LUMINOR GROUP AB

INTERIM CONSOLIDATED ADMINISTRATION REPORT,
INTERIM CONDENSED FINANCIAL INFORMATION
FOR THE PERIOD ENDED 30 JUNE 2018

(UNAUDITED)

CONTENTS

LUMINOR GROUP AB CONSOLIDATED ADMINISTRATION REPORT FOR THE HALF YEAR 2018

Introduction

The board of directors and chief executive offices of Luminor Group AB, organisational number 559072-8316 headquarted in Stockholm, hereby submit the administration report and principles of consolidation for the half year 2018.

Operations-main activities

Luminor Group AB is a holding company established in the Kingdom of Sweden and it is a 100% shareholder of each of the Baltic Luminor banks: Luminor Bank AB (Lithuania), Luminor Bank AS (Estonia) and Luminor Bank AS (Latvia).

The Luminor Group AB Board of Directors performs rights of Shareholders meeting in relation to each Luminor bank. The Board of Directors is composed of at least five non-executive directors, elected by Shareholders. The Board of Directors is responsible for overall business strategy and material changes to the scope, direction and nature of the Luminor business. The decisions of the Board of Directors are implemented via the Supervisory Councils and Management Boards of local Banks. The Board of Directors approves Business Plan for the Luminor and each fiscal year approves an update of the short-term financial plan for the Luminor. Specific Matters handled by the Board of Directors as well as reporting to the Board of Directors are outlined in the Governance Policy. The Board of Directors meetings shall be held at least quarterly.

Nordea Bank AB and DNB Bank ASA are ultimate owners of holding company Luminor Group AB ("Luminor Group"), which is registered in Sweden, registration No 559072-8316. Luminor group was created by merging Nordea's and DNB's Baltic operations to form a new stand-alone Baltic bank with arm's-length governance from both parent banks. Nordea Bank AB and DNB Bank ASA have equal voting rights in Luminor Group. Nordea Bank AB owns 56,3% and DNB Bank ASA owns 43,4% of proprietary rights, which reflects the proportional contribution of each bank made at the closure of the Luminor Group transaction on 1 October 2017.

DNB Bank ASA (commercial register number 984 851 006) is Norway's largest financial services group and one of the largest in the Nordic region in terms of market capitalization. The DNB group offers a full range of financial services, including loans, savings, advisory services, insurance and pension products for retail and corporate customers. DNB Bank ASA has a credit rating (Fitch A+, Moody's Aa2).

Nordea group is the largest financial services group in the Nordic region and one of the biggest banks in Europe. Nordea is present in 17 countries, including four Nordic markets – Denmark, Finland, Norway and Sweden. Nordea Group offers a comprehensive range of banking and financial products and services to household and corporate customers, including financial institutions. Nordea Bank AB (Swedish commercial register number 516406-0120) has a credit rating (Fitch AA-, Moody's Aa3).

All Luminor Group companies belong to Swedish company Luminor Group AB, which direct subsidiaries are credit institutions in Estonia, Latvia and Lithuania. Each Luminor bank owns several subsidiaries, including, among others, regulated subsidiaries like pension fund management companies, an insurance broker company (in Estonia), leasing companies, as well as special purpose vehicles owning repossessed assets and real estate broker company (in Lithuania).

The Luminor Group will be transformed from 2018 to 2019 and the objective of this is to concentrate the Baltic business operations of the Luminor Group to the credit institution Luminor Bank AS, which is based in Estonia. A cross-border merger will be applied in accordance with Directive (EU) 2017/1132 of the European Parliament and of the Council of 14 June 2017 relating to certain aspects of company law, which is applied in Estonia, Latvia and Lithuania. The assets and liabilities of the banks in Latvia and Lithuania will be transferred in accordance with the relevant legislation to Luminor Bank AS, which operates in Estonia, on the basis of general legal succession and each bank will finish operating as a legal entity after the registration of the cross-border merger and the operations in Latvia and Lithuania will be conducted via branches.

Significant events during first half of the year

On 29th of March merger agreement for merging Luminor banks in Lithuania and Latvia to Luminor bank in Estonia was signed. The merger foresees full integration of the banks with headquarter in Estonia and branches in Latvia and Lithuania.
On 28 June 2018 Luminor Bank AB (Lithuania), Luminor Bank AS (Latvia) and Luminor Bank AS (Estonia) received the European Central Bank's approval for the cross-border merger of Luminor in the Baltics. The cross-border merger and legal change is expected to take place on 2 January 2019.

INFORMATION ON PERFORMANCE RESULTS

Luminor Group started banking operations in Baltics in October 2017 after combining DNB and Nordea Baltic businesses. Accordingly, since October 2017 comparative figures include Luminor Bank AS (Estonia), Luminor Bank AS (Latvia), Luminor Bank AB (Lithuania) and holding company Luminor Group AB (Sweden). Prior to this date, only holding company Luminor Group AB (Sweden) result included.

