INTERIM REPORT

Q3 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

Although the summer months saw some very encouraging trends, the third quarter of this year was repeatedly affected by the COVID-19. Looking out for the health and safety of our employees and customers continued to be our major concern, while at the same time using our strong financial standing for the benefit of Luminor customers. We have strengthened our organisational capabilities and are constantly working with different scenarios for how the crisis may evolve and the economic impact it may have.

The Baltic economies were strong when they entered the pandemic and they have demonstrated greater stability and flexibility throughout it than the euro area average, experiencing the mildest economic downturn in the EU. Cooperation between different stakeholders in the public and private sectors has been successful in providing support to customers, proving that good results can be achieved through collaboration.

Luminor continued into the second half of the year with a strong funding base and improved profitability. By the end of September, we had reduced further the share of non-performing loans, lowering them to 3.7% of the loan portfolio. Over the past year the loans-to-deposits ratio strengthened from 108% to 87%. The improved funding structure and reduced lending volumes that have been achieved over time have made it possible for Luminor to become fully self-funded with no outstanding funding from its former parent banks as of the end of September 2020.

The headway that was made towards becoming a fully standalone bank was also supported by continuous progress in the carve-out of services from the DNB and Nordea systems across all three countries. We are already operating technology platforms in Latvia and Lithuania that are fully independent of the systems of either DNB or Nordea. In the third quarter, we launched the new banking platform for internal pilot users in Estonia and made preparations for the market launch and migration of all of our Estonian customers, which is planned for the fourth quarter of this year.

In the third quarter, Luminor's Retail Banking focused on business growth and on improving the customer experience. The positive trends in the market and in the overall outlook were evidenced by the interest customers showed in taking mortgages, which was greater than before the pandemic, and by sales of consumer loans, which reached their pre-pandemic level in the third quarter. The volume of deposits in the Retail Banking segment increased by 41 million EUR, a significant step up from the fall of 24 million EUR in the same period last year. Luminor's Corporate Banking expanded their lending book by 78 million EUR in the third quarter and disbursed several new large investment loans. The third quarter also saw significant growth in investment volumes for the Private Banking segment with investment assets up 13% on the same quarter of 2019 and 8% on the previous quarter. Pension assets increased by 6% in comparison with the year before and 1.8% with the previous quarter.

Luminor is continuously vigilant about financial crime and is committed to preventing, detecting and reporting it. In the third quarter we established the Customer Risk Management Department, streamlining anti-financial crime and sanctions risks management. We also introduced an improved solution for online monitoring of transactions in the third quarter of 2020.

Luminor's story is a story of change. In the three years since Luminor was created, we have undergone a unique transformation. There is one more considerable effort ahead of us, which is the migration of our Estonian customers to the new technological platform and new banking channels. Then we will be in the long-awaited position where we can start the next stage of our transformation process, the stage of growth.

Creating Luminor has been a singular and intense experience. Sometimes we need to pass on the baton so that we can keep up the pace and energy that are needed for this journey. In order to ensure that Luminor has the best possible leader with the skills, experience and energy that best suit our new stage of transformation, I suggested to the Supervisory Council that they should start looking for such a leader to steer the next stages of Luminor's development.

I am convinced that Peter Bosek, the new CEO of Luminor who will start in this position in the new year, is the best person to steer the next stage of our transformation and that the bank will reach many new milestones under his leadership, which will first of all benefit our customers.

Luminor will continue as a strong Baltic bank. We are a bank that was created for local customers and the local community and we will invest all our energy in continually improving our customer experience and in developing our products and services.

I want to thank our team, our customers, and our investors for choosing Luminor as a partner on this journey.

It has been an honour.

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, 2 355 employees, and market share of 16.3% in deposits and 17.4% in lending as at the end of September 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 seven 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 September 2020				
	Estonia	*Latvia*	*Lithuania*	**Total**
Number of customers	*~128 000*	*~219 000*	*~550 000*	~897 000
Market shares				
Lending	*12.2%*	*22.0%*	*19.5%*	17.4%
Deposits	*9.3%*	*15.8%*	*22.0%*	16.3%
Number of client service centres, including meet-up points	*8*	*10*	*16*	34
Number of employees	*566*	*831*	*958*	2 355

Macroeconomic overview

The spread of coronavirus in the Baltic states has been more limited than in euro area peers, on average. As a consequence, the economies of the three states were less impacted by COVID-19 than other parts of Europe. In the second quarter, real GDP contracted by 6.5% over the year in Estonia, 8.6% in Latvia and 4.0% in Lithuania, as compared to an average fall of 14.7% in the euro area. Despite the uncertainty created by coronavirus, the volume of retail trade exceeded its level of the previous year as early as May in Estonia and Lithuania, with Latvia exceeding its pre-crisis level in June. Industrial production for August was down 5% over the year in Estonia and 3% in Latvia, while in Lithuania it was up 2.1% on its level of last year. In comparison, production volumes in the euro area were down 7%.

Consumer confidence was supported by stronger balance sheets ahead of the pandemic, with accumulated savings and modest leverage, to social transfers, and wage growth. There were no external imbalances to correct during the current pandemic as the Baltic states have run substantial external surpluses and close to balance budget positions in the past decade. However the purchase of durables continues to lag the more general economy recovery. New car sales are down on average by 30% at present.

Looking forward, the prospects of recovery for the open economies of the Baltic states will depend on how the global economy and key export markets in Europe recover. The recovery will benefit from substantial fiscal support, non-financial sector and state liquidity buffers, and the EU pandemic and structural funds. Furthermore, a well-capitalised financial sector that is allowed to refinance loans and extend new credit to the non-financial sector will be crucial for the outlook for future growth. Even with a substantial discretionary fiscal boost, debt levels in the Baltic states will remain the lowest among euro area members.

The impact of COVID-19 on Luminor

In the third quarter we continued to apply all the measures needed to look after the safety and well-being of our staff and customers in the face of COVID-19. These include encouraging remote work, paying extra attention to cleaning and the availability of disinfectants in our offices and branches, and providing protective equipment to our customer-facing employees.

We also continued our efforts to promote remote services and we introduced a system of pre-booked visits in our customer service centres so we could minimise physical contacts and safe-guard against COVID-19. We have expanded our remote services to support pre-booking in our client service centres so that customers can have the majority of their questions answered already remotely.

All Luminor employees are regularly informed about all current guidelines, restrictions and recommendations so that they can keep themselves and their customers safe and help prevent the spread of the virus.

We are monitoring the situation closely and are ready to adjust our work and processes swiftly if the pandemic should require us to do that.

Throughout the pandemic Luminor has supported its customers when needed, including by providing temporary grace periods for principal loan payments when this has been required by the customers. As at the end of third quarter of 2020, grace periods had been granted to customers representing 14.5% of the corporate loan portfolio across the Baltics, which was 0.2% less than in the adjusted second quarter, and 8.4% of the mortgage portfolio, or 0.3% more than in the second quarter.

Business development

The transformation of Luminor continued in the third quarter. Some further adjustments were made in the operational structure to support a more efficient organisation and prepare for the next stage of our development.

Progress has been made in the carve-out of services from the DNB and Nordea systems across all three countries. In Latvia and Lithuania Luminor finalised the migration of customers to a common banking platforms, which are fully independent of the systems of either DNB or Nordea. Work to complete the migration and decommission of historical data is underway.

The new banking platform in Estonia was launched in the third quarter for internal pilot-users and preparations were made to launch the update in October, as well as to carry out the market launch and customer migration also planned for the fourth quarter of 2020.

PRODUCT AND DIGITAL DEVELOPMENT

In the third quarter we continued extending and strengthening our remote customer onboarding capabilities. Having already done so in Latvia and Lithuania, we launched private customer remote onboarding in Estonia, and introduced technical and process improvements across all three countries to improve customer experience and ensure quality of the service. The share of private customers onboarded remotely grew to 18% by the end of September 2020.

The Luminor Investor platform, which was launched at the end of last year in Latvia and Lithuania and at the beginning of the year in Estonia, has attracted 28 million EUR of new assets as at the end of the third quarter,

We have concluded 315 agreements with customers for the e-Commerce Gateway, which was launched for Mass Business customers at the end of the first quarter of 2020. 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.

THE RETAIL BANKING SEGMENT

The focus of Retail Banking in the third quarter centred on the three pillars of mortgage loans, consumer loans and new customer acquisition.

Volumes of new sales of mortgages were up by 6% on the previous quarter. Interest from customers in taking mortgages was greater than before the pandemic, aided by the reduction in restrictions on new lending introduced in response to COVID-19. A new credit risk strategy was developed to adjust to the market situation, while continuous improvements were made to the new and existing customer experience in lending consultations, the application process and interactions around contracts.

Sales of consumer loans increased to their pre-COVID level in the third quarter, with volumes of new sales up by 3 million EUR on the previous quarter. The new credit risk strategy was introduced, and COVID-19 lending restrictions were reduced. Deposits increased by 41 million EUR, as compared to a decrease of 24 million EUR in the same period last year.

As the pandemic stabilised during the summer, a consumer loan campaign was launched in the third quarter that was targeted at home improvement. A campaign to gain new private customers was launched, promoting the new Luminor Black payment card and awareness of the remote onboarding process in the Latvian and Lithuanian markets.

The customer service centres of Liepkalnis and Žirmūnai in Vilnius, Lithuania, were relocated to Paupys and reopened with a new concept. For customer convenience, the new centre is designed not only for financial consultations, but also for events and seminars.

Retail Banking continued with the transformation process in the third quarter to support the next stage of growth and focus on digital daily services by redesigning the customer service process and advisory concept, and optimising channels and the organisational structure.

THE CORPORATE BANKING SEGMENT

The Corporate Banking segment increased market activities in the third quarter, expanding lending by 78 million EUR. A healthy increase was observed in the use of overdrafts, especially in seasonal activity among grain wholesalers. Several new, large investment loans were drawn, notably in the commercial real estate segment.

Deposit volumes increased by 718 million EUR on the back of large increases in public sector deposits. The introduction of negative deposit rates was communicated to the largest depositors in September, and these started to apply from 1 October 2020.

