INTERIM REPORT

Q4 2020

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

LUMINOR BANK AS, Estonia

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CEO COMMENT

The fourth quarter was dominated by the return of COVID-19. As in first half of the year, we looked after the well-being of our staff and supported our customers. Despite the pandemic we made continued progress with our existing strategy and look forward confidently to growing our business in the period ahead, with a strong balance sheet, increasing efficiency and a unique position.

As COVID-19 once again effected our home markets, loans to customers fell in the quarter while deposits from customers increased, leading to a loans-to-deposits ratio of 80% at quarter end. Meanwhile we managed down our portfolio of non-performing loans. We finished the quarter with non-performing loans equal to 3.2% of gross loans.

We completed the technology carve-out from our former parent banks. Following the migration of Luminor customers to our common banking platforms in Latvia and Lithuania earlier in the year, we migrated all our existing Estonian customers to the new banking platform in Estonia in November. At the beginning of 2021, Luminor and IBM announced a new five-year agreement, under which IBM will support Luminor in accelerating our digital transformation and strengthening further our security and regulatory compliance processes.

Our funding efficiency was improved further by the sale of a 300 million EUR bond and concurrent repurchase of 250 million EUR of an existing security due in 2021. This was an important step to meet our future regulatory requirements, which enhanced our liability structure, and deepened our investor base.

In December, the European Investment Bank (EIB) and the European Investment Fund (EIF) issued a guarantee to Luminor to support additional lending of at least 660 million to small and medium-sized enterprises and Mid-Caps in the Baltics, and help mitigate the impacts of COVID-19. Luminor is the first bank in the Baltics to agree such a guarantee structure through a synthetic securitisation transaction between the bank and the EIB Group with support from the Investment Plan for Europe.

Luminor is continuously committed to preventing and detecting money laundering and financial crime. In the fourth quarter, Luminor continued to invest in our human and technological capabilities, and to review our systems and processes, so we can adapt in a constantly changing environment.

The Baltic economies have proven very resilient through the pandemic and are well equipped to face future challenges. Luminor will continue to be a trusted banking partner for individuals and businesses throughout the Baltics. I look forward to leading Luminor as we begin the next phase of our strategy.

Peter Bosek
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, 2 378 employees, and market share of 16.1% in deposits and 17.2% in lending as at the end of December 2020. Luminor has total shareholders' equity of 1.7 billion EUR and it is capitalised with a CET1 ratio of 22.4%. 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 29 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.

31 December 2020				
	Estonia	*Latvia*	*Lithuania*	**Total**
Number of customers	*~128 000*	*~218 000*	*~544 000*	~891 000
Market shares				
Lending	*11.7%*	*22.1%*	*19.7%*	17.2%
Deposits	*8.6%*	*16.0%*	*21.7%*	16.1%
Number of client service centres, including meet-up points	*8*	*9*	*12*	29
Number of employees	*594*	*823*	*961*	2 378

Macroeconomic overview

The effects of COVID-19 dominated the economies of the Baltic countries in 2020. The notable rebound, from the impact of the initial lockdown, observed in the third quarter was led by consumers, but exports and investments also staged a significant comeback. The retail trade continued to be strong into year-end, reflecting the resilience of consumers.

There is still a long way to go before a broad-based recovery is achieved, with the second wave of the COVID-19 outbreak bringing along new lockdowns across the Baltics These renewed lockdowns are expected to result in another decline in activity in the fourth quarter. However, the setbacks to the region and have been more limited as compared to the full lockdown and the global contraction in trade in the spring.

Industrial production has recovered partially. December marked the sixth consecutive month of expansion for euro area manufacturing despite the headwinds from the virus. Production volumes in the Baltic economies were close to their pre-crisis levels. Industrial production was up in October by 1% over the year in Estonia and 1.6% in Lithuania, and down by 1.1% in Latvia. In contrast production volumes in the euro area were down 3.8%.

There is pent-up demand in the Baltic area, where savings grew strongly. Despite the near-term setback from the resurgence of the coronavirus, the development of vaccines has given greater confidence to the assumption that the health crisis will be resolved gradually throughout 2021 and into 2022, which in turn will enable economies to return to normal.

The impact of COVID-19 on Luminor

In the fourth quarter we continued to apply all 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 working, paying extra attention to cleaning and the increasing the availability of disinfectants in our premises, and providing protective equipment to our customer-facing employees.

We also continued our efforts to promote remote services. We introduced a system of pre-booked visits in our customer service centres to minimise physical contacts and so safeguard against the pandemic. Employees are informed regularly about prevailing guidelines, restrictions, and recommendations to keep themselves and their customers safe and prevent the spread of the virus.

Throughout the pandemic Luminor has supported its customers when needed. Further details of this support can be found in ‘Asset Quality for Q4 2020’, below, and Note 3 to the Financial Statements, ‘General Risk management Policies’.

Business development

The transformation of Luminor continued successfully in the fourth quarter. The main efforts were directed towards finalising the technology carve-out from parent banks.

The new banking platform in Estonia was launched in October, after which all the existing customers, over 100 000 in total, were migrated over the last weekend in November. The legacy platform was shut down in December and the carve-out in Estonia was completed by the end of the year.

The successful carve-out in Estonia was the last of Luminor’s customer migrations in the Baltics. Since the end of November 2020, we have been operating technology platforms that are fully independent of the systems of either DNB or Nordea.

Entering 2021, Luminor is ready for the next stage of the transformation. We will strengthen our focus on further improving customer satisfaction and accelerating our digital development and growth.

PRODUCT AND DIGITAL DEVELOPMENT

In the fourth quarter of 2020, we continued to improve our remote customer onboarding capabilities and to scale our marketing activities targeted at new customer acquisition. The lockdowns and restrictions imposed because of the COVID-19 pandemic further boosted customer preference for remote digital onboarding. As the result, the share of remotely onboarded customers grew to 40%, and we expect the upward trend to continue into 2021.

We also continued scaling our sales of the new products and services that we had launched earlier in the year. In the fourth quarter of 2020, we doubled the number of new Black Credit Cards issued to customers, and we tripled the turnover of transactions through the Luminor E-Commerce Gateway. Assets under management in the Luminor Investor platform increased by 40% over the quarter, and we have strengthened the platform with new features, giving it fully digital onboarding, instant cash transfers and a simpler sign-in process.

The brand new internet bank and digital channels were launched in the fourth quarter for Luminor customers in Estonia, and they are designed to be more user-friendly and give an intuitive experience.

THE RETAIL BANKING SEGMENT

The volume of deposits in the Retail Banking segment increased by 387 million EUR in the fourth quarter of 2020, which was significantly more than the growth of 259 million EUR in the same period last year.

Major efforts were made in the fourth quarter by the Retail Banking team to support the migration of 100 000 customers to the new channels in Estonia at the end of the year. Several changes were introduced to ensure support and availability for our customers, and they included expanding the Call Centre team during the migration period, doing extensive communications work, and introducing the Change Ambassadors initiative.

The overall focus of Retail Banking in the fourth quarter remained centred on mortgage loans, consumer loans and new customer acquisition.

Customer interest in mortgage lending in the fourth quarter was even greater than before the pandemic. The total volume of transactions in the real estate market for private individuals was the largest in recent years despite the impact of COVID-19 in all three Baltic markets. More and more clients preferred Luminor as their financial adviser and partner for a mortgage, resulting in 55% growth in mortgages in the fourth quarter from the third. We have adapted to changing customer needs by continuously improving our advisory process, risk evaluation and offers.

The demand for consumer loans was squeezed strongly by the COVID-19 restrictions on shopping, travel and other areas of spending. The result was that new sales volumes were 1.52 million EUR smaller in the fourth quarter than in the previous quarter. There were also more applicants whose income had been affected by the pandemic, and the bank advised such customers to wait for the situation to stabilise.

The Retail Banking team also continued to consolidate its distribution channels during the fourth quarter and improve efficiency in related areas. At the end of the fourth quarter, Luminor was serving its customers in a total of 29 locations across the Baltics, of which seven are meet-up points.

Pension assets grew to 1.6 billion EUR, which was 10.1% more than a year earlier and 7.4% more than in the third quarter. By the end of the year, Luminor had some 284 000 second pillar pension customers and 63 700 third pillar pension customers.

The fourth quarter of 2020 was the turning point when the focus of the Private Banking segment switched from savings towards growing investment volumes in an environment of low margins. Investment assets were up 17% on the same quarter of 2019. The Luminor Investor platform is a preferred solution that is gaining increasing interest from customers of Private Banking.

THE CORPORATE BANKING SEGMENT

The corporate banking lending book contracted in the fourth quarter by 208 million EUR. This was primarily because of the seasonal amortisation of the overdrafts of agricultural wholesalers and a decrease in the non-performing portfolio. The investment lending portfolio was stable.

Deposit volumes increased by a further 344 million EUR on the back of large increases in public sector deposits even though negative rates were introduced for major accounts.

In December, the European Investment Bank (EIB) and the European Investment Fund (EIF) issued a guarantee to Luminor to support additional lending to small and medium-sized enterprises and Mid-Caps in the Baltics and help mitigate the impacts of the COVID-19 pandemic. The guarantee structure can support at least 660 million EUR of additional loans and leases to SMEs and Mid-Caps in all three Baltic countries through a synthetic securitisation transaction between the bank and the EIB Group with a support from the Investment Plan for Europe. Luminor is the first bank in the Baltics to use such facility.

CORPORATE SOCIAL RESPONSIBILITY

The safety and well-being of Luminor employees and customers continued to be the top priority in the fourth quarter of 2020 in all the bank's activities, as comprehensive measures were continuously applied to ensure the safety of both employees and customers.

Continuous work was done to address issues of Environmental Social Governance (ESG) in a comprehensive way. A separate ESG strategy was written in the fourth quarter for 2021-2023, outlining the Luminor stance towards ESG and detailing the proposed strategy, including a roadmap for organisational and programme governance. The strategy covers the recommendations that are generally recognised in addressing topics of ESG, particularly climate change and the environment, business strategy and models, a risk management framework, governance, and disclosures and reporting.

A new Head of Investor Relations and Sustainable Finance joined Luminor's Treasury team from October. An inter-divisional permanent ESG working group was set up as well, to ensure that there is sufficient focus and coordination on environmental and social topics in all the divisions of the organisation.

To enhance work-life balance and to further the focus on employee well-being, a Work Environment and Wellbeing Unit was established in the structure of the People & Culture division in the fourth quarter. A company-wide approach was taken where employees were strongly encouraged and enabled to use their vacation time during the holidays at the end of the year.

Continued efforts were made to promote financial literacy and cyber security to the public, including raising awareness about safe online shopping and how to guard against fraudsters.

To support regional business, the best local entrepreneurs were given recognition with the Luminor Development Leap Award in Estonia, which gave the winner the opportunity for a consultation with Luminor's top managers in the field of their choice. Continuous support was given to local business in Latvia by providing and promoting an online platform for local crafts workers, artisans and small businesses.

A Luminor scholarship was granted to an Estonian student for doctoral studies at the University of Cambridge to research the early signs of Alzheimer's disease.

In December, Luminor made a donation to give Christmas gifts to the community. The Christmas donation was used to buy computers for families with many children to support distance learning in Estonia, to support the victims of violence in Latvia, and to support a volunteer youth line providing emotional aid in Lithuania.