During the first half of 2018, Luminor Group was focussing on continuing delivering high customer service, integrating operations, building efficiencies across Baltics and implementing major change and transformation programmes.

Profit for the first half of 2018 reached EUR 75.8 million, cost income ratio stood at 60.6%. Total operating income reached EUR 181.1 million including net interest income of EUR 132.6 million and net commission income of EUR 41.4 million.

At the end of June 2018 total Luminor Group assets stood at EUR 14.6 billion and decreased by 3.5% compared to the end of 2017. The decrease is mainly driven by cash and balances with central banks, which stood at EUR 2.6 billion at the end of 2017 and declined to EUR 2.3 billion at the end of June 2018.

The majority of total assets (80% from total) comprise loans to the public of EUR 11.7 billion, which increased by 0.6% during the first half of 2018. The increase is mainly driven by corporate customer lending.

Total liabilities at the end of June 2018 stood at EUR 12.8 billion and decreased by 4.2% compared to EUR 13.4 billion at the end of 2017. The decrease is mainly driven by liabilities to credit institutions as well as deposits and borrowing from the public.

The majority of liabilities (64% from total) comprise deposits and borrowing from the public of EUR 8.2 billion, which decreased by 2.4% during the first half of 2018. The decrease is mainly driven by corporate customer deposits.

Liabilities to credit institutions mainly include due to parents of EUR 4.2 billion at the end of June 2018 compared to EUR 4.3 billion at the end of 2017 (3.1% decrease during the period). During the reporting period Group also made a partial prepayment of TLTRO funding to central banks in all three Baltic countries totalling EUR 185 million.

Total equity at the end of June 2018 stood at EUR 1.74 billion, which increased by 1.7% during the first half of 2018. The main items affecting equity development has been negative IFRS 9 transitional impact of EUR 46.8 million and profit for the first half of 2018 of EUR 75.8 million.

All the regulatory ratios are observed with healthy buffers. Capital adequacy ratio for financial group at the end of June 2018 stood at 17.6% and liquidity coverage ratio (LCR) was 131.06%.

CONDENSED CONSOLIDATED INCOME STATEMENT

		2018	
KEUR	**Note**	**Q2**	**1st Half**
Interest income		75 196	151 113
Interest expenses		(9 314)	(18 465)
Net interest income		**65 882**	**132 648**
Commission income		27 741	53 988
Commission expenses		(6 612)	(12 607)
Net commission		**21 129**	**41 381**
Net result of financial transactions		4 450	8 810
Dividend income		30	51
Other operating income		365	2 646
Other operating expences		(3 234)	(4 449)
Total operating income		**88 622**	**181 087**
General administration expenses		(50 382)	(105 494)
Depreciation, amortization and impairments		(1 936)	(3 931)
Provisions	G1	(944)	(298)
Total expenses before credit losses		**(53 262)**	**(109 723)**
Share of profit of an associate, profit non current assets held for sale		201	393
Profit before credit losses		**35 561**	**71 757**
Credit losses, net	G2	13 668	7 186
Operating profit		**49 229**	**78 943**
Tax on profit for the year		(2 300)	(3 169)
Profit (loss) for the year		**46 929**	**75 774**

(all amounts are in EUR thousand, if not otherwise stated)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2018 Q2	2018 1st Half
Profit (loss) for the year		**46 929**	**75 774**
Items that will be reclassified to the income statement			
Changes in the fair value of assets at fair value through other comprehensive income		345	517
Total items that will be reclassified to the income statement		**345**	**517**
Items that will not be reclassified to the income statement		-	-
Total Items that will not be reclassifed to the income statement		-	-
Changes in comprehensive income after tax		-	-
Comprehensive income after tax		**47 274**	**76 291**

(all amounts are in EUR thousand, if not otherwise stated)

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2018	31 December 2017
Assets			
Cash and balances with central banks	G3	2 305 139	2 620 838
Interest-bearing securities eligible as collateral with central banks		136 833	164 202
Loans to credit institutions	G4	150 030	409 506
Loans to the public	G5	11 717 276	11 646 540
Bonds and other interest-bearing securities		31 095	34 357
Equity instruments		11 070	10 356
Investments in associates		6 503	6 110
Derivative instruments		45 302	27 753
Intangible assets		8 126	9 257
Tangible assets		38 930	40 482
Investment properties		42 026	51 283
Current tax assets		593	90
Deferred tax assets		1 374	1 350
Other assets		40 828	59 545
Prepaid expense and accrued income		23 522	12 358
Total assets		**14 558 647**	**15 094 027**
Liabilities			
Due to credit institutions	G6	4 388 020	4 761 243
Deposits and borrowing from the public	G7	8 231 554	8 429 796
Debt securities issued		65 113	65 007
Derivative instruments		33 856	33 173
Current tax liabilities		393	3 288
Provisions		4 957	2 146
Other liabilities		53 466	53 035
Accrued expences and deferred income		37 558	32 097
Total liabilities		**12 814 917**	**13 379 785**
Equity			
Share capital		10 000	10 000
Share premium reserve		1 645 099	1 645 099
Reserves	G12	20 854	16 412
Retained earnings		(7 997)	48 401
Profit (loss) for the year		75 774	(5 670)
Total equity		**1 743 730**	**1 714 241**
Total liabilities and equity		**14 558 647**	**15 094 027**

