Luminor Group AB

Interim Consolidated Administration Report,
Interim Condensed Financial Information
for the Period ended 30 September 2018

Luminor

TABLE OF CONTENTS

Luminor

LUMINOR GROUP AB CONSOLIDATED ADMINISTRATION REPORT

Introduction

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 AS (Estonia), Luminor Bank AS (Latvia) and Luminor Bank AB (Lithuania). Luminor Group AB, commercial register number is 559072-8316, with headquarters in Stockholm.

Luminor group was established on 1 October 2017 throu the merger of DNB Bank ASA (Commercial Register no. 984 851 006) and Nordea Bank AB (currently Nordea Bank Abp, as after 1 October 2018 Nordea is domiciled in Finland, following the execution of the cross-border reversed merger between Nordea Bank AB (publ) and Nordea Bank Abp, registration no. 2858394-9) Baltic operations to create a new-generation financial service provider for local Baltic businesses and financially active people.

Luminor is the third-largest player financial services provider in the Baltics, with ca. 1,1 million clients, ca. 3,000 employees, 16% market share in deposits and 22% market share in lending. It is capitalised at 17.3% Common Equity Tier 1 capital in the amount of 1.8 billion euro. Luminor's vision is to become the best financial ecosystem for its customers.

Macroeconomic overview

Risks are growing, that growth of global economy will plateau next year, or might even slow marginally with less synchronized growth amplified by emerging market (EM) vows. Growth risks are heightened not least by ongoing trade tensions, geopolitical risks and tightening of global monetary conditions. Expectedly some loss of momentum, albeit from a brisk level, has already materialised in manufacturing, where slowing global trade and some temporary factors have weighed on growth. In particular, there has been some moderation of economic activity in Euro area, the key destination of exports for the Baltic economies. Some softening of growth from exceptionally brisk pace seen in the second half of last year was largely expected. Euro-area GDP decelerated from 2.4% y/y in Q1 18 (0.4% q/q) to 2.1% y/y (0.4% q/q). This reflected predominantly weaker impetus from external trade, increasing uncertainty, as well as a number of temporary demand (incl. weather-related) and supply-side factors including gradually rising capacity constraints plus temporary difficulties in the auto industry (in adapting to new emission-test procedures in Q3). Overall, the broad-based growth trend remains intact and is expected to continue with ongoing recovery in labour markets and initial signs for pick-up in wage growth.

Investments into new growth are increasingly crucial for sustaining the speed of recovery in Euro area, including the Baltic countries. During the summer months the threat from rising oil prices, EM vulnerabilities and trade tensions have on balance increased. Despite a solid underlying demand trend, this may weigh on export confidence, orders and could potentially dampen investments appetite. So far we have realized only marginally softer business confidence with limited impact on consumer expectations. The Baltic open economies will continue to benefit from an ongoing expansion in global trade and economy, which is subject to the above new risks, and continue to enjoy above-potential growth in the key export market, the Euro area.

Operations – main activities

The strategic priorities of Luminor group have been defined as follows:

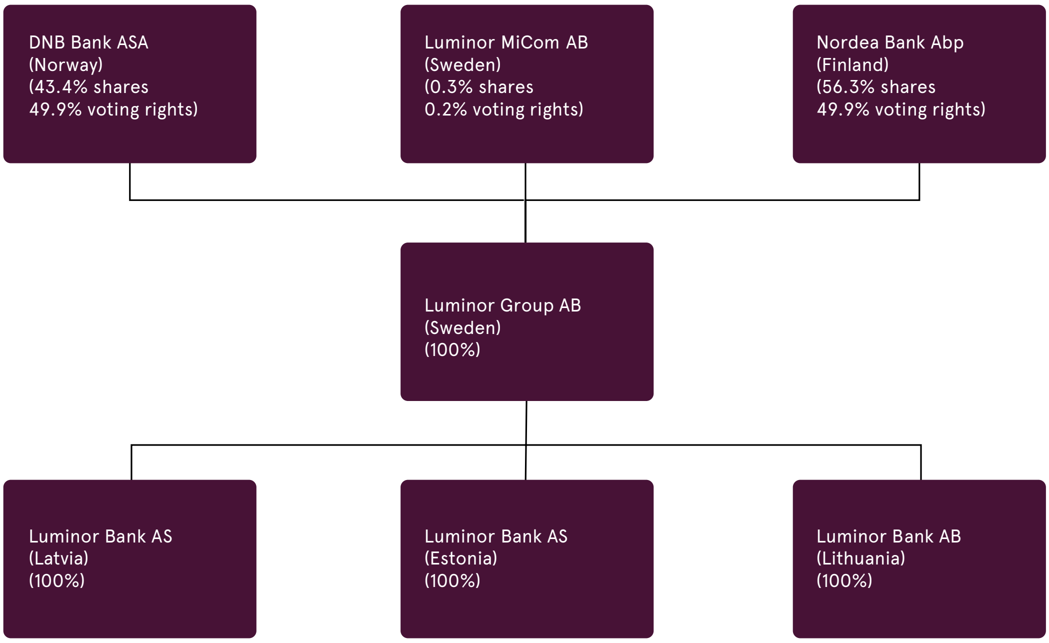
- Creation of a leading customer centric, primary Baltic bank with Nordic roots: Achieve service excellence and implement operational excellence;
- Operational and funding independence over time: IT separation and consolidation, set-up of required group functions and drive balance sheet efficiencies; and
- Profitability: Achieve a sustainable return on equity in line with the company's cost of equity.

The Luminor Group AB Board of Directors takes strategic decisions, overviews risks' management and compliance with the laws within the Group.

The Luminor Group AB Board of Directors exercises the rights of the shareholders of each of the banks in Lithuania, Latvia and Estonia. According to the Articles of Association of the Luminor Group AB, the Luminor Group AB Board is composed of 1-8 directors and up to 6 deputy directors, elected and discharged by the Shareholders Meeting of Luminor Group AB. Currently the Luminor Group AB Board has 5 members. The Shareholders Meeting also has the right to appoint and discharge a managing director (CEO).

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 Group and each fiscal year approves an update of the short-term financial plan for the Group. 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 are held at least quarterly.

Group structure



Luminor banks in Latvia, Lithuania and Estonia each owns several subsidiaries and other shareholdings, including, among others, regulated subsidiaries like pension fund management companies, an insurance broker company (in Estonia) and leasing companies, as well as special purpose vehicles owning repossessed assets and a real estate broker company (in Lithuania).

The legal structure and management of the Luminor Group is scheduled to change upon completion of cross-border merger, where Luminor Bank in Lithuania and Luminor Bank in Latvia will be merged into Luminor Bank Estonia (surviving entity). 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.

Nordea Bank Abp and DNB Bank ASA are ultimate owners of holding company Luminor Group AB. Nordea Bank Abp and DNB Bank ASA have equal voting rights in Luminor Group. Nordea Bank Abp 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 markets (Denmark, Finland, Norway and Sweden) measured by total income, with additional operations in Russia and Luxembourg, and branches in a number of other international locations. Nordea Group offers a comprehensive range of banking and financial products and services to household and corporate customers, including financial institutions. Nordea Bank Abp (Finnish registration number 2858394-9) has a credit rating (Fitch AA-, Moody's Aa3).

During Q3 2018 Luminor group continued to focus on the following initiatives as its main priority areas: oversee banks' direction, results, risk management, IT development activities, including planning new digital platforms and new offerings to the target customers, migration plans.

