494	-25 495	-25 558
Consulting and professional services	-6 449	-8 226	-2 630	-2 886
Advertising and marketing expenses	-916	-1 306	-428	-782
Real estate expenses	-2 608	-5 017	-1 210	-2 455
Taxes and duties	-3 965	-5 214	-1 751	-2 719
Travel expenses	-428	-793	-182	-415
Other expenses*	-10 005	-9 703	-4 931	-4 890
Total	**-81 324**	**-71 753**	**-36 627**	**-39 705**

*Other expenses include mostly costs related to collection services, information services, postal, transport and other services.

Increase in other administrative expenses is mainly affected by the transformation costs incurred, which were 54 145 thousand EUR for period 01 January 2020 to 30 June 2020 (01 January 2019 to 30 June 2020 – 39 790 thousand EUR) and 23 494 thousand EUR in Q2 2020 (Q2 2019 – 19 980 thousand EUR). The major part of exceptional costs were IT expenses.
Out of total transformation costs, the part recognised under other administrative expenses was: 49 026 thousand EUR for period 01 January 2020 to 30 June 2020 (01 January 2019 to 30 June 2020 – 28 106 thousand EUR) and 20 889 thousand EUR in Q2 2020 (Q2 2019 – 17 565 thousand EUR). The major part of exceptional costs were IT expenses.

8. CASH AND BALANCES WITH CENTRAL BANKS

thousand EUR	30 June 2020	31 December 2019
Cash on hand	124 241	140 518
Cash balances at central banks	3 169 428	2 783 501
Total	**3 293 669**	**2 924 019**
of which mandatory reserve requirement	102 217	112 800
Total cash and balances with central banks	**3 293 669**	**2 924 019**

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Initials I.S. Date 17.08.2020

9. DUE FROM OTHER CREDIT INSTITUTIONS

thousand EUR	30 June 2020	31 December 2019
Demand deposit	99 158	141 596
Loans	58	58
Total	**99 216**	**141 654**
Allowance	-22	-9
Total	**99 194**	**141 645**

10. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank enters into derivative transactions with household customers. These mainly include interest rate swaps, collars and CAPs.

thousand EUR	Notional amounts	Fair values	
		Assets	Liabilities
As at 30 June 2020			
Derivatives held for trading			
Interest rate-related contracts	3 427 621	18 467	12 322
Currency-related contracts	1 280 244	26 410	28 571
Commodity-related contracts	28 048	2 240	2 814
Total	**4 735 913**	**47 117**	**43 707**
As at 31 December 2019			
Derivatives held for trading			
Interest rate-related contracts	2 958 510	11 599	11 254
Currency-related contracts	1 419 244	47 128	46 740
Commodity-related contracts	18 726	490	310
Total	**4 396 480**	**59 217**	**58 304**

HEDGING ACTIVITIES

Fair value hedge

As at 30 June 2020 the Group had total three interest rate swap agreements in place that were linked to the issued **senior bonds**:

- Notional amount of 300 million EUR where Luminor receives fixed rate of 1.375% and pays 3 months EURIBOR + 1.732%;
- Notional amount of 150 million EUR where Luminor receives fixed rate of 1.50% and pays 3 months EURIBOR + 1.526%;
- Notional amount of 200 million EUR where Luminor receives fixed rate of 1.50% and pays 6 months EURIBOR + 1.478%.

As at 30 June 2020 the Group had one interest rate swap agreements in place that was linked to the issued **covered bonds**:

- Notional amount of 500 million EUR where Luminor receives a fixed rate of interest of 0.01% and pays floating interest at 6 months EURIBOR + 0.289%

For 300 million EUR interest swap agreement trade date is 11 June 2019, effective date is 21 June 2019 and maturity date 21 October 2022.
For 200 million EUR and 150 million EUR interest swap agreement trade date is 10 October 2018, effective date is 18 October 2018 and maturity date is 18 October 2021.
For 500 million EUR interest swap agreement trade date is 04 March 2020, effective date is 11 March 2020 and maturity date 11 March 2025.