THE WEALTH MANAGEMENT SEGMENT

Pension assets stood at 1.4 billion EUR, which was 6% more than a year earlier and 1.8% more than in the previous quarter. By the end of the third quarter, Luminor had some 289 000 second pillar pension customers and 62 000 third pillar customers.

The third quarter of 2020 saw significant growth of investment volumes for the Private Banking segment. Investment assets were up 13% on the same quarter of 2019 and 8% on the previous quarter.

The Luminor Investor platform and Portfolio Management continue to offer preferred investment services in combination with the high-quality Private Banking service.

CORPORATE SOCIAL RESPONSIBILITY

The safety and well-being of Luminor employees and customers continued to be the top priority in the third quarter of 2020 in all the bank’s activities. Promoting and supporting remote services and e-business was very much in focus in the corporate social responsibility area as well.

Luminor continued in the third quarter with the community investment project by developing a dedicated knowledge and training hub that can support local companies and organisations in taking their activities online and advancing their current e-business capabilities.

Working with the Ethnographic Open-Air Museum of Latvia, Luminor introduced the e-fair platform egadatirgus.lv so that the 50th season of the Latvian applied arts folk fair could happen and supported local merchants with an e-commerce gateway solution. The event had 178 merchants registered and 15 000 unique visitors.

To contribute to a wider discussion on developing the Environmental Social and Governance (ESG) framework, Luminor participated in a comprehensive ESG integration study carried out at the initiative of the European Commission among banks from all the EU countries.

To promote equality and diversity further in the workplace, Luminor adopted an updated Equality, Non-discrimination, and Diversity Policy in the third quarter.

Special focus was put on promoting information security and data protection among the bank’s customers and on warning them against possible fraudsters.

To promote governance enhancement, governance ownership was transferred to come under the direct supervision of the CEO in the third quarter, to ensure that due focus is turned on this important topic. Adjustments were also made in Corporate Governance to align it with the new risk policies and to support the new suitability assessment process.

EFFORTS TO PREVENT FINANCIAL CRIME

We are committed to preventing, detecting and reporting financial crime.

We regularly review our anti-financial crime (AFC) practices and invest in the human and technological resources that are needed. We work constantly 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 third quarter of 2020, Luminor continued to apply its financial crime risk management framework in order to prevent, detect, manage and report potential financial crime, and this was supported by its conservative approach towards money laundering and financial crime. The framework covers the technology, policies and procedures employed to prevent and detect financial crime, assess risks, run training and awareness-raising, and monitor new and developing financial crime risks continuously.

Starting from the third quarter Luminor has transformed the Customer Data Quality Middle Office into the Customer Risk Management Department by segregating duties between the first and second lines of defence to streamline anti-financial crime operational controls and the sound risk management practices aligned with the appropriate governance set-up.

Luminor is a 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 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 the improved solution for online transaction monitoring that was introduced in the third quarter of 2020. The bank is developing further its common monitoring and screening solution in all three Baltic states and has approved several additional developments that will be delivered during 2020 and 2021.

Luminor considers that work to raise awareness is an important component of the financial crime risk management framework. In the third quarter, 16 training events related to AFC and corporate compliance areas were held on 11 different topics.

OTHER EVENTS

Johan Pedersson Lilliehöök resigned from the Supervisory Council of Luminor Bank AS, effective 1 August 2020. Mathias Favetto has been appointed to the Supervisory Council as the shareholder representative of Blackstone, effective 26 August 2020.

Indrek Heinloo has resigned as the Head of the Programme Office and Member of the Management Board of Luminor Bank AS, effective 1 September 2020. Following the near completion of Luminor's New Bank Programme, the Programme Office has been merged with the Technology Division under its current management.

On 18 September 2020 it was announced that Erkki Raasuke, Chief Executive Officer, will leave the group effective 1 January 2021, ahead of the next stage of Luminor's evolution. Luminor has appointed Peter Bosek as Chief Executive Officer, effective 1 January 2021. Erkki Raasuke will continue to lead the company in the interim period.

EVENTS AFTER 30 SEPTEMBER

Jonas Eriksson resigned as Chief Financial Officer (CFO) and Member of the Management Board of Luminor Bank AS effective 10 October 2020. The bank announced Eriksson's decision to resign on 17 August 2020. The Supervisory Council of the bank has commenced a comprehensive search process for a new CFO. Until a new CFO is appointed, Erkki Raasuke, Chairman of the Management Board, will oversee responsibility for the bank's finance function at the Management Board level, supported by Olof Sundblad, Head of Treasury, who will be acting CFO during the interim period.

Effective 1 October 2020 the Wealth Management Division was merged with the Retail Banking Division under its current management.

Between the end of the third quarter and the reporting date, Luminor exited one credit. This decreased its non-performing loan portfolio by 40 million EUR. As a result, the previously recognized loan losses decreased by 9 million EUR.

Financial results

Net profit in the third quarter was 22.2 million EUR, 5.3 million EUR more than in the same quarter of last year.

Net interest income was 58.2 million EUR having been 64.6 million EUR in the same quarter last year. This decline is explained by the our strategy to reprice and rightsize the balance sheet, which has seen the loans-to-deposits ratio move from 108% to 87% over the past year. Net commission income was 1% more than in the same quarter of last year, showing the recovery of economic activity after COVID-19. Net other operating income was lower than in the same quarter of last year, mainly because of the non-recurrence of income from the sale of an office building in the third quarter of 2019.

Total operating expenses were 63.5 million EUR, which is 8.0 million EUR less than a year earlier. Exceptional costs in the third quarter reached 20.6 million EUR, 22% (5.8 million EUR) less than the comparable exceptional costs for the same period last year*, as the significant systems consolidation and customer migration project neared completion. The largest part of the exceptional costs in the third quarter of this year were IT expenses, which constituted 77% of the total, while staff costs were another 19%. Total operating expenses excluding exceptional costs were 5% lower in the third quarter than in the same period last year. The cost-to-income ratio excluding exceptional costs for the third quarter was 50.3% in 2020 as compared to 46.4% in the third quarter of 2019, and for the nine months in 2020, 50,8%, lower than the 52.1% for the nine months of 2019.

Luminor achieved net reversal of impairment in this quarter and the annualised net credit impairment ratio for the first nine months of the year is 0.39%. Luminor has also continued to reduce its portfolio of non-performing loans, which reached 3.7% of the loan portfolio by end of the quarter. Return on equity excluding exceptional costs for the third quarter ratio was 9.7% in 2020 and 9.6% in 2019, the nine months ratio was 6.3% in 2020, compared to 12.5% in 2019.

**The comparable exceptional cost for the first six months of 2020 was 54.1 million EUR, and it was 39.8 million EUR during the same period in 2019.*

Key figures and ratios of Luminor**

thousand EUR	Q3 2020	Q2 2020	Q3 2019	January - September 2020	January - September 2019	Full Year 2019
Net profit	22 230	13 463	16 887	14 501	49 965	53 997
Average equity	1 635 200	1 616 621	1 624 589	1 639 739	1 715 956	1 714 685
Return on equity (ROE), %	5.4	3.3	4.1	1.2	3.9	3.1
Average assets	13 832 140	13 357 895	13 905 118	13 966 964	14 548 418	14 522 261
Return on assets (ROA), %	0.6	0.4	0.5	0.1	0.5	0.4
Net interest income	58 162	55 878	64 589	169 847	196 744	244 167
Average interest earning assets	13 559 297	13 080 712	13 579 747	13 672 835	14 230 763	14 192 831
Net interest margin (NIM), %	1.7	1.7	1.9	1.7	1.8	1.7
Cost / Income ratio (C/I), %	74.6	80.5	73.5	81.2	75.9	77.6
Credit impairment ratio, %***	-0.03	0.13	0.33	0.39	0.15	0.22
Loans to customers	9 626 948	9 616 727	10 760 156	9 626 948	10 760 156	10 222 547
Deposits from customers	11 070 312	10 344 572	9 923 439	11 070 312	9 923 439	10 235 443
Loans / Deposits ratio, %	87.0	93.0	108.4	87.0	108.4	99.9
CET1 ratio, %	22.0	22.0	18.7	22.0	18.7	19.7
NPL ratio (gross), %	3.7	4.0	4.3	3.7	4.3	3.8
Net interest income / Loans, %	2.4	2.3	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

Net interest income / Loans = Net interest income / Net loans, average * 100

LENDING AND DEPOSITS

The lending portfolio totalled 9 627 million EUR at the end of the third quarter being down from 10 760 million EUR a year earlier. The composition changed slightly over those 12 months as the share of lending to individual customers increased from 53% to 56% 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 19.5% to 17.4% over the 12 months.

Lending thousand EUR	30 September 2020				
	Individual customers	Business customers	Public sector	Financial institutions	Total
Total	5 422 902	3 949 977	135 027	119 042	9 626 948
Estonia	*1 282 252*	*1 123 768*	*51 681*	*91 239*	*2 548 940*
Latvia	*1 548 719*	*1 234 311*	*8 348*	*27 082*	*2 818 460*
Lithuania	*2 591 931*	*1 591 898*	*74 998*	*721*	*4 259 548*

Deposits thousand EUR	30 September 2020				
	Individual customers	Business customers	Public sector	Financial institutions	Total
Total	4 140 256	3 849 168	2 694 892	385 996	11 070 312
Estonia	*495 884*	*794 980*	*526 522*	*188 061*	*2 005 447*
Latvia	*1 294 807*	*1 102 589*	*186 642*	*80 001*	*2 664 039*
Lithuania	*2 349 565*	*1 951 599*	*1 981 728*	*117 934*	*6 400 826*

Deposits from customers continued to increase and they totalled 11 070 million EUR at the end of the third quarter, up from 9 923 million EUR a year before. The composition changed slightly over the year as the share of deposits from the public sector increased from 17% to 24% and the share of deposits from business customers declined from 40% to 35% at the Baltic level. Luminor's share of the deposit market in the Baltics decreased from 16.8% to 16.3% over the 12 months.

ASSET QUALITY FOR Q3 2020

The metrics used to measure the overall quality of the loan portfolio, continued to improve, and the expected negative consequences of the COVID-19 pandemic have been limited and have mostly impacted certain industries and customers, while others have been barely affected or not at all.