EFFORTS TO PREVENT FINANCIAL CRIME

Luminor remains vigilant about financial crime and is committed to preventing and detecting it. We continue to review our anti-financial crime (AFC) practices regularly 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 fourth 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 detect financial crime, assess risks, run training and awareness-raising, and monitor new and developing financial crime risks continuously.

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

Luminor continued to invest in systems and processes so we can adapt in a constantly changing environment. The bank is further developing its common monitoring and screening solution in all three Baltic states and has approved several further developments that will be delivered during 2021. The developments are directed to further enhancements of monitoring activities.

Luminor considers that work to raise awareness is an important component of the financial crime risk management framework. In the fourth quarter, 9 training events related to AFC and corporate compliance areas were held.

Luminor is also contributing to general AML efforts by participating in a pilot programme AML Bridge which has been launched jointly with an AML start-up, the largest banks in Estonia, and related state authorities. The aim of this pilot is to promote collaborative crime-fighting in the banking industry and enhance the efficient use of data in AML efforts. The results of the pilot will be announced in spring 2021. In Lithuania, Luminor is participating in the establishment of AML Competences Centre. The new establishment will enhance cooperation between financial institutions and authorities, will improve information sharing among private and public sector, and will be an additional tool for Luminor in the fight against financial crime.

OTHER EVENTS

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

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, Peter Bosek, 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.

Betsy Nelson joined the Supervisory Council of Luminor Bank AS, effective from 1 December 2020.

In December, Luminor sold a 300 million EUR bond issue. In addition, it repurchased 250 million EUR of an existing bond that mature in 2021. The bond, which is rated Baa2 by Moody's, is listed on the Irish Stock Exchange and was issued under Luminor's EMTN programme.

EVENTS AFTER 31 DECEMBER

On 1 January 2021, Peter Bosek became Chief Executive Officer and Chairman of the Management Board of Luminor Bank AS.

Marilin Pikaro announced her decision to resign as Head of the Compliance Division and Member of the Management Board of Luminor Bank AS effective from 5 January 2021. Mari Mõis, Head of the Legal Division, was appointed to take over the position of Chief Compliance Officer from 6 January 2021.

On 19 January 2021, Luminor Bank and IBM announced a new five-year agreement. Under the agreement Luminor will migrate its IT infrastructure to IBM Cloud for Financial Services. IBM will support Luminor in accelerating its digital transformation and strengthening further its security and regulatory compliance processes. As part of the agreement, some 200 people from Luminor's Technology Division will be transferred to IBM.

From 1 March 2021, Luminor Operations Department will be incorporated with the Technology Division.

Financial results

Net profit in the fourth quarter was 18.6 million EUR, 14.6 million EUR more than in the same quarter of last year. A reduction in net operating income of 12.1 million EUR was more than offset by a 2.9 million EUR reduction in total operating expenses and a net reversal of impairments of 14.2 million EUR as compared to impairments of 11.8 million EUR in the fourth quarter of 2019.

Total operating income in the fourth quarter was 82.6 million EUR. Net interest income decreased marginally to 57.1 million EUR, with a 5.5 million EUR reduction in interest income being largely balanced by a 5.2 million EUR reduction in interest expense. Net fee and commission income increased by 2.0 million EUR. A number of one off items, such as recognition of the value of shares in VISA, part of the profit from the sale of the headquarters building in Riga and higher gains from trading due to higher USD Libor rates, were included in net other operating income in the fourth quarter of 2019. If these items are excluded from the comparison, net other operating income remained at a similar level in the fourth quarter of 2020 as in the fourth quarter of 2019.

Total operating expenses were 75.5 million EUR. Personnel expenses were 4.0 million EUR higher in the fourth quarter of 2020, as prior year reversals were replaced by additional charges. In contrast, Other administrative expenses reduced by 6.9 million EUR. Exceptional costs, incurred to transform Luminor, were 27.8 million EUR, an increase of 2.1 million EUR compared to the same period of last year as Luminor continued to invest in regulatory compliance implementation and business re-design.

The cost-to-income ratio for the fourth quarter of 2020 was 91.4% having been 82.8% in the fourth quarter of 2019. Excluding exceptional costs, the respective ratios were 57.8% and 55.7%.

Luminor recorded a 14.2 million EUR net reversal of impairments in the quarter. The most important contributor to this result was an exit from a major non-performing exposure because of which the previously recognised loan loss decreased by 9.0 million EUR. In addition, collective provisions decreased due to reduction of portfolio, while there were no new significant loss cases in the quarter. Non-performing loans shrank to 3.2% of the loan portfolio by end of the quarter, lower than the 3.8% as of end of 2019. Tax expense increased from near zero in the fourth quarter of 2019 to 2.2 million EUR in the fourth quarter this year, as profit before tax increased and the jurisdiction where profit was generated changed. Profit after tax was 18.6 million EUR which was retained and added to equity.

Return on equity for the fourth quarter was 4.5% in 2020 and 1.0% in 2019. Excluding exceptional costs, the respective ratios were 10.1% and 6.3%.

Total assets rose by 729 million EUR during the quarter. Customer deposits increased by 713 million EUR to 11.8 billion EUR while loans to customers decreased by 196 million EUR to 9.4 billion EUR. Cash and balances with central banks rose by 937 million EUR to 4.9 billion EUR. The loans-to-deposits ratio reduced by 7 percentage-points since the end of the third quarter of 2020 to finish this quarter at 80%.

Key figures and ratios of Luminor*

thousand EUR	Q4 2020	Q3 2020	Q4 2019	January - December 2020	January - December 2019
Net profit	18 610	22 230	4 032	33 111	53 997
Average equity	1 656 222	1 635 200	1 633 540	1 648 752	1 714 685
Return on equity (ROE), %	4.5	5.4	1.0	2.0	3.1
Average assets	14 559 684	13 832 140	13 764 821	14 331 384	14 522 261
Return on assets (ROA), %	0.5	0.6	0.1	0.2	0.4
Net interest income	57 083	58 162	57 408	226 930	254 152
Average interest earning assets	14 278 292	13 559 297	13 458 875	14 026 400	14 192 831
Net interest margin (NIM), %	1.6	1.7	1.7	1.6	1.8
Cost / Income ratio (C/I), %	91.4	74.6	82.8	83.8	77.6
Credit impairment ratio, %**	-0.60	-0.03	0.45	0.15	0.22
Loans to customers	9 430 835	9 626 948	10 222 547	9 430 835	10 222 547
Deposits from customers	11 783 762	11 070 312	10 235 443	11 783 762	10 235 443
Loans / Deposits ratio, %	80.0	87.0	99.9	80.0	99.9
CET1 ratio, %	22.4	22.0	19.7	22.4	19.7
NPL ratio (gross), %	3.2	3.7	3.8	3.2	3.8
Net interest income / Loans, %	2.4	2.4	2.2	2.3	2.3

* 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 9 431 million EUR at the end of the fourth quarter, which was down 7.7% from 10 223 million EUR a year earlier and most notably loans to business customers decreased by 14.6%. Luminor's share of the lending market in the Baltics fell from 18.6% to 17.2% over the 12 months.

Lending thousand EUR	**31 December 2020**				
	Individual customers	**Business customers**	**Public sector**	**Financial institutions**	**Total**
Total	5 391 442	3 768 766	138 585	132 042	9 430 835
Estonia	*1 265 479*	*1 075 807*	*51 561*	*89 790*	*2 482 637*
Latvia	*1 541 180*	*1 207 561*	*8 236*	*5 320*	*2 762 297*
Lithuania	*2 584 783*	*1 485 398*	*78 788*	*36 932*	*4 185 901*

Deposits thousand EUR	**31 December 2020**				
	Individual customers	**Business customers**	**Public sector**	**Financial institutions**	**Total**
Total	4 471 434	4 272 903	2 694 406	345 019	11 783 762
Estonia	*491 880*	*866 323*	*409 537*	*157 845*	*1 925 585*
Latvia	*1 350 357*	*1 247 886*	*159 687*	*91 459*	*2 849 389*
Lithuania	*2 629 197*	*2 158 694*	*2 125 182*	*95 715*	*7 008 788*

Deposits from customers continued to increase and they totalled 11 784 million EUR at the end of the fourth quarter, up from 10 235 million EUR a year before and growing by 15.1%. Growth has been led by deposits in Lithuania, particularly public sector deposits, which grew by 66% and individual customer deposits, which grew by 11%. During fourth quarter growth has been driven by individual and business customers. Luminor's share of the deposit market in the Baltics fell from 16.6% to 16.1% over the 12 months.

ASSET QUALITY FOR Q4 2020

The quality of the loan portfolio continued to improve. The negative consequences of COVID-19 have been limited to date and have mostly impacted certain industries and customers, while others have so far almost not been affected.

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 0.7% of the total net lending to customers. A little under a third of the net exposure within these affected sectors is classified as Stage 3.

We have supported our customers through the pandemic in particular through loan modifications. The most common modification requested were grace periods for principal payments. Grace periods for principal and interest payments were granted only under exceptional circumstances, and only for around 1% of all modifications. The outstanding balance of loans under modifications decreased from 593 million to 77 million EUR over the fourth quarter. The total amount of modification requests for mortgage loans reached 22 million EUR during the fourth quarter, which is 5 million EUR more than in the third quarter, but much less than in the second quarter, where modification requests totalled 315 million EUR.

The level of exposures overdue by more than 5 days in the portfolio with modifications after the end of the grace period is slightly higher, by 1 percentage point, than it is in the portfolio without modifications (4.1% vs 3.1%). The level of exposures overdue more than 30 days is the same for the portfolio with modifications after the end of the grace period compared to the portfolio without modifications.

The aggregated volume of requests for modifications including grace periods stood at 1.1 billion EUR at the end of the fourth quarter and covered 12% of the total credit portfolio, which is almost the same as at the end of the third quarter. The total value of modifications approved reached almost 1.0 billion EUR at the end of the fourth quarter. From the above mentioned received and approved modification requests grace periods have already expired (are back on normal repayment schedules) for around 90% of the modified exposures, and this has not led to any noticeable changes in overdue loans within these exposures that were under modification measures. The inflow of modification requests has almost stopped already in the third quarter, the only exception are mortgage loans, where modification requests have somewhat resumed during December 2020, but at much lower levels than during the first lockdown.

Luminor's loan loss provisioning resulted in reversals of 14.2 million EUR during the fourth quarter. The increase in individual provisions for some few larger COVID-19 related exposures and problematic real estate exposure was significantly lower than the positive effect from the resolution of other legacy non-performing exposures and a reduction in Stage 2 provisions driven by risk profile improvements (such as rating upgrades and exclusion from the Watch-list) and exposure decrease. More information is provided in Note 2 Significant Accounting Estimates and Judgments).

Non-performing loans totalled 305.4 million EUR. The share of non-performing loans (NPL ratio) was 3.2% at the end of the fourth quarter, which is 0.5 percentage points lower than in the previous quarter. Even though the COVID-19 driven inflow continued in the fourth 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 in Luminor. The targets defined in Luminor's non-performing loans' strategy have been fulfilled – over a 3 year period, non-performing loans were decreased by more than 500 million EUR. 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 2.7%, which represents an increase of 0.1 percentage points.

Total allowances for expected credit losses on the balance sheet were 136.9 million EUR at the end of the quarter, of which 92.3 million EUR were for Stage 3 exposures.