Anti-money laundering related matters

At Luminor, we have zero tolerance towards money laundering and other financial crime risk. Luminor has developed and implemented a comprehensive set of measures to identify, manage and control its risks. We comply with sanctions laws and follow the guidelines, recommendations and standards issued by local regulatory and supervisory authorities and relevant international organizations, as well as those issued by local banking associations and financial intelligence units in each Baltic state.

Our Compliance and Anti-Money Laundering (AML) functions are operating at the pan-Baltic level, having competence centres and highly experienced professionals in the following areas: data protection, AML/ Certified Fraud Examiners (CFT), FATCA, IT compliance and digital channels, business integrity, bank products & new product development. Luminor's AML, Compliance and Anti-Financial Crime units employs over 100 professionals, maintaining a robust compliance framework and processes through the organization.

Significant events during 9 months

During first 9 months 2018 Luminor group continued with cross-border merger activities. The merger agreement (merger terms) of the merging companies was signed on 29 March 2018 in Tallinn, Estonia. In May 2018 Luminor received a confirmation from the European Central Bank that the branches in Latvia and Lithuania could be established and commence operations. On 28 June 2018 Luminor received a regulatory approval from the European Central Bank to carry out the cross-border merger. In July 2018 the branches in Lithuania and Latvia were established and branch managers appointed, which will stay non-operating till merger takes effect. The merger is expected to take place on 2 January 2019.

On 13 September 2018 an agreement was signed between DNB Bank ASA, Nordea Bank AB and Luminor Group AB with US based private equity firm Blackstone to sell majority stake in Luminor Bank AS (Estonia). As a part of the transaction, Blackstone will acquire a 60% majority stake in the bank. Nordea and DNB through Luminor Group AB will retain an equal 20% equity stake in Luminor and will continue to support Luminor group with long term funding, expertise and ongoing representation in the governing bodies of Luminor. Additionally, Blackstone has entered into an agreement with Nordea to purchase their remaining 20% stake over the coming years. The closing of the transaction is subject to European Central Bank's and local supervisory authorities' approvals and is anticipated to occur in the first half of 2019.

This transaction represents the largest majority stake acquisition of a universal bank by private equity in the last decade globally, and one of the largest M&A transactions in the Baltic history.

Luminor Bank Estonia has recently established Euro Medium Term Note (EMTN) programme, which enables Luminor to issue bonds under standardized documentation. The programme has two purposes - to replace funding from the owner banks and to support and fund our customer business.

Under this programme, Luminor will be able to issue debt in different sizes and maturities going forward. On 10 October, Luminor issued a 350-million-euro senior unsecured inaugural public bond with a maturity of three years and coupon of 150 bps. The bond will be listed on the Irish stock exchange.

On 10 October, Moody´s Investor Service assigned to Luminor Bank AS (Estonia) senior unsecured MTN rating of Baa2 which followed the issuance of senior debt within the scope of provisionally rated senior unsecured EMTN program carrying a long-term rating of (P) Baa2. The rationale for the senior unsecured EMTN program rating is explained in the Moody´s Investor Service rating action released on 13 September 2018.

Financial Results

Luminor Group started banking operations in the 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 the results of the holding company Luminor Group AB (Sweden) are included.

During the reporting period, Luminor Group was focussing on continuing the delivery of high quality customer service, integrating operations, building efficiencies across Baltics and implementing major change and transformation programmes.

Net profit earned in Q3 2018 was 45.1 million euro, which was 1.8 million euro less than Q2 2018 mainly due to reversals of impairment losses on loans, which increased the profit in Q2 2018. Net interest income increased 3.6% driven by higher net interest margin. Net commission income increased 1.0%. Cost/Income ratio improved from 60.1% Q2 2018 to 53.4% Q3 2018.

KEY FIGURES*

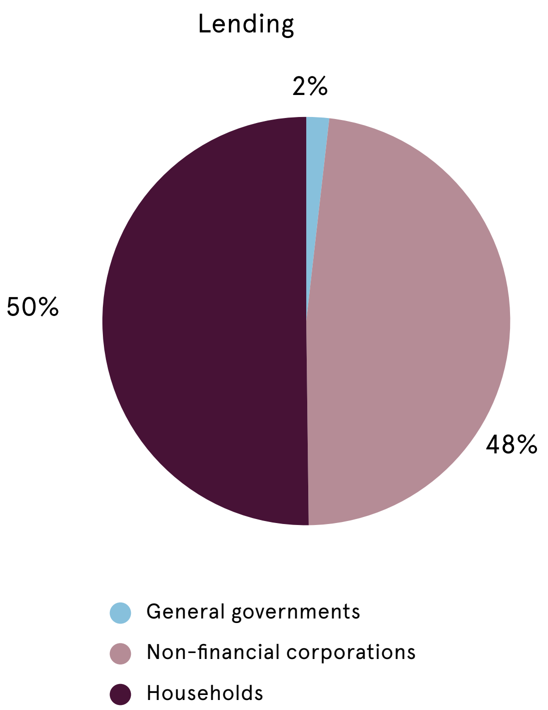
T EUR	Jan-Sep 2018	Q3 2018
Net profit	**120 907**	45 133
Average equity	**1 751 694**	1 766 439
Return on equity (ROE), %	**9.2%**	10.2%
Average assets	**14 905 355**	14 637 665
Return on assets (ROA), %	**1.1%**	1.2%
Net interest income	**200 901**	68 253
AVERAGE INTEREST EARNING ASSETS	**14 514 836**	14 245 136
Net interest margin (NIM), %	**1.8%**	1.9%
Cost / Income ratio (C/I), %	**58.2%**	53.4%

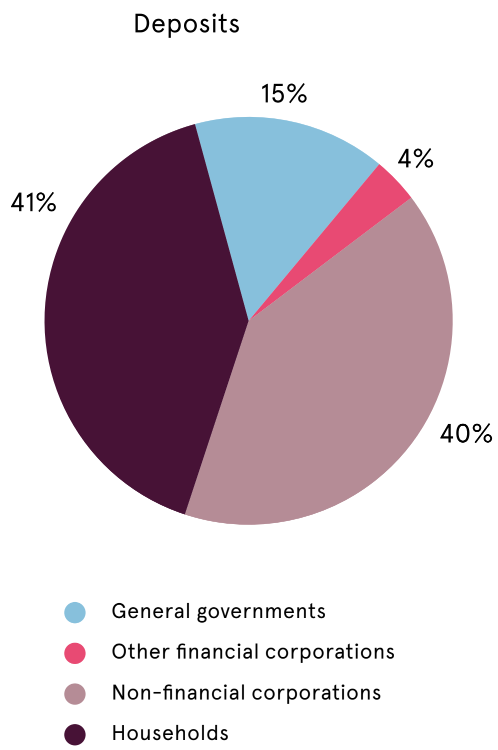
* Quarterly ratios and Jan-Sept 2018 ratios (ROE, ROA, NIM, C/I) have been expressed on an annualized basis

Explanations:

Average equity = (equity at end of reporting period + equity at end of previous period) / 2
Return on equity (ROE) = Net profit / Average equity * 100%
Average assets = (assets at end of reporting period + assets at end of previous period) / 2
Return on assets (ROA) = Net profit / Assets, average * 100
Average interest earning assets = (interest-earning assets at end of reporting period + interest-earning assets at end of previous period) / 2
Net interest margin (NIM) = Net interest income / Interest earning assets, average * 100
Cost / Income ratio = Total operating expenses / Total net income * 100

Loans to customers stood at 11.8 billion euro at 30 September 2018 increasing by 0.9% compared to 30 June 2018. Loans to non-financial corporate customers comprised 48% and loans to households 50% of the credit portfolio of Luminor. The market share of Luminor's loans in Baltics was approximately 22%.