The most severe impact was felt by industries like accommodation and food service activities, tourism and aviation. Luminor's exposure towards these sectors is small at 0.6% of the total net lending to customers. Almost half of the net exposure within these affected sectors is classified as Stage 1 exposure, about 20% is Stage 2 and some 30% is Stage 3.

We have supported our customers through the pandemic notably via loan modifications. The most common modification requested was a grace period on principal payments. Grace period on principal and interest payments was granted only in exceptional circumstances, and to around 1% of all modifications.

The stock of the requests for modifications including grace periods stood at 1.1 billion EUR at the end of the third quarter and covered 11% of the total credit portfolio, which is almost the same as at the end of the second quarter. The flow of modification requests has almost stopped, with only a small flow remaining for mortgage loans, where modification requests increased by 16 million EUR in the third quarter. The total value of modifications approved reached almost 1.0 billion EUR at the end of September 2020. From the above mentioned received and approved modification requests grace periods have already expired for around 36% of the modified exposures, and this has not led to any noticeable changes in overdue loans within these exposures. The level of exposures overdue by more than 5 days after the end of the grace period is only slightly higher, by just 0.4 percentage point, than it is in the portfolio without modifications. The largest concentration for the end of grace periods is in October 2020.

Some 64% of the requests for modifications came from business customers. 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.

Luminor's loan loss provision reversals, including provisions for off-balance sheet commitments, reached 0.3 million EUR during the third quarter. An increase in individual provisions for the reclassification of one larger COVID-19 related exposure from Stage 2 to Stage 3 and another exposure in the subsidised energy industry were offset by a positive outcome from the resolution of other legacy non-performing exposures and a reduction in Stage 2 provisions. The loan loss provisions excluding the off-balance sheet commitments were 29.6 million EUR for the first half of the year, bringing the total for the first nine months of 2020 to 29.0 million EUR. The loan loss provisions for off-balance sheet commitments reached 3.1 million EUR, bringing the total loan loss provisions to 32.1 million EUR for the first nine months of 2020.

The share of non-performing loans, or the NPL ratio, was 3.7% at the end of the quarter, which is 0.3 percentage point lower than in the previous quarter. Even though the COVID-19 driven inflow continued in the third quarter, the outflow was more than three times the inflow, and this left the volume of non-performing loans at its historically lowest level ever. The key drivers for the decrease in the non-performing portfolio were collection activities including sales of collaterals, sales of claim rights, and write-offs of the amounts remaining after collection activities. The NPL ratio for the mortgage loan portfolio was 2.6%, which represents a decrease of 0.4 percentage point.

Total allowances for expected credit losses on the balance sheet were 176.6 million EUR at the end of the quarter, of which 126.9 million EUR were for Stage 3 exposures. Non-performing loans totalled 361.7 million EUR.

Asset quality of Luminor as at 30 September 2020

	30 September 2020			
thousand EUR*	**Total**	***Estonia***	***Latvia***	***Lithuania***
Financial institutions				
Stage 1				
Gross carrying amount	116 249	89 202	26 413	634
Allowance for expected credit losses	-408	-392	-12	-4
Carrying amount	**115 841**	**88 810**	**26 401**	**630**
Stage 2				
Gross carrying amount	3 207	2 440	674	93
Allowance for expected credit losses	-89	-84	-3	-2
Carrying amount	**3 118**	**2 356**	**671**	**91**
Stage 3				
Gross carrying amount	83	73	10	0
Allowance for expected credit losses	0	0	0	0
Carrying amount	**83**	**73**	**10**	**0**
Total carrying amount for financial institutions	**119 042**	**91 239**	**27 082**	**721**
Public sector				
Stage 1				
Gross carrying amount	134 620	51 683	8 349	74 588
Allowance for expected credit losses	-11	-4	-1	-6
Carrying amount	**134 609**	**51 679**	**8 348**	**74 582**
Stage 2				
Gross carrying amount	40	2	0	38
Allowance for expected credit losses	0	0	0	0
Carrying amount	**40**	**2**	**0**	**38**
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	**135 027**	**51 681**	**8 348**	**74 998**
Individual customers				
Stage 1				
Gross carrying amount	5 029 171	1 208 548	1 407 357	2 413 266
Allowance for expected credit losses	-9 455	-1 443	-2 369	-5 643
Carrying amount	**5 019 716**	**1 207 105**	**1 404 988**	**2 407 623**
Stage 2				
Gross carrying amount	305 021	61 692	96 926	146 403
Allowance for expected credit losses	-15 669	-1 777	-6 125	-7 767
Carrying amount	**289 352**	**59 915**	**90 801**	**138 636**

Stage 3				
Gross carrying amount	155 963	17 920	80 966	57 077
Allowance for expected credit losses	-42 129	-2 688	-28 036	-11 405
Carrying amount	**113 834**	**15 232**	**52 930**	**45 672**
Total carrying amount for individual customers	**5 422 902**	**1 282 252**	**1 548 719**	**2 591 931**
of which mortgage loans				
Stage 1				
Gross carrying amount	4 277 715	969 416	1 236 509	2 071 790
Allowance for expected credit losses	-5 488	-564	-1 599	-3 325
Carrying amount	**4 272 227**	**968 852**	**1 234 910**	**2 068 465**
Stage 2				
Gross carrying amount	206 039	44 798	87 794	73 447
Allowance for expected credit losses	-13 252	-1 485	-5 836	-5 931
Carrying amount	**192 787**	**43 313**	**81 958**	**67 516**
Stage 3				
Gross carrying amount	121 755	14 212	73 031	34 512
Allowance for expected credit losses	-32 845	-1 686	-25 441	-5 718
Carrying amount	**88 910**	**12 526**	**47 590**	**28 794**
Total carrying amount for mortgage loans	**4 553 924**	**1 024 691**	**1 364 458**	**2 164 775**
Business customers				
Stage 1				
Gross carrying amount	2 692 836	800 597	794 603	1 097 636
Allowance for expected credit losses	-11 803	-6 177	-1 402	-4 224
Carrying amount	**2 681 033**	**794 420**	**793 201**	**1 093 412**
Stage 2				
Gross carrying amount	1 160 710	290 146	402 052	468 512
Allowance for expected credit losses	-12 245	-5 661	-1 883	-4 701
Carrying amount	**1 148 465**	**284 485**	**400 169**	**463 811**
Stage 3				
Gross carrying amount	205 258	83 225	59 645	62 388
Allowance for expected credit losses	-84 779	-38 362	-18 704	-27 713
Carrying amount	**120 479**	**44 863**	**40 941**	**34 675**
Total carrying amount for business customers	**3 949 977**	**1 123 768**	**1 234 311**	**1 591 898**
Totals				
Gross carrying amount Stage 1	7 972 876	2 150 030	2 236 722	3 586 124
Gross carrying amount Stage 2	1 468 978	354 280	499 652	615 046
Gross carrying amount Stage 3	361 682	101 218	140 621	119 843
Total gross carrying amount	**9 803 536**	**2 605 528**	**2 876 995**	**4 321 013**
Allowance for expected credit losses Stage 1	-21 677	-8 016	-3 784	-9 877
Allowance for expected credit losses Stage 2	-28 003	-7 522	-8 011	-12 470

Allowance for expected credit losses Stage 3	-126 908	-41 050	-46 740	-39 118
Total allowance for expected credit losses	**-176 588**	**-56 588**	**-58 535**	**-61 465**
Total carrying amount	**9 626 948**	**2 548 940**	**2 818 460**	**4 259 548**
Gross Stage 3 loans vs Gross loans (NPL ratio), %	3.69	3.88	4.89	2.77
Gross Stage 3 mortgage loans vs Gross mortgage loans (NPL ratio for mortgage loans), %	2.64	1.38	5.23	1.58
Allowance for expected credit losses Stage 3 vs Gross Stage 3 loans (Stage 3 impairment ratio), %	35.09	40.56	33.24	32.64
Allowance for expected credit losses vs Gross loans (Impairment ratio), %	1.80	2.17	2.03	1.42

* Excluding Loans to Credit Institutions

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 September 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 September 2020, thousand EUR	Stage 1	Stage 2	Stage 3	Total
Low risk	5 108 625	89 280	0	5 197 905
Moderate risk	2 732 058	959 442	0	3 691 500
High risk	132 193	420 256	0	552 449
Default	0	0	361 682	361 682
Gross	**7 972 876**	**1 468 978**	**361 682**	**9 803 536**
Allowance for expected credit losses	-21 677	-28 003	-126 908	-176 588
Net	**7 951 199**	**1 440 975**	**234 774**	**9 626 948**

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 September 2020	%
Private individuals*	5 422 902	56.3%
Real estate activities	1 163 257	12.1%
Wholesale and retail trade	791 282	8.2%
Other industries	552 485	5.7%
o/w Travel agencies and tour operators	*9 643*	*0.1%*
o/w Arts, entertainment and recreation	*12 077*	*0.1%*
o/w Food service activities	*24 969*	*0.3%*
o/w Accomondation	*9 965*	*0.1%*
Manufacturing	462 897	4.8%
Agriculture, hunting, forestry, fishing	314 895	3.3%
Transport, storage, communication	337 585	3.5%
Construction	183 984	1.9%
Electricity, gas, water supply	143 592	1.5%
Public sector	135 027	1.4%
Financial institutions	119 042	1.2%
Total	**9 626 948**	**100.0%**

* Farmers under the Private individuals in the amount of 207 627 thousands EUR

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 September 2020 thousand EUR, Stage 3 loans	Gross	Allowance for expected credit losses	Net	Fair value of collateral
Business customers*	205 719	-84 779	120 940	155 819
Individual customers	155 963	-42 129	113 834	135 670
Total	**361 682**	**-126 908**	**234 774**	**291 489**

* 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. This has been achieved over time by reducing lending volumes and by improving the funding structure.

Deposits from customers stood at 11 070 million EUR at the end of the third quarter, and at 10 344 million EUR at the end of the second quarter. In addition the total nominal value of the bonds outstanding under the Euro Medium Term Note or EMTN programme was 1 150 million EUR, consisting of 650 million EUR of senior unsecured bonds and a five-year 500 million EUR covered bond. There were no new issuances during the third quarter. In September 2020 Luminor doubled the Cover Pool of its covered bonds by adding a portfolio of Latvian mortgage loans.