Asset quality of Luminor as at 31 December 2020

	31 December 2020			
thousand EUR*	**Total**	***Estonia***	***Latvia***	***Lithuania***
Financial institutions				
Stage 1				
Gross carrying amount	128 876	88 040	4 988	35 848
Allowance for expected credit losses	-432	-383	-5	-44
Carrying amount	**128 444**	**87 657**	**4 983**	**35 804**
Stage 2				
Gross carrying amount	3 579	2 109	332	1 138
Allowance for expected credit losses	-50	-37	-3	-10
Carrying amount	**3 529**	**2 072**	**329**	**1 128**
Stage 3				
Gross carrying amount	69	61	8	0
Allowance for expected credit losses	0	0	0	0
Carrying amount	**69**	**61**	**8**	**0**
Total carrying amount for financial institutions	**132 042**	**89 790**	**5 320**	**36 932**
Public sector				
Stage 1				
Gross carrying amount	138 563	51 569	8 237	78 757
Allowance for expected credit losses	-14	-8	-1	-5
Carrying amount	**138 549**	**51 561**	**8 236**	**78 752**
Stage 2				
Gross carrying amount	36	0	0	36
Allowance for expected credit losses	0	0	0	0
Carrying amount	**36**	**0**	**0**	**36**
Stage 3				
Gross carrying amount	0	0	0	0
Allowance for expected credit losses	0	0	0	0
Carrying amount	**0**	**0**	**0**	**0**
Total carrying amount for the public sector	**138 585**	**51 561**	**8 236**	**78 788**
Individual customers				
Stage 1				
Gross carrying amount	5 037 618	1 217 549	1 393 317	2 426 752
Allowance for expected credit losses	-9 222	-1 524	-2 037	-5 661
Carrying amount	**5 028 396**	**1 216 025**	**1 391 280**	**2 421 091**
Stage 2				
Gross carrying amount	255 524	35 261	94 310	125 953
Allowance for expected credit losses	-12 949	-1 207	-5 510	-6 232
Carrying amount	**242 575**	**34 054**	**88 800**	**119 721**

Stage 3				
Gross carrying amount	156 564	18 016	84 718	53 830
Allowance for expected credit losses	-36 093	-2 616	-23 618	-9 859
Carrying amount	**120 471**	**15 400**	**61 100**	**43 971**
Total carrying amount for individual customers	**5 391 442**	**1 265 479**	**1 541 180**	**2 584 783**
of which mortgage loans				
Stage 1				
Gross carrying amount	4 313 854	987 599	1 226 766	2 099 489
Allowance for expected credit losses	-5 319	-632	-1 318	-3 369
Carrying amount	**4 308 535**	**986 967**	**1 225 448**	**2 096 120**
Stage 2				
Gross carrying amount	175 256	22 957	87 444	64 855
Allowance for expected credit losses	-10 952	-942	-5 300	-4 710
Carrying amount	**164 304**	**22 015**	**82 144**	**60 145**
Stage 3				
Gross carrying amount	125 151	14 704	76 732	33 715
Allowance for expected credit losses	-27 921	-1 907	-21 694	-4 320
Carrying amount	**97 230**	**12 797**	**55 038**	**29 395**
Total carrying amount for mortgage loans	**4 570 069**	**1 021 779**	**1 362 630**	**2 185 660**
Business customers				
Stage 1				
Gross carrying amount	2 653 316	783 950	813 902	1 055 464
Allowance for expected credit losses	-11 575	-5 590	-1 198	-4 787
Carrying amount	**2 641 741**	**778 360**	**812 704**	**1 050 677**
Stage 2				
Gross carrying amount	1 044 816	275 325	359 563	409 928
Allowance for expected credit losses	-10 325	-4 920	-1 482	-3 923
Carrying amount	**1 034 491**	**270 405**	**358 081**	**406 005**
Stage 3				
Gross carrying amount	148 753	35 608	57 900	55 245
Allowance for expected credit losses	-56 219	-8 566	-21 124	-26 529
Carrying amount	**92 534**	**27 042**	**36 776**	**28 716**
Total carrying amount for business customers	**3 768 766**	**1 075 807**	**1 207 561**	**1 485 398**
Totals				
Gross carrying amount Stage 1	7 958 373	2 141 108	2 220 444	3 596 821
Gross carrying amount Stage 2	1 303 955	312 695	454 205	537 055
Gross carrying amount Stage 3	305 386	53 685	142 626	109 075
Total gross carrying amount	**9 567 714**	**2 507 488**	**2 817 275**	**4 242 951**
Allowance for expected credit losses Stage 1	-21 243	-7 505	-3 241	-10 497
Allowance for expected credit losses Stage 2	-23 324	-6 164	-6 995	-10 165

Allowance for expected credit losses Stage 3	-92 312	-11 182	-44 742	-36 388
Total allowance for expected credit losses	**-136 879**	**-24 851**	**-54 978**	**-57 050**
Total carrying amount	**9 430 835**	**2 482 637**	**2 762 297**	**4 185 901**
Gross Stage 3 loans vs Gross loans (NPL ratio), %	3.19	2.14	5.06	2.57
Gross Stage 3 mortgage loans vs Gross mortgage loans (NPL ratio for mortgage loans), %	2.71	1.43	5.52	1.53
Allowance for expected credit losses Stage 3 vs Gross Stage 3 loans (Stage 3 impairment ratio), %	30.23	20.83	31.37	33.36
Allowance for expected credit losses vs Gross loans (Impairment ratio), %	1.43	0.99	1.95	1.34

* 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 31 December 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, 31 December 2020, thousand EUR	Stage 1	Stage 2	Stage 3	Total
Low risk	5 091 239	67 247	0	5 158 486
Moderate risk	2 721 023	880 738	0	3 601 761
High risk	146 111	355 969	0	502 080
Default	0	0	305 386	305 387
Gross	**7 958 373**	**1 303 954**	**305 387**	**9 567 714**
Allowance for expected credit losses	-21 243	-23 324	-92 312	-136 879
Net	**7 937 130**	**1 280 630**	**213 075**	**9 430 835**

Economic sectors

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

thousand EUR	Amount as at 31 December 2020	%
Private individuals*	5 391 442	57.2%
Real estate activities	1 161 620	12.3%
Wholesale and retail trade	705 830	7.5%
Other industries	549 688	5.8%
o/w Travel agencies and tour operators	*8 429*	*0.1%*
o/w Arts, entertainment and recreation	*11 398*	*0.1%*
o/w Food service activities	*25 891*	*0.3%*
o/w Accommodation	*20 497*	*0.2%*
Manufacturing	456 166	4.8%
Agriculture, hunting, forestry, fishing	326 167	3.5%
Transport, storage, communication	272 289	2.9%
Construction	151 621	1.6%
Electricity, gas, water supply	145 385	1.5%
Public sector	138 585	1.5%
Financial institutions	132 042	1.4%
Total	**9 430 835**	**100.0%**

* Farmers under the Private individuals in the amount of 206 554 thousand 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.

31 December 2020 thousand EUR, Stage 3 loans	Gross	Allowance for expected credit losses	Net	Fair value of collateral
Business customers*	148 822	-56 219	92 603	121 090
Individual customers	156 564	-36 093	120 471	138 387
Total	**305 386**	**-92 312**	**213 074**	**259 477**

* Financial institutions and public sector Stage 3 loans included

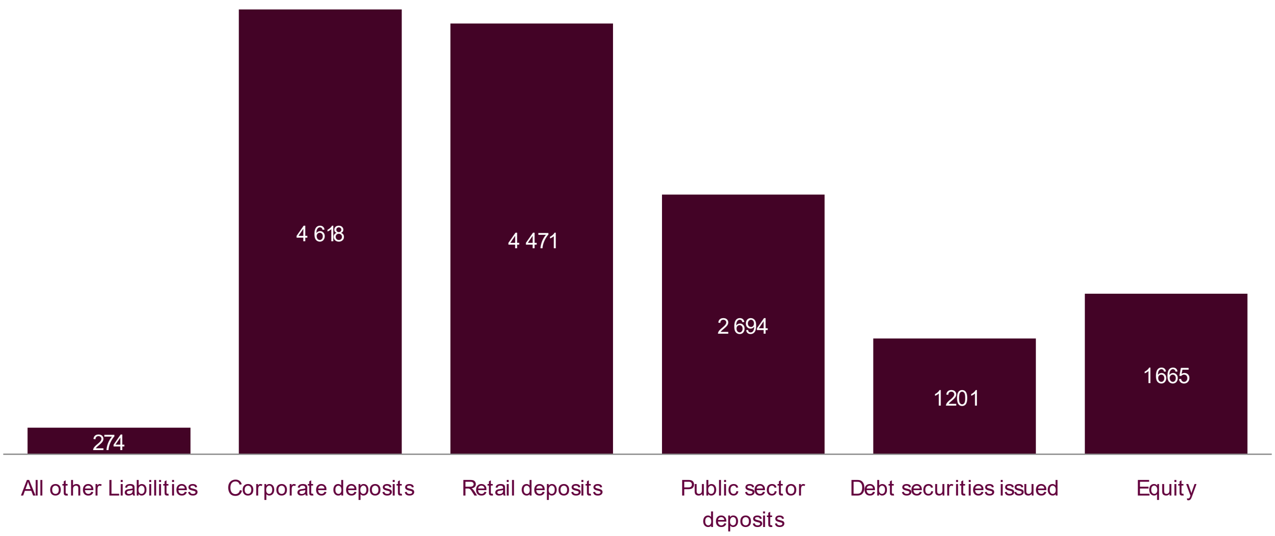
FUNDING

Since its creation, one of the main objectives for Luminor has been to become an independently funded bank that does not rely on funding from its former parent banks. Luminor has managed to replace the funding from its former parent banks by reducing lending volumes and by improving the funding structure.

Deposit volumes continued to increase during the fourth quarter of 2020. Deposits from customers stood at 11 784 million EUR at the end of the fourth quarter, and at 11 070 million EUR at the end of the third quarter. In addition, the total value of the bonds outstanding under the Euro Medium Term Note or EMTN programme was 1 201 million EUR, with 699 million EUR of senior unsecured bonds and a five-year 502 million EUR covered bond. Luminor issued a long three-year 300 million EUR senior unsecured bond and tendered 250.7 million EUR (nominal amount) of senior unsecured bonds issued in October 2018. The issuance was well received in the market with a substantial order book from investors from 22 different countries. In November 2020 Luminor further increased the issuance capacity of its covered bonds programme by adding a portfolio of Lithuanian mortgage loans to the cover pool. After taking in the Lithuanian assets, the cover pool consists of housing loans from all three Baltic states.

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 supplying 50% of the funding. At the end of the fourth quarter the total facility stood at 300 million EUR and was fully undrawn. The total commitment was reduced by 737 million EUR during the fourth 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 294.2 million EUR at the end of the fourth quarter of 2020.