Deposits from customers totalled 8.5 billion euro at 30 September 2018, increasing 3.3% from 30 June 2018. Deposits from non-financial corporate clients comprised 40% and deposits from households 41% of the customer deposit portfolio of Luminor. The market share of Luminor's deposits in Baltics was approximately 16%. The loan-to-deposit ratio was 139% at 30 September 2018 compared to 142% at 30 June 2018. Total equity at the end of September 2018 stood at 1.79 billion euro, increasing by 2.6% during

Q3 2018 due to profit for the period.

All the regulatory ratios are observed with healthy buffers. Capital adequacy ratio at the end of September 2018 stood at 17.3% and liquidity coverage ratio (LCR) was 130.4%.

ASSET QUALITY OF LOANS TO CUSTOMERS AS AT 30 SEPTEMBER 2018

As at the end of September 2018, the loss allowances for Luminor Group AB credit portfolio made 229 million euro or 1.9%. The loss allowances amount covers 12-month Expected Credit Loss (ECL) for Stage 1 financial assets and lifetime Expected Credit Loss (ECL) for Stage 2 and Stage 3 financial assets. Gross Impaired Loans mean Stage 3 financial assets. The total allowances level on the impaired loans was 33.4% being higher for Household than for Non-financial corporations mainly due to the mortgage loans maturity impact on lifetime ECL.

Asset quality of Luminor Group AB as of Q3 2018

T EUR	Household	Non-financial corporations	Other financial corporations	General governments	Total*
Gross Loans	6 010 876	5 780 043	48 217	212 448	12 051 584
Allowances	(101 431)	(126 833)	(836)	(9)	(229 109)
Net Loans	5 909 445	5 653 210	47 381	212 439	11 822 475
Gross Impaired Loans	244 858	440 613	12	32	685 515
Impairment ratio %	1.69%	2.19%	1.73%	0.00%	1.90%
Gross impaired Loans vs Gross Loans (NPL ratio) %	4.07%	7.62%	0.02%	0.02%	5.69%
Allowances vs Gross impaired Loans %	41.42%	28.79%	6966.67%	28.13%	33.42%

*excluding Loans to Credit Institutions

Explanations:

Impairment ratio % = Allowances / Gross Loans

Gross impaired loans vs Gross Loans (NPL ratio) % = Gross impaired Loans / Gross Loans

Allowances vs Impaired Loans = Allowances(Provisions)/ Gross Impaired Loans

NPL ratios by segments, Luminor group entities as of Q3 2018

Entity	Household	Non-financial corporations	Other financial corporations	General governments	Total*
Luminor Group AB	4.07%	7.62%	0.02%	0.02%	5.69%
Luminor Bank AS (Estonia)	1.69%	6.75%	0.03%	0.01%	4.27%
Luminor Bank AS (Latvia)	5.64%	10.33%	0.00%	0.00%	7.65%
Luminor Bank AB (Lithuania)	4.28%	6.41%	0.00%	0.02%	5.02%

*excluding Loans to Credit Institutions

NPL ratios split by segments, Luminor Group AB from Q4 2017 to Q3 2018

Period	Household	Non-financial corporations, other financial corporations and general governments	Total*	Coverage ratio**
Q3 2018	2.0%	3.7%	5.7%	27.20%
Q2 2018	2.1%	4.0%	6.1%	27.50%
Q1 2018	2.2%	5.0%	7.2%	29.00%
Q4 2017	1.4%	4.0%	5.4%	N/A

*excluding Loans to Credit Institutions
** Coverage ratio = Allowances for impairment (Stage 3) / Gross loans individually determined to be impaired

NPL ratios, Luminor group entities from Q4 2017 to Q3 2018*

Entity	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Luminor Group AB	5.7%	6.1%	7.2%	5.4%
Luminor Bank AS (Estonia)	1.2%	1.2%	1.4%	1.0%
Luminor Bank AS (Latvia)	2.3%	2.5%	3.1%	2.4%
Luminor Bank AS (Lithuania)	2.2%	2.4%	2.7%	2.0%

*excluding Loans to Credit Institutions

Lending to non-financial corporations by 10 largest industries as of Q3 2018**

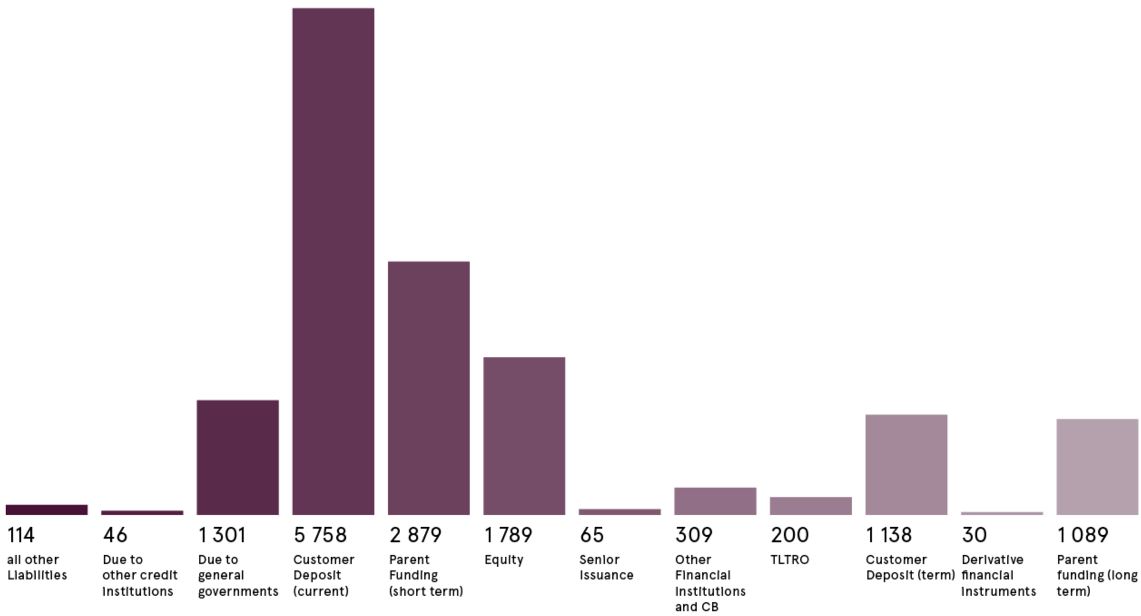
T EUR	Non-financial corporations	%	of which NPL	%	Allowances	Allowances/NPL
Wholesale and retail trade	1 216 131	21%	30 114	2%	(14 310)	(48%)
Real estate activities	1 107 895	19%	171 943	16%	(43 229)	(25%)
Manufacturing	798 382	14%	53 835	7%	(6 922)	(13%)
Transport and storage	540 641	9%	20 457	4%	(10 462)	(51%)
Agriculture, forestry and fishing	406 841	7%	26 451	7%	(6 383)	(24%)
Other services	356 998	6%	10 662	3%	(6 616)	(62%)
Construction	310 186	5%	51 096	16%	(19 083)	(37%)
Administrative and support service activities	278 737	5%	5 241	2%	(1 873)	(36%)
Professional, scientific and technical activities	239 431	4%	50 053	21%	(11 121)	(22%)
Electricity, gas, steam and air conditioning supply	211 363	4%	6 204	3%	(1 362)	(22%)

** The breakdown represents of 10 largest industries of lending to non-financial corporations, classified by NACE classification codes

FUNDING

Luminor Group has a strong and prudent liquidity risk profile. The funding base consists of large deposit base, issued debt securities, TLTRO and funding from parent banks, among other items. The funding base is mainly euro-denominated.