Luminor has a committed funding facility agreement with its former parent banks, DNB and Nordea, 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 third quarter the total facility stood at 1 037 million EUR and was undrawn. The total commitment was reduced by 1 300 million EUR during the third quarter following a voluntary cancellation by Luminor. 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 1 034 million EUR at the end of the third quarter of 2020 and of 1 667 million EUR at the end of the second quarter.

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 20 December 2019 that was executed for Luminor by a decision of the Estonian Financial Supervision and Resolution Authority, dated 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 third quarter of 2020 the total MREL ratio stood at 15.9% at the consolidated level of Luminor Bank AS, down from 16.6% at the end of the second quarter, while 11.3% of total liabilities and own funds were subordinated instruments as at the end of the third quarter of 2020 and 11.8% of total liabilities and own funds were subordinated instruments as at the end of the second quarter of 2020. It should be noted that the MREL requirements (set versus Total Liabilities and Own Funds) were set using data as of 31 March 2019, which means the decision (and thus the requirement) does not consider any subsequent events impacting the capital requirements and thus also the MREL requirements.

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 September 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

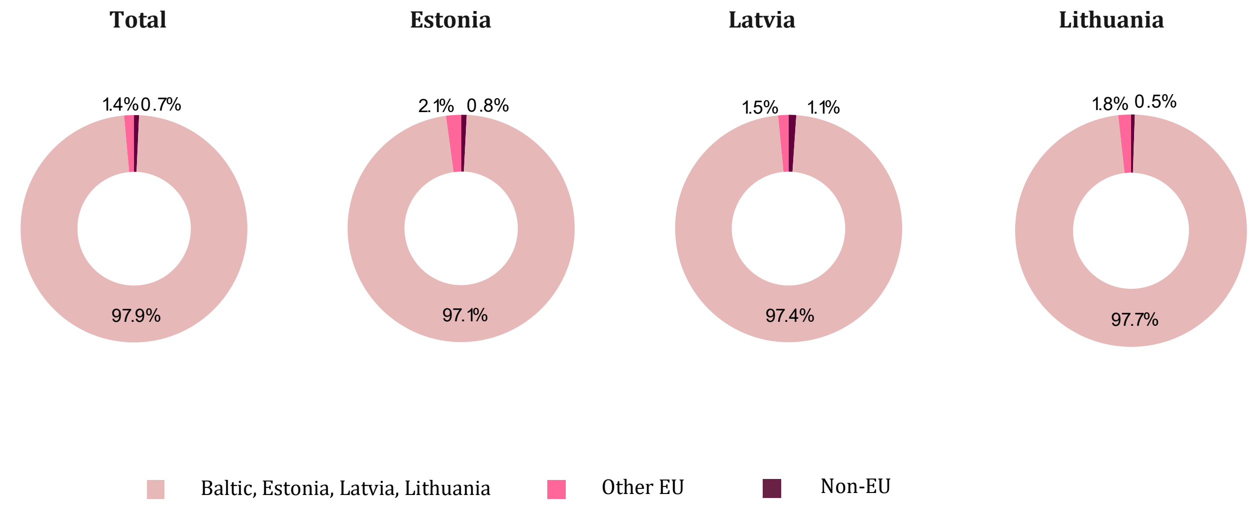
Luminor's structural liquidity risk is conservative and well-balanced, and it is based on metrics that measure liquidity risk and is appropriately adapted to the current economic and regulatory environment. Luminor uses a range of metrics to measure liquidity risk, one of which is the Liquidity Coverage Ratio (LCR). The LCR for Luminor was 177% at the end of the third quarter of 2020 and 159% at the end of the second 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 144% during the third quarter of 2020 from 133% at the end of the second quarter. The improvement was driven by the increased deposit base benefiting the Available Stable Funding (AFS) and by the decrease in the amount of Required Stable Funding (RSF). The RSF was impacted mainly by a reduction of the funding facility commitment lowering the amount of encumbered assets.

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
LCR	177.2%	159.0%	143.7%	149.8%	144.3%
NSFR	143.6%	133.2%	126.0%	123.0%	118.0%

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 the EU residents.

Deposits by residency per country:



CAPITAL

Luminor's common equity tier 1 (CET1) ratio remained at 22.0% at the end of the third quarter of 2020 compared to the previous quarter, maintaining it comfortably above the internal target of 17%. Risk Exposure Amount (REA) was at 7 221 million EUR (31 December 2019: 7 969 million EUR). As at the end of the third quarter of 2020 Luminor had 1 588 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 10.7% as at the end of the third 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	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Leverage ratio	10.71%	11.23%	11.46%	10.88%	10.89%
CET 1 ratio	21.99%	22.04%	20.54%	19.66%	18.73%
T1 capital ratio	21.99%	22.04%	20.54%	19.66%	18.73%
Total capital ratio	21.99%	22.04%	20.54%	19.66%	18.73%

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 September 2020.

Own funds requirements

thousand EUR	30 September 2020	31 December 2019
TOTAL RISK EXPOSURE AMOUNT	7 221 495	7 969 099
RISK-WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	6 517 271	7 252 440
Standardised approach (SA)	6 517 271	7 252 440
SA exposure classes excluding securitisation positions	6 517 271	7 252 440
Central governments or central banks	0	0
Regional governments or local authorities	10 457	13 445
Public sector entities	2 066	674
Institutions	39 691	54 281
Corporations	3 212 534	3 742 611
Retail	1 186 557	1 347 232
Secured by mortgages on immovable property	1 521 383	1 532 931
Exposures in default	281 483	292 472
Items associated with particularly high risk	140 101	134 498
Covered bonds	2 406	0
Equity	6 798	5 778
Other items	113 795	128 517
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	21 561	19 232
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	662 456	679 644
TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	20 207	17 784

Statement of the Management Board

The interim report of Luminor Bank AS for the third 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 third 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, 10 November 2020

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

thousand EUR	Notes	1 January 2020 to 30 September 2020	1 January 2019 to 30 September 2019	Q3 2020	Q3 2019
Interest income calculated using the effective interest method	4	169 938	184 415	56 452	61 746
Other similar income	4	35 520	43 451	11 602	14 267
Interest and similar expense	4	-35 611	-31 122	-9 892	-11 424
Net interest income		**169 847**	**196 744**	**58 162**	**64 589**
Fee and commission income	5	71 136	79 925	24 975	27 137
Fee and commission expense	5	-18 243	-21 303	-5 323	-7 615
Net fees and commission income		**52 893**	**58 622**	**19 652**	**19 522**
Net gain on financial assets and liabilities designated at fair value through profit/loss		-123	480	71	91
Net gain on debt securities at fair value through profit or loss		6 462	731	3 391	204
Net gain on financial assets and liabilities held for trading		3 547	3 868	1 278	-2 341
Net gain from financial derivatives		-4 754	13 882	-9 631	13 077
Net gain from operations with foreign currency		16 341	-10	11 658	-4 981
Dividend income		35	58	-311	0
Other operating income		5 721	11 794	2 253	9 452
Other operating expenses		-4 240	-7 546	-1 468	-2 485
Net other operating income		**22 989**	**23 257**	**7 241**	**13 017**
Salaries and other personnel expenses	6	-72 062	-87 166	-23 116	-25 794
Other administrative expenses	7	-118 661	-114 197	-37 337	-42 444
Depreciation and impairment of property, plant and equipment and intangible assets		-8 930	-10 051	-3 001	-3 196
Total operating expenses		**-199 653**	**-211 414**	**-63 454**	**-71 434**
Share of profit from an associate		1 025	735	367	250
Net impairment (-)/ reversal on loans to customers, excluding off-balance sheet commitments	3	-28 995	-12 273	653	-9 058
Net impairment (-)/ reversal on off-balance sheet commitments		-3 095	1 106	-60	1 936
Other non-operating expenses		-50	-1 605	7	-143
Profit before Tax		**14 961**	**55 172**	**22 568**	**18 679**
Tax expense		-460	-5 207	-338	-1 792
Profit (loss) for the period		**14 501**	**49 965**	**22 230**	**16 887**

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	11	0	0
Total items that will be reclassified to profit or loss		**0**	**11**	**0**	**0**

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	2 422	0	2 293
Total Items that will not be reclassified to profit or loss	**4**	**2 422**	**0**	**2 293**
Total other comprehensive income	**4**	**2 433**	**0**	**2 293**
Total comprehensive income	**14 505**	**52 398**	**22 230**	**19 180**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

thousand EUR	Notes	30 September 2020	31 December 2019
Assets			
Cash and balances with central banks	8	3 988 921	2 924 019
Due from other credit institutions	9	97 625	141 645
Loans to customers	11	9 626 948	10 222 547
Financial assets held for trading	17	5 272	3 021
Financial assets at fair value through profit or loss	17	287 209	227 896
Derivative financial instruments	10	50 318	59 217
Financial assets at fair value through other comprehensive income	17	140	140
Investments in associates		6 658	5 639
Intangible assets		7 691	8 199
Property, plant and equipment and right-of-use assets		60 198	67 472
Investment properties		1 014	2 427
Current tax assets		232	0
Deferred tax assets		10 401	3 031
Other assets		52 533	73 340
Non-current assets and disposal groups held for sale		103	71
Total assets		**14 195 263**	**13 738 664**
Liabilities			
Loans and deposits from credit institutions	12	120 152	980 692
Deposits from customers	13	11 070 312	10 235 443
Debt securities issued	14	1 163 485	651 716
Derivative financial instruments	10	49 353	58 304
Tax liabilities		1 089	3 845
Lease liabilities		51 649	57 051
Other financial liabilities	15	31 146	45 303
Other liabilities		53 989	69 793
Provisions		6 880	4 248
Total liabilities		**12 548 055**	**12 106 395**
Shareholders' Equity			
Issued capital		34 912	34 912
Share premium		1 412 243	1 412 243
Retained earnings		197 083	183 916
Other reserves		2 970	1 198
Total shareholders' equity attributable to the shareholders of the Bank		**1 647 208**	**1 632 269**
Total liabilities and shareholders' equity		**14 195 263**	**13 738 664**

