LUMINOR BANK AS
CONSOLIDATED AND BANK`S INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTH ENDED 30 JUNE 2018

Luminor

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MANAGEMENT REPORT

Overview
Luminor was established on 1 October 2017 by the merger of DNB Bank ASA (commercial Register number 984 851 006) and Nordea Bank AB (Swedish Commercial Register number 516406-0120) operations in the Baltic countries to create a new generation financial services provider for the local way of life and businesses.

Luminor is the 3rd largest player in the Baltic financial market with 1.0 million clients and 2 900 employees, as well as a 16% market share n deposits and 22% in lending. Luminor is capitalised at 17.6% Common Equity Tier 1 capital in the amount of EUR 1.6 billion.
Luminor's ambition is to become the home bank for financially active people with an entrepreneurial mind-set as well as for local companies, and to eventually become the best financial eco-system for its customers.

Luminor Bank AS (or "Luminor Latvia") offers a wide range of products and services to its customers in all channels, both digital and physical, with headquarter in Riga and 19 branches in the biggest cities of Latvia, including Rezekne, Daugavpils, Valmiera, Jelgava, Ventspils, Cesis and others. It offers a total of 220 ATMs located throughout Latvia.

At the end of Q2 2018, Luminor Latvia employed around 1,000 full time employees and served around 266 000 clients in private and business segments, with a market share of around 25% in lending and approximately 16% in deposits, making Luminor the second largest financial services provider on the Latvian market.

Luminor Latvia Group's capital ratio by the end of Q2 2018 was 17.82% CET 1.

Activities
During Q2 2018, Luminor Latvia continued work on system integration, new channel development and product portfolio synchronisation to strengthen customer service and increase simplicity throughout the organisation. A series of customer loyalty and information events were held to update Luminor customers on current work and upcoming plans for the future. During Q2 2018, new service models and standards for all customer segments were developed.

In Q2 2018 Luminor continued with the next phases of the legal merger, which foresee full integration of the banks, continuing operations in all Baltic countries through the Estonian bank and its branches registered in Latvia and Lithuania. On 28 June 2018 Luminor received regulatory approval from the European Central Bank to proceed with the cross-border merger. The cross- border merger and related legal changes are expected to take place on 2 January 2019.

Luminor Latvia has successfully incorporated the EU General Data Protection Regulation requirements into its internal regulations and external documents, as well as informed its clients and employees about changes in the regulation related to their rights regarding personal data according to the new EU regulation. Service delivery and customer information procedures were reviewed, new processes to secure proper management of personal data and raise awareness among customers and employees were implemented and extensive training for employees was also provided.

As a part of its transformation, Luminor is introducing Agile ways of working, including educating employees about the Agile methodology and providing attractive tools. In July 2018, the first Luminor Agile studio was launched. Agile studio embodies activity based on office principles that enables people to work in an agile way – open space along with flexibility and transformability in the office environment are important elements of this concept. Studio is also the first phase of the head office redesign and reconstruction in Riga to implement an activity-based office.

Household segment
At the end of Q2 2018, Luminor Latvia served around 243 000 household clients.Customer service as well as the overall customer experience significantly improved during Q2 2018, thus bringing us closer to the goal of providing excellent customer service to our clients. To generate higher interest in Luminor's remote services, online sales were strengthened with 50% of consumer credit activity directed to remote channels. To increase stable deposit base and promote savings culture, Luminor launched a deposit campaign for private customers in June 2018 with better interest rates.
Additionally, the cashless concept was implemented in branches in Riga, Latvia and the overall efficiency of the ATM network in Latvia was improved.

Private Banking segment
During Q2 2018 the total number of Private Banking customers decreased. The focus on target customers was strengthened by attracting new customers according to the approved Private Banking business model. As a result, there was growth in average asset volumes per customer. The quality of the Private Banking portfolio also improved from a risk perspective. Work on the value proposition for Private Banking customers continued. Private Banking moved to new premises, where an aligned approach for Private Banking services can now be offered.

Business and corporate clients segments
During Q2 2018, Luminor Latvia continued to serve its core customers in the corporate and business client segments with a total of 23 300 clients at the end of the period. Due to seasonality and dividend pay-outs by legal entities, the deposits portfolio has slightly decreased. New lending sales volumes have remained stable.