At the end of Q3 2018, Luminor had utilised 3.97 billion euro in funding from the parent banks.



Utilized parent funding is provided by the two parent banks in the form of a syndicate, where each parent bank provides 50%. In addition to the current outstanding utilized funding, there is also a committed credit line of 0.92 billion euro in place (not utilized at present) as of Q3 2018.

Luminor is aiming to diversify the funding base and reduce the reliance on the funding from parents with issuances of wholesale funding in different forms and attracting more customer deposits.

Rating

On 13 September 2018, Moody's assigned first-time deposit ratings to Luminor Bank AS (Estonia) with a stable outlook on long-term deposit ratings. On 11 October 2018, Moody's confirmed a local currency long-term senior unsecured debt rating of Baa2 to Luminor Bank AS (Estonia).

The ratings assigned to Luminor Bank AS (Estonia) reflect the forward-looking assessment of the group's operations as a whole, taking into account the effects of the future ownership change and merger, which are expected to legally consolidate Luminor Bank AS (Latvia) and Luminor Bank AB (Lithuania), which will be branches of Luminor Bank AS (Estonia) starting from 2 January 2019.

LIQUIDITY

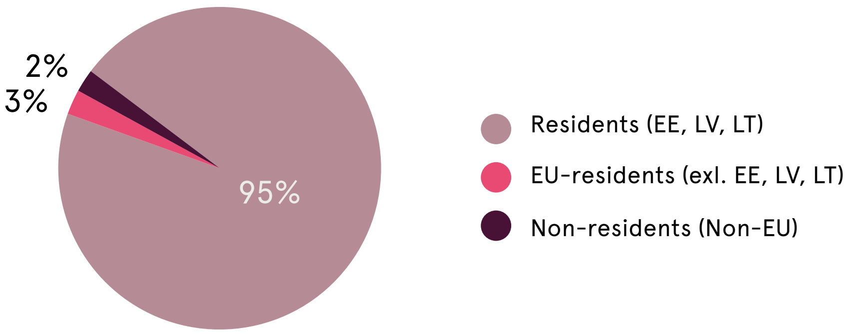
The LCR (liquidity coverage ratio) for Luminor Group was 130.4% at the end of Q3 2018, according to the Delegated Act's (EU) 2015/61 LCR definition. Luminor has reduced the LCR ratio during 2018 via active liquidity risk management. The liquidity buffer is composed of highly liquid central bank eligible securities and deposits with the central bank. The buffer amounted to 2.29 billion euro at the end of the Q3 2018. (Q2 2018 2.26 billion euro)

At the end of Q3 2018, Luminor Group's NSFR (net stable funding ratio) stood at 106.4% (Q2 2018 114.0%).

Ratio	30 September 2018	30 June 2018	30 March 2018	31 December 2017
LCR	130.4%	131.1%	140.7%	157.3%
NSFR**	106.4%	114.0%	108.0%	119.0%

**mortgages that would qualify for 35% or lower risk weight are calculated with 85% RSF factor.

Deposit structure



Deposits from customers are mainly from Baltics residents. In total, 98% of all deposits from household and non-financial corporates are from EU residents.

Capital

Luminor Group's capital adequacy ratio was 17.25% by 30 September 2018 (31 December 2017: 17.84%), which is well above the internal target of 17.0%. The capital adequacy of Luminor Group is fully covered by CET1 capital.

Capital ratios

Ratio	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Capital adequacy	17.25%	17.58%	17.60%	17.84%
Leverage Ratio	10.68%	10.84%	10.66%	10.52%
CET 1 Ratio	17.25%	17.58%	17.60%	17.83%
T1 Capital Ratio	17.25%	17.58%	17.60%	17.83%
Total Capital Ratio	17.25%	17.58%	17.60%	17.84%

CONDENSED CONSOLIDATED INCOME STATEMENT

T EUR	Note	2018 3rd Q	2017 3rd Q	2018 30 September	2017 30 September
Interest income		77 694	-	228 807	-
Interest expenses		(9 441)	-	(27 906)	-
Net interest income		**68 253**	**-**	**200 901**	-
Fee and commission income		27 833	-	81 821	-
Fee and commission expenses		(6 499)	-	(19 106)	-
Net fee and commission income		**21 334**	**-**	**62 715**	**-**
Gain or losses on financial assets and liabilities designated at fair value through profit/loss, net		(47)	-	(281)	-
Gain or losses on financial assets and liabilities held for trading, net		3 669	-	10 265	-
Gain or losses on exchange rate differences		2 907	-	5 355	-
Dividend income		11	-	62	-
Other operating income		(59)	4	2 587	4
Other operating expenses		(3 634)	-	(8 083)	-
Total operating income		**92 434**	**-**	**273 521**	**4**
General administration expenses		(46 061)	(2 879)	(151 555)	(7 688)
Depreciation, amortization		(1 939)	-	(5 870)	-
Provisions	G1	(1 384)	-	(1 682)	-
Total expenses before credit losses		**(49 384)**	**(2 875)**	**(159 107)**	**(7 688)**
Share of profit of an associate, profit noncurrent assets held for sale		191	-	584	-
Profit before credit losses		**43 241**	**(2 875)**	**114 998**	**(7 684)**
Impairment of financial assets	G2	2 608	-	6 210	-
Gain or losses on derecognition of financial assets and liabilities	G2	2 432	-	6 893	-
Impairment on other assets	G2	83	-	(794)	-
Total credit losses and other impairment	**G2**	5 123	-	12 309	-
Operating profit		**48 364**	**(2 875)**	**127 307**	**(7 684)-**
Tax on profit for the year		(3 231)	-	(6 400)	-
Profit (loss) for the year		**45 133**	**(2 875)**	**120 907**	**(7 684)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

T EUR	Note	2018 3rd Q	2017 3rd Q	2018 30 September	2017 30 September
Profit (loss) for the year		**45 133**	**(2 875)**	**120 907**	**(7 684)**
Items that will not be reclassified to the income statement					
Changes in the fair value of assets at fair value through other comprehensive income		284	-	804	-
Total items that will not be reclassified to the income statement					
Items that will be reclassified to the income statement					
Changes in the fair value of assets at fair value through other comprehensive income		-	-	(3)	-
Total Items that will be reclassified to the income statement		-	-	(3)	-
Changes in comprehensive income after tax		284	-	801	-
Comprehensive income after tax		**45 417**	**(2 875)**	**121 708**	**(7 684)**