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. 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 fourth quarter of 2020 the total MREL ratio stood at 14.9% at the consolidated level of Luminor Bank AS, down from 15.9% at the end of the third quarter, while 10.8% of total liabilities and own funds were subordinated instruments as at the end of the fourth quarter of 2020, down from 11.3% at the end of the third 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 MREL 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

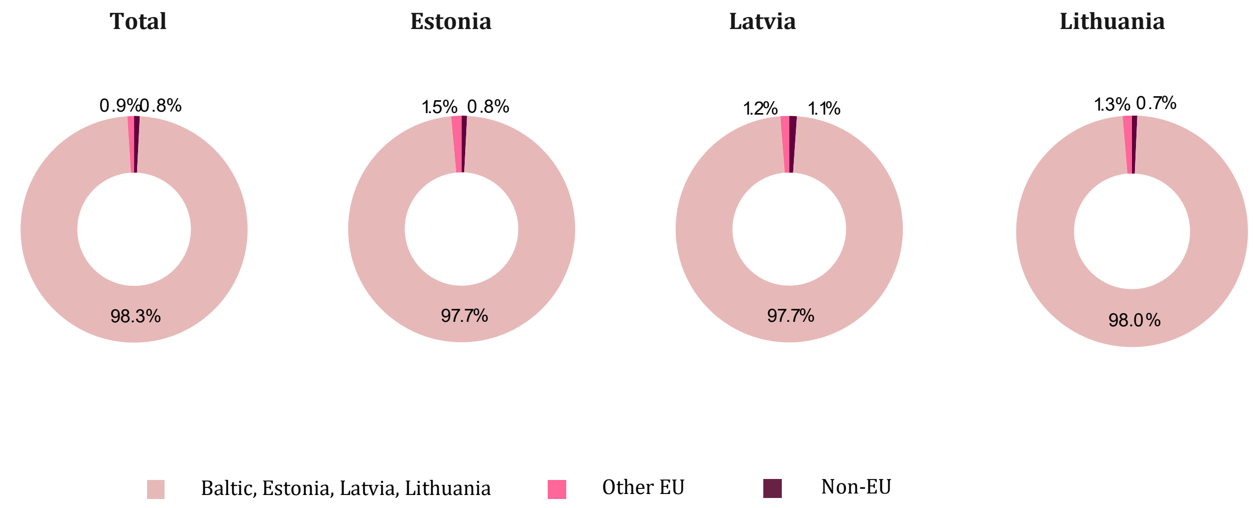
Luminor's structural liquidity risk is conservative and well-balanced. It is based on metrics that measure liquidity risk and is appropriately adapted to the current economic and regulatory environment. Luminor uses a range of metrics to measure liquidity risk, one of which is the Liquidity Coverage Ratio (LCR). The LCR for Luminor was 195% at the end of the fourth quarter of 2020 and 177% at the end of the third quarter under the definition of the LCR given in the Capital Requirements Regulation (CRR). The ratio continued to increase as the increase in deposits supported the liquidity position of the bank. The liquidity buffer is composed of highly liquid central-bank-eligible securities and cash. Long-term liquidity risk is measured with the Net Stable Funding Ratio (NSFR). Luminor's NSFR rose to 159% during the fourth quarter of 2020 from 144% at the end of the third 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 that lowered the amount of encumbered assets.

	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
LCR	194.7%	177.2%	159.0%	143.7%	149.8%
NSFR	159.0%	143.6%	133.2%	126.0%	123.0%

Deposit structure

Deposits from customers are predominantly from residents of the Baltics. In total, 99.2% 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 increased to 22.4% at the end of the fourth quarter of 2020, from 22.0% in the third quarter of 2020, meaning it was maintained comfortably above the internal target of 17%. The Risk Exposure Amount (REA) fell to 7 086 million EUR, from 7 969 million EUR on 31 December 2019, mainly because the loan portfolio shrank. As at the end of the fourth quarter of 2020, Luminor had 1 586 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, fell to 10.2% at the end of the fourth quarter from 10.7% at the end of the third quarter. The fall was driven primarily by the increase in central bank assets that raised the leverage ratio exposure.

Capital ratios

Position	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Leverage ratio	10.16%	10.71%	11.23%	11.46%	10.88%
CET 1 ratio	22.39%	21.99%	22.04%	20.54%	19.66%
T1 capital ratio	22.39%	21.99%	22.04%	20.54%	19.66%
Total capital ratio	22.39%	21.99%	22.04%	20.54%	19.66%

The prudential requirements, which are the Pillar 2 requirement set by the European Central Bank (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. In response to COVID-19 the Baltic countries have left their systemic risk buffer and countercyclical buffer requirements at 0%. The buffers are expected to be reviewed once the economic difficulties caused by COVID-19 ease but given that it takes 12 months for the requirements to come into force, the buffer requirements will not rise before the first quarter of 2022.

On 15 December 2020 the ECB issued an updated dividend recommendation to banks. In the recommendation, the ECB asked banks to refrain from or limit dividends until 2021. The ECB expects dividends and share buy-backs to remain below 15% of the cumulated profit for 2019-20 and not to exceed 20 basis points of the CET1 ratio until the end of September 2021. Luminor has acknowledged this information and the General Meeting of Luminor Bank AS will take this into consideration when deciding on any dividends until the end of September 2021.

Own funds requirements

thousand EUR	31 December 2020	31 December 2019
TOTAL RISK EXPOSURE AMOUNT	7 086 338	7 969 099
RISK-WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	6 375 222	7 252 440
Standardised approach (SA)	6 375 222	7 252 440
SA exposure classes excluding securitisation positions	6 375 222	7 252 440
Central governments or central banks	0	0
Regional governments or local authorities	10 857	13 445
Public sector entities	2 001	674
Institutions	30 614	54 281
Corporations	3 128 189	3 742 611
Retail	1 144 543	1 347 232
Secured by mortgages on immovable property	1 519 926	1 532 931
Exposures in default	249 626	292 472
Items associated with particularly high risk	137 611	134 498
Covered bonds	2 409	0
Equity	5 432	5 778
Other items	144 013	128 517
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	18 350	19 232
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	673 565	679 644
TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	19 202	17 784

Statement of the Management Board

The interim report of Luminor Bank AS for the fourth 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 fourth 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.

Peter Bosek
CEO and Chairman of the Management Board

Tallinn, 09 February 2021

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

thousand EUR	Notes	1 January 2020 to 31 December 2020	1 January 2019 to 31 December 2019	Q4 2020	Q4 2019
Interest income calculated using the effective interest method	4	226 174	244 765	56 236	60 350
Other similar income	4	47 588	56 912	12 068	13 461
Interest and similar expense	4	-46 832	-47 525	-11 221	-16 403
Net interest income		**226 930**	**254 152**	**57 083**	**57 408**
Fee and commission income	5	95 873	105 827	24 737	25 902
Fee and commission expense	5	-22 233	-28 441	-3 990	-7 138
Net fees and commission income		**73 640**	**77 386**	**20 747**	**18 764**
Net gain on financial assets and liabilities designated at fair value through profit/loss		36	852	159	372
Net gain on debt securities at fair value through profit or loss		8 304	5 315	1 842	4 584
Net gain on financial assets and liabilities held for trading		4 839	5 683	1 292	1 815
Net gain from financial derivatives		-9 560	10 736	-4 806	-3 146
Net gain from operations with foreign currency		24 119	11 344	7 778	11 354
Dividend income		64	90	29	32
Other operating income		6 342	17 749	621	5 955
Other operating expenses		-6 350	-9 985	-2 110	-2 439
Net other operating income		**27 794**	**41 784**	**4 805**	**18 527**
Salaries and other personnel expenses	6	-100 200	-111 296	-28 138	-24 130
Other administrative expenses	7	-163 098	-165 349	-44 437	-51 152
Depreciation and impairment of property, plant and equipment and intangible assets		-12 096	-13 177	-3 166	-3 126
Total operating expenses		**-275 394**	**-289 822**	**-75 741**	**-78 408**
Share of profit from an associate		972	1 066	-53	331
Net impairment (-)/ reversal on loans to customers, excluding off-balance sheet commitments	3	-14 510	-24 015	14 485	-11 742
Net impairment (-)/ reversal on off-balance sheet commitments		-3 130	1 038	-35	-68
Other non-operating expenses		-535	-2 327	-485	-722
Profit before Tax		**35 767**	**59 262**	**20 806**	**4 090**
Tax expense		-2 656	-5 265	-2 196	-58
Profit (loss) for the period		**33 111**	**53 997**	**18 610**	**4 032**
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	-55	0	-2 477

Total Items that will not be reclassified to profit or loss	**4**	**-55**	**0**	**-2 477**
Total other comprehensive income	**4**	**-55**	**0**	**-2 477**
Total comprehensive income	**33 115**	**53 942**	**18 610**	**1 555**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

thousand EUR	Notes	31 December 2020	31 December 2019
Assets			
Cash and balances with central banks	8	4 926 520	2 924 019
Due from other credit institutions	9	103 559	141 645
Loans to customers	11	9 430 835	10 222 547
Financial assets held for trading	17	2 857	3 021
Financial assets at fair value through profit or loss	17	284 149	227 896
Derivative financial instruments	10	43 407	59 217
Financial assets at fair value through other comprehensive income	17	140	140
Investments in associates		5 292	5 639
Intangible assets		6 667	8 199
Property, plant and equipment and right-of-use assets		56 647	67 472
Investment properties		625	2 427
Current tax assets		458	0
Deferred tax assets		9 353	3 031
Other assets		53 574	73 340
Non-current assets and disposal groups held for sale		20	71
Total assets		**14 924 103**	**13 738 664**
Liabilities			
Loans and deposits from credit institutions	12	85 241	980 692
Deposits from customers	13	11 783 762	10 235 443
Debt securities issued	14	1 201 232	651 716
Derivative financial instruments	10	50 583	58 304
Tax liabilities		203	3 845
Lease liabilities		49 672	57 051
Other financial liabilities	15	14 705	45 303
Other liabilities		64 210	69 793
Provisions		9 260	4 248
Total liabilities		**13 258 868**	**12 106 395**
Shareholders' Equity			
Issued capital		34 912	34 912
Share premium		1 412 243	1 412 243
Retained earnings		215 110	183 916
Other reserves		2 970	1 198
Total shareholders' equity attributable to the shareholders of the Bank		**1 665 235**	**1 632 269**
Total liabilities and shareholders' equity		**14 924 103**	**13 738 664**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

thousand EUR	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Restated 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	53 997	**53 997**
Other comprehensive income	0	0	-55	0	**-55**
Total comprehensive income for the period	**0**	**0**	**-55**	**53 997**	**53 942**
From OCI reserve to retained earnings	0	0	-3 194	3 194	**0**
Increase in share capital*	216 031	-216 031	0	0	**0**
Decrease of share capital*	-216 031	0	0	0	**-216 031**
Transfer to mandatory reserve	0	0	274	-274	**0**
Other	0	0	-287	58	**-229**
Total equity as at 31 December 2019	**34 912**	**1 412 243**	**1 198**	**183 916**	**1 632 269**
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	33 111	**33 111**
Other comprehensive income	0	0	4	0	**4**
Total comprehensive income for the period	**0**	**0**	**4**	**33 111**	**33 115**
Transfer to mandatory reserve	0	0	1 768	-1 768	**0**
Other	0	0	0	-149	**-149**
Total equity as at 31 December 2020	**34 912**	**1 412 243**	**2 970**	**215 110**	**1 665 235**