There is an economic relationship between the hedged item (issued bonds) and the hedging instruments (interest rate swaps) as the terms of the interest rate swaps match the terms of the fixed rate loan (i.e. notional amount, maturity, payment and reset dates). The Group has established a hedge ratio of 1:1 for the hedging relationships, as the underlying risk of the interest rate swaps is identical to the hedged risk component. To test hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in the fair value of the hedged item attributable to the hedged risk.

Hedge ineffectiveness can theoretically arise from:

- A different interest rate curve applied to discount the hedged item and hedging instrument;
- Differences in the timing of cash flows of the hedged item and hedging instrument, also a different day count;
- The counterparties' credit risk differently impacting the fair value movements of the hedging instrument and hedged item.

30 June 2020	Notional amount	Carrying Amount	Line item in the statement of financial position
Interest rate swap	1 150 000	9 331	Assets: Derivative financial instruments*

31 December 2019	Notional amount	Carrying Amount	Line item in the statement of financial position
Interest rate swap	650 000	1 898	Assets: Derivative financial instruments*

*Ineffectiveness was clearly immaterial

11. LOANS TO CUSTOMERS

thousand EUR	30 June 2020	31 December 2019
Financial Institutions	**13 188**	**29 378**
Public Sector	**148 915**	**174 732**
Business customers	**4 093 412**	**4 523 201**
-Loans	2 950 778	3 156 365
-Leasing	958 548	1 088 325
-Factoring	184 086	278 511
Individual customers	**5 553 118**	**5 680 911**
-Mortgage loans	4 636 952	4 689 319
-Leasing	484 535	533 611
-Consumer and card loans	121 883	132 862
-Other loans	309 748	325 119
Allowance for expected credit losses	**-191 906**	**-185 675**
Loans to Customers Total	**9 616 727**	**10 222 547**

Due from customers registered in Estonia, Latvia, Lithuania	9 344 540	9 957 570
Due from customers registered in EU (except Estonia, Latvia, Lithuania)	202 788	200 921
Due from customers registered in other countries	69 399	64 056
Loans to Customers Total	**9 616 727**	**10 222 547**

For summary of changes in the credit loss allowances and gross carrying amounts for loans to customers refer to Note 3. Gross carrying amount for Financial institutions decreased by 12 million EUR due to reclassification to Business customers. The change was due to clarification of internal classification guidelines in 2020. United Kingdom customers are under other category in 2020 as United Kingdom is no longer European Union country.

12. LOANS AND DEPOSITS FROM CREDIT INSTITUTIONS

thousand EUR	30 June 2020	31 December 2019
Term deposits*	30 299	951 612
Demand deposits	72 825	29 080
Total	**103 124**	**980 692**

*As at the end of May 2020 Luminor repaid funding from former parent banks under the debt facility agreement.

13. DEPOSITS FROM CUSTOMERS

thousand EUR	30 June 2020	31 December 2019
Term deposits	1 907 634	2 161 033
Demand deposits	8 436 938	8 074 410
Total	**10 344 572**	**10 235 443**
Due to customers by type of customers		
Due to corporate customers	4 095 050	4 578 084
Due to public sector customers	2 201 215	1 623 323
Due to individuals	4 048 307	4 034 036
Total	**10 344 572**	**10 235 443**
Due to customers, registered in Estonia, Latvia, Lithuania	10 117 576	9 825 534
Due to customers, registered in EU (except Estonia, Latvia, Lithuania)	152 151	326 379
Due to customers, registered in other countries	74 845	83 530
Total	**10 344 572**	**10 235 443**

14. DEBT SECURITIES ISSUED

LUMINO 1 1/2 18/10/21

In October 2018 Luminor Bank AS issued its inaugural bond under the Luminor Euro Medium Term Notes (EMTN) Programme. The company issued 350 000 000 EUR of fixed-rate bonds maturing October 2021, with annual coupons and bearing interest at an annual rate of 1.50%. There were no specific covenants related to the bond issuance.