CONDENSED CONSOLIDATED BALANCE SHEET

T EUR Assets	Note	30 September 2018	31 December 2017
Assets			
Cash and balances with central banks	G3	2 329 743	2 620 838
Interest-bearing securities eligible as collateral with central banks		137 743	164 202
Loans to credit institutions	G4	194 592	409 506
Loans to the public	G5	11 824 362	11 646 540
Bonds and other interest-bearing securities		29 230	34 357
Equity instruments		6 834	5 830
Investments in managed pension funds		4 623	4 526
Investments in associates		6 053	6 110
Derivative instruments		38 805	27 753
Intangible assets		10 116	9 257
Tangible assets		38 399	40 482
Investment properties		33 057	51 283
Current tax assets		-	90
Deferred tax assets		1 005	1 350
Other assets		42 591	59 545
Prepaid expense and accrued income		19 530	12 358
Total assets		**14 716 683**	**15 094 027**
Liabilities			
Due to credit institutions	G6	4 213 129	4 761 243
Deposits and borrowing from the public	G7	8 505 854	8 429 796
Debt securities issued		65 167	65 007
Derivative instruments		29 776	33 173
Current tax liabilities		16	3 288
Provisions	G8	5 764	2 146
Other liabilities		59 307	53 035
Accrued expenses and deferred income		48 523	32 097
Total liabilities		**12 927 536**	**13 379 785**
Equity			
Share capital		10 000	10 000
Share premium reserve		1 645 099	1 645 099
Reserves	G12	21 138	16 412
Retained earnings		(7 997)	48 401
Profit (loss) for the year		120 907	(5 670)
Total equity		**1 789 147**	**1 714 241**
Total liabilities and equity		**14 716 683**	**15 094 027**

CONDENSED CONSOLIDATED CHANGES IN SHAREHOLDERS' EQUITY

T EUR	Share capital	Share premium reserve	Other reserves	Retained earnings	Total equity
Equity carried forward January 1, 2017	**6**	**10 000**	**-**	**(588)**	**9 418**
Profit (loss) for the period	-	-	-	(7 684)	**(7 684)**
Other comprehensive income for the period	-	-	-	-	**-**
Total comprehensive income for the period	-	-	-	**(7 684)**	**(7 684)**
Equity carried forward September 30, 2017	**6**	**10 000**	**-**	**(8 272)**	**1 734**
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	-	-	-	120 907	120 907
Other comprehensive income	-	-	801	-	801
Total comprehensive income for the year	-	-	**801**	**120 907**	**121 708**
Transfer to mandatory reserve	-	-	3 925	(3 925)	-
Equity carried forward September 30, 2018	**10 000**	**1 645 099**	**21 138**	**112 910**	**1 789 147**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Indirect method

T EUR	30 September 2018	30 September 2017
Operations activities		
Operating profit	127 307	(7 657)
Adjustment for non-cash items in profit/loss		
-Credit losses	(5 952)	-
-Gains or (-)losses on derecognition of financial assets and liabilities	(6 893)	-
-Provision	1 682	-
-Impairment on other	794	-
-Dividend received	(62)	-
-Unrealised changes in value	(5 355)	(27)
-Depreciation, amortisation and impairment	5 870	-
-Gains or (-) losses from investment property, derivative revaluation	(4 496)	-
Paid income tax	(6 400)	-
Cash flow before from current operations before changes in working capital	**106 495**	**(7 684)**
Cash flow from changes in working capital		
Increase (-) / decrease (+) of lending to the public	(224 624)	-
Increase (-) / decrease (+) of other assets	9 782	4 514
Increase (+) / decrease (-) of deposits and borrowing from the public	(472 056)	-
Increase (+) / decrease (-) of liabilities	36 316	809 418
Cash flow form current operations	**(660 582)**	**813 932**
Investing activities		
Acquisition of property and equipment	(1 746)	-
Acquisition of intangible assets	(3 099)	-
Acquisition of investment property	(140)	-
Disposal of investment property	15 406	-
Disposals of property and equipment	1 858	-
Dividend received	62	-
Other cash receipts related to investing activities	4 083	-
Cash flow from investing activities	**16 424**	**-**
Financing activities		
Debt securities issued	(160)	-
Cash flow from financing activities	**(160)**	**-**
Exchange rate differences in cash and cash equivalents	5 355	-
Cash flow for the period	(532 468)	806 248
Cash and cash equivalents, January 1	3 194 546	5 006
Cash and cash equivalents, 30 September	**2 662 078**	**811 254**
Cash and cash equivalents include:		
Cash and balances in Central Banks	2 467 486	-
Loans to credit institutions	194 592	-

CONDENSED PARENT COMPANY'S INCOME STATEMENT

T EUR	Note	2018 3rd Q	2017 3rd Q	2018 30 September	2017 30 September
Net revenue	P1	–	4	2 544	4
Total operating income		**–**	**4**	**2 544**	**4**
Other external expenses	P2	(29)	(2 755)	(1 335)	(7 362)
Personnel expenses		(129)	(99)	(395)	(299)
Total operating expenses		**(158)**	**(2 854)**	**(1 730)**	**(7 661)**
Operating profit		**(158)**	**(2 850)**	**814**	**(7 657)**
Result from financial investments:					
Interest expenses and similar expense items		5	(25)	(21)	(27)
Profit (loss) from financial assets		**5**	**(25)**	**(21)**	**(27)**
Profit (loss) after financial items		**(153)**	**(2 875)**	**793**	**(7 684)**
Tax on profit for the year			–	–	–
Profit (loss) for the year / Comprehensive income after tax		**(153)**	**(2 875)**	**793**	**(7 684)**

CONDENSED PARENT COMPANY’S BALANCE SHEET

T EUR	Note	30 September 2018	31 December 2017
Assets			
Fixed assets			
Financial fixed assets			
Shares in Group companies		1 645 093	1 645 093
Current assets			
Other receivables		172	636
Prepaid expenses and accrued income		-	300
Cash and cash equivalents		2 018	854
Current assets, total		**2 190**	**1 790**
Total assets		**1 647 283**	**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		793	(9 664)
Equity, total		**1 646 228**	**1 645 435**
Liabilities			
Current liabilities			
Liabilities to Group companies		-	2
Other liabilities		983	456
Accrued expenses and deferred income		72	990
Total liabilities		**1 055**	**1 448**
Total equity and liabilities		**1 647 283**	**1 646 883**

CONDENSED PARENT COMPANY'S CHANGES IN SHAREHOLDERS' EQUITY

T EUR	Share capital	Other non-restricted reserves	Retained earnings	Profit for the year	Total equity
Equity carried forward January 1, 2017	**6**	**10 000**	**-**	**(588)**	**9 418**
Profit (loss) for the period	-	-	-	(7 684)	-
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**
Equity carried forward September 30, 2017	**6**	**10 000**		**(8 272)**	**(18 278)**
Equity carried forward January 1, 2018	**10 000**	**1 645 099**	**-**	**(9 664)**	**1 645 435**
Distribution of profits	-	-	(9 664)	9 664	-
Profit (loss) for the year	-	-	-	793	**793**
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**
Equity carried forward September 30, 2018	**10 000**	**1 645 099**	**(9 664)**	**793**	**1 646 228**

As at 30 September 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.

CONDENSED PARENT COMPANY'S CASH FLOW STATEMENT

Indirect method

T EUR	Note	30 September 2018	30 September 2017
Operations activities			
Operating profit		814	(7 657)
Unrealized part of financial items, net		(21)	(27)
Cash flow before from current operations before changes in working capital		**793**	**(7 684)**
Cash flow from changes in working capital			
Decrease (+) / increase (-) of other receivables		764	4 514
Increase (+) / decrease (-) of liabilities		(392)	809 418
Cash flow form current operations		**372**	**813 932**
Cash flow from investing activities		**-**	**-**
Cash flow from financing activities		**-**	**-**
Cash flow for the period		**1 165**	**806 248**
Cash and cash equivalents at period end		**2 018**	**811 254**

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

NOTES TO FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

Basis of preparation

The Parent standalone and the Group consolidated condensed interim financial information was prepared in accordance with IAS 34 Interim financial reporting as adopted by the EU. 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 does 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 for the estimation of income tax and new accounting standards which came into force from 1 January 2018 and are described below.