* 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 2 January 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 31 December 2020	1 January 2019 to 31 December 2019
Cash flows from operating activities			
Profit before tax		**35 767**	**59 262**
Adjustment for:			
-Net impairment (-)/ reversal (+) on loans to customers, excluding off-balance sheet commitments	3	14 510	24 015
-Net impairment (-)/ reversal (+) on off-balance sheet commitments		3 130	-1 038
-Dividend income		-64	-90
-Share of profit from an associate		-392	-1 046
-Loss (+) / profit (-) from foreign currency revaluation		-3 052	-428
-Depreciation, amortisation and impairment		12 096	13 177
-Profit from sale of subsidiaries and associates		0	-8 962
-Other adjustments		535	2 396
-Interest income	4	-273 762	-301 677
-Interest expenses	4	46 832	47 525
Cash flow from operations before changes in operating assets/liabilities		**-164 400**	**-166 866**
Change in operating assets/liabilities			
Increase (-) / decrease (+) of lending to customers		763 812	1 260 019
Increase (-) / decrease (+) of other assets		-54 642	-57 529
Increase (+) / decrease (-) of client deposits	12, 13	1 563 227	-1 796 273
Increase (-) / decrease (+) of liabilities		-35 785	47 313
Interest received		285 105	314 015
Interest paid		-54 835	-51 790
Income tax paid		-13 078	-11 507
Cash flow from operating activities		**2 453 804**	**-295 752**
Investing activities			
Acquisition of property, equipment and intangible assets		-2 974	-9 385
Proceeds from disposal of property, equipment and intangible assets		3 545	5 160
Proceeds from disposals of investment property		1 492	30 138
Dividend received		796	1 754
Cash flow from investing activities		**2 859**	**27 667**
Financing activities			
Debt securities issued	14	802 750	298 809

Debt securities buy back		-254 912	0
Payment of principal of parent funding	12	-1 155 000	0
Proceeds from parent funding	12	250 000	0
Payments of principal on leases		-6 162	-5 957
Pay-out to the Shareholder		0	-216 031
Cash flows from financing activities		**-363 324**	**76 821**
Net increase (+) / decrease (-) in cash and cash equivalents		**1 928 939**	**-358 130**
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		3 052	428
Net increase (+) / decrease (-) in cash and cash equivalents		1 928 939	-358 130
Cash and cash equivalents at the end of the period		**4 884 806**	**2 952 815**
Cash and cash equivalents comprise			
Cash on hand	8	123 809	140 518
Non-restricted current account with central bank	8	4 690 457	2 670 701
Due from other credit institutions on demand or with original maturity of three months or less	9	70 540	141 596
Total		**4 884 806**	**2 952 815**

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 31 December 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 (under liquidation)

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

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

As at 31 December 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 has assessed the potential impact of the IFRS Interpretation Committee agenda decision on its financial statements and will reflect the impact 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 31 December 2019			Q4 2019		
	As restated	Change	As previously reported	As restated	Change	As previously reported
Interest income calculated using the effective interest method	244 765	+1 383	243 382	60 350	+30	60 320
Other similar income	56 912	-1 383	58 295	13 461	-30	13 491
Interest and similar expense*	-47 525	+9 985	-57 510	-16 403	+2 439	-18 842
Other operating expenses*	-9 985	-9 985	0	-2 439	-2 439	0
Net gain on financial assets and liabilities designated at fair value through profit/loss	852	-5 315	6 167	372	-4 584	4 956
Net gain on debt securities at fair value through profit or loss	5 315	+5 315	0	4 584	+4 584	0
Other operating expenses**	0	+17 889	-17 889	0	+6 180	-6 180
Other administrative expenses**	-165 349	-17 889	-147 460	-51 152	-6 180	-44 972
Other non-operating expenses	-2 327	-1 038	-1 289	-722	+68	-790
Net impairment (-) / reversal (+) on off-balance sheet commitments	1 038	+1 038	0	-68	-68	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 31 December 2019		
	As restated	Change	As previously reported
Interest expenses*	47 525	-9 985	57 510
Interest paid	-51 790	+9 985	-61 775
Net impairment (-) / reversal (+) on off-balance sheet commitments	-1 038	-1 038	0
Other adjustments	2 327	+1 038	1 289

*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 following financial instruments are subject to the IFRS 9 impairment requirements:

- financial assets measured at amortised cost;
- financial assets measured at fair value through other comprehensive income;
- loan commitments and financial guarantee contracts.

For financial instruments, which are in scope of impairment requirements, a forward-looking expected credit loss approach is applied and loss allowances for expected credit losses are calculated in the following way:

- for Stage 1 financial instruments where there has been no significant increase in credit risk since the initial recognition (or financial instruments which are considered to have low credit risk) – loss allowances for expected credit losses are calculated at an amount equal to 12-month expected credit losses;
- for Stage 2 financial instruments where there has been a significant increase in credit risk since the initial recognition (but they are not classified as credit impaired) - loss allowances for expected credit losses are calculated at an amount equal to lifetime expected credit losses;
- for Stage 3 financial instruments which are treated as credit-impaired – loss allowances for expected credit losses are calculated at an amount equal to lifetime expected credit losses;
- for additional category purchased or originated credit-impaired assets (POCI) – loss allowances for expected credit losses are calculated at an amount equal to lifetime expected credit losses regardless of the changes in credit risk during the lifetime of financial assets.

The Group's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The following accounting judgements and estimates of ECL models are made when determining impairments of financial assets:

- evaluating the criteria for assessment of significant increase in credit risk and allocation of loans to stage 1 or 2;
- identification of unlikeliness 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 2020. The macroeconomic parameters were reviewed in the first and second quarters of 2020 to reflect the outlook due to COVID-19. The regular IFRS 9 risk parameter review was performed in the fourth quarter of 2020. The parameters used for the stage 3 collective impairment calculation were updated. The review of macroeconomic parameters and historically observed default frequency levels (applicable for stage 1 and 2 ECL calculations) performed in the fourth quarter indicated that this parameter update would lead to significant reversals of ECLs. Such a reversal of ECLs was not considered acceptable taking into account a) the relative lack of effective early indicators to predict credit quality developments in the current crisis, b) the escalation of a second wave of infections and new lockdown measures being applied, c) the moratoria effects (postponed defaults) which are not covered by the model, d) the actual observed default frequency indicator potentially being not representative for future default prediction due to recent government measures. Therefore, a management overlay was applied in the fourth quarter of 2020. In addition, changes in counting the number of days past due implementing the materiality thresholds for overdue amounts in line with the regulatory requirements (Regulation (EU) 2018/171) were adopted in the fourth quarter of 2020.

More qualitative and quantitative information on the impairment of financial assets is provided in the 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 the 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.

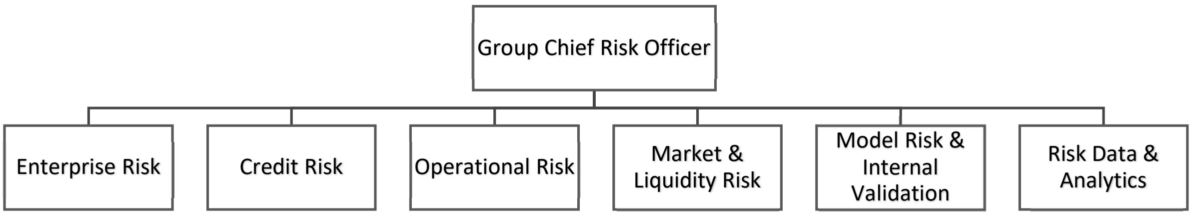
The interim financial statements disclose information on changes directly initiated as part of the Bank's response to the COVID-19 pandemic and additional information about changes implemented during the reporting period not directly related to COVID-19 pandemic in further sections of this note.

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 as part of the second line of defence 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.

To further facilitate the leveraging of synergies between departments, the Risk Division is reorganized as of 1 January 2021. The first line of defence tasks previously performed by the Market & Liquidity Risk Department were extracted into the Markets & Treasury Middle Office, which was moved to the Corporate Banking 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 Credit Risk Department is responsible for credit risk control. The Operational Risk Department is responsible for operational risk control. The Market & Liquidity Risk Department is responsible for market risk and liquidity risk control. The Model Risk & Validation Department is responsible for model risk control and respective validation activities. The Risk Data & Analytics Department combines most of the activities related to data and modelling.

CREDIT RISK

COVID-19

The unprecedent COVID-19 pandemic and the preventive measures imposed by most European countries had an adverse impact on the respective economies in the first half of 2020. In particular, the social- and economic constraints imposed by 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. In the third quarter when the restrictions were gradually lifted, the operating environment improved. However in the fourth quarter of 2020 the epidemiological situation worsened again leading to the reintroduction of some of the earlier lifted restrictions or introduction of new restrictions. There is still significant uncertainty about the economic impact of this second COVID-19 wave.

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 that experience temporary financial difficulties but had acceptable payment discipline during the 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 for up to 12 months for mortgage loans and for 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.

No other conditions shall be changed. The modifications under the moratoria are not classified as forbearance. For the cases not meeting moratoria conditions, individual solutions are applied and individual assessments on the exposure classification are performed.

The moratoria initially were meant to be in force until 30 June 2020, then were prolonged until 30 September 2020. On 2 December 2020 the EBA announced the reactivation of EBA/GL/2020/02. Industry-wide moratoria were relaunched on 18 January 2021 in Lithuania, moratoria in Estonia and Latvia have not been prolonged. According to the relaunched moratoria the cumulative grace period cannot exceed 9 months for individual customers' mortgage loans and 6 months for individual customers' consumer credits and leasing agreements and business customers' loans.

Grace periods of COVID-19 affected, and modified exposures have already ended during 2020 for the majority (90%) of them. The grace periods for the remaining 10% of exposure will end in 2021.

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 furthermore follows-up on the performance of customers after the end of grace periods, relative to the performance of customers without modifications. Luminor will continue to adjust its credit risk management as and if needed, based on internal portfolio's trends and overall market situation.

Impairment policies

Luminor recognises credit losses in accordance with the requirements of IFRS 9, which applies a forward-looking 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 2020 the impairment model remained unchanged.

In line with regulatory requirements (Regulation (EU) 2018/171), the methodological change introducing materiality thresholds in regard to more than 90 days past due default indicator was implemented in the fourth quarter of 2020.

Luminor identifies default when either or both of the following default indicators materialize:

- The customer is past due more than 90 days on any material overdue amount to Luminor;
- The customer is considered unlikely to pay its credit obligations to Luminor.

Counting of days past due on a customer level starts when the overdue amount on a customer level breaches the materiality thresholds:

- for individual customers – more than 100 EUR and more than 1% of its credit obligations to Luminor;
- for business customers – more than 500 EUR and more than 1% of its credit obligations to Luminor.

The same principles for counting days past due taking into account materiality thresholds are applied in regard to more than 30 days past due on a financial instrument significant increase in credit risk (SICR) indicator.

Generally, Luminor treats a financial asset as facing SICR, if at least one of the following SICR indicators is identified after initial recognition of the financial instrument and was not present as of its origination:

- Significant increase of lifetime PD – significant increase of lifetime PD since initial recognition until the reporting date (2.5 times and 0.6 p.p. jointly),
- Risk grade 9 or 10 – risk grade 9 or 10 as at the reporting date,
- >30 days past due – more than 30 days past due (applying materiality threshold) as at the reporting date,
- Forborne performing – forborne performing status as at the reporting date (forbearance not triggering non-performing status),
- Watch list – watch list status as at the reporting date.