In Q1, a newly developed service model was implemented in branches located in Riga. During Q3, implementation in all branches will be carried out. New product development continues and Luminor has been selected by ALTUM as one of the banks and financial institutions which will implement new state aid financial instruments for support of enterprises –portfolio guarantees. The guarantees will make it possible to improve the customer experience in receiving financing by improving speed and accessibility. It will be available to Luminor customers in Q3.

MANAGEMENT REPORT *(continued)*

Leasing
Car leasing services for private individuals and business clients, as well as commercial transport, agricultural machinery, and other heavy equipment for business clients are provided via the subsidiary Luminor Līzings SIA. Q2 2018 continued planned new leasing sales rightsizing with a focus on profitability improvements, thus new leasing sales were growing slower than the market. New leasing sales in the first 6 months of the year reached EUR 103 million. Total portfolio reached EUR 528 million with income amounted to EUR 6.5 million. Campaigns with car and equipment vendor partners were continued. Luminor Līzings SIA is sustaining its leadership position as a financier for new cars and new construction and agricultural machinery, with a 30% market share.

Pensions
Pension assets of more than 132 000 Luminor customers reached EUR 511 million at the end of Q2, compared to EUR 492 million in Q1. During Q2, pension funds with equity strategies delivered strong positive results with an increase of 2.1%, contributing to the growth of customer pension savings. Fixed income strategies were in a defensive mode and returned flat results.
Pension product offers were expanded in Q2 by launching the Luminor Progressive Investment Plan, a new 2nd pillar pension fund product, which enables equity investments up to 75% of its assets. The new product is a perfect match for Luminor customers from ages 20-44 who would like to achieve a high investment return for their pension assets in the long-term.

Corporate social responsibility at Luminor
We are creating a new-generation bank because we are determined to build a better tomorrow – for families and businesses, and for the communities and countries in which we live and operate. We believe in contributing to the development of local communities in which we operate.
We are committed to taking into account corporate governance, social conditions and the environment in all of our activities, including product and service development, advisory services and sales, investment and credit decisions and other operations. We do not contribute to the infringement of human or labour rights, corruption, serious environmental harm or other actions that could be regarded as unethical.
With a goal to support and inspire the most successful exporting companies of Latvia, Luminor actively supported "The Red Jackets" initiative during Q2 participating in various activities such as mentoring programs, events and seminars.

Financial Results
The merger of the Baltic businesses of DNB and Nordea had significant impact on the financial results of the Group. The indicators for Q2 2018 cannot be directly compared to Q2 2017, as they include the results of the two merged banks and have therefore comparison to Q1 2018 results is provided.
Net profit earned for the 6 months ended 30 June 2018 was EUR 26.6 million. Net profit earned in Q2 2018 was EUR 17.6 million, which was EUR 8 million more than Q1 2018 mainly due to reversal of impairement losses on loans and receivables and related items in other operating income arising from reversal of previously derecognised assets. Return on equity amounted to 10.03% for the 6 months ended 30 June 2018. Net commission income decreased to EUR 6 million in Q2 2018 from EUR 6.4 million.

KEY FIGURES*

EUR'000	January – June 2018
Net profit	26,592
Average equity	530,023
Return on equity (ROE), %	10.03%
Average assets	4,588,376
Return on assets (ROA), %	1.16%

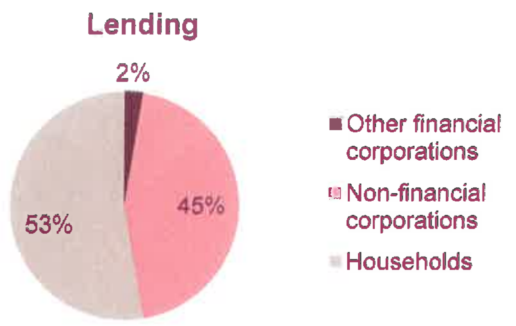
*6 month ratios (ROE, ROA) have been expressed on an annualized basis

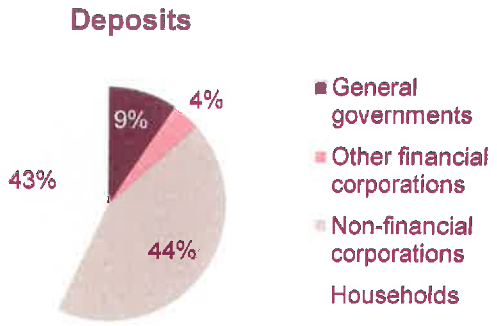
Explanations

Average equity (shareholder's equity) = (total shareholder's equity at end of reporting period + total shareholder's equity at end of previous period) / 2
Return on equity (ROE) = Net profit / Average equity * 100%
Assets, average = (total assets at end of reporting period + total assets at end of previous period) / 2
Return on assets (ROA) = Net profit / Assets, average * 100

MANAGEMENT REPORT *(continued)*

Loans to customers totalled EUR 3.4 billion as at 30 June 2018. Loans to non-financial corporate customers comprised 45% and loans to households 53% of the credit portfolio of Luminor. The market share of Luminor's loans in Latvia was approximately 25%.