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year.

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 adoption 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 adjustment 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 the 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.

Upon 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.

ACCOUNTING PRINCIPLES (continued)

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.

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 (0.6 p.p. and 2.5 times) 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. 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 as at 1 January 2018.

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 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.

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:

T EUR 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 IFRS 9 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
Interest-bearing securities eligible as collateral with central banks	Fair value through profit or loss	Fair value through profit or loss/ Fair value through other comprehensive income	164 202	164 202
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss	27 753	27 753
Investments in managed pension funds	Financial assets at FVTPL	Financial assets at FVTPL	4 526	4 526
Equity instruments	Available for sale/ Financial assets at FVTPL	Fair value through other comprehensive income	5 830	5 830
Bonds and other interest-bearing securities	Loans and receivables/ Investments held to maturity	Amortised cost	34 357	34 357
Loans to public	Loans and receivables	Amortised cost	11 646 540	11 603 290

Debt securities held for liquidity purposes were designated to FVTPL (under fair value option) because of accounting mismatch. The Group and Bank buy derivatives (interest rate swaps) to economically hedge the risk of debt securities fair value. Derivatives are in the trading portfolio with the fair value changes through profit or loss, so to avoid or significantly reduce accounting mismatch, debt securities are designated at fair value using the fair value option (FVO).

There were no changes for classification and measurement of financial liabilities.

[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

ACCOUNTING PRINCIPLES (continued)

Reconciliation of statement of financial position balances from IAS 39 to IFRS 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:

T EUR Financial assets	IAS 39 carrying amount 31 December 2017	Reclassifications	Remeasurements	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)	-	-	(43 250)	-
Closing balance under IFRS 9	-	-	-	11 603 290
Financial assets measured at amortised cost - total	**14 676 884**	**-**	**(43 298)**	**14 633 586**
Fair value through profit or loss				
Interest-bearing securities eligible as collateral with central banks				
Opening balance under IAS 39 and closing balance under IFRS 9	164 202	(1 415)	-	162 787
Investments in managed pension funds				
Closing balance under IAS 39 and opening balance under IFRS 9	4 526	-	-	4 526
Equity instruments				
Closing balance under IAS 39 and opening balance under IFRS 9	18	(18)		-
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**	**(1 433)**	**-**	**195 066**
Fair value through other comprehensive income				
Equity instruments				
Opening balance under IAS 39 and closing balance under IFRS 9	5 812	18	-	5 830
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**	**1 433**	**-**	**7 245**

ACCOUNTING PRINCIPLES (continued)

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

T EUR Financial assets	Loss allowance under IAS 39/ Provision under IAS 37	Reclassifications	Remeasurements	Credit loss allowance under IFRS 9
Amortised cost				
Cash and balances with central banks	-	-	-	-
Loans to credit institutions	-	-	(48)	(48)
Loans to public	(306 347)	-	(6 475)	(312 822)
Total	**(306 347)**	**-**	**(6 523)**	**(312 870)**

Reconciliation of changes on initial application of IFRS 9

The following table includes summary information on changes on initial application of IFRS 9 reported in statement of changes i
n equity:

Remeasurements to loans, of which:	**(43 298)**
Credit loss allowances	(6 523)
Reported under loan gross amount for originated credit impaired balances	(36 775)
Provisions (Note 8)	**(3 504)**
Total impact on equity	**(46 802)**

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 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 did not have any 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 did not have any material 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 minimum 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.

Currently the Group is analysing the operating lease agreements to determine to what extent these will result in the recognition of assets and liabilities. Some of the commitments will be covered by the exception for short term and low value and some commitments will not qualify as leases under IFRS16. The assessment of the potential effect of IFRS 16 on the financial statements of 2019 is in process.

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.

Key judgments, inputs, assumptions and estimation techniques used to assessing expected credit losses.

With the adoption of IFRS 9 a three-stage model was introduced:

Stage 1 – part of the portfolio for which no significant deterioration in credit quality has occurred since the initial recognition (or the exposure is of low credit risk) and the financial instrument is not considered credit-impaired;

Stage 2 – part of the portfolio for which significant deterioration in credit quality has occurred since the initial recognition, evidenced by the SICR – significant increase in credit risk - indicator, and the financial instrument is not considered credit-impaired;

Stage 3 – credit-impaired part of the portfolio. Luminor equates default and credit-impairment definitions so that all defaulted exposures are treated as credit-impaired and all credit-impaired exposures are treated as defaulted. This approach is based on the fact that the default definition used by Luminor covers all events indicated by IFRS 9 as possible evidence that financial instrument is credit-impaired and all of these events are considered by Luminor as having a detrimental impact on the estimated future cash flows from the instrument.

Additional category is POCI financial assets - financial assets that were purchased or originated as credit-impaired. POCI assets are subject to unchanging classification, i.e. financial asset once classified as POCI remains in this group until derecognized. The POCI classification is determined at financial instrument level.

Luminor applies low credit risk exemption to the following classes of exposures:

- central governments,
- central bank,
- regional governments,
- local authorities,
- institutions.

The counterparty must fulfil the condition of having credit rating indicating investment grade.

Generally the financial asset is treated as facing significant increase in credit risk 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 12-month PD – significant increase of point-in-time (PIT) forward-looking 12-month PD since initial recognition until reporting date (2.5 times and 0.6 p.p. jointly),
- Risk grade 9 or 10 – risk grade 9 or 10 as of reporting date,
- 30 days past due – more than 30 days past due as of reporting date,
- Forborne performing – forborne performing status as of reporting date (forbearance not triggering non-performing status) in accordance with FINREP instruction reporting requirements,
- Watch list – watch list status as of reporting date.

All of the SICR indicators are recognized at financial instrument level in order to track changes in credit risk since initial recognition date for particular financial instrument, even though some of them refer to the customer's characteristics.

Luminor identifies default when either or both of the following default indicators have taken place:

1. The customer is past due more than 90 days on any material obligation to the Luminor;
2. The customer is considered unlikely to pay its credit obligations to the Luminor.

For exposure to banks the default is recognized when payments are due more than 7 days.

For the purpose of unlikeliness to pay identification, elements taken as indications of unlikeliness to pay include the following:

- Distressed restructuring of credit obligation (forbearance triggering non-performing status in accordance with FINREP instruction requirements);
- Major financial problems of the customer (present or expected), i.e. significant financial difficulties;
- Recognition of specific credit risk adjustment resulting from a significant decline in credit quality of the exposure;
- Bankruptcy of the customer or similar protection;

- Disappearance of an active market for a financial asset because of financial difficulties of the customer;
- Sell of credit obligation at material credit-related economic loss;
- Purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- Credit fraud;
- External rating indicating default.

The default is recognised on a customer level.

Return to a non-defaulted status is possible not earlier than after 3 months when all default triggers cease to be met. During these 3 months of the probation period the timely payments by a customer should be ensured. The exemption from the general rule of probation is the distressed restructuring where at least 1 year needs to pass since the moment of extending restructuring measures and the moment when a customer is deemed to have an ability to comply with the post-restructuring conditions. This approach is consistent with FINREP instruction requirements for cure of forborne non-performing exposures.

With the shift from IAS 39 to IFRS 9 approach incurred loss model was replaced by expected credit loss (ECL) model. For Stage 1 financial assets loss allowances equal to 12-month ECL while for Stage 2 and Stage 3 financial instruments lifetime ECL is calculated.