LUMINO 1 3/8 21/10/22

In June 2019 Luminor Bank AS issued the bond under the Luminor EMTN Programme. The company issued 300 000 000 EUR of fixed-rate bonds maturing October 2022, with annual coupons and bearing interest at an annual rate of 1.375%. There were no specific covenants related to the bond issuance.

LUMINO 0.01 11/03/2025

In March 2020 Luminor Bank AS issued its inaugural covered bond under the Luminor EMTN and Covered Bond Programme. The company issued 500 000 000 EUR of fixed-rate bonds maturing in March 2025, with annual coupons and bearing interest at an annual rate of 0.01%.

thousand EUR	30 June 2020	31 December 2019
LUMINO 1 1/2 18/10/21		
Nominal amount	350 000	350 000
Intragroup transactions	-1 990	-1 000
Fees at amortized costs	-902	-1 269
Accrued interest	3 667	1 079
Hedged item fair value changes	2 709	2 982
Carrying amount	**353 484**	**351 792**
LUMINO 1 3/8 21/10/22		
Nominal amount	300 000	300 000
Fees at amortized costs	-804	-982
Accrued interest	2 865	814
Hedged item fair value changes	1 122	92
Carrying amount	**303 183**	**299 924**
COVERED BONDS		
Nominal amount	500 000	0
Fees at amortized costs	3 092	0
Accrued interest	15	0
Hedged item fair value changes	-2 736	0
Carrying amount	**500 371**	**0**
Total	**1 157 038**	**651 716**

15. OTHER FINANCIAL LIABILITIES

thousand EUR	30 June 2020	31 December 2019
Payments in transit	61 055	41 865
Other	542	3 438
Total	**61 597**	**45 303**

16. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

thousand EUR	30 June 2020	31 December 2019
Pledged assets		
Loans*	2 273 236	1 999 895
Total	**2 273 236**	**1 999 895**
Contingent liabilities		
Loan commitments given	1 189 875	1 134 434
Financial guarantees given	96 098	110 655
Performance guarantees	149 237	98 372
Other commitments given	377 829	445 355
Total	**1 813 039**	**1 788 816**

* Includes 550 000 thousand EUR of loans pledged for Covered Bond as of 30 June 2020.

17. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying amount of the major part of the Group's assets and liabilities is a reasonable approximation of their fair value. Where the fair values of financial assets and liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined in a way that unobservable inputs used to measure fair value would reflect the assumptions that market participants would use when pricing assets and liabilities, including assumptions about the risk. Where observable market data is not available, expert judgment is required to establish fair values. For the purposes of current financial statements, the above mentioned techniques related to unobservable inputs were not used as no such financial assets and liabilities exist on the statement of financial position of the Group.

FAIR VALUE OF FINANCIAL INSTRUMENTS AT AMORTISED COSTS

	Carrying amount	Fair value	Carrying amount	Fair value
thousand EUR	30 June 2020	30 June 2020	31 December 2019	31 December 2019
Assets				
Financial assets at amortised cost				
Cash and balances with central banks	3 293 669	3 293 669	2 924 019	2 924 019
Due from other credit institutions	99 194	99 194	141 645	141 645
Loans to customers	9 616 727	9 198 746	10 222 547	10 324 772
Total financial assets	**13 009 590**	**12 591 609**	**13 288 211**	**13 390 436**
Liabilities				
Financial liabilities at amortised cost				
Loans and deposits from credit institutions	103 124	103 124	980 692	980 692
Deposits from customers	10 344 572	10 344 572	10 235 443	10 235 443
Debt securities issued	1 157 038	1 155 652	651 716	653 967
Other financial liabilities	61 597	61 597	45 303	45 303
Total financial liabilities	**11 666 331**	**11 664 945**	**11 913 154**	**11 915 405**

The next table below summarises the fair value measurement hierarchy of the Bank's financial assets and liabilities. Financial instruments are distributed by 3 levels of the fair value:

- Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available;

- Level 2 — valuation techniques for which inputs other than quoted prices included within Level 1 are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for a substantial part of the term of the asset or liability;

- Level 3 — valuation techniques for which inputs are unobservable for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about the risk.

FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS

Fair value measurement of financial instruments as at 30 June 2020 was as follows:

Fair value measurement using thousand EUR	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Assets for which fair values are disclosed				
Cash and balances with central banks	3 293 669	0	0	**3 293 669**
Due from other credit institutions	99 139	55	0	**99 194**
Loans to customers	0	0	9 198 746	**9 198 746**
Other financial assets	0	0	12 170	**12 170**
Financial assets at fair value				
Financial assets held for trading				
Debt securities	9 489	0	0	**9 489**
Financial assets at fair value through profit or loss				
Equity instruments	0	3 839	0	**3 839**
Debt securities				
General Goverments	213 239	0	0	**213 239**
Credit Institutions	23 965	0	0	**23 965**
Other financial corporations	0	0	14 707	**14 707**
Derivative financial instruments				
Derivative financial instruments	0	46 349	768	**47 117**
Financial assets at fair value through other comprehensive income				
Equity instruments	0	0	140	**140**
Total	**3 639 501**	**50 243**	**9 226 531**	**12 916 275**
Liabilities				
Liabilities for which fair values are disclosed				
Loans and deposits from credit institutions	72 825	30 299	0	**103 124**
Deposits from customers	0	8 436 938	1 907 634	**10 344 572**
Debt securities issued	497 279	658 373	0	**1 155 652**
Other financial liabilities	0	0	61 597	**61 597**
Financial liabilities at fair value				
Derivative financial instruments				
Derivative financial instruments	0	42 193	1 514	**43 707**
Total	**570 104**	**9 167 803**	**1 970 744**	**11 708 652**

Fair value measurement of financial instruments as at 31 December 2019 was as follows:

Fair value measurement using thousand EUR	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Assets for which fair values are disclosed				
Cash and balances with central banks	2 924 019	0	0	**2 924 019**
Due from other credit institutions	141 596	49	0	**141 645**
Loans to customers	0	0	10 324 772	**10 324 772**
Other financial assets	0	0	29 113	**29 113**
Financial assets at fair value				
Financial assets held for trading				
Debt securities	3 021	0	0	**3 021**
Financial assets at fair value through profit or loss				
Equity instruments	0	4 033	0	**4 033**
Debt securities				
General Goverments	195 989	0	0	**195 989**
Credit Institutions	15 023	0	0	**15 023**
Other financial corporations	0	0	12 851	**12 851**
Derivative financial instruments				
Derivative financial instruments	0	58 087	1 130	**59 217**
Financial assets at fair value through other comprehensive income				
Equity instruments	0	0	140	**140**
Total	**3 279 648**	**62 169**	**10 368 006**	**13 709 823**
Liabilities				
Liabilities for which fair values are disclosed				
Loans and deposits from credit institutions	29 080	951 612	0	**980 692**
Deposits from customers	0	8 074 410	2 161 033	**10 235 443**
Debt securities issued	0	653 967	0	**653 967**
Other financial liabilities	0	0	45 303	**45 303**
Financial liabilities at fair value				
Derivative financial instruments				
Derivative financial instruments	0	56 042	2 262	**58 304**
Total	**29 080**	**9 736 031**	**2 208 598**	**11 973 709**

The following methods and assumptions were used to estimate the fair values:

Non-trading financial assets mandatorily at fair value through profit or loss (Pension Funds) - The value date method is used in the acquisition of pension fund units managed by Luminor Pensions Estonia AS and they are initially recognised at acquisition cost, which is the fair value paid for them. Pension fund units are revalued according to the effective net asset value on the balance sheet date.The following methods and assumptions were used to estimate the fair values:

- Cash and cash balances with central banks – the fair value equals to its carrying amount as the assets can be realized at the same price in an orderly transaction;

- Due from other credit institutions – the fair value equals to its carrying amount as the assets can be realized at the same price in an orderly transaction. Due from other credit institutions are demand deposits;