Counting of days past due on the financial instrument level starts when the overdue amount on the financial asset breaches the absolute and relative materiality thresholds which are the same as on customer level (100 EUR and 1% for individual customers or 500 EUR and 1% for business customers).

The modifications granted for COVID-19 affected customers do not automatically indicate 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 31 December 2020 and 31 December 2019 are disclosed in the tables below:

31 December 2020 thousand EUR	Note	Gross	Allowance for expected credit losses	Net
Due from banks and other credit institutions	**9**	**70 595**	**-16**	**70 579**
Financial institutions	**11**	**132 524**	**-482**	**132 042**
Public sector	**11**	**138 599**	**-14**	**138 585**
Business customers	**11**	**3 846 885**	**-78 119**	**3 768 766**
Loans		2 823 103	-61 735	2 761 368
Factoring		180 884	-2 136	178 748
Leasing		842 898	-14 248	828 650
Individual customers	**11**	**5 449 706**	**-58 264**	**5 391 442**
Mortgage loans		4 614 261	-44 192	4 570 069
Consumer and card loans		106 307	-1 045	105 262
Other loans		274 866	-8 935	265 931
Leasing		454 272	-4 092	450 180
Total		**9 638 309**	**-136 895**	**9 501 414**

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 31 December 2020 and 31 December 2019 are disclosed in the tables below according to the internal risk scale for performing customers: the 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) the probability ranges from 0.75% to 3.00%, for high risk rating grades (from 8 to 10) it ranges from 3.00% to 40.00%.

The portfolio distribution as at 31 December 2020 shows an increase in Stage 2 (mostly due to inclusion of customers in Watch-list, forbearance measures applied and downgrades) and decrease in Stage 3 (outflow outweighs the inflow of new non-performing exposures) compared to the end of year 2019. The increase in Stage 2 was driven by consequences from COVID-19.

31 December 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	5 161 836	63 709	0	3 535	**5 229 080**
Moderate risk	2 720 959	868 243	0	12 560	**3 601 762**
High risk	146 110	334 287	0	21 684	**502 081**
Default	0	0	288 229	17 157	**305 386**
Gross	**8 028 905**	**1 266 239**	**288 229**	**54 936**	**9 638 309**
Less: Allowance for expected credit losses	-21 257	-23 145	-89 074	-3 419	**-136 895**
Net	**8 007 648**	**1 243 094**	**199 155**	**51 517**	**9 501 414**

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	930 105	23 521	0	135	**953 761**
Moderate risk	1 647 351	769 754	0	11 638	**2 428 743**
High risk	75 859	218 481	0	21 289	**315 629**
Default	0	0	136 920	11 832	**148 752**
Gross	**2 653 315**	**1 011 756**	**136 920**	**44 894**	**3 846 885**
Less: Allowance for expected credit losses	-11 574	-10 184	-53 883	-2 478	**-78 119**
Net	**2 641 741**	**1 001 572**	**83 037**	**42 416**	**3 768 766**

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.

31 December 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)	4 190	-7 033	2 843	0	**0**	-907 204	924 325	-17 121	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	2 366	3 487	-5 853	0	**0**	-62 838	-74 489	137 327	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-7 757	6 386	1 371	0	**0**	195 167	-180 960	-14 207	0	**0**
New originated or purchased	-11 589	0	0	0	**-11 589**	1 504 863	0	0	250	**1 505 113**
Derecognised and repaid during the period	3 408	4 014	11 327	163	**18 912**	-1 902 740	-248 742	-121 251	-9 582	**-2 282 315**
Changes to ECL model assumptions and effect from changes in Stages	4 613	-4 103	-21 306	-1 037	**-21 833**	0	0	0	0	**0**
Total movements with impact in credit loss allowances charge for period	-4 769	2 751	-11 618	-874	**-14 510**	-1 172 752	420 134	-15 252	-9 332	**-777 202**
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	61 462	1 844	**63 306**	0	0	-61 462	-1 844	**-63 306**
As at 31 December 2020	**-21 241**	**-23 145**	**-89 074**	**-3 419**	**-136 879**	**7 958 310**	**1 266 239**	**288 229**	**54 936**	**9 567 714**

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 31 December 2020 out of total POCI loans credit loss allowances -181 thousand EUR is in Stage 2 and -3 238 thousand EUR is in Stage 3, gross carrying amount 37 769 thousand EUR is in Stage 2 and 17 157 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	**-4 521**	**-3 750**	**-85 290**	**-1 983**	**-95 544**	**2 556 098**	**375 655**	**175 419**	**49 193**	**3 156 365**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	1 439	-1 441	2	0	**0**	-574 495	574 549	-54	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	717	295	-1 012	0	**0**	-25 908	-31 695	57 603	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-445	402	43	0	**0**	45 302	-45 226	-76	0	**0**
New originated or purchased	-3 496	0	0	0	**-3 496**	540 453	0	0	30	**540 483**
Derecognised and repaid during the period	1 242	1 226	5 708	23	**8 199**	-673 068	-80 241	-67 445	-5 509	**-826 263**
Changes to ECL model assumptions and effect from changes in Stages	-1 468	-2 604	-13 605	-699	**-18 376**	0	0	0	0	**0**
Total movements with impact in credit loss allowances charge for period	-2 011	-2 122	-8 864	-676	**-13 673**	-687 716	417 387	-9 972	-5 479	**-285 780**
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	47 112	370	**47 482**	0	0	-47 112	-370	**-47 482**
As at 31 December 2020	**-6 532**	**-5 872**	**-47 042**	**-2 289**	**-61 735**	**1 868 382**	**793 042**	**118 335**	**43 344**	**2 823 103**

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 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 centre and ensures holistic overview of the Group's credit limits/exposure on banks and countries. 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 fourth 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 fourth quarter of 2020 was 275 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 4.0 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	31 December 2020	31 December 2019
Cash on Hand	**123 809**	**140 518**
Central Banks	**4 802 711**	**2 783 501**
Credit Institutions	**70 579**	**141 645**
Financial Institutions	**132 042**	**29 255**
Public Sector	**138 585**	**174 715**
Individual Customer	**5 391 442**	**5 606 413**
Business Customers	**3 768 766**	**4 412 164**
Agriculture, forestry and fishing	272 289	337 080
Mining and quarrying	13 536	23 658
Manufacturing	456 166	571 675
Electricity, gas, steam and air conditioning supply	117 896	132 176
Water supply	27 489	31 948
Construction	151 621	197 785
Wholesale and retail trade	705 830	937 197
Transport and storage	308 261	394 660
Accommodation and food service activities	46 388	48 768
Information and communication	17 906	26 558
Real estate activities	1 161 620	1 132 767
Professional, scientific and technical activities	179 861	210 089
Administrative and support service activities	189 986	209 227
Public administration and defense, compulsory social security	91	5 358
Education	5 091	7 106
Human health services and social work activities	20 157	21 432
Arts, entertainment and recreation	11 398	13 607
Other services	83 180	111 073
TOTAL	**14 427 934**	**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 further lower governance 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.

In response to the COVID-19 pandemic, Luminor operates 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 portfolio. 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.

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 a 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) department 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;
- The 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. The Group uses a range of liquidity metrics for measuring, monitoring and controlling liquidity risk including the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR), internal liquidity limits and trigger events, and the survival horizon metric as a part of 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 31 December 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	4 926 520	0	0	0	0	**4 926 520**
Due from other credit institutions	70 547	0	0	32	0	**70 579**
Financial assets held for trading	24	73	20	1 465	1 275	**2 857**
Derivative financial instruments	19 669	3 800	3 969	15 936	33	**43 407**
Financial assets at fair value through other comprehensive income	0	0	0	0	140	**140**
Financial assets at fair value through profit or loss	8 920	0	6 750	178 800	89 679	**284 149**
Loans to customers	270 190	340 489	1 658 847	3 782 019	3 379 290	**9 430 835**
Other financial assets	10 226	0	0	0	0	**10 226**
Total assets	**5 306 096**	**344 362**	**1 669 586**	**3 978 252**	**3 470 417**	**14 768 713**
Derivative financial instruments	20 515	6 790	6 874	16 365	39	**50 583**
Loans and deposits from credit institutions	55 267	0	0	29 974	0	**85 241**
Deposits from customers	11 063 495	214 000	451 185	48 964	6 118	**11 783 762**
Debt securities issued	0	40	101 144	1 100 048	0	**1 201 232**
Lease liabilities	495	991	4 347	20 893	22 946	**49 672**
Other financial liabilities	14 705	0	0	0	0	**14 705**
Total liabilities	**11 154 477**	**221 821**	**563 550**	**1 216 244**	**29 103**	**13 185 195**
Shareholder's equity						
Net financial assets / (liabilities)	**-5 848 381**	**122 541**	**1 106 036**	**2 762 008**	**3 441 314**	**1 583 518**
Irrevocable and off-balance sheet commitments	1 852 060	0	0	0	0	**1 852 060**
Liquidity gap arising from financial instruments	**-7 700 441**	**122 541**	**1 106 036**	**2 762 008**	**3 441 314**	**-268 542**

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 31 December 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	20 515	6 790	6 874	16 365	39	**50 583**
Loans and deposits from credit institutions	55 268	0	0	29 825	0	**85 093**
Deposits from customers	11 063 881	214 496	451 975	50 029	6 411	**11 786 792**
Debt securities issued	0	53	107 453	1 108 879	0	**1 216 385**
Lease Liabilities	605	1 208	5 278	24 572	25 170	**56 833**
Other financial liabilities	14 705	0	0	0	0	**14 705**
Total liabilities	**11 154 974**	**222 547**	**571 580**	**1 229 670**	**31 620**	**13 210 391**

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:

31 December 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	1 199 076	0	0	0	0	**1 199 076**
Financial guarantees	103 852	0	0	0	0	**103 852**
Performance guarantees	147 078	0	0	0	0	**147 078**
Other commitments*	402 054	0	0	0	0	**402 054**
Total	**1 852 060**	**0**	**0**	**0**	**0**	**1 852 060**

* 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 4.8 billion EUR at the end of December 2020. This buffer can be utilized at any time when the need arises. On top of the Central Bank Accounts, the buffer also includes the liquidity bond portfolio (excluding Markets' assets as per the internal definition of the liquidity buffer) of 275 million EUR consisting mainly of debt securities issued by Baltic governments.

The liquidity buffer is supported by the contractual agreement for funding with shareholders DNB Bank ASA and Nordea Bank Abp. Together with the capability to issue covered bonds, these strongly mitigate 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.