(all amounts are in EUR thousand, if not otherwise stated)

CONDENSED CONSOLIDATED CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium reserve	Other reserves	Retained earnings	Total equity
Equity carried forward December 31, 2017	**10 000**	**1 645 099**	**16 412**	**42 730**	**1 714 241**
Changes on initial application of IFRS 9	-	-	-	(46 802)	(46 802)
Restated balance at 1 January, 2018	**10 000**	**1 645 099**	**16 412**	**(4 072)**	**1 667 439**
Profit (loss) for the year	-	-	-	75 774	75 774
Other comprehensive income	-	-	517	-	517
Total comprehensive income for the year	**-**	**-**	**517**	**75 774**	**76 291**
Transfer to mandatory reserve	-	-	3 925	(3 925)	-
Equity carried forward June 30, 2018	**10 000**	**1 645 099**	**20 854**	**67 777**	**1 743 730**

(all amounts are in EUR thousand, if not otherwise stated)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Indirect method

	30 June 2018
Operations activities	
Operating profit	78 943
Adjustment for non-cash items in profit/loss	
-Loan losses	(2 209)
-Depreciation, amortisation and impairment	3 931
Paid income tax	(3 169)
Cash flow before from current operations before changes in working capital	**77 496**
Cash flow from changes in working capital	
Increase (-) / decrease (+) of lending to the public	(127 258)
Increase (-) / decrease (+) of other assets	18 915
Increase (-) / decrease (+) of deposits and borrowing from the public	(571 465)
Increase (-) / decrease (+) of liabilities	431
Cash flow form current operations	**(679 377)**
Investing activities	
Acquisitions of property and equipment	(494)
Acquisitions of intangible assets	(411)
Disposals of property and equipment	36
Other cash receipts related to investing activities	2 548
Cash flow from investing activities	**1 679**
Financing activities	
Debt securities issued	106
Cash flow from financing activities	**106**
Cash flow for the year	
Cash and cash equivalents, January 1	3 194 546
Exchange rate differences in cash and cash equivalents	(2 448)
Cash and cash equivalents, 30 June	**2 592 002**
Cash and cash equivalents include:	**2 592 002**
Cash and balances in Central Banks	2 441 972
Loans to credit institutions	150 030
Interest received	162 277
Interest paid	23 926
Dividend received	51

(all amounts are in EUR thousand, if not otherwise stated)

CONDENSED PARENT COMPANY'S INCOME STATEMENT

		2018		2017	
	Note	**Q2**	**1st Half**	**Q2**	**1st Half**
Net revenue	P1	30	2 544	-	-
Total operating income		**30**	**2 544**	**-**	**-**
Other external expenses	P2	(1 127)	(1 306)	(3 312)	(4 607)
Personnel expenses		(131)	(266)	(108)	(200)
Total operating expenses		**(1 258)**	**(1 572)**	**(3 420)**	**(4 807)**
Operating profit		**(1 228)**	**972**	**(3 420)**	**(4 807)**
Result from financial investments:					
Interest expenses and similar expense items		(14)	(26)	(2)	(2)
Profit (loss) from financial assets		**(14)**	**(26)**	**(2)**	**(2)**
Profit (loss) after financial items		**(1 242)**	**946**	**(3 422)**	**(4 809)**
Tax on profit for the year		-	-	-	-
Profit (loss) for the year / Comprehensive income after tax		**(1 242)**	**946**	**(3 422)**	**(4 809)**

(all amounts are in EUR thousand, if not otherwise stated)

CONDENSED PARENT COMPANY'S BALANCE SHEET

	Note	30 June 2018	31 December 2017
Assets			
Fixed assets			
Financial fixed assets			
Shares in Group companies		1 645 093	1 645 093
Current assets			
Other receivables		85	636
Prepaid expenses and accrued income		-	300
Cash and cash equivalents		2 926	854
Current assets, total		**3 011**	**1 790**
Total assets		**1 648 104**	**1 646 883**
Equity			
Restricted equity			
Share capital		10 000	10 000
Non-restricted equity			
Share premium reserve		1 645 099	1 645 099
Retained earnings		(9 664)	-
Profit (loss) for the year		946	(9 664)
Equity, total		**1 646 381**	**1 645 435**
Liabilities			
Current liabilities			
Liabilities to Group companies		1	2
Other liabilities		996	456
Accrued expenses and deferred income		726	990
Total liabilities		**1 723**	**1 448**
Total equity and liabilities		**1 648 104**	**1 646 883**