  - Loans to customers – fair value has been estimated by discounting estimated future cash flows with the loan portfolio average rate which was calculated based on the Bank new sales margin of Q1 2020 and total volume of the loan portfolio that included credit risk factors. Same valuation technique is applied to all loan classes and accordingly all loan classes are classified under fair value level 3. As at 31 December 2019 fair value was estimated by discounting estimated future cash flows with the base curve used by the Bank (6m Euribor curve as average for all loans) as adjusted by credit riks factors;

- Financial assets at fair value through profit or loss (debt securities) - for domestic debt instruments issued in the Baltic states, the quotes of local (Baltic) market makers shall be the priority source. Local market makers (usually banks) publish the trading offers in the form of prices, yields or equivalent figures. If there are more than one market maker locally, the average of bid prices shall be used taking the data from Bloomberg. If the debt instrument is issued outside the Baltic states, or there are no quotes available from local market makers on particular debt issue, or quotes of local market makers are clearly incorrect or artificial, the prices of particular debt securities shall be derived from liquid market data using sources like Bloomberg or similar;

- The fair value of interest-bearing financial instruments is estimated based on discounted cash flows using the interest rates for items with similar terms and risk characteristics. The fair value of a liability is measured using the assumptions that market participants would use when pricing the liability, assuming that market participants act in their economic best interest;

- Financial assets at fair value through other comprehensive income (equities, debt securities):

  - The quotes of local (Baltic) market makers shall be the priority source for local equities. These are securities for which active market exists based on the turnover, meaning availability of quotes at which market participants transact in the local stock market. The quotes of foreign equities shall be taken from Bloomberg giving the priority to the primary market, and then to the country of issuer if the active market exists there. Otherwise, the market with the highest liquidity (turnover) shall be used as a source for pricing. If the quotes in primary data sources are clearly incorrect or artificial, the price of particular equity shall be derived from liquid market data using sources like Bloomberg or similar. Correctness of the quotes described above are the subject of expert judgment of the Market and Liquidity Risk Management Department member together with the Bank's Markets Department's dealer responsible for equity trading. For equities of non-listed companies for which active market does not exist, any available trusted public information on recent trades shall be used for the pricing of the equity. Alternatively, dividend discount model shall be used to determine the price of equity. Expert opinion based on other available related market data shall be used for pricing of equity if the previously described methods are not possible;

  - For domestic debt instruments issued in the Baltic states, the quotes of local (Baltic) market makers shall be the priority source. Local market makers (usually banks) publish the trading offers in the form of prices, yields or equivalent figures. If there are more than one market maker locally, the average of bid prices shall be used taking the data from Bloomberg. If the debt instrument is issued outside the Baltic states, or there are no quotes available from local market makers on particular debt issue, or quotes of local market makers are clearly incorrect or artificial, the prices of particular debt securities shall be derived from liquid market data using sources like Bloomberg or similar;

- Derivative financial instruments – market data from financial data vendors, electronic trading platforms or third-party valuation are used for valuation purposes. The derivatives represent non-complex products valued with generally accepted models. Valuation inputs are derived from the market data;

- Loans and deposits from credit institutions – the fair value of loans equals to their carrying value. Pricing of the loans from credit institutions is under market conditions. Expected cash flows of the liabilities from the banks are discounted with the same market rates as loans. Loans from credit institutions are long-term. Deposits from credit institutions are demand deposits. The fair value of deposits equals to their carrying value. Pricing of the deposits from credit institutions is under market conditions;

- Deposits from customers – the gross carrying amount of demand deposits as a fair value is applied as an approximation due to very short maturities;

- Debt securities issued – the debt securities issued by the Bank are initially recognized at fair value less transaction costs and are subsequently carried at amortized cost using effective interest rate (EIR) method. The fair value is calculated by discounting the future cash flows using the market interest rate yield curve. Covered bonds are classified as Level 1 as they are actively traded on market using the market rate yield curve (swaps curve) provided by Bloomberg.

18. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Related parties are defined as shareholders with significant influence, control or joint control, members of the Supervisory Council and the Management Board as key management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

The immediate parent of Luminor Bank AS is Luminor Holding AS that is ultimately controlled by BCP VII, an investment fund managed by an affiliate of Blackstone Group Inc. BCP VII is treated to be both the ultimate parent and ultimate controlling entity of Luminor Bank AS. Other shareholders of Luminor Holding AS - Nordea Bank Abp and DNB BANK ASA - are considered to be the entities with significant influence over the Group. More information disclosed in Note 1. A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, foreign currency transactions and financial instruments. These transactions were carried out on commercial terms and at market rates. There have been no doubtful debts due from related parties as well as allowances for doubtful debts as at 30 June 2020 and 31 December 2019.

The volumes of related party transactions outstanding balances and related income and expense were as follows:

TRANSACTIONS WITH RELATED PARTIES

thousand EUR	01 January 2020 to 30 June 2020	01 January 2019 to 30 June 2019	Q2 2020	Q2 2019
Interest income				
Entities with significant influence over the entity	38	937	0	542
Key management personnel	4	4	2	2
Interest expenses				
Entities with significant influence over the entity	-7 981	-3 036	-3 220	-1 725
Net commission and fee income				
Entities with significant influence over the entity	-20	-154	-12	-124
Net gain from financial derivatives				
Entities with significant influence over the entity	992	1 191	-5 770	-2 888
Other administrative expenses				
Entities with significant influence over the entity	-6 478	-4 900	-2 113	-2 994
Other expenses				
Entities with significant influence over the entity	-1 475	-41	800	4 119
Total	**-14 919**	**-5 998**	**-10 314**	**-3 067**

thousand EUR	30 June 2020	31 December 2019
Loans to credit institutions		
Entities with significant influence over the entity	41 135	77 572
Loans to customers		
Key management personnel	1 124	697
Derivative instruments		
Entities with significant influence over the entity	32 683	46 519
Other assets		
Entities with significant influence over the entity	4 318	199
Total assets	**79 260**	**124 987**
Due to credit institutions		
Entities with significant influence over the entity	3 824	912 807
Deposits from customers		
Key management personnel	1 076	983
Derivative instruments		
Entities with significant influence over the entity	25 689	19 849
Other liabilities		
Entities with significant influence over the entity	6 406	1 345
Total liabilities	**36 995**	**934 984**

Payments to the key management personnel in the second quarter of 2020 were 783 thousand EUR and for the period 1 January to 30 June 2020 1 323 thousand EUR (in the second quarter of 2019: 301 thousand EUR and for the period 1 January to 30 June 2019 686 thousand EUR).

As at 30 June 2020 loans and advances with associate ALD Automotive (3 entities) amounted to 13 647 thousand EUR (31 December 2019: 15 919 thousand EUR), deposits – 2 786 thousand EUR (31 December 2019: 985 thousand EUR), interest income for the second quarter of 2020 was 7 thousand EUR (the second quarter of 2019: 9 thousand EUR), interest income for period 1 January to 30 June 2020 was 15 thousand EUR (1 January to 30 June 2019 18 thousand EUR). Net fee and commission income for the second quarter of 2020 was 1 thousand EUR (the second quarter of 2019: 1 thousand EUR), net fee and commission income for period 1 January to 30 June 2020 was 2 thousand EUR (1 January to 30 June 2019: 2 thousand EUR).

19. SEGMENT REPORTING

MEASUREMENT OF OPERATING SEGMENTS PERFORMANCE

The measurement principles and allocation between operating segments follow the information reported to the Chief Operating Decision Maker (CODM) as required by IFRS 8. In the Bank, the CODM has been defined as the Management Board. The Management Board monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit before tax and is measured consistently with profit before tax in the consolidated financial statements. Interest income is reported net of expenses after internal funds transfer pricing, as management primarily relies on net interest revenue across product categories as a performance measure. Fees and commission income for segment performance is also reported net of expenses and split is made between different product categories for segment reporting.

Financial results are presented for the three main operating segments: Corporate Banking, Retail Banking and Wealth Management. Operating segments are reported in a manner consistent with the internal reporting provided to the CODM. Corporate Banking segment services business customers that have a dedicated relationship manager and all leasing customers who do not have a bank relationship. Retail Banking segment services business customers without a dedicated relationship manager and private individuals not belonging to

Wealth Management segment. Wealth Management services wealthy private individuals and holding companies associated with those individuals. Results of other operating segments are included in Other segment.