The Group is taking part in the ECB's Eurosystem open market operations. In particular, the Group is a user of the ECB Targeted Long Term Refinancing Operations (TLTRO) which also requires collateral. Another source of encumbrance arises from issued Covered Bonds. Encumbrance arising from pledged assets is reported and monitored. The collateral is managed by monitoring the fulfilment 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 2 008 million EUR at the end of the fourth 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 a 1-year period without any additional support. Furthermore, the majority of the liquidity buffer consists of cash held within central banks and highly liquid debt securities which serves to mitigate 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 solely 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	31 December 2020	31 December 2019
OWN FUNDS		
1. TIER 1 CAPITAL	1 586 401	1 566 637
1.1. COMMON EQUITY TIER 1 CAPITAL	1 586 401	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	150 577	129 919
1.1.3. (-) Other intangible assets	-6 316	-7 848
1.1.4 Other reserves	2 706	938
1.1.5 Adjustments to CET1 due to prudential filters	-337	-1 281
1.1.6 CET1 capital elements or deductions - other	0	0
1.1.7 Accumulated other comprehensive income	265	261
1.1.8 (-) Additional deductions of CET1 Capital due to Article 3 CRR	0	0
1.1.9 (-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-7 299	-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 31 December 2020	1 January 2019 to 31 December 2019	Q4 2020	Q4 2019
Interest income calculated using the effective interest method:				
Loans and advances to customers at amortised cost	225 482	241 217	56 224	59 780
Deposits with other banks	692	3 548	12	570
Total interest income calculated using effective interest method	**226 174**	**244 765**	**56 236**	**60 350**
Other similar income:				
Finance Leases	46 460	56 045	11 286	13 228
Other interest	1 128	867	782	233
Total other similar income	**47 588**	**56 912**	**12 068**	**13 461**
Total interest income	**273 762**	**301 677**	**68 304**	**73 811**
Interest expense:				
Loans and deposits from credit institutions	-15 003	-19 300	-4 570	-5 755
Deposits from customers	-8 216	-15 317	-1 071	-3 830
Impact of hedging activities	-488	1 221	-1 724	137
Debt securities issued	-9 800	-8 382	-2 315	-3 303
Other*	-13 325	-5 747	-1 541	-3 652
Total interest expense	**-46 832**	**-47 525**	**-11 221**	**-16 403**
Net interest income	**226 930**	**254 152**	**57 083**	**57 408**

* Includes parent funding off balance sheet loan commitment interest expense for period 1 January 2020 to 31 December 2020 in the amount of 10 581 thousand EUR (the fourth quarter of 2020: 1 086 thousand EUR), for period 1 January 2019 to 31 December 2019 in the amount of 3 441 thousand EUR (the fourth quarter of 2019: 2 598 thousand EUR).

5. NET FEE AND COMMISSION INCOME

thousand EUR	1 January 2020 to 31 December 2020	1 January 2019 to 31 December 2019	Q4 2020	Q4 2019
Securities	1 188	788	423	226
Clearing and settlement*	34 858	35 700	9 556	9 267
Asset Management	7 116	7 043	2 014	1 787
Custody	1 030	1 108	256	346
Payment services*	17 576	25 188	3 769	5 655
Collective Investments commission	2 927	3 233	797	825
Insurance commission	2 811	3 517	722	840
Loan commitments given	3 116	4 142	669	1 052
Financial guarantees given	6 355	5 100	1 666	1 415
Factoring	2 390	4 473	586	924
Other*	16 506	15 535	4 279	3 565
Total fee and commission income	**95 873**	**105 827**	**24 737**	**25 902**
Clearing and settlement*	-17 093	-23 593	-1 725	-6 386
Custody	-330	-373	-77	-114
Financial guarantees received	-47	-208	-19	-43
Other*	-4 763	-4 267	-2 169	-595
Fee and commission expense	**-22 233**	**-28 441**	**-3 990**	**-7 138**
Net fee and commission income	**73 640**	**77 386**	**20 747**	**18 764**

* 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 31 December 2020	1 January 2019 to 31 December 2019	Q4 2020	Q4 2019
Corporate	24 800	29 380	6 243	7 264
Retail	48 677	46 628	14 042	11 745
Other	163	1 378	462	-245
Net fee and commission income	**73 640**	**77 386**	**20 747**	**18 764**

6. PERSONNEL EXPENSES

thousand EUR	1 January 2020 to 31 December 2020	1 January 2019 to 31 December 2019	Q4 2020	Q4 2019
Wages and salaries	-80 398	-88 434	-22 062	-21 127
Social security cost	-14 300	-14 908	-4 096	-3 178
Indirect personnel cost (recruitment, training)	-5 502	-7 954	-1 980	175
Total	**-100 200**	**-111 296**	**-28 138**	**-24 130**

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 31 December 2020	1 January 2019 to 31 December 2019	Q4 2020	Q4 2019
IT related expenses	-106 421	-93 669	-25 814	-23 786
Consulting and professional services	-19 894	-24 739	-9 187	-13 680
Advertising and marketing expenses	-3 049	-4 263	-1 342	-2 115
Real estate expenses	-5 167	-9 194	-1 310	-3 244
Taxes and duties	-8 051	-14 135	-2 404	-6 565
Travel expenses	-526	-1 708	-8	-567
Other expenses*	-19 990	-17 641	-4 372	-1 195
Total	**-163 098**	**-165 349**	**-44 437**	**-51 152**

*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 102 558 thousand EUR for period 1 January 2020 to 31 December 2020 (1 January 2019 to 31 December 2019: 91 814 thousand EUR) and 27 767 thousand EUR in the fourth quarter of 2020 (the fourth quarter of 2019: 25 670 thousand EUR). A major part of exceptional costs were IT expenses.

Out of total transformation expenses, the part recognised under other administrative expenses was 89 559 thousand EUR for period 1 January 2020 to 31 December 2020 (1 January 2019 to 31 December 2019: 74 267 thousand EUR) and 23 751 thousand EUR in the fourth quarter of 2020 (the fourth quarter of 2019: 23 715 thousand EUR). A major part of exceptional costs were IT expenses.

8. CASH AND BALANCES WITH CENTRAL BANKS

thousand EUR	31 December 2020	31 December 2019
Cash on hand	123 809	140 518
Cash balances at central banks	4 802 711	2 783 501
Total	**4 926 520**	**2 924 019**
of which mandatory reserve requirement	112 254	112 800

9. DUE FROM OTHER CREDIT INSTITUTIONS

thousand EUR	31 December 2020	31 December 2019
Demand deposit	70 556	137 466
Loans	39	58
Cash collateral*	32 980	4 130
Total	**103 575**	**141 654**
Allowance for expected credit losses	-16	-9
Total	**103 559**	**141 645**

* Cash collateral in other credit institutions is held to cover negative value of Luminor derivative portfolio. Offsetting cash collateral with derivative cashflow is not allowed according to Estonian legislation.

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 31 December 2020			
Derivatives held for trading			
Interest rate-related contracts	2 879 408	13 083	11 451
Currency-related contracts	1 147 140	28 787	37 668
Commodity-related contracts	12 838	1 537	1 464
Total	**4 039 386**	**43 407**	**50 583**
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 31 December 2020 the Group had in total two interest rate swap agreements in place that were linked to the issued senior bonds:

- 300 million EUR whereby the Group receives a fixed rate of interest of 1.375% and pays floating interest at 3 months EURIBOR + 1.732% on the notional amount. For this interest swap agreement trade date is 11 June 2019, effective date is 21 June 2019 and maturity date 21 October 2022;
- 300 million EUR, whereby the Group receives a fixed rate of interest of 0.792% and pays floating interest at 6 months EURIBOR + 1.2888% on the notional amount. For this interest swap agreement trade date is 25 November 2020, effective date is 03 December 2020 and maturity date is 03 December 2023.

As at 31 December 2020 the Group had one interest rate swap agreement in place that was linked to the issued covered bonds:

- 500 million EUR whereby the Group receives a fixed rate of interest of 0.01% and pays floating interest at 6 months EURIBOR + 0.289%. For this interest swap agreement trade date is 04 March 2020, effective date is 11 March 2020 and maturity date 11 March 2025.

Two previously outstanding interest rate swaps – 150mln EUR and 200mln EUR – were closed in December 2020.

There is an economic relationship between the hedged item and the hedging instruments 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.

31 December 2020	Notional amount	Carrying Amount	Line item in the statement of financial position
Interest rate swap	1 100 000	5 264	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	31 December 2020	31 December 2019
Financial Institutions	**132 524**	**29 378**
Public Sector	**138 599**	**174 732**
Business customers	**3 846 885**	**4 523 201**
-Loans	2 823 103	3 156 365
-Leasing	842 898	1 088 325
-Factoring	180 884	278 511
Individual customers	**5 449 706**	**5 680 911**
-Mortgage loans	4 614 261	4 689 319
-Leasing	454 272	533 611
-Consumer and card loans	106 307	132 862
-Other loans	274 866	325 119
Allowance for expected credit losses	**-136 879**	**-185 675**
Loans to Customers Total	**9 430 835**	**10 222 547**

Due from customers registered in Estonia, Latvia, Lithuania	9 188 313	9 957 570
Due from customers registered in EU (except Estonia, Latvia, Lithuania)	175 644	200 921
Due from customers registered in other countries	66 878	64 056
Loans to Customers Total	**9 430 835**	**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	31 December 2020	31 December 2019
Term deposits*	29 974	951 612
Demand deposits	55 267	29 080
Total	**85 241**	**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	31 December 2020	31 December 2019
Term deposits	1 087 023	2 161 033
Demand deposits	10 696 739	8 074 410
Total	**11 783 762**	**10 235 443**
Due to customers by type of customers		
Due to corporate customers	4 617 922	4 578 084
Due to public sector customers	2 694 406	1 623 323
Due to individuals	4 471 434	4 034 036
Total	**11 783 762**	**10 235 443**
Due to customers, registered in Estonia, Latvia, Lithuania	11 576 251	9 825 534
Due to customers, registered in EU (except Estonia, Latvia, Lithuania)	110 538	326 379
Due to customers, registered in other countries	96 973	83 530
Total	**11 783 762**	**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. On the 23rd of November 2020 Luminor announced tender offer to buy back any and all Luminor bonds maturing in October 2021 subject to successful issuance of new bonds with longer maturity. As a result, 250 705 000 EUR of bonds were bought back and cancelled by the Bank. Outstanding amount was equal to 99 925 000 EUR as at 31 December 2020.

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%.

LUMINO 0.792% 12/03/24

In November 2020 Luminor Bank AS issued the bond under the Luminor EMTN Programme. The company issued 300 000 000 EUR of fixed-rate bonds maturing December 2024, with annual coupons and bearing interest at an annual rate of 0.792%. The bond is callable and allows the issuer to call is back at par in December 2023. After that date coupon changes from fixed to floating and becomes equal to 3 months EURIBOR + 1.2888% reset quarterly. There were no specific covenants related to the bond issuance.

thousand EUR	31 December 2020	31 December 2019
LUMINO 1.5% 18/10/21		
Nominal amount*	99 295	350 000
Intragroup transactions	0	-1 000
Fees at amortized costs	-156	-1 269
Accrued interest	291	1 079
Hedged item fair value changes	714	2 982
Carrying amount	**100 144**	**351 792**
LUMINO 1.375% 21/10/22		
Nominal amount	300 000	300 000
Fees at amortized costs	-625	-982
Accrued interest	813	814
Hedged item fair value changes	1 357	92
Carrying amount	**301 545**	**299 924**
0.01% COVERED BONDS		
Nominal amount	500 000	0
Fees at amortized costs	2 760	0
Accrued interest	41	0
Hedged item fair value changes	-776	0
Carrying amount	**502 025**	**0**
LUMINO 0.792% 12/03/24		
Nominal amount	300 000	0
Intragroup transactions	-1 508	0
Fees at amortized costs	-977	0
Accrued interest	188	0
Hedged item fair value changes	-185	0
Carrying amount	**297 518**	**0**
Total	**1 201 232**	**651 716**

*Nominal amount at the beginning of the period was 300 000 thousand EUR, in December 2020 there was a buyback of bonds in the amount of 250 705 thousand EUR, outstanding nominal amount as at 31 December 2020 is 99 295 thousand EUR.