For Purchased or Originated Credit Impaired (POCI) financial assets ECL is estimated in the lifetime horizon till the maturity. The loss expected at initial recognition is referred to as Initial impairment. At subsequent periods only the cumulative changes in the lifetime expected credit losses, since initial recognition, are recognised in profit or loss. Collective assessment of impairment is performed for all financial instruments that are not defaulted as of the reporting date, i.e. are classified to either Stage 1 or Stage 2 or are non-defaulted POCI asset. The expected loss is calculated as probability weighted average of losses expected in different macroeconomic scenarios. Expected loss in concrete macroeconomic scenario is calculated as the multiple of probability of default (PD), loss given default (LGD), exposure at default (EAD) and cumulative prepayment rate and is discounted using effective interest rate. PD curves, LGD curves and EAD curves are estimated for all months until the maturity date of the facility. If the facility is classified to Stage 1, expected losses are estimated over the period of up to 12 months. If the facility is classified to Stage 2 then the expected loss is estimated over the period up to maturity date of the facility.

Estimation of PD and LGD curves take into account forward looking macroeconomic information. Methodology of estimation of these risk parameters includes modelling of the relationship between risk parameters and macroeconomic variables. Forecasts of macroeconomic variables under different scenarios for 3 upcoming years together with scenario probabilities are prepared by Luminor macroeconomists. Three macroeconomic scenarios are considered: baseline/realistic, positive, and pessimistic scenario (with the probability weights of 60 %, 25 % and 15 % respectively). The macroeconomic scenarios that are prepared for the estimation of expected losses are consistent with the scenarios which are used in credit risk stress testing process. The macroeconomic variables that are included in the modelling are annual change in real GDP, unemployment rate and annual change of residential real estate price. Starting from the fourth year it is assumed that risk parameters (PD and LGD) converge to their long term average levels.

For Stage 3 exposures (or defaulted POCI assets), which are classified as material, Luminor evaluates the impairment amount on individual basis (individual assessment) under discounted cash flows (DCF) method. Two scenarios – base case and risk case – are used. For exceptional cases usage of one scenario can be sufficient. The circumstances when only one scenario might be acceptable could be the deep workout case or the case when total exposure of defaulted borrower falls below the materiality threshold.

For Stage 3 exposures (or defaulted POCI assets), which are classified as immaterial, Luminor evaluates the impairment amount on collective basis (collective assessment). Impairment is calculated applying the pool rate for unsecured part. Different pool rates are applied for these pools distinguished by Luminor:

- mortgage loans and private credits to private individuals,
- consumer loans and other loans to private individuals (including leasing),
- SMEs (all financial instruments to legal entities).

OTHER NOTES TO THE FINANCIAL STATEMENTS

G1. PROVISION EXPENSES

T EUR	2018 3rd Q	2017 3rd Q	2018 30 September	2017 30 September
Commitments and guarantees given	(1 384)	-	(1 712)	-
Other provisions	-	-	30	-
Total	**(1 384)**	**-**	**(1 682)**	**-**

G1. IMPAIRMENT OF FINANCIAL ASSETS

T EUR	2018 3rd Q	2017 3rd Q	2018 30 September	2017 30 September
Current period allowance for loans granted	(56 544)	-	(87 436)	-
Reversal of prior period allowances	59 132	-	93 517	-
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	2 432	-	6 893	-
Modification gains or (-) losses, net	20	-	129	-
Impairment on nonfinancial assets	83	-	(794)	-
Total	**5 123**	**-**	**12 309**	**-**

G3. CASH AND BALANCES WITH CENTRAL BANKS

T EUR	30.09.2018	31.12.2017
Cash	179 930	178 147
Balances in Central Banks in EUR	2 149 813	2 442 691
Total cash and balances with central banks	**2 329 743**	**2 620 838**

G4. LOANS TO CREDIT INSTITUTIONS

T EUR	30.09.2018	31.12.2017
Loans in EUR	46 732	251 085
Loans in other currency	147 860	158 421
Total	**194 592**	**409 506**
Allowance	-	-
Total loans to credit institutions	**194 592**	**409 506**

G5. LOANS TO THE PUBLIC

T EUR	30.09.2018	31.12.2017
Households	6 010 876	6 010 024
Public authorities, governmental and municipal operations	212 448	291 313
Corporate customers	5 781 930	5 564 779
Other financial corporations	48 217	86 769
Total	**12 053 471**	**11 952 885**
Allowance	(229 109)	(306 345)
Total loans to the public	**11 824 362**	**11 646 540**

Allowance for impairment

Group loans to individuals (Households)

T EUR	Stage 1	Stage 2	Stage 3	IAS 39	Total
As at 1 January 2018				95 754	**95 754**
IFRS 9	**7 973**	**25 991**	**92 477**	**(95 754)**	**30 687**
Change in allowance for loan impairment	(5 564)	(5 980)	(1 768)	-	(13 312)
Loans written off during the period as uncollectible	(410)	(21)	(18 105)	-	(18 593)
Other adjustments	4 949	673	1 273	-	6895
As at 30 September 2018	**6 891**	**20 663**	**73 877**	**-**	**101 431**

Gross amount of loans, individually determined to be impaired, before deducting the individually assessed impairment allowance	**244 858**

Group loans to business customers and financial institutions

T EUR	Stage 1	Stage 2	Stage 3	IAS 39	Total
As at 1 January 2018				210 591	**210 591**
IFRS 9	**8 057**	**10 470**	**168 173**	**(210 591)**	**(23 891)**
Change in allowance for loan impairment	(114)	(1 447)	(31 216)	-	(32 549)
Loans written off during the period as uncollectible	(1 842)	(10)	(41 612)	-	(43 464)
Other adjustments	408	(420)	17 003	-	16 991
As at 30 September 2018	**6 737**	**8 593**	**112 348**	**-**	**127 678**

Gross amount of loans, individually determined to be impaired, before deducting the individually assessed impairment allowance	**440 670**

G6. DUE TO CREDIT INSTITUTIONS

T EUR	30.09.2018	31.12.2017
Due in EUR	4 200 787	4 695 010
Due in other currency	12 342	66 233
Total	**4 213 129**	**4 761 243**

G7. DEPOSITS AND BORROWING FROM THE PUBLIC

T EUR	30.09.2018	31.12.2017
Households	3 462 086	3 394 716
Public authorities, governmental and municipal operations	1 300 945	1 049 587
Corporate customers	3 434 135	3 665 302
Other financial corporations	308 688	320 191
Total	**8 505 854**	**8 429 796**

G8. PROVISIONS

T EUR	Loan commitments and guarantee commitments	Legal disputes	Restructuring	Other	Total
1 January 2017	**-**	**-**	**-**	-	**-**
30 September 2017	**-**	**-**	**-**	-	-
31 December 2017	**757**	**123**	**1 000**	**266**	**2 146**
Changes on initial application of IFRS 9	3 208	-	-	-	3 208
Provisions during the year	3 514	-	167	-	3 681
Utilised	(712)	(30)	(1 095)	(117)	(1 954)
Written back	(1 112)	-	-	-	(1 112)
Other adjustments	**(205)**	**-**	**-**	-	(205)
30 September 2018	**5 450**	**93**	**72**	**149**	**5 764**

G9. PLEDGED ASSETS AND CONTINGENT LIABILITIES

T EUR	30.09.2018	31.12.2017
Pledged assets		
Loans granted to governmental institutions	128 221	187 737
Debt securities	103 189	237 017
Total	**231 410**	**424 754**
Contingent liabilities		
Loan commitments given	1,310,355	1 498 877
Financial guarantees given	267,845	239 505
Other Commitments given	446,671	505 411
Total	**2,024,871**	**2 243 793**

As at 30 September 2018, Funds of Central Bank 199,334 thousand EUR contain proceeds from ECB under targeted longer-term refinancing operations (TLTROs) (396,606 thousand EUR, 31 December 2017). The carrying amount of pledged assets under this agreement amounted to 231,410 thousand EUR (128,221 thousand EUR loans granted to governmental institutions, 75,336 EUR debt securities issued by general government, 27,853 thousand EUR acquired central government bonds) (The carrying amount of pledged assets under this agreement on 31 December 2017 amounted to 424,754 thousand EUR (187,737 thousand EUR loans granted to governmental institutions, 136,430 thousand EUR acquired through central government bonds and 100,587 thousand EUR bonds, acquired under REPO agreement with DNB Bank ASA).