(all amounts are in EUR thousand, if not otherwise stated)

CONDENSED PARENT COMPANY'S CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Other non-restricted reserves	Retained earnings	Profit for the year	Total equity
Equity brought forward January 1, 2018	**10 000**	**1 645 099**	**-**	**(9 664)**	**1 645 435**
Profit (loss) for the year				946	
Other compresenhensive income for the year					
Total comprehensive income for the year				**946**	
Distribution of profits			(9 664)	9 664	
Equity carried forward June 30, 2018	**10 000**	**1 645 099**	**(9 664)**	**946**	**1 646 381**

As at 30 June 2018, the authorized capital of the Parent company is EUR 10 000 000, which is divided into 200 000 000 ordinary registered shares with EUR 0,05 par value each.

Luminor

(all amounts are in EUR thousand, if not otherwise stated)

CONDENSED PARENT COMPANY'S CASH FLOW STATEMENT

Indirect method

	Note	30 June 2018	30 June 2017
Operations activities			
Operating profit		972	(4 807)
Unrealized part of financial items, net		(26)	
Interest paid			(2)
Cash flow before from current operations before changes in working capital		**946**	**(4 809)**
Cash flow from changes in working capital			
Decrease (+) / increase (-) of other receivables		850	4 486
Increase (+) / decrease (-) of liabilities		276	1 513
Cash flow form current operations		**2 072**	**1 190**
Cash flow from investing activities		**-**	**-**
Cash flow from financing activities		**-**	**-**
Cash flow for the period		**2 072**	**1 190**
Cash and cash equivalents at period end		**2 926**	**6 196**

Cash and cash equivalents refers to the company's bank accounts

(all amounts are in EUR thousand, if not otherwise stated)

NOTES TO FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

Basis of preparation

The Parent and the Group condensed interim financial information was prepared in accordance with IAS 34. In addition, the Group adheres to the Annual Accounts Act for Credit Institutions and Securities Companies and the Financial Supervisory Authority regulations (FFFS 2008:25) and RFR1 Supplementary Accounting Rules for Groups. The Parent information has been prepared in accordance with the Swedish Annual Accounts Act (1995:1554) and with application of the Swedish Financial Reporting Boards RFR 2 Accounting for legal entities. The condensed interim financial information do not contain all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

Comparative figures for the Group are the same ones as disclosed for the Parent due to the fact that the merge of Nordea and DNB Baltic businesses was done on 1st October 2017.

The accounting policies adopted in the preparation of the condensed interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017, except the new accounting standards which came into force from 1 January 2018 and are described below.

Changes in accounting policies

IFRS 9 Financial Instruments
The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustement to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current period.

The adoption of IFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

Classification and measurement
At initial recognition, the Group measures trade receivables that do not have a significant financing component (determined in accordance with IFRS 15) at their transaction price. Other financial assets and financial liabilities are measured at initial recognition at their fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability**.**

Subsequent measurement of financial assets depends on the classification performed by the Group at initial recognition. At initial recognition, financial assets can be classified into one of the following categories:

- Financial assets measured at fair value through profit or loss,
- Financial assets measured at fair value through other comprehensive income (OCI),
- Financial assets measured at amortised cost.

Classification is performed based on both the Group's business model for managing financial assets and the characteristics of contractual cash flows of the financial assets. However, financial assets that meet the amortised cost or fair value through other comprehensive income measurement criteria, may be designated on initial recognition by the Group to fair value through profit or loss measurement option, provided that particular qualifying criteria are met. Additionally, the Group may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.
On initial recognition, financial liabilities are classified into one of the following categories:

- Financial liabilities measured at amortised cost,
- Financial liabilities measured at fair value through profit or loss.

Financial liability is classified as measured at fair value through profit or loss if:

- It meets the definition of held for trading and
- It is designated upon initial recognition to fair value through profit or loss measurement option

All other financial liabilities are classified as measured at amortised cost.