Customer deposits totalled EUR 2.7 billion as at 30 June 2018. Deposits from non-financial corporate customers made 44% of the customer deposit portfolio whilst the deposits from household accounted for 43%. The loan-to-deposit ratio decreased in Q2 2018 to 125%. The goal is to reduce this ratio by increasing the volume of deposits and specifically the stable deposits. The market share of Luminor's deposits in Latvia is approximately 16%.

ASSET QUALITY in Q2

EUR'000	Household	Non-financial corporations	Other financial corporations	Credit institutions	General governments	Total
Gross Loans	1,854	1,567	86	13	6	3,526
Provisions	(64)	(56)	1	-	-	(119)
Net Loans	1,790	1,511	87	13	6	3,407
Impaired Loans	107	182	-	-	-	289
Impairment ratio %	3.44%	3.54%	(1.16%)	-	-	3.37%
Impaired Loans vs Gross Loans %	5.79%	11.61%	-	-	-	8.20%
Provisions vs Impaired Loans %	44.99%	29.45%	-	-	-	41.18%

Explanations
Impairment ratio % = Provisions / Gross loans
Impaired Loans vs. Gross Loans % = Impaired loans / Gross loans
Provisions vs. Impaired Loans % = - Provisions / Impaired loans

Macroeconomic overview

In Q1 2018, the Latvian economy continued to expand quite strongly, the annual GDP growth was 4.0% y/y according to revised data, slightly down from 4.2% y/y in Q4, 2017. Seasonally adjusted growth was 4.9 % y/y and 1.5% q/q, the former edging up 0.1 pp from the previous period. Private consumption continued to expand at a steady pace, by 4.1% y/y. Gross fixed capital formation remained exceptionally strong, growing by 19.1% in annual terms, but exports disappointed, increasing just by 2.3% y/y.

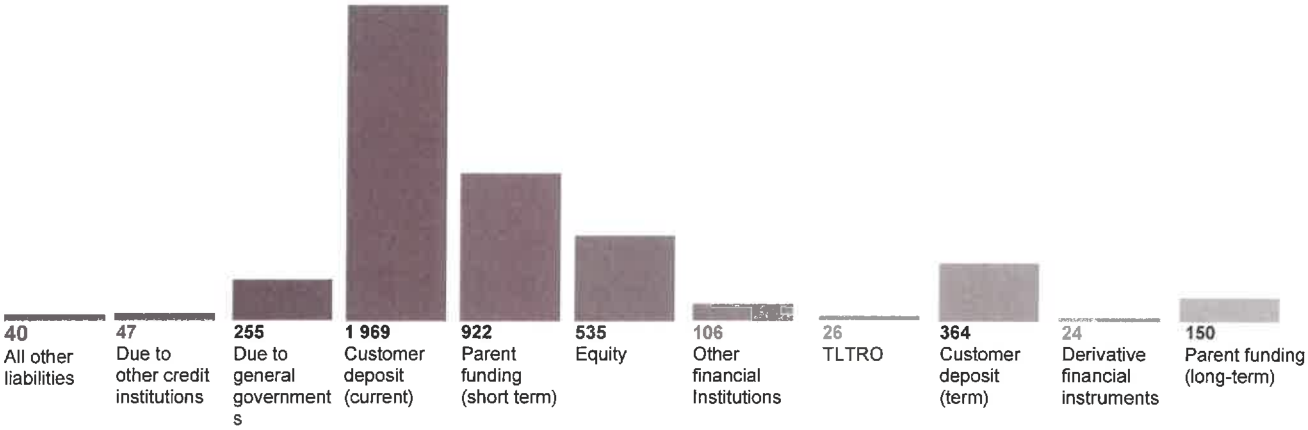
The outlook for consumption for the remainder of the year is promising. The decline of unemployment continued to accelerate in Q2 to 1.5 percentage points (from 8.8% to 7.3%) in May, up from 1.2 pp in Q1 and 0.6 pp last May. The improvement is driven by increasing employment, the number of occupied job positions increased by 1.8% y/y in Q1. Wage growth in Q1, 2018 accelerated to 8.7%, as expected. Bank lending to households has increased for three months in a row until May, the annual decline of the total portfolio is the smallest since 2009, so the tide may be finally turning in mortgage lending.