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	49 965	**49 965**
Other comprehensive income	0	0	2 433	0	**2 433**
Total comprehensive income for the period	**0**	**0**	**2 433**	**49 965**	**52 398**
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	-13	3 870	**3 857**
Total equity as at 30 September 2019	**34 912**	**1 412 243**	**6 880**	**180 776**	**1 634 811**
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	14 501	**14 501**
Other comprehensive income	0	0	4	0	**4**
Total comprehensive income for the period	**0**	**0**	**4**	**14 501**	**14 505**
Transfer to mandatory reserve	0	0	1 768	-1 768	**0**
Other	0	0	0	434	**434**
Total equity as at 30 September 2020	**34 912**	**1 412 243**	**2 970**	**197 083**	**1 647 208**

* 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 at 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	1 January 2020 to 30 September 2020	1 January 2019 to 30 September 2019
Cash flows from operating activities			
Profit before tax		**14 961**	**55 172**
Adjustment for:			
-Net impairment (-)/ reversal (+) on loans to customers, excluding off-balance sheet commitments	3	28 995	12 273
-Net impairment (-)/ reversal (+) on off-balance sheet commitments		3 095	-1 106
-Dividend income		-35	-58
-Share of profit from an associate		-1 025	0
-Loss (+) / profit (-) from foreign currency revaluation		606	10
-Depreciation, amortisation and impairment		8 930	10 051
-Other adjustments		50	1 605
-Interest income	4	-205 458	-227 866
-Interest expenses	4	35 611	31 122
Cash flow from operations before changes in operating assets/liabilities		**-114 270**	**-118 797**
Change in operating assets/liabilities			
Increase (-) / decrease (+) of lending to customers		569 089	738 539
Increase (-) / decrease (+) of other assets		-24 227	-52 054
Increase (+) / decrease (-) of client deposits	12, 13	883 652	-1 757 951
Increase (-) / decrease (+) of liabilities		-37 778	46 339
Interest received		200 696	228 949
Interest paid		-33 819	-28 040
Income tax paid		-10 818	-5 207
Cash flow from operating activites		**1 546 795**	**-829 425**
Investing activities			
Acquisition of property, equipment and intangible assets		-2 369	-5 757
Proceeds from disposal of property, equipment and intangible assets		1 426	1 985
Proceeds from disposals of investment property		1 208	14 902
Dividend received		35	58
Cash flow from investing activities		**300**	**11 188**
Financing activities			
Debt securities issued	14	503 500	298 809
Payment of principal of parent funding	12	-1 155 000	0

Proceeds from parent funding	12	250 000	0
Payments of principal on leases		-1 750	-2 953
Payout to the Shareholder		0	-216 031
Cash flows from financing activities		**-403 250**	**79 825**
Net increase (+) / decrease (-) in cash and cash equivalents		**1 029 575**	**-857 209**
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		-606	-10
Net increase (+) / decrease (-) in cash and cash equivalents		1 029 575	-857 209
Cash and cash equivalents at the end of the period		**3 981 784**	**2 453 298**
Cash and cash equivalents comprises			
Cash on hand	8	129 043	119 844
Non-restricted current account with central bank	8	3 755 193	2 165 891
Due from other credit institutions on demand or with original maturity of three months or less	9	97 548	167 563
Total		**3 981 784**	**2 453 298**

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.

Luminor Holding AS, established on 14 May 2019, is the 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 September 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

As at 30 September 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 EU. 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	1 January 2019 to 30 September 2019			Q3 2019		
	As restated	Change	As previously reported	As restated	Change	As previously reported
Interest income calculated using the effective interest method	184 415	+1 353	183 062	61 746	+269	61 477
Other similar income	43 451	-1 353	44 804	14 267	-269	14 536
Interest and similar expense*	-31 122	+7 546	-38 668	-11 424	+2 485	-13 909
Other operating expenses*	-7 546	-7 546	0	-2 485	-2 485	0
Net gain on financial assets and liabilities designated at fair value through profit/loss	480	-731	1 211	91	-204	295
Net gain on debt securities at fair value through profit or loss	731	+731	0	204	+204	0
Net gain on financial assets and liabilities held for trading	3 868	-13 882	17 750	-2 341	-13 077	10 736
Net gain from financial derivatives	13 882	+13 882	0	13 077	+13 077	0
Other operating expenses**	0	+11 709	-11 709	0	+3 131	-3 131
Other administrative expenses**	-114 197	-11 709	-102 488	-42 444	-3 131	-39 313
Other non-operating expenses	-1 605	-1 106	-499	-143	-1 936	1 793
Net impairment (-) / reversal (+) on off-balance sheet commitments	1 106	+1 106	0	1 936	+1 936	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 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	1 January 2019 to 30 September 2019		
	As restated	Change	As previously reported
Interest and similar expense*	31 122	-7 546	38 668
Interest paid	-28 040	+7 546	-35 586
Net impairment (-) / reversal (+) on off-balance sheet commitments	-1106	-1 106	0
Other adjustments	1605	+1 106	499

*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.

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 (FVTPL), 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 was not changed during the first three quarters of 2020. The macroeconomic parameters were reviewed in the first and second quarters 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 condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Luminor Bank AS annual financial statements as at 31 December 2019.

The interim financial statements disclose information on changes directly initiated as part of the bank's response to the COVID-19 pandemic and additional information about changes implemented during the reporting period not directly related to COVID-19 pandemic in further sections of this note.

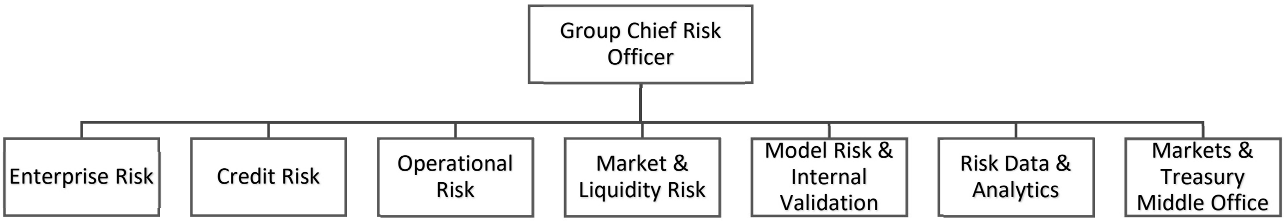
MAIN GOALS

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 consists of the Risk Division and reports to the Chief Risk Officer. The Risk Division is an independent control and reporting function authorized to verify that Luminor's business and supporting divisions operate within the set risk appetite and risk strategy.

The ECB-led Comprehensive Assessment (i.e. both the Asset Quality Review and Stress Test exercise) is currently in progress. The overall exercise is currently planned to end in December 2020, with join-up process in January 2021 and publication of the results in February 2021.

To further facilitate the leveraging of synergies between departments, the Risk Division is reorganized as of 1 October 2020. Functions performed by the Special Projects Department were merged into other departments within the Risk Division. 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 credit risk is under the responsibility of the Credit Risk Department. 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 Model Risk & Validation Department owns the model risk framework and respective validation activities. The Risk Data & Analytics Department combines most of the activities related to data and modelling. The first line of defence tasks previously performed by the Market & Liquidity Risk Department were extracted into the Markets & Treasury Middle Office, which is planned to be moved out of the Risk Division to the first line of defence.

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 in the second quarter of 2020, 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 were directly or indirectly affected by this situation. When the restrictions were gradually lifted, signs of improvement have been observed during the third quarter of 2020.

A key governmental support measure was the moratoria agreements introduced by the European Banking Authority (the EBA) and regulated by the EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 pandemic (EBA/GL/2020/02). 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 EBA/GL/2020/02. 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.

Any other conditions shall not be changed, and the grace period can be granted only once. The modifications under the moratoria are not classified as forbearance. For the cases not meeting moratoria conditions, an individual solutions are applied and individual assessment on the exposure classification is performed.

The moratoria were in force until 30 September 2020. For the majority of individual customers' consumer credits and leasing agreements grace periods already ended in July 2020, for the majority of individual customers' mortgage loans and business customers' loans the end of grace periods is upcoming in October 2020.

Luminor has been monitoring the spread of COVID-19 since early 2020 and has adjusted its risk management to the new operating environment. Customers where deterioration of the credit quality was observed or predicted based on the changed operating environment were included into the Watch list in order to monitor them more thoroughly. A Weekly Early Warning Indicator tracker has been established to enable close monitoring of the changes in the portfolio. Luminor will further follow-up on the customers' performance after the end of grace periods and the situation's development in regard to a potential second wave of the pandemic and will continue to adjust Luminor's credit risk management as and if needed.

Impairment policies

Luminor recognises credit losses in accordance with the requirements of IFRS 9, which 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. During the first three quarters of 2020 the impairment methodology remained unchanged.

Different regulatory authorities had announced various measures to deal with the crisis and minimise the effect on the economies. Luminor acts in line with the regulatory 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.