ACCOUNTING PRINCIPLES (continued)

Impairment of financial assets

IFRS 9 fundamentally changed the credit loss recognition methodology. The standard replaced IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank is required to recognize an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset. Loss allowances based on lifetime expected credit losses are calculated also for purchased or originated credit-impaired assets (POCI) regardless of the changes in credit risk during the lifetime of an instrument. The Bank has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The assets to test for impairment are divided into three groups depending on the stage of credit deterioration. Stage 1 includes assets where there has been no significant increase in credit risk or which are classified as low risk (rating categorised as "Investment grade" or higher), stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes defaulted assets. Significant assets in stage 3 are tested for impairment on an individual basis, while for insignificant assets a collective assessment is performed. In stage 1, the allowances equal the 12 month expected credit loss. In stage 2 and 3, the allowances equal the lifetime expected credit losses.

One important driver for size of allowances under IFRS 9 is the trigger for transferring an asset from stage 1 to stage 2. Luminor has decided to use a mix of absolute and relative changes in 12 month point-in-time Probability of Default (PD) to determine whether there has been a significant increase in credit risk. In addition, customers with forbearance measures, included in watch list and contracts with payments more than thirty days past due are also transferred to stage 2.

The agreed IFRS 9 impairment methodology is documented in internal procedures, applied in daily life, integration into front office business processes follows and is intended to be finalized during the year 2018, but this does not impact impairment calculation. Validation of the model is currently ongoing and will be done till the end of third quarter 2018. In general, IFRS 9 impairment model results in earlier recognition of credit losses for the respective items and increases the amount of loss allowances recognised for these items. Moreover, the impairment calculations under IFRS 9 are more volatile and pro-cyclical than under IAS 39, mainly due to the significant subjectivity applied in the forward looking scenarios. IFRS 9 impairment requirements are applied retrospectively, with transition impact recognized in retained earnings.

Capital management

The new expected loss approach model had a negative impact on the Bank's regulatory capital. Upon the decision of the Board of Directors of Luminor Group AB the Bank did not apply transitional arrangements allowed by EU Regulation 2017/2395[1] and recognised the full effect of the implementation of IFRS 9 from 1 January 2018. The capital adequacy ratio is still significantly above the regulatory minimum and in line with the internal Risk Appetite statement.

[1] EU Regulation 2017/2395 amends the CRR by introducing Art. 473a on transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds

(all amounts are in EUR thousand, if not otherwise stated)

ACCOUNTING PRINCIPLES (continued)

Impact of the adoption of IFRS 9
Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group.

Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at January 2018 are compared as follows:

Financial assets	Original measurement category under IAS 39	New measurement category under IFRS 9	IAS 39 carrying amount 31 December 2017	New carrying amount under IFRS9 1 January 2018
Cash and balances with central banks	Loans and receivables	Amortised cost	2 620 838	2 620 838
Loans to credit institutions	Loans and receivables	Amortised cost	409 506	409 458
Financial assets held for trading	Fair value through profit or loss	Fair value through profit or loss	2 325	2 325
Financial assets designated at fair value through profit or loss	Financial assets at FVTPL (under fair value option)	Financial assets at FVTPL (under fair value option)	166 421	166 421
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss	27 753	27 753
Available for sale financial instruments	Available for sale	Fair value through other comprehensive income	5 812	5 812
Debt securities	Loans and receivables	Amortised cost	32 844	32 844
Debt securities	Investment held to maturity	Amortised cost	1 513	1 513
Loans to public	Loans and receivables	Amortised cost	11 646 540	11 603 022

(all amounts are in EUR thousand, if not otherwise stated)

ACCOUNTING PRINCIPLES (continued)

Reconciliation of statement of financial position balances from IAS 39 to IFSR 9
The following table reconcile the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

Financial assets	IAS 39 carrying amount 31 December 2017	Reclassifi cations	Remeasure ments 31 December 2017	IFRS 9 carrying amount 1 January 2018
Amortised cost				
Cash and balances with central banks				
Opening balance under IAS 39 and closing balance under IFRS 9	2 620 838	-	-	2 620 838
Loans to credit institutions				
Opening balance under IAS 39	409 506	-	-	-
Remeasurement (ECL allowances)	-	-	(48)	-
Closing balance under IFRS 9	-	-	-	409 458
Loans to public				
Opening balance under IAS 39	11 646 540	-	-	-
Remeasurement (ECL allowances)	-	-	(43 518)	-
Closing balance under IFRS 9	-	-	-	11 603 022
Debt securities – Held to maturity				
Opening balance under IAS 39 and closing balance under IFRS 9	1 513	(1 513)	-	-
Debt securities – Amortised cost				
Opening balance under IAS 39 and closing balance under IFRS 9	32 844	1 513	-	
Financial assets measured at amortised cost - total	**14 711 241**	**-**	**(43 566)**	**14 667 675**
Fair value through profit or loss				
Financial assets held for trading				
Opening balance under IAS 39 and closing balance under IFRS 9	2 325	-	-	2 325
Financial assets designated at fair value through profit or loss				
Opening balance under IAS 39 and closing balance under IFRS 9	166 421	(1 415)	-	165 006
Derivative financial instruments				
Opening balance under IAS 39 and closing balance under IFRS 9	27 753	-	-	27 753
Financial assets at fair value through profit or loss - total	**196 499**	**(1 415)**	**-**	**195 084**
Fair value through other comprehensive income				
Equity instruments				
Opening balance under IAS 39 and closing balance under IFRS 9	5 812		-	5 812
Debt securities				
Opening balance under IAS 39 and closing balance under IFRS 9		1 415	-	1 415
Assets at fair value through other comprehensive income - total	**5 812**	**1 415**	**-**	**7 227**