Segment results consist of income and expenses associated directly to the customers belonging under respective segments (including internal funds transfer pricing result between operating segments and Other segment) and income and expenses not booked on customer level, which are allocated between the operating segments using internally agreed allocation mechanisms. Only assets and liabilities relating to customers who belong to the operating segments are reported under the respective segments, all other balance sheet items are not reported under the operating segments to CODM. Loans and Deposits are reported under operating segments at Gross amounts (and excluding accrued interest). Net impairment (losses/reversal) on loans to customers is monitored for each of the segments at Profit or Loss side, while at the Assets side, the CODM only monitors Gross amounts of Loans to customers, with impairment allowances not being allocated to operating segments.

From the first quarter of 2020 it was decided to transfer customers with leasing exposures but without a relationship to bank entities from Other segment to Corporate segment and restatement was made also to historic periods. From the first quarter of 2020 Luminor started applying Activity Based Costing to allocate personnel costs, administrative costs and depreciation between operating segments and restatement was also made to segment split of costs to 2019 figures. The asymmetrical allocation of allowance for impairment Net impairment (losses/reversal) on loans to customers, as described above, was applied from the second quarter of 2020. Comparative information for Loans and Advances as of 31 December 2019 was changed accordingly.

thousand EUR	Corporate	Retail	Wealth Management	Other	Total
01 January 2020 to 30 June 2020					
The Group					
Net interest income	63 602	54 907	2 946	-9 770	**111 685**
Net fees & commission income	12 597	20 397	1 022	-775	**33 241**
Trading income	4 940	2 589	161	7 016	**14 706**
Other income	1 336	592	0	-886	**1 042**
Total income	**82 475**	**78 485**	**4 129**	**-4 415**	**160 674**
Personnel costs, administrative costs and depreciation	-49 713	-79 520	-3 975	-2 991	**-136 199**
Net impairment (losses/reversal) on loans to customers	-30 074	-2 443	-75	2 944	**-29 648**
Other	0	0	0	-2 434	**-2 434**
Profit before Tax	**2 688**	**-3 478**	**79**	**-6 896**	**-7 607**
o/w exceptional costs	-22 224	-29 992	-1 083	-846	**-54 145**

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Luminor

thousand EUR	Corporate	Retail	Wealth Management	Other	Total
Q2 2020					
The Group					
Net interest income	33 167	27 210	1 156	-5 655	**55 878**
Net fees & commission income	6 071	9 629	509	-738	**15 471**
Trading income	1 881	1 303	67	3 654	**6 905**
Other income	563	186	0	1 418	**2 167**
Total income	**41 682**	**38 328**	**1 732**	**-1 321**	**80 421**
Personnel costs, administrative costs and depreciation	-23 614	-37 302	-1 959	-1 880	**-64 755**
Net impairment (losses/ reversal) on loans to customers	-6 217	1 284	268	1 428	**-3 237**
Other	0	0	0	-1 071	**-1 071**
Profit before Tax	**11 851**	**2 310**	**41**	**-2 844**	**11 358**
o/w exceptional costs	-9 533	-13 080	-527	-354	**-23 494**

thousand EUR	Corporate	Retail	Wealth Management	Other	Total
30 June 2020					
the Group					
Loans and receivables*	4 442 452	5 280 897	80 853	4 006	**9 808 208**
Total assets	**4 442 452**	**5 280 897**	**80 853**	**4 006**	**9 808 208**
Deposits from customers	4 962 894	4 328 860	1 027 666	25 152	**10 344 572**
Total liabilities	**4 962 894**	**4 328 860**	**1 027 666**	**25 152**	**10 344 572**