15. OTHER FINANCIAL LIABILITIES

thousand EUR	31 December 2020	31 December 2019
Payments in transit	14 392	41 865
Other	313	3 438
Total	**14 705**	**45 303**

16. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

thousand EUR	31 December 2020	31 December 2019
Pledged assets		
Loans*	887 747	1 999 895
Total	**887 747**	**1 999 895**
Contingent liabilities		
Loan commitments given	1 199 076	1 134 434
Financial guarantees given	505 906	556 010
Performance guarantees	147 078	98 372
Total	**1 852 060**	**1 788 816**

* Includes 548 541 thousand EUR of loans pledged for Covered Bond and 292 826 thousand EUR pledged for parent funding as at 31 December 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

thousand EUR	Carrying amount 31 December 2020	Fair value 31 December 2020	Carrying amount 31 December 2019	Fair value 31 December 2019
Assets				
Financial assets at amortised cost				
Cash and balances with central banks	4 926 520	4 926 520	2 924 019	2 924 019
Due from other credit institutions	70 579	70 579	141 645	141 645
Loans to customers	9 430 835	9 107 048	10 222 547	10 324 772
Total financial assets	**14 427 934**	**14 104 147**	**13 288 211**	**13 390 436**
Liabilities				
Financial liabilities at amortised cost				
Loans and deposits from credit institutions	85 241	85 241	980 692	980 692
Deposits from customers	11 783 762	11 783 762	10 235 443	10 235 443
Debt securities issued	1 201 232	1 200 230	651 716	653 967
Other financial liabilities	14 705	14 705	45 303	45 303
Total financial liabilities	**13 084 940**	**13 083 938**	**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 31 December 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	4 926 520	0	0	**4 926 520**
Due from other credit institutions	70 556	23	0	**70 579**
Loans to customers	0	0	9 107 048	**9 107 048**
Other financial assets	0	0	10 226	**10 226**
Financial assets at fair value				
Financial assets held for trading				
Debt securities	2 857	0	0	**2 857**
Financial assets at fair value through profit or loss				
Equity instruments	0	2 682	0	**2 682**
Debt securities				
General governments	251 143	0	0	**251 143**
Credit Institutions	24 085	0	0	**24 085**
Other financial corporations	0	0	6 239	**6 239**
Derivative financial instruments				
Derivative financial instruments	0	42 739	668	**43 407**
Financial assets at fair value through other comprehensive income				
Equity instruments	0	0	140	**140**
Total	**5 275 161**	**45 444**	**9 124 321**	**14 444 926**
Liabilities				
Liabilities for which fair values are disclosed				
Loans and deposits from credit institutions	55 267	29 974	0	**85 241**
Deposits from customers	0	10 696 739	1 087 023	**11 783 762**
Debt securities issued	499 265	700 965	0	**1 200 230**
Other financial liabilities	0	0	14 705	**14 705**
Financial liabilities at fair value				
Derivative financial instruments				
Derivative financial instruments	0	49 236	1 347	**50 583**
Total	**554 532**	**11 476 914**	**1 103 075**	**13 134 521**

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 governments	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 fourth 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 risk 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 31 December 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 31 December 2020	1 January 2019 to 31 December 2019	Q4 2020	Q4 2019
Interest income				
Entities with significant influence over the entity	38	1 469	0	203
Key management personnel	13	7	4	0
Interest expenses				
Entities with significant influence over the entity	-11 130	-7 885	685	-3 416
Key management personnel	-2	-3	-1	0
Net commission and fee income				
Entities with significant influence over the entity	-108	-21	-42	-40
Key management personnel	2	0	2	0
Net gain from financial derivatives				
Entities with significant influence over the entity	-26 783	4 267	-11 085	609
Other administrative expenses				
Entities with significant influence over the entity	-14 428	-8 851	-1 340	-2 226
Other expenses				
Entities with significant influence over the entity	-1 360	833	672	906
Total	**-53 758**	**-10 184**	**-11 105**	**-3 964**

thousand EUR	31 December 2020	31 December 2019
Loans to credit institutions		
Entities with significant influence over the entity	55 899	77 572
Loans to customers		
Key management personnel	1 015	697
Derivative instruments		
Entities with significant influence over the entity	18 650	46 519
Other assets		
Entities with significant influence over the entity	80	199
Total assets	**75 644**	**124 987**
Due to credit institutions		
Entities with significant influence over the entity	3 112	912 807
Deposits from customers		
Key management personnel	1 150	983
Derivative instruments		
Entities with significant influence over the entity	41 282	19 849
Other liabilities		
Entities with significant influence over the entity	4 430	1 345
Total liabilities	**49 974**	**934 984**

Payments to the key management personnel in the fourth quarter of 2020 were 907 thousand EUR and for the period 1 January to 31 December 2020 2 839 thousand EUR (in the fourth quarter of 2019: 508 thousand EUR and for the period 1 January to 31 December 2019: 2 581 thousand EUR).

As at 31 December 2020 loans and advances with associate ALD Automotive (3 entities) amounted to 11 189 thousand EUR (31 December 2019: 15 919 thousand EUR), deposits 777 thousand EUR (31 December 2019: 985 thousand EUR), interest income for the fourth quarter of 2020 was 6 thousand EUR (the fourth quarter of 2019: 6 thousand EUR), interest income for period 1 January to 31 December 2020 was 27 thousand EUR (1 January to 31 December 2019: 31 thousand EUR). Net fee and commission income for the fourth quarter of 2020 was 1 thousand EUR (the fourth quarter of 2019: 1 thousand EUR), net fee and commission income for period 1 January to 31 December 2020 was 3 thousand EUR (1 January to 31 December 2019: 4 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 two main operating segments: Corporate Banking and Retail Banking. 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, private individuals and holding companies associated with wealthy private 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 fourth quarter of 2020 it was decided to transfer Wealth Management segment customers under Retail Banking 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	Other	Total
1 January 2020 to 31 December 2020				
The Group				
Net interest income	120 565	113 392	-7 027	**226 930**
Net fees & commission income	24 800	48 677	163	**73 640**
Trading income	8 385	5 908	13 445	**27 738**
Other income	1 858	1 105	-2 907	**56**
Total income	**155 608**	**169 082**	**3 674**	**328 364**
Personnel costs, administrative costs and depreciation	-96 070	-173 736	-5 588	**-275 394**
Net impairment (losses/reversal) on loans to customers	-25 923	7 574	3 839	**-14 510**
Other	49	43	-2 785	**-2 693**
Profit before Tax	**33 663**	**2 963**	**-859**	**35 767**
o/w exceptional costs	-38 058	-63 060	-1 440	**-102 558**

thousand EUR	Corporate	Retail	Other	Total
Q4 2020				
The Group				
Net interest income	30 048	27 177	-142	**57 083**
Net fees & commission income	6 243	14 042	462	**20 747**
Trading income	1 709	1 647	2 909	**6 265**
Other income	160	266	-1 886	**-1 460**
Total income	**38 160**	**43 132**	**1 343**	**82 635**
Personnel costs, administrative costs and depreciation	-27 254	-48 824	337	**-75 741**
Net impairment (losses/ reversal) on loans to customers	8 565	5 648	272	**14 485**
Other	9	24	-606	**-573**
Profit before Tax	**19 480**	**-20**	**1 346**	**20 806**
o/w exceptional costs	-9 494	-17 823	-450	**-27 767**

thousand EUR	Corporate	Retail	Other	Total
31 December 2020				
The Group				
Loans and receivables*	4 307 801	5 251 793	14 909	**9 574 503**
Deposits from customers	6 024 817	5 743 087	15 858	**11 783 762**

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

thousand EUR	Corporate	Retail	Other	Total
1 January 2019 to 31 December 2019				
The Group				
Net interest income	136 231	115 301	2 620	**254 152**
Net fees & commission income	29 380	46 628	1 378	**77 386**
Trading income	10 963	6 427	16 540	**33 930**
Other income	1 787	1 037	5 030	**7 854**
Total income	**178 361**	**169 393**	**25 568**	**373 322**
Personnel costs, administrative costs and depreciation	-93 967	-184 715	-11 140	**-289 822**
Net impairment (losses/ reversal) on loans to customers	-32 118	8 905	-802	**-24 015**
Other	0	0	-223	**-223**
Profit before Tax	**52 276**	**-6 417**	**13 403**	**59 262**
o/w exceptional costs	-33 629	-57 076	-1 108	**-91 813**

thousand EUR	Corporate	Retail	Other	Total
Q4 2019				
The Group				
Net interest income	33 420	29 045	-5 057	**57 408**
Net fees & commission income	7 264	11 745	-245	**18 764**
Trading income	3 087	1 440	10 452	**14 979**
Other income	507	292	2 749	**3 548**
Total income	**44 278**	**42 522**	**7 899**	**94 699**
Personnel costs, administrative costs and depreciation	-26 809	-49 861	-1 738	**-78 408**
Net impairment (losses/ reversal) on loans to customers	-11 011	-804	73	**-11 742**
Other	0	0	-459	**-459**
Profit before Tax	**6 458**	**-8 143**	**5 775**	**4 090**
o/w exceptional costs	-10 414	-14 897	-358	**-25 669**

thousand EUR	Corporate	Retail	Other	Total
31 December 2019				
The Group				
Loans and receivables*	4 925 549	5 483 370	965	**10 409 884**
Deposits from customers	5 094 953	5 130 733	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 31 December 2020	Accrued Interest	Allowance	Initial Impairment	Amortized fee	Net carrying amount 31 December 2020
9 574 503	20 477	-136 879	-1 642	-25 624	9 430 835

Total under Segment reporting 31 December 2019	Accrued Interest	Allowance	Initial Impairment	Amortized fee	Net carrying amount 31 December 2019
10 409 884	30 681	-185 675	-2 000	-30 343	10 222 547

20. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On 1 January 2021, Peter Bosek became Chief Executive Officer and Chairman of the Management Board of Luminor Bank AS.

Marilin Pikaro announced her decision to resign as Head of the Compliance Division and Member of the Management Board of Luminor Bank AS effective from 5 January 2021. Mari Mõis, Head of the Legal Division, was appointed to take over the position of Chief Compliance Officer from 6 January 2021.

On 19 January 2021, Luminor Bank and IBM announced a new five-year agreement. Under the agreement Luminor will migrate its IT infrastructure to IBM Cloud for Financial Services. IBM will support Luminor in accelerating its digital transformation and strengthening further its security and regulatory compliance processes. As part of the agreement, some 200 people from Luminor's Technology Division will be transferred to IBM.

From 1 March 2021, Luminor Operations Department will be incorporated with the Technology Division.

CONTACT DETAILS

Luminor Bank AS

Location and address	Liivalaia 45
	10145 Tallinn
	Estonia
Registered country	Republic of Estonia
Main activity:	Credit institution
Commercial Register code	11315936
Telephone	+372 628 3300
SWIFT/BIC	RIKOEE22
Website	www.luminor.ee
E-mail	info@luminor.ee
Investor relations	ir@luminorgroup.com
Balance sheet date	31 December 2020
Reporting period	01.01.2020 – 31.12.2020
Reporting currency	Euro