(all amounts are in EUR thousand, if not otherwise stated)

ACCOUNTING PRINCIPLES (continued)

IFRS 15 Revenue from Contracts with Customers
The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management has assessed that the application of the standard will have no effect on the Bank and the Group financial statements.

The core principle of IFRS 15 is that revenue must be recognised to reflect the transfer of services to customers at an amount that reflects the consideration that is expected to be received in exchange for such services. This core principle is applied through a five-step model:

1) Identify the contract with the customer,
2) Identify the performance obligation in the contract,
3) Determine the transaction price,
4) Allocate the transaction price to the performance obligation in the contract,
5) Recognise revenue when the performance obligation is satisfied.

For each performance obligation identified the Group determines at contract inception whether it satisfies the performance obligation over time or at a point in time, whether the consideration is fixed or variable, including whether consideration is constrained due to external factors. Consideration is subsequently allocated to the identified performance obligation.

For services provided over time, consideration is recognised when the service is provided to the customer assuming that a significant reversal of consideration will not occur. Examples of income earned for services satisfied over time include the fee income earned for the asset management services.

If a performance obligation is satisfied at a point in time then the income is recognised when the service is transferred to the customer. Examples of such income include fee income for executing transactions (clearing and settlement, customers' securities trading, payment cards transaction fees).

IFRS 15: Revenue from Contracts with Customers (Clarifications)
The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. As described above, management has assessed that the application of the standard will have no effect on the Bank and the Group financial statements.

IFRS 16 Leases
IFRS 16 replaces IAS 17 Leases as of January 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

(all amounts are in EUR thousand, if not otherwise stated)

RISK MANAGEMENT

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 Group's annual financial statements as at 31 December 2017.

There have been no major changes in the risk management or in any risk management policies since the year end.

(all amounts are in EUR thousand, if not otherwise stated)

OTHER NOTES TO THE FINANCIAL STATEMENTS

G1. PROVISIONS EXPENSES

	2018	
	2nd quarter	**1st Half**
Comitments and guaranties given	(944)	(298)
Total	**(944)**	**(298)**

G2. CREDIT LOSSES

	2018	
	2nd quarter	**1st Half**
The year's provision for loans	(11 560)	(30 892)
Reversal of previous provisions for loans	22 609	34 385
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	2 548	4 461
Modification gains or (-) losses, net	132	109
Impairment on non financial assets	(61)	(877)
Total	**13 668**	**7 186**

G3. CASH AND BALANCES WITH CENTRAL BANKS

	30 06 2018	**31 12 2017**
Cash	182 188	178 147
Balances in Central Banks in EUR	2 122 951	2 442 691
Balances in Central Banks in other currencies	-	-
Total	**2 122 951**	**2 442 691**
Total cash and balances with central banks	**2 305 139**	**2 620 838**

G4. LOANS TO CREDIT INSTITUITONS

	30 06 2018	**31 12 2017**
Loans in EUR	53 250	251 085
Loans in other currency	96 780	158 421
Total	**150 030**	**409 506**

(all amounts are in EUR thousand, if not otherwise stated)

G5. LOANS TO THE PUBLIC	30 06 2018	31 12 2017
Households	6 025 723	6 010 024
Public authorities, governmental and municipal operations	250 634	291 313
Corporate customers	5 633 534	5 564 779
Other financial corporations	50 991	86 769
Total	**11 960 882**	**11 952 885**
Provision for probable loan losses	(243 606)	(306 345)
Total loans to the public	**11 717 276**	**11 646 540**

G6. DUE TO CREDIT INSTITUTIONS	30 06 2018	31 12 2017
Due in EUR	4 373 950	4 695 010
Due in other currency	14 070	66 233
Total	**4.388.020**	**4 761 243**

G7. DEPOSITS AND BORROWING FROM THE PUBLIC	30 06 2018	31 12 2017
Households	3 399 815	3 394 716
Public authorities, governmental and municipal operations	1 142 903	1 049 587
Corporate customers	3 410 378	3 665 302
Other financial corporations	278 458	320 191
Total	**8 231 554**	**8 429 796**