Signals about export growth are contradictory. On the one hand, GDP growth in several important export markets is expected to slow down. On the other hand, strong manufacturing turnover growth (+9.1% in January-May on average) suggests that output growth may accelerate; sector's confidence indicator is quite strong by historic standards. Investment growth will slow down only gradually, state budget outlays on capital investment grew strongly in January – May, up 27.1% from a year ago.

On balance, risks to our 4.2% GDP growth forecast for 2018 adopted in March are on the downside, the more likely outcome is now ~4.0%. Increasing global uncertainty, reduction of financial service exports and highly unusual drought are bound to have an impact

MANAGEMENT REPORT *(continued)*

Funding
Luminor Latvia Group has a strong and prudent liquidity risk profile. The funding base consists of large deposit base, TLTRO and funding from parent banks.
At the end of Q2, Latvia had utilised funding from parent's EUR 1.1 billion.



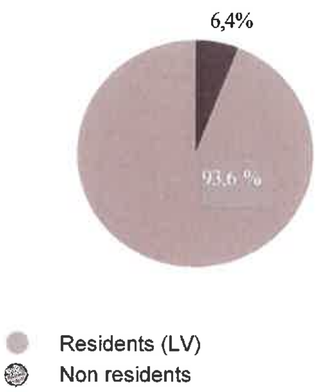
Parent funding amounts to EUR 4.13 billion on Luminor Group level and is provided by the two parent banks in the form of a syndicate where each parent bank provides 50%. Long-term funding was committed for 6 years (4+2) and short-term funding is in the form of revolving credit of 364 days, beginning from 1 October 2017 when Luminor was established. In addition to the current term funding, there is also a committed credit line of EUR 0.76 billion in place (at present not utilized). When Luminor attracts wholesale long term funding externally (longer than one year), the intent is to amortize an equal amount of parent funding.

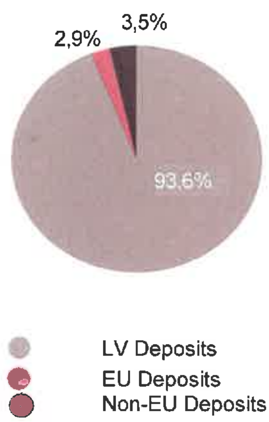
Liquidity
Short-term liquidity risk is measured using several metrics and the Liquidity Coverage Ratio (LCR) is one such metric. The LCR for the Luminor LV Group was, according to the Delegated Act LCR definition, 130% at the end of the second quarter. The liquidity buffer is composed of highly liquid central bank eligible securities and cash.
The long-term liquidity risk is measured as Net Stable Funding Ratio (NSFR). At the end of the second quarter 2018, Luminor Latvia NSFR was 106,3%.

Ratio	30 June 2018	31 March 2018
LCR	**130%**	**150%**
NSFR**	106.3%	109.0%

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

Deposit structure





Deposits are mainly from residents of Latvia. In total 96.5% of all deposits from household and nonfinancial customers are from EU residents

Report on review of interim financial statements

To the shareholders and board of directors of Luminor bank AS

Introduction

We have reviewed the accompanying interim condensed financial statements (hereinafter – the financial statements) of Luminor Bank AS ("the Bank") and its subsidiaries ("the Group") which comprise interim condensed statement of financial position as at 30 June 2018 and the related interim condensed statement of comprehensive income for the three- and six-months period then ended, interim condensed statements of changes in equity and cash flows for the six-month period then ended and notes to the financial statements. Management is responsible for the preparation and presentation of this interim condensed financial statements in accordance with the International Accounting Standard 34, 'Interim financial reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Other matter

The comparative information for the statement of financial position is based on the audited financial statements of the year ended 31 December 2017. Other comparative information - for the statement of comprehensive income for the three- and six-month periods ended 30 June 2017, and for the statements of changes in equity and cash flows for the six month period ended 30 June 2017, and related explanatory notes - has not been audited or reviewed.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejina
Certified auditor in charge
Certificate No. 168

Member of the Board

Riga, Latvia
7 September 2018

Luminor

Interim condensed statement of comprehensive income for the six months ended 30 June 2018