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

30 September 2020 thousand EUR	Note	Gross	Allowance for expected credit losses	Net
Due from banks and other credit institutions	**9**	**97 660**	**-35**	**97 625**
Financial institutions	**11**	**119 539**	**-497**	**119 042**
Public sector	**11**	**135 038**	**-11**	**135 027**
Business customers	**11**	**4 058 804**	**-108 827**	**3 949 977**
Loans		2 980 618	-91 795	2 888 823
Factoring		175 235	-2 136	173 099
Leasing		902 951	-14 896	888 055
Individual customers	**11**	**5 490 155**	**-67 253**	**5 422 902**
Mortgage loans		4 605 509	-51 585	4 553 924
Consumer and card loans		116 089	-1 180	114 909
Other loans		297 875	-10 016	287 859
Leasing		470 682	-4 472	466 210
Total		**9 901 196**	**-176 623**	**9 724 573**

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

30 September 2020

Loans to customers and due from other credit institutions 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	5 186 401	85 868	0	3 411	5 275 680
Moderate risk	2 751 941	945 645	0	13 798	3 711 384
High risk	132 193	397 988	0	22 267	552 448
Default	0	0	342 349	19 335	361 684
Gross	**8 070 535**	**1 429 501**	**342 349**	**58 811**	**9 901 196**
Less: Allowance for expected credit losses	-21 711	-27 764	-123 811	-3 337	-176 623
Net	**8 048 824**	**1 401 737**	**218 538**	**55 474**	**9 724 573**

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	990 792	40 266	0	146	1 031 204
Moderate risk	1 629 181	834 852	0	12 146	2 476 179
High risk	72 862	251 420	0	21 881	346 163
Default	0	0	191 571	13 687	205 258
Gross	**2 692 835**	**1 126 538**	**191 571**	**47 860**	**4 058 804**
Less: Allowance for expected credit losses	-11 802	-12 063	-82 783	-2 179	-108 827
Net	**2 681 033**	**1 114 475**	**108 788**	**45 681**	**3 949 977**

31 December 2019

Loans to customers and due from other credit institutions 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 assesses 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 September 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)	4 002	-6 732	2 730	0	**0**	-864 469	884 492	-20 023	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	1 263	3 093	-4 356	0	**0**	-52 777	-70 248	123 025	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-8 645	5 227	3 418	0	**0**	147 071	-132 608	-14 463	0	**0**
New originated or purchased	-7 912	0	0	0	**-7 912**	918 541	0	0	154	**918 695**
Derecognised and repaid during the period	2 167	2 868	13 481	114	**18 630**	-1 306 553	-98 240	-74 333	-6 173	**-1 485 299**
Changes to ECL model assumptions and effect from changes in Stages	3 921	-6 324	-36 966	-344	**-39 713**	0	0	0	0	**0**
Total movements with impact in credit loss allowances charge for period	**-5 204**	**-1 868**	**-21 693**	**-230**	**-28 995**	**-1 158 187**	**583 396**	**14 206**	**-6 019**	**-566 604**
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	36 800	1 282	**38 082**	0	0	-36 800	-1 282	**-38 082**
As at 30 September 2020	**-21 676**	**-27 764**	**-123 811**	**-3 337**	**-176 588**	**7 972 875**	**1 429 501**	**342 349**	**58 811***	**9 803 536**

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)

* As at 30 September 2020 out of total POCI loans credit loss allowances -240 thousand EUR is in Stage 2 and -3 097 thousand EUR is in Stage 3, gross carrying amount 39 478 thousand EUR is in Stage 2 and 19 333 thousand EUR in Stage 3.

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)	3 122	-3 573	451	0	**0**	-752 585	754 404	-1 819	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	739	578	-1 317	0	**0**	-34 910	-41 141	76 051	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-2 993	743	2 250	0	**0**	51 805	-47 845	-3 960	0	**0**
New originated or purchased	-5 698	0	0	0	**-5 698**	481 752	0	0	10	**481 762**
Derecognised and repaid during the period	1 451	987	8 950	27	**11 415**	-796 342	-65 730	-52 199	-3 156	**-917 427**
Changes to ECL model assumptions and effect from changes in Stages	-478	-3 623	-27 762	-376	**-32 239**	0	0	0	0	**0**
Total movements with impact in credit loss allowances charge for period	**-3 857**	**-4 888**	**-17 428**	**-349**	**-26 522**	**-1 050 280**	**599 688**	**18 073**	**-3 146**	**-435 665**
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	28 461	271	**28 732**	0	0	-28 461	-271	**-28 732**
As at 30 September 2020	**-11 802**	**-12 063**	**-82 783**	**-2 179**	**-108 827**	**2 692 835**	**1 126 538**	**191 571**	**47 860**	**4 058 804**

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 a 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 Risk Forum 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 third quarter of 2020.

Debt securities

Debt securities exposure (Note 17: except for debt securities - Other financial corporations) of the Group at the end of the third quarter of 2020 was 271 million EUR compared to 211 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 form the remaining very small part. The average weighted duration of the total portfolio is 4.1 years compared to 3.1 years at the end of 2019. Debt securities investments are performed in accordance with the limits set by the Luminor's Management Board and the 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 September 2020	31 December 2019
Cash on Hand	**129 043**	**140 518**
Central Banks	**3 859 878**	**2 783 501**
Credit Institutions	**97 625**	**141 645**
Financial Institutions	**119 042**	**29 255**
Public Sector	**135 027**	**174 715**
Individual Customer	**5 422 902**	**5 606 413**
Business Customers	**3 949 977**	**4 412 164**
Agriculture, forestry and fishing	314 895	337 080
Mining and quarrying	14 309	23 658
Manufacturing	462 897	571 675
Electricity, gas, steam and air conditioning supply	114 028	132 176
Water supply	29 564	31 948
Construction	183 984	197 785
Wholesale and retail trade	791 282	937 197
Transport and storage	316 411	394 660
Accommodation and food service activities	34 934	48 768
Information and communication	21 174	26 558
Real estate activities	1 163 257	1 132 767
Professional, scientific and technical activities	189 043	210 089
Administrative and support service activities	177 152	209 227
Public administration and defence, compulsory social security	138	5 358
Education	5 476	7 106
Human health services and social work activities	21 797	21 432
Arts, entertainment and recreation	12 077	13 607
Other services	97 559	111 073
TOTAL	**13 713 494**	**13 288 211**

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, Information and communications technology (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.

As the prevalence and infection rate of COVID-19 fluctuated in the Baltic countries during the third quarter of 2020, Luminor implemented a system of predefined controls in the form of COVID-19 response states. These response states allow management to quickly and effectively increase or decrease COVID-19 related restrictions and limitations in response to perceived threat and risk levels. The COVID-19 response states are designed as a baseline to manage the risk to Luminor and the bank's stakeholders, and are country-based. Should there be a variation between the restrictions in the relevant COVID-19 response state and local governmental rules or advice, the more conservative of the two will prevail.

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

MARKET RISK

The Group has a low risk appetite for market risk, which is defined as the risk of losses from 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 Luminor's 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 were at similar levels as they were during 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, and all commodity deals with customers are hedged 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 liquidity bond portfolios. The Bank follows a rigorous framework for debt securities management. Bond portfolios managed by the Treasury & Asset and Liability Management Department and Markets Department are restricted in terms of size, level of quality, region and counterparty, limiting credit risk exposure.

The bank measures the stressed spread impact to its liquidity bond portfolio as part of the Risk Appetite Framework applying the severe adverse shock. 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 September 2020	30 June 2020
Market value loss projection due to increase in credit spreads	9 207	7 850

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.

Liquidity risk is managed to ensure a constant ability to settle contractual obligations. The Group has developed a set of early warning indicators and limits 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 & 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 applying different internal and external metrics. he 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, and the survival horizon metric as part of a liquidity stress testing.

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 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 September 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	3 988 921	0	0	0	0	**3 988 921**
Due from other credit institutions	97 594	0	0	31	0	**97 625**
Financial assets held for trading	281	26	120	2 672	2 173	**5 272**
Derivative financial instruments	29 837	3 079	3 956	13 406	40	**50 318**
Financial assets at fair value through other comprehensive income	0	0	0	0	140	**140**
Financial assets at fair value through profit or loss	16 211	0	6 747	178 450	85 801	**287 209**
Loans to customers	352 199	424 883	1 678 716	3 786 633	3 384 517	**9 626 948**
Other Financial Assets	9 970					**9 970**
Total assets	**4 495 013**	**427 988**	**1 689 539**	**3 981 192**	**3 472 671**	**14 066 403**
Derivative financial instruments	22 330	6 478	6 422	14 027	96	**49 353**
Loans and deposits from credit institutions	90 165	0	0	29 987	0	**120 152**
Deposits from customers	9 944 797	486 214	574 295	59 995	5 011	**11 070 312**
Debt securities issued	8 911	0	28	1 154 546	0	**1 163 485**
Lease Liabilities	534	1 056	4 546	21 098	24 415	**51 649**
Other financial liabilities	31 146	0	0	0	0	**31 146**
Total liabilities	**10 097 883**	**493 748**	**585 291**	**1 279 653**	**29 522**	**12 486 097**
Shareholder's equity						
Net financial assets / (liabilities)	**-5 602 870**	**-65 760**	**1 104 248**	**2 701 539**	**3 443 149**	**1 580 306**
Irrevocable and off-balance sheet commitments	1 808 489	0	0	0	0	**1 808 489**
Liquidity gap arising from financial instruments	**-7 411 359**	**-65 760**	**1 104 248**	**2 701 539**	**3 443 149**	**-228 183**

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 September 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	22 330	6 478	6 422	14 027	96	**49 353**
Loans and deposits from credit institutions	90 165	0	0	29 837	0	**120 002**
Deposits from customers	9 944 973	486 987	575 587	61 215	5 322	**11 074 084**
Debt securities issued	9 692	0	53	1 163 700	0	**1 173 445**
Lease Liabilities	648	1 281	5 511	24 940	26 865	**59 245**
Other financial liabilities	31 146	0	0	0	0	**31 146**
Total liabilities	**10 098 954**	**494 746**	**587 573**	**1 293 719**	**32 283**	**12 507 275**

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 September 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	1 212 203	0	0	0	0	**1 212 203**
Financial guarantees	97 304	0	0	0	0	**97 304**
Performance guarantees	140 139	0	0	0	0	**140 139**
Other commitments*	358 843	0	0	0	0	**358 843**
Total	**1 808 489**	**0**	**0**	**0**	**0**	**1 808 489**

* 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

The main part of the liquidity buffer is held on Central Bank Accounts where the Group held EUR 3.7 billion at the end of September 2020. This buffer can be utilized at any time when the need arises. On top of the Central Bank Accounts, the buffer includes also the bond portfolio of EUR 276.3 million consisting mainly of government debt securities.

The liquidity buffer is supported by the contractual agreement for funding 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). This agreement introduces the requirement for collateral as the facility is collateralized with assets, primarily with mortgages. Other funding sources requiring collateral are covered bonds and TLTRO. The encumbrance arising from pledged assets is reported and monitored. The collateral is managed by monitoring the fulfillment of the requirements for each type of collateral.

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 the 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 1 884 million EUR at the end of the third quarter of 2020 compared to 1 347 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.