G8. PROVISIONS	Loan commitments and guarantee commitments	Legal disputes	Restructuring	Other	Total
31 December 2017	757	123	1 000	266	2 146
Changes on initial application of IFRS 9	3 236	-	-	-	3 236
Provisions during the year	1 456	-	167	-	1 623
Utilised	(259)	-	(883)	(37)	(1 179)
Written back	(869)	-	-	-	(869)
30 June 2018					
Total	**4 321**	**123**	**284**	**229**	**4 957**

(all amounts are in EUR thousand, if not otherwise stated)

G9. PLEDGED ASSETS AND CONTINGENT LIABILITIES

Pledged assets	**30 06 2018**	**31 12 2017**
Loans granted to governmental institutions	210 926	187 737
Debt securities	102 100	237 017
Total	**313 026**	**424 754**

Contingent liabilities		
Loan commitments given	1 301 315	1 498 877
Financial guarantees given	282 633	239 505
Other Commitments given	447 230	505 411
Total	**2 031 178**	**2 243 793**

As at 30 June 2018, Funds of Central Bank (EUR 211 559 thousand) contains proceeds from ECB under targeted longer-term refinancing operations (TLTROs). The carrying amount of pledged assets under this agreement amounted to EUR 313 025 thousand (EUR 133 627 thousand loans granted to governmental institutions, EUR 77 298 debt sercurities issued by general government, EUR 102 100 thousand acquired central government bonds).

(all amounts are in EUR thousand, if not otherwise stated)

G10. CLASSIFICATION OF FINANCIAL INSTRUMENTS

Classification of financial instruments as at 30 June 2018 was as follows:

	At fair value through profit/loss							
	Trading	**Other**	**Investments held to maturity**	**Financial assets at amortised cost**	**Financial assets at fair value through other comprehensive income**	**Financial liabilities measured at amortised cost**	**Non-financial assets and liabilities**	**Total carrying amount**
Assets								
Cash and balances with Central Banks	-	-	-	2 305 139	-	-	-	2 305 139
Interest-bearing securities eligible as collateral with Central Banks	6 118	129 449	-	-	1 266	-	-	136 833
Loans to credit institutions	-	-	-	150 030	-	-	-	150 030
Loans to public	-	-	-	11 717 276	-	-	-	11 717 276
Bonds and other interest-bearing securities	-	-	-	31 095	-	-	-	31 095
Equity instruments	-	4 551	-	-	6 519	-	-	11 070
Investments in associates	-	-	-	6 503	-	-	-	6 503
Derivative instruments	45 302	-	-	-	-	-	-	45 302
Investment properties	-	-	-	-	-	-	42 026	42 026
Other assets	-	-	-	-	-	-	113 373	113 373
Total financial assets	**51 420**	**134 000**	**-**	**14 210 043**	**7 785**	**-**	**155 399**	**14 558 647**
Liabilities								
Due to credit institutions	-	-	-	-	-	4 388 020	-	4 388 020
Deposits and borrowing from the public	-	-	-	-	-	8 231 554	-	8 231 554
Debt securities issued	-	-	-	-	-	65 113	-	65 113
Derivative instruments	33 856	-	-	-	-	-	-	33 856
Current tax liabilities	-	-	-	-	-	-	393	393
Other liabilities	-	-	-	-	-	37 558	58 423	95 981
Total financial liabilities	**33 856**	**-**	**-**	**-**	**-**	**12 722 245**	**58 816**	**12 814 917**

(all amounts are in EUR thousand, if not otherwise stated)

G10. CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

Classification of financial instruments as at 31 December 2017 was as follows:

	At fair value through profit/loss		Investments held to maturity	Loans and receivables	Financial assets available for sale	Financial liabilities measured at amortised cost	Non-financial assets and liabilities	Total carrying amount
	Trading	Other						
Assets								
Cash and balances with Central Banks	-	-	-	2 620 838	-	-	-	2 620 838
Interest-bearing securities eligible as collateral with Central Banks	2 325	161 877	-	-	-	-	-	164 202
Loans to credit institutions				409 506				409 506
Loans to public	-	-	-	11 646 540	-	-	-	11 646 540
Bonds and other interest-bearing securities	-	-	1 513	32 844	-	-	-	34 357
Equity instruments	-	4 544	-	-	5 812	-	-	10 356
Investments in associates	-	-	-	6 110	-	-	-	6 110
Derivative instruments	27 753	-	-	-	-	-	-	27 753
Investment properties	-	-	-	-	-	-	51 283	51 283
Other assets	-	-	-	-	-	-	123 082	123 082
Total financial assets	**30 078**	**166 421**	**1 513**	**14 715 838**	**5 812**	**-**	**174 365**	**15 094 027**
Liabilities								
Due to credit institutions	-	-	-	-	-	4 761 243	-	4 761 243
Deposits and borrowing from the public	-	-	-	-	-	8 429 796	-	8 429 796
Debt securities issued						65 007		65 007
Derivative instruments	33 173	-	-	-	-	-	-	33 173
Current tax liabilities	-	-	-	-	-	-	3 288	3 288
Other liabilities	-	-	-	-	-	31 421	55 857	87 278
Total financial liabilities	**33 173**	**-**	**-**	**-**	**-**	**13 287 467**	**59 145**	**13 379 785**