*Amount in Other segment does not include allowances and accumulated interests

thousand EUR	Corporate	Retail	Wealth Management	Other	Total
01 January 2019 to 30 June 2019					
The Group					
Net interest income	69 493	53 589	4 093	4 980	**132 155**
Net fees & commission income	14 972	21 850	1 112	1 166	**39 100**
Trading income	4 998	3 044	167	4 692	**12 901**
Other income	647	344	-1	-3 651	**-2 661**
Total income	**90 110**	**78 827**	**5 371**	**7 187**	**181 495**
Personnel costs, administrative costs and depreciation	-52 586	-76 542	-4 597	-6 255	**-139 980**
Net impairment (losses/ reversal) on loans to customers	-10 867	6 481	109	1 062	**-3 215**
Other	0	0	0	-1 807	**-1 807**
Profit before Tax	**26 657**	**8 766**	**883**	**187**	**36 493**
o/w exceptional costs	-16 474	-18 758	-684	-427	**-36 343**

thousand EUR	Corporate	Retail	Wealth Management	Other	Total
Q2 2019					
The Group					
Net interest income	34 911	26 939	2 111	2 989	**66 950**
Net fees & commission income	8 028	11 202	580	576	**20 386**
Trading income	2 068	1 576	72	2 083	**5 799**
Other income	335	136	-1	-4 382	**-3 912**
Total income	**45 342**	**39 853**	**2 762**	**1 266**	**89 223**
Personnel costs, administrative costs and depreciation	-26 045	-37 700	-2 192	-2 741	**-68 678**
Net impairment (losses/ reversal) on loans to customers	-11 996	51	70	1 384	**-10 491**
Other	0	0	0	-1 572	**-1 572**
Profit before Tax	**7 301**	**2 204**	**640**	**-1 663**	**8 482**
o/w exceptional costs	-8 280	-9 308	-329	-213	**-18 130**

thousand EUR	Corporate	Retail	Wealth Management	Other	Total
31 December 2019					
The Group					
Loans and receivables*	4 925 549	5 401 323	82 047	665	**10 409 584**
Total assets	**4 925 549**	**5 401 323**	**82 047**	**665**	**10 409 584**
Deposits from customers	5 094 953	4 185 510	945 223	9 757	**10 235 443**
Total liabilities	**5 094 953**	**4 185 510**	**945 223**	**9 757**	**10 235 443**

*Amount in Other segment does not include allowances and accumulated interests

The table below shows reconciliation between Total amount of Loans and Receivables presented under reportable segments above to the net carrying amount from the Group's condensed consolidated statement of financial position:

Total under Segment reporting 30 June 2020	Accrued Interest	Allowance	Initial Impairment	Amortized fee	Net carrying amount 30 June 2020
9 808 208	30 069	-191 557	-1 994	-27 999	9 616 727

Total under Segment reporting 31 December 2019	Accrued Interest	Allowance	Initial Impairment	Amortized fee	Net carrying amount 31 December 2019
10 409 584	30 681	-185 375	-2 000	-30 343	10 222 547

20. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

Johan Pedersson Lilliehöök has resigned from the Supervisory Council of Luminor Bank AS as of 1 August 2020.

CONTACT DETAILS

Luminor Bank AS

Location and address	Liivalaia 45
	10145 Tallinn
	Estonia
Registered country	Republic of Estonia
Main activity:	Credit institution
Commercial Register code	11315936
Telephone	+372 628 3300
Fax	+372 628 3201
Nordea SWIFT/BIC	NDEAEE2X
DNB SWIFT/BIC	RIKOEE22
Website	www.luminor.ee
E-mail	info@luminor.ee
Balance sheet date	30 June 2020
Reporting period	01.01.2020 – 30.06.2020
Reporting currency	Euro

Independent Auditor's Report on Review of Condensed Consolidated Interim Financial Statements

To the Shareholder of Luminor Bank AS

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Luminor Bank AS (the Company) and its subsidiaries (together – the Group) as at 30 June 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income for the three-month and six-month periods then ended, and condensed consolidated statements of changes in equity and cash flows for the six-month period then ended, and the related explanatory notes. Management Board is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (ISRE) (Estonia) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union.

AS PricewaterhouseCoopers

Ago Vilu
Auditor's certificate no.325

17 August 2020
Tallinn, Estonia