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 EU and the applicable regulatory requirements. 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 September 2020	31 December 2019
OWN FUNDS		
1. TIER 1 CAPITAL	1 588 231	1 566 637
1.1. COMMON EQUITY TIER 1 CAPITAL	1 588 231	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	155 077	129 919
1.1.3. (-) Other intangible assets	-7 340	-7 848
1.1.4 Other reserves	2 706	938
1.1.5 Adjustments to CET1 due to prudential filters	-1 639	-1 282
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	-7 642	-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	1 January 2020 to 30 September 2020	1 January 2019 to 30 September 2019	Q3 2020	Q3 2019
Interest income calculated using the effective interest method:				
Loans and advances to customers at amortised cost	169 258	181 437	56 390	60 836
Deposits with other banks	680	2 978	62	910
Total interest income calculated using effective interest method	**169 938**	**184 415**	**56 452**	**61 746**
Other similar income:				
Finance Leases	35 174	42 817	11 501	14 015
Other interest	346	634	101	252
Total other similar income	**35 520**	**43 451**	**11 602**	**14 267**
Total interest income	**205 458**	**227 866**	**68 054**	**76 013**
Interest expense:				
Loans and deposits from credit institutions	-10 433	-13 545	-3 139	-4 489
Deposits from customers	-7 145	-11 487	-1 533	-4 187
Impact of hedging activities	1 236	1 084	625	299
Debt securities issued	-7 485	-5 079	-2 279	-2 363
Other*	-11 784	-2 095	-3 566	-684
Total interest expense	**-35 611**	**-31 122**	**-9 892**	**-11 424**
Net interest income	**169 847**	**196 744**	**58 162**	**64 589**

* Includes parent funding off balance sheet loan commitment interest expense for period 1 January 2020 to 30 September 2020 in the amount of 9 495 thousand EUR (the third quarter of 2020: 2 666 thousand EUR), for period 1 January 2019 to 30 September 2019 in the amount of 843 thousand EUR (the third quarter of 2019: 378 thousand EUR).

5. NET FEE AND COMMISSION INCOME

thousand EUR	1 January 2020 to 30 September 2020	1 January 2019 to 30 September 2019	Q3 2020	Q3 2019
Securities	765	562	391	158
Clearing and settlement*	25 302	26 433	9 524	9 327
Asset Management	5 102	5 256	1 873	1 848
Custody	774	762	298	259
Payment services*	13 807	19 533	4 385	6 142
Collective Investments commission	2 130	2 408	742	831
Insurance commission	2 089	2 677	636	834
Loan commitments given	2 447	3 090	843	998
Financial guarantees given	4 689	3 685	1 526	1 352
Factoring	1 804	3 549	659	1 019
Other*	12 227	11 970	4 098	4 369
Total fee and commission income	**71 136**	**79 925**	**24 975**	**27 137**
Clearing and settlement*	-15 368	-17 207	-5 005	-6 735
Custody	-253	-259	-88	-46
Financial guarantees received	-28	-165	0	-44
Other*	-2 594	-3 672	-230	-790
Fee and commission expense	**-18 243**	**-21 303**	**-5 323**	**-7 615**
Net fee and commission income	**52 893**	**58 622**	**19 652**	**19 522**

* 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	1 January 2020 to 30 September 2020	1 January 2019 to 30 September 2019	Q3 2020	Q3 2019
Corporate	18 312	22 115	5 719	7 143
Retail	33 157	33 260	12 761	11 409
Wealth Management	1 316	1 620	290	509
Other	108	1 627	882	461
Net fee and commission income	**52 893**	**58 622**	**19 652**	**19 522**

6. PERSONNEL EXPENSES

thousand EUR	1 January 2020 to 30 September 2020	1 January 2019 to 30 September 2019	Q3 2020	Q3 2019
Wages and salaries	-58 336	-67 307	-18 724	-20 042
Social security cost	-10 204	-11 730	-3 222	-3 367
Indirect personnel cost (recruitment, training)	-3 522	-8 129	-1 170	-2 385
Total	**-72 062**	**-87 166**	**-23 116**	**-25 794**

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	1 January 2020 to 30 September 2020	1 January 2019 to 30 September 2019	Q3 2020	Q3 2019
IT related expenses	-80 607	-69 883	-23 654	-28 389
Consulting and professional services	-10 707	-11 059	-4 258	-2 833
Advertising and marketing expenses	-1 707	-2 148	-791	-842
Real estate expenses	-3 857	-5 950	-1 249	-933
Taxes and duties	-5 647	-7 570	-1 682	-2 356
Travel expenses	-518	-1 141	-90	-348
Other expenses*	-15 618	-16 447	-5 613	-6 744
Total	**-118 661**	**-114 197**	**-37 337**	**-42 444**

*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 expenses incurred. Total transformation expenses were 74 791 thousand EUR for period 1 January 2020 to 30 September 2020 (1 January 2019 to 30 september 2019: 66 144 thousand EUR) and 20 646 thousand EUR in the third quarter of 2020 (the third quarter of 2019: 26 354 thousand EUR). The major part of exceptional costs were IT expenses.

Out of total transformation expenses, the part recognised under other administrative expenses was 65 807 thousand EUR for period 1 January 2020 to 30 September 2020 (1 January 2019 to 30 September 2019: 50 553 thousand EUR) and 16 769 thousand EUR in the third quarter of 2020 (the third quarter of 2019: 22 446 thousand EUR). The major part of exceptional costs were IT expenses.

8. CASH AND BALANCES WITH CENTRAL BANKS

thousand EUR	30 September 2020	31 December 2019
Cash on hand	129 043	140 518
Cash balances at central banks	3 859 878	2 783 501
Total	**3 988 921**	**2 924 019**
of which mandatory reserve requirement	104 685	112 800
Total cash and balances with central banks	**3 988 921**	**2 924 019**

9. DUE FROM OTHER CREDIT INSTITUTIONS

thousand EUR	30 September 2020	31 December 2019
Demand deposit	97 573	141 596
Loans	87	58
Total	**97 660**	**141 654**
Allowance for expected credit losses	-35	-9
Total	**97 625**	**141 645**

10. DERIVATIVE FINANCIAL INSTRUMENTS

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

thousand EUR	Notional amounts	Fair values	
		Assets	Liabilities
As at 30 September 2020			
Derivatives held for trading			
Interest rate-related contracts	3 471 538	22 197	12 347
Currency-related contracts	1 205 234	27 065	35 628
Commodity-related contracts	21 468	1 056	1 378
Total	**4 698 240**	**50 318**	**49 353**
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 September 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 September 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 September 2020	Notional amount	Carrying Amount	Line item in the statement of financial position
Interest rate swap	1 150 000	13 539	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 September 2020	31 December 2019
Financial Institutions	**119 539**	**29 378**
Public Sector	**135 038**	**174 732**
Business customers	**4 058 804**	**4 523 201**
-Loans	2 980 618	3 156 365
-Leasing	902 951	1 088 325
-Factoring	175 235	278 511
Individual customers	**5 490 155**	**5 680 911**
-Mortgage loans	4 605 509	4 689 319
-Leasing	470 682	533 611
-Consumer and card loans	116 089	132 862
-Other loans	297 875	325 119
Allowance for expected credit losses	**-176 588**	**-185 675**
Loans to Customers Total	**9 626 948**	**10 222 547**

Due from customers registered in Estonia, Latvia, Lithuania	9 377 538	9 957 570
Due from customers registered in EU (except Estonia, Latvia, Lithuania)	191 055	200 921
Due from customers registered in other countries	58 355	64 056
Loans to Customers Total	**9 626 948**	**10 222 547**

For summary of changes in the credit loss allowances and gross carrying amounts for loans to customers refer to Note 3.

12. LOANS AND DEPOSITS FROM CREDIT INSTITUTIONS

thousand EUR	30 September 2020	31 December 2019
Term deposits*	31 900	951 612
Demand deposits	88 252	29 080
Total	**120 152**	**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 September 2020	31 December 2019
Term deposits	1 471 692	2 161 033
Demand deposits	9 598 620	8 074 410
Total	**11 070 312**	**10 235 443**
Due to customers by type of customers		
Due to corporate customers	4 235 164	4 578 084
Due to public sector customers	2 694 892	1 623 323
Due to individuals	4 140 256	4 034 036
Total	**11 070 312**	**10 235 443**
Due to customers, registered in Estonia, Latvia, Lithuania	10 835 324	9 825 534
Due to customers, registered in EU (except Estonia, Latvia, Lithuania)	154 722	326 379
Due to customers, registered in other countries	80 266	83 530
Total	**11 070 312**	**10 235 443**

14. DEBT SECURITIES ISSUED

LUMINO 1.5% 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 1.375% 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 September 2020	31 December 2019
LUMINO 1.5% 18/10/21		
Nominal amount	350 000	350 000
Intragroup transactions	0	-1 000
Fees at amortized costs	-719	-1 269
Accrued interest	5 009	1 079
Hedged item fair value changes	2 738	2 982
Carrying amount	**357 028**	**351 792**
LUMINO 1.375% 21/10/22		
Nominal amount	300 000	300 000
Fees at amortized costs	-715	-982
Accrued interest	3 902	814
Hedged item fair value changes	1 425	92
Carrying amount	**304 612**	**299 924**
0.01% COVERED BONDS		
Nominal amount	500 000	0
Fees at amortized costs	2 926	0
Accrued interest	28	0
Hedged item fair value changes	-1 109	0
Carrying amount	**501 845**	**0**
Total	**1 163 485**	**651 716**

15. OTHER FINANCIAL LIABILITIES

thousand EUR	30 September 2020	31 December 2019
Payments in transit	30 830	41 865
Other	316	3 438
Total	**31 146**	**45 303**

16. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

thousand EUR	30 September 2020	31 December 2019
Pledged assets		
Loans*	1 633 351	1 999 895
Total	**1 633 351**	**1 999 895**
Contingent liabilities		
Loan commitments given	1 212 203	1 134 434
Financial guarantees given	97 304	110 655
Performance guarantees	140 139	98 372
Other commitments given	358 843	445 355
Total	**1 808 489**	**1 788 816**