	Notes	1st half 2018 Group EUR`000	Q2 2018 Group EUR`000	1st half 2017 Group EUR`000	Q2 2017 Group EUR'000	1st half 2018 Bank EUR`000	Q2 2018 Bank EUR`000	1st half 2017 Bank EUR`000	Q2 2017 Bank EUR`000
Interest income		52,224	26,460	22,829	11,523	46,003	23,344	20,536	10,335
Interest expense		(7,713)	(4,036)	(3,237)	(1,596)	(7,704)	(4,026)	(2,955)	(1,456)
Net interest income		**44,511**	**22,424**	**19,592**	**9,927**	**38,299**	**19,318**	**17,581**	**8,879**
Fees and commission income		17,193	8,681	9,528	4,923	14,954	7,529	8,588	4,409
Fees and commission expenses		(4,584)	(2,520)	(2,858)	(1,575)	(4,521)	(2,441)	(2,677)	(1,461)
Net fees and commissions		**12,609**	**6,161**	**6,670**	**3,348**	**10,433**	**5,088**	**5,911**	**2,948**
Net result from operations with foreign currency, trading securities and derivative financial instruments		3,293	1,530	930	567	3,295	1,535	922	561
Net result from operations with investment property		(423)	(131)	(598)	(170)	(98)	3	(536)	(216)
Other operating income		3,704	1,985	1,581	856	3,819	2,075	2,510	1,326
Dividend income		28	18	18	9	28	18	2,062	9
Gains or losses on financial assets and liabilities not measured at fair value through profit and loss		(737)	(737)	-	-	(34)	(34)	-	-
Share of profit of investment in associate		118	56	-	-	-	-	-	-
Operating income		**63,103**	**31,306**	**28,193**	**14,537**	**55,742**	**28,003**	**28,450**	**13,507**
Personnel expenses		(17,107)	(8,701)	(8,905)	(4,441)	(15,835)	(8,036)	(8,809)	(4,392)
Other administrative expenses		(15,879)	(6,997)	(6,249)	(3,175)	(15,300)	(6,630)	(6,296)	(3,199)
Depreciation		(1,537)	(747)	(1,504)	(734)	(1,106)	(531)	(1,082)	(524)
Other operating expenses		(5,016)	(2,497)	(875)	(514)	(4,932)	(2,484)	(796)	(474)
Net allowances for impairment loss	11	3,596	5,398	2,075	1,359	3,203	5,266	2,273	1,498
Profit before income tax		**27,160**	**17,762**	**12,735**	**7,032**	**21,772**	**15,588**	**13,740**	**6,416**
Corporate income tax		(568)	(135)	(529)	(474)	(9)	(9)	(400)	(400)
Profit for the period from continuing operations		**26,592**	**17,627**	**12,206**	**6,558**	**21,763**	**15,579**	**13,340**	**6,016**
Other comprehensive income									
Items that may be reclassified to profit or loss in the future									
Changes in revaluation reserve of available for sale financial assets		-	-	195	91	-	-	195	91
Items that may not be reclassified to profit or loss in the future									
Changes in revaluation reserve of financial assets at fair value through other comprehensive income		487	292	-	-	487	292	-	-
Other comprehensive income total		**487**	**292**	**195**	**91**	**487**	**292**	**195**	**91**
Total comprehensive income		**27,079**	**17,919**	**12,401**	**6,649**	**22,250**	**15,871**	**13,535**	**6,107**
Profit attributable to:									
Equity holders of the Bank		26,592	17,627	12,206	6,558	21,763	15,579	13,340	6,016
Total comprehensive income attributable to:									
Equity holders of the Bank		27,079	17,919	12,401	6,649	22,250	15,871	13,535	6,107

The financial statements on pages 8 to 44 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Kerli Gabrilovica
Chairman of the
Management Board

Ivita Asare
Member of the
Management Board

Riga,
7 September 2018

The accompanying notes are an integral part of these financial statements

Interim condensed statement of financial position as at 30 June 2018 and 31 December 2017