G10. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

T EUR	At fair value through profit/loss Trading	At fair value through profit/loss Other	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial liabilities measured at amortised cost	Total carrying amount
Assets						
Cash and balances with Central Banks	-	-	2 329 743	-	-	2 329 743
Interest-bearing securities eligible as collateral with Central Banks	7 257	129 222	-	1 264	-	137 743
Loans to credit institutions	-	-	194 592	-	-	194 592
Loans to public	-	-	11 824 362	-	-	11 824 362
Bonds and other interest-bearing securities	-	-	29 230	-	-	29 230
Equity instruments	-	-	-	6 834	-	6 834
Investments in managed pension funds		4 623				4 623
Derivative instruments	38 805	-	-	-	-	38 805
Total financial assets	**46 062**	**133 845**	**14 377 927**	**8 098**	**-**	**14 565 932**
Liabilities						
Due to credit institutions	-	-	-	-	4 213 129	4 213 129
Deposits and borrowing from the public	-	-	-	-	8 505 854	8 505 854
Debt securities issued	-	-	-	-	65 167	65 167
Derivative instruments	29 776	-	-	-	-	29 776
Total financial liabilities	**29 776**	**-**	**-**	**-**	**12 784 150**	**12 813 926**

G10. CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

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

T EUR	At fair value through profit/loss		Investments held to maturity	Loans and receivables	Financial assets available for sale	Financial liabilities measured at amortised cost	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	-	18	-	-	5 812	-	5 830
Investments in managed pension funds		4 526					4 526
Derivative instruments	27 753	-	-	-	-	-	27 753
Total financial assets	**30 078**	**166 421**	**1 513**	**14 709 728**	**5 812**	**-**	**14 913 552**
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
Total financial liabilities	**33 173**	**-**	**-**	**-**	**-**	**13 256 046**	**13 289 219**

G11. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

T EUR	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Derivative instruments	–	38 805	–	38 805
Debt securities	7 257	–	–	7 257
Total	**7 257**	**38 805**	**–**	**46 062**
Financial assets designated at fair value through profit or loss				
Debt securities	75 093	54 129	–	129 222
Total	**75 093**	**54 129**	**–**	**129 222**
Non-trading financial assets mandatorily at fair value through profit or loss				
Investments in managed pension funds	–	4 623	–	4 623
Total	**–**	**4 623**	**–**	**4 623**
Financial assets at fair value through other comprehensive income				
Debt securities	1 264	–	–	1 264
Shares	–	–	6 834	6 834
Total	**1 264**	**–**	**6 834**	**8 098**

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

T EUR	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				
Investments in managed pension funds	–	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**

G11. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

Financial instruments are distributed by 3 levels of the fair value:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The fair value of all Bank contracted derivatives is defined as level 2. These are interest rate swaps and in all cases pricing is based on market observable inputs. For assets and liabilities that are recognized at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There was no movement of securities between the levels during 2018.

The significant unobservable inputs used in the fair value measurement of shares on level 3 are as follows: conversion rate, average trading price, liquidity discount.

Principles for information about the fair values of financial instruments which are carried at amortised cost

For the assets and liabilities not carried at fair value book value is estimated to be a reasonable approximation of fair value. 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 inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values.

The fair value of loans to customers, customer deposits, amounts due from credit institutions and amounts due to credit institutions and other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

In assessing the fair value for financial assets, the management has performed discounted cash flow analysis; up-to-date market information at assessment moment is being used for assessing cash flows. For loans, where base interest rates are pegged to floating market interest rates, the Group has considered difference between average interest margin of issued loans and average interest margin for newly issued loans. Given that for part of the loan portfolio this margin has not been changed (increased) since the issuance, the Group has estimated that for such loans the carrying value is considered equal to fair value.

Fair value of financial liabilities at amortized cost such as Loans and deposits from credit institutions and Deposits from customers which are not on demand have been estimated based on discounted cash flow model using interest rates for similar products as at period end. Fair value of those financial liabilities that are on demand or have floating interest rate have been estimated to be approximately equal to its carrying amount.

The table below summarizes the fair values of financial assets and liabilities recognized at amortized cost in the statement of financial position instruments:

T EUR As at 30 September 2018	Level 1	Level 2	Level 3	Total
Assets				
Loans to credit institutions	-	-	194 592	**194 592**
Loans to the public	-	-	11 824 362	**11 824 362**
Liabilities				
Due to credit institutions	-	-	4 213 129	**4 213 129**
Financial liabilities at amortised cost	-	65 167	8 505 854	**8 571 021**

T EUR As at 31 December 2017	Level 1	Level 2	Level 3	Total
Assets				
Loans to credit institutions		127 466	282 040	**409 506**
Loans to the public			11 646 540	**11 646 540**
Liabilities				
Due to credit institutions		1 403 085	3 358 158	**4 761 243**
Financial liabilities at amortised cost		1 637 412	6 857 391	**8 494 803**

G12. RESERVES

T EUR	30.09.2018	31.12.2017
Mandatory reserve	18 423	14 498
Fair value changes of assets at fair value through other comprehensive income	2 481	1 680
Other reserves	234	234
Total	**21 138**	**16 412**

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

The following Group's balances were outstanding with ultimate owners (DnB and Nordea) related companies:

T EUR	Ultimate companies 30.09.2018	Ultimate companies 31.12.2017
Assets		
Loans to credit institutions	169 660	386 057
Loans to the public	-	12
Derivative instruments	31 258	16 094
Other assets	619	224
Total	**201 537**	**402 387**
Liabilities		
Due to credit institutions	3 981 863	4 281 983
Deposits and borrowing from the public	3 177	2 658
Derivative instruments	7 769	15 144
Other liabilities	3 913	1 855
Total	**3 996 722**	**4 301 640**
	30.09.2018	**30.09.2017**
Income and expenses		
Interest income	9 399	-
Interest expenses	(6 862)	-
Net commission and fee income	(9)	-
Other income	15 096	-
Other expenses	(10 938)	-
Total	**6 686**	-

Parent Company Notes

P1. NET SALES

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

P2. OTHER EXTERNAL EXPENSES

T EUR	2018 3rd Q	2017 3rd Q	2018 30 September	2017 30 September
Consultancy costs	42	(2 123)	(1 060)	(6 299)
Other	(71)	(632)	(275)	**(1 063)**
Total	**(29)**	**(2 755)**	**(1 335)**	**(7 362)**

These Financial Statements were signed on 13 December 2018:

Erkki Raasuke

CEO