* Includes 550 000 thousand EUR of loans pledged for Covered Bond and 1 033 992 thousand EUR pledged for parent funding as at 30 September 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 September 2020	30 September 2020	31 December 2019	31 December 2019
Assets				
Financial assets at amortised cost				
Cash and balances with central banks	3 988 921	3 988 921	2 924 019	2 924 019
Due from other credit institutions	97 625	97 625	141 645	141 645
Loans to customers	9 626 948	9 302 750	10 222 547	10 324 772
Total financial assets	**13 713 494**	**13 389 296**	**13 288 211**	**13 390 436**
Liabilities				
Financial liabilities at amortised cost				
Loans and deposits from credit institutions	120 152	120 152	980 692	980 692
Deposits from customers	11 070 312	11 070 312	10 235 443	10 235 443
Debt securities issued	1 163 485	1 161 993	651 716	653 967
Other financial liabilities	31 146	31 146	45 303	45 303
Total financial liabilities	**12 385 095**	**12 383 603**	**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 September 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	3 988 921	0	0	**3 988 921**
Due from other credit institutions	97 573	52	0	**97 625**
Loans to customers	0	0	9 302 750	**9 302 750**
Other financial assets	0	0	9 970	**9 970**
Financial assets at fair value				
Financial assets held for trading				
Debt securities	5 272	0	0	**5 272**
Financial assets at fair value through profit or loss				
Equity instruments	0	2 523	0	**2 523**
Debt securities				
General Goverments	246 936	0	0	**246 936**
Credit Institutions	24 062	0	0	**24 062**
Other financial corporations	0	0	13 688	**13 688**
Derivative financial instruments				
Derivative financial instruments	0	49 632	686	**50 318**
Financial assets at fair value through other comprehensive income				
Equity instruments	0	0	140	**140**
Total	**4 362 764**	**52 207**	**9 327 234**	**13 742 205**
Liabilities				
Liabilities for which fair values are disclosed				
Loans and deposits from credit institutions	88 252	31 900	0	**120 152**
Deposits from customers	0	9 598 620	1 471 692	**11 070 312**
Debt securities issued	498 919	663 074	0	**1 161 993**
Other financial liabilities	0	0	31 146	**31 146**
Financial liabilities at fair value				
Derivative financial instruments				
Derivative financial instruments	0	47 994	1 359	**49 353**
Total	**587 171**	**10 341 588**	**1 504 197**	**12 432 956**

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;

- 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 the third quarter of 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 & Liquidity Risk 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 – Covered bonds are actively traded on market using the market rate yield curve (swap curve) provided by Bloomberg. The fair value of covered bonds issued by the Bank is calculated in a similar way as for actively traded covered bonds i.e. using spread level based on the existing bond and prevailing market level. 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 is disclosed in the 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 September 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	1 January 2020 to 30 September 2020	1 January 2019 to 30 September 2019	Q3 2020	Q3 2019
Interest income				
Entities with significant influence over the entity	38	1 266	0	329
Key management personnel	9	7	5	3
Interest expenses				
Entities with significant influence over the entity	-11 815	-4 469	-3 835	-1 433
Key management personnel	-1	0	-1	0
Net commission and fee income				
Entities with significant influence over the entity	-66	19	-46	173
Net gain from financial derivatives				
Entities with significant influence over the entity	-15 698	3 658	-16 690	2 466
Other administrative expenses				
Entities with significant influence over the entity	-13 088	-6 625	-6 610	-1 725
Other expenses				
Entities with significant influence over the entity	-2 032	-73	-557	-32
Total	**-42 652**	**-6 217**	**-27 733**	**-219**

thousand EUR	30 September 2020	31 December 2019
Loans to credit institutions		
Entities with significant influence over the entity	30 174	77 572
Loans to customers		
Key management personnel	1 227	697
Derivative instruments		
Entities with significant influence over the entity	31 586	46 519
Other assets		
Entities with significant influence over the entity	63	199
Total assets	**63 049**	**124 987**
Due to credit institutions		
Entities with significant influence over the entity	2 842	912 807
Deposits from customers		
Key management personnel	1 075	983
Derivative instruments		
Entities with significant influence over the entity	35 354	19 849
Other liabilities		
Entities with significant influence over the entity	591	1 345
Total liabilities	**39 862**	**934 984**

Payments to the key management personnel in the third quarter of 2020 were 610 thousand EUR and for the period 1 January to 30 September 2020 1 932 thousand EUR (in the third quarter of 2019: 352 thousand EUR and for the period 1 January to 30 September 2019: 1 038 thousand EUR).

As at 30 September 2020 loans and advances with associate ALD Automotive (3 entities) amounted to 12 092 thousand EUR (31 December 2019: 15 919 thousand EUR), deposits 1 412 thousand EUR (31 December 2019: 985 thousand EUR), interest income for the third quarter of 2020 was 6 thousand EUR (the third quarter of 2019: 7 thousand EUR), interest income for period 1 January to 30 September 2020 was 21 thousand EUR (1 January to 30 September 2019: 25 thousand EUR). Net fee and commission income for the third quarter of 2020 was 0 thousand EUR (the third quarter of 2019: 1 thousand EUR), net fee and commission income for period 1 January to 30 September 2020 was 2 thousand EUR (1 January to 30 September 2019: 3 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 the 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
1 January 2020 to 30 September 2020					
The Group					
Net interest income	90 466	82 294	3 892	-6 805	**169 847**
Net fees & commission income	18 312	33 157	1 316	108	**52 893**
Trading income	6 675	3 911	262	10 625	**21 473**
Other income	1 708	831	2	-1 025	**1 516**
Total income	**117 161**	**120 193**	**5 472**	**2 903**	**245 729**
Personnel costs, administrative costs and depreciation	-73 451	-114 196	-5 648	-6 358	**-199 653**
Net impairment (losses/reversal) on loans to customers	-34 608	1 919	-7	3 701	**-28 995**
Other	161	38	0	-2 319	**-2 120**
Profit before Tax	**9 263**	**7 954**	**-183**	**-2 073**	**14 961**
o/w exceptional costs	-30 554	-41 445	-1 575	-1 217	**-74 791**

thousand EUR	Corporate	Retail	Wealth Management	Other	Total
Q3 2020					
The Group					
Net interest income	29 691	26 917	942	612	**58 162**
Net fees & commission income	5 719	12 761	290	882	**19 652**
Trading income	1 735	1 322	101	3 609	**6 767**
Other income	295	238	1	-60	**474**
Total income	**37 440**	**41 238**	**1 334**	**5 043**	**85 055**
Personnel costs, administrative costs and depreciation	-23 342	-34 713	-1 784	-3 615	**-63 454**
Net impairment (losses/ reversal) on loans to customers	-4 533	4 363	68	755	**653**
Other	161	36	0	117	**314**
Profit before Tax	**9 726**	**10 924**	**-382**	**2 300**	**22 568**
o/w exceptional costs	-8 403	-11 361	-502	-380	**-20 646**

thousand EUR	Corporate	Retail	Wealth Management	Other	Total
30 September 2020					
The Group					
Loans and receivables*	4 516 021	5 214 041	77 738	-656	**9 807 144**
Deposits from customers	5 680 428	4 368 355	988 163	33 366	**11 070 312**

*Amount in Segment reporting does not include allowances and accumulated interests

thousand EUR	Corporate	Retail	Wealth Management	Other	Total
1 January 2019 to 30 September 2019					
The Group					
Net interest income	102 811	80 254	5 920	7 759	**196 744**
Net fees & commission income	22 115	33 260	1 620	1 627	**58 622**
Trading income	7 875	4 720	268	6 088	**18 951**
Other income	1 281	746	-1	2 280	**4 306**
Total income	**134 082**	**118 980**	**7 807**	**17 754**	**278 623**
Personnel costs, administrative costs and depreciation	-79 741	-116 415	-6 535	-8 723	**-211 414**
Net impairment (losses/ reversal) on loans to customers	-21 108	9 612	97	-874	**-12 273**
Other	0	0	0	236	**236**
Profit before Tax	**33 233**	**12 177**	**1 369**	**8 393**	**55 172**
o/w exceptional costs	-29 697	-34 575	-1 220	-652	**-66 144**

thousand EUR	Corporate	Retail	Wealth Management	Other	Total
Q3 2019					
The Group					
Net interest income	33 318	26 665	1 827	2 779	**64 589**
Net fees & commission income	7 143	11 409	509	461	**19 522**
Trading income	2 877	1 677	100	1 396	**6 050**
Other income	634	402	0	5 931	**6 967**
Total income	**43 972**	**40 153**	**2 436**	**10 567**	**97 128**
Personnel costs, administrative costs and depreciation	-26 228	-39 844	-2 190	-3 172	**-71 434**
Net impairment (losses/ reversal) on loans to customers	-10 240	3 130	-12	-1 936	**-9 058**
Other	0	0	0	2 043	**2 043**
Profit before Tax	**7 504**	**3 439**	**234**	**7 502**	**18 679**
o/w exceptional costs	-11 556	-14 040	-502	-256	**-26 354**

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**
Deposits from customers	5 094 953	4 185 510	945 223	9 757	**10 235 443**

*Amount in Segment reporting 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 September 2020	Accrued Interest	Allowance	Initial Impairment	Amortized fee	Net carrying amount 30 September 2020
9 807 144	25 151	-176 251	-1 888	-27 209	9 626 948

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 THE REPORTING PERIOD

Jonas Eriksson resigned as Chief Financial Officer (CFO) and Member of the Management Board of Luminor Bank AS effective 10 October 2020. The bank announced Eriksson's decision to resign on 17 August 2020. The Supervisory Council of the bank has commenced a comprehensive search process for a new CFO. Until a new CFO is appointed, Erkki Raasuke, Chairman of the Management Board, will oversee responsibility for the bank's finance function at the Management Board level, supported by Olof Sundblad, Head of Treasury, who will be acting CFO during the interim period.

Effective 1 October 2020 the Wealth Management Division was merged with the Retail Banking Division under its current management. Segment reporting will be adjusted for this change in the fourth quarter of 2020 interim report, including restatement for historic periods.

Between the end of the third quarter and the reporting date, Luminor exited one credit. This decreased its non-performing loan portfolio by 40 million EUR. As a result, the previously recognized loan losses decreased by 9 million EUR.

CONTACT DETAILS

Luminor Bank AS

Location and address	Liivalaia 45
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	Estonia
Registered country	Republic of Estonia
Main activity:	Credit institution
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Nordea SWIFT/BIC	NDEAEE2X
DNB SWIFT/BIC	RIKOEE22
Website	www.luminor.ee
E-mail	info@luminor.ee
Balance sheet date	30 September 2020
Reporting period	01.01.2020 – 30.09.2020
Reporting currency	Euro