(all amounts are in EUR thousand, if not otherwise stated)

G11. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value measurement of financial instruments as at 30 June 2018 was as follows:

	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Derivative instruments	-	45 302	-	45 302
Debt securities	6 118	-	-	6 118
Total	**6 118**	**45 302**	**-**	**51 420**
Financial assets designated at fair value through profit or loss				
Debt securities	75 153	54 296	-	129 449
Total	**75 153**	**54 296**	**-**	**129 449**
Non-trading financial assets mandatorily at fair value through profit or loss				
Other equity instruments	-	4 551	-	4 551
Total	**-**	**4 551**	**-**	**4 551**
Financial assets at fair value through other comprehensive income				
Debt securities	1 266	-	-	1 266
Shares	-	-	5 812	5 812
Total	**1 266**	**-**	**5 812**	**7 078**

(all amounts are in EUR thousand, if not otherwise stated)

G 11. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

Fair value measurement of financial instruments as at 31 December 2017 was as follows:

	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Derivative instruments	-	27 753	-	27 753
Debt securities	2 325	-	-	2 325
Total	**2 325**	**27 753**	-	**30 078**
Financial assets designated at fair value through profit or loss				
Other equity instruments	-	4 526	18	4 544
Debt securities	85 568	76 309	-	161 877
Total	**85 568**	**80 835**	**18**	**166 421**
Financial assets available for sale				
Shares	-	-	5 812	5 812
Total	**-**	**-**	**5 812**	**5 812**

Level 1
Financial assets and financial liabilities, whose value is based solely on a quoted price from an active market for identical assets or liabilities. This category includes treasury bills, shareholdings and deposits.
Level 2
Financial assets and financial liabilities valued using valuation models principally based on observable market data. Instruments in this category are valued applying:
a) Quoted prices for similar assets or liabilities, or identical assets or liabilities from markets not deemed to be active; or
b) Valuation models based primarily on observable market data
Level 3
Financial assets and financial liabilities valued through the use of valuation models that are primarily based on non-observable data.

Principles for information about the fair values of financial instruments which are carried at amortised cost
For assets and liabilities not carried at fair value book value is estimated to be a reasonable approximation of fair value.
Change in financial instruments in level 3

2017	Shares
Acquisitions	3 304
Carrying amount at end of year	**3 304**

(all amounts are in EUR thousand, if not otherwise stated)

G12. RESERVES

	30 06 2018
Mandatory reserve	18 423
Fair value changes of assets at fair value through other comprehensive income	2 197
Other reserves	234
Total	**20 854**

Mandatory reserve contains compulsory allocations according national laws on Banks. Other reserves contain fixed assets revaluation reserve which relates to the revaluation of tangible fixed assets.

G13. RELATED PARTY DISCLOSURES

	Ultimate companies	Ultimate companies
Claims and liabilities	**30 06 2018**	**31 12 2017**
Loans to credit institutions	117 153	386 057
Loans to the public	79 857	12
Derivative instruments	35 258	16 094
Other assets	3 548	224
Total	**235 816**	**402 387**
Due to credit institutions	4 151 359	4 281 983
Deposits and borrowing from the public	10	2 658
Derivative instruments	7 485	15 144
Other liabilities	6 746	1 855
Total	**4 165 600**	**4 301 640**

	30 06 2018
Income and expenses	
Interest income	5 470
Interest expenses	(5 003)
Net commision and fee income	(26)
Other income	15 918
Other expenses	(11 619)
Total	**4 740**

(all amounts are in EUR thousand, if not otherwise stated)

Parent Company Notes

P1. NET SALES

Net sales are made up entirely of internal Group invoicing, referring to administrative services.

	2018		2017	
P2. OTHER EXTERNAL EXPENSES	**Q2**	**1st Half**	**Q2**	**1st Half**
Consultancy costs	(1 038)	(1 102)	(3 058)	(4 176)
Other	(89)	(204)	(254)	(431)
Total	**(1 127)**	**(1 306)**	**(3 312)**	**(4 607)**

These Financial Statements were signed on 22 August 2018:

Nils Melngailis
Chairman of the Board

Topi Manner
Board member

Bjorn Erik Naes
Board member

Trygve Young
Board member

Jorgen Christian Andersen
Board member

Erkki Raasuke
CEO