Assets	Notes	30 June 2018 Group EUR'000	31 December 2017 Group EUR'000	30 June 2018 Bank EUR'000	31 December 2017 Bank EUR'000
Cash and balances with central banks		797,410	1,067,214	797,410	1,067,214
Due from other credit institutions (on demand)	4	52,282	34,634	51,461	33,865
Derivatives	10	31,684	17,223	31,684	17,223
Financial assets designated at fair value through profit or loss:	6	54,296	76,308	54,296	76,308
Debt securities and other fixed income securities		*54,296*	*76,308*	*54,296*	*76,308*
Financial assets at fair value through other comprehensive income	7	3,142	2,547	3,142	2,547
Loans and advances:		3,407,452	3,443,271	3,405,305	3,455,321
Due from other credit institutions (term)	4	*13,041*	*70,823*	*13,041*	*70,823*
Loans to customers	5	*3,394,411*	*3,372,448*	*3,392,264*	*3,384,498*
Accrued income and deferred expenses		3,185	3,726	2,578	2,145
Investment property		29,133	34,136	722	1,021
Property, plant and equipment		26,725	27,583	3,744	4,174
Intangible assets		1,379	1,681	999	1,297
Investments in subsidiaries	8	-	-	62,412	60,507
Investment in associated companies		3,105	2,987	2,687	2,687
Current corporate income tax		327	90	-	-
Other assets	9	27,544	24,884	24,144	20,635
Non-current assets and disposal groups classified as held for sale		147	2,656	-	519
Total assets		**4,437,811**	**4,738,940**	**4,440,584**	**4,745,463**

The financial statements on pages 8 to 44 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Kerli Gabrilovica Chairman of the Management Board	Ivita Asare Member of the Management Board

Riga,
7 September 2018

Interim condensed statement of financial position as at 30 June 2018 and 31 December 2017 *(continued)*

Liabilities	**Notes**	**30 June 2018 Group EUR'000**	**31 December 2017 Group EUR'000**	**30 June 2018 Bank EUR'000**	**31 December 2017 Bank EUR'000**
Liabilities to central banks	12	26,499	60,500	26,499	60,500
Liabilities to credit institutions (on demand)	13	10,971	5,576	10,971	5,576
Derivatives	10	23,702	21,269	23,702	21,269
Financial liabilities at amortised cost:		3,817,370	4,108,051	3,836,399	4,126,470
Due to credit institutions (term)	13	*1,107,929*	*1,165,227*	*1,107,929*	*1,165,227*
Deposits from customers and other financial liabilities	14	*2,709,441*	*2,942,824*	*2,728,470*	*2,961,243*
Accrued expenses and deferred income		16,211	11,777	15,696	11,312
Income tax liability		393	1,283	342	1,233
Other liabilities	15	5,857	5,634	1,286	2,513
Provisions		1,352	261	1,261	228
Total liabilities		**3,902,355**	**4,214,351**	**3,916,156**	**4,229,101**
Shareholders' equity					
Share capital		191,178	191,178	191,178	191,178
Share premium		69,713	69,713	69,713	69,713
Reserve capital		464,690	464,690	464,690	464,690
Revaluation reserve		1,153	666	1,153	666
Accumulated deficit		(191,278)	(201,658)	(202,306)	(209,885)
Total shareholders' equity attributable to the shareholders of the Bank		**535,456**	**524,589**	**524,428**	**516,362**
Total shareholders' equity		**535,456**	**524,589**	**524,428**	**516,362**
Total liabilities and shareholders' equity		**4,437,811**	**4,738,940**	**4,440,584**	**4,745,463**

The financial statements on pages 8 to 44 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Kerli Gabrilovica	Ivita Asare
Chairman of the Management Board	Member of the Management Board

Riga,
7 September 2018

Interim condensed statement of changes in equity for the six months ended 30 June 2018

Group

	Share capital EUR'000	Share premium EUR'000	Reserve capital EUR'000	Revaluation reserve EUR'000	Accumulated result EUR'000	Total EUR'000
At 31 December 2016	**191,178**	**69,713**	**224,118**	**155**	**(182,692)**	**302,472**
Profit for the period	-	-	-	-	12,206	**12,206**
Decrease of revaluation reserve	-	-	-	195	-	**195**
Total comprehensive income	-	-	-	**195**	**12,206**	**12,401**
Dividends declared (ordinary shares)	-	-	-	-	(30,174)	**(30,174)**
At 30 June 2017	**191,178**	**69,713**	**224,118**	**350**	**(200,660)**	**284,699**
At 31 December 2017	**191,178**	**69,713**	**464,690**	**666**	**(201,658)**	**524,589**
Profit for the period	-	-	-	-	26,592	**26,592**
Increase of revaluation reserve	-	-	-	487	-	**487**
Total comprehensive income	-	-	-	**487**	**26,592**	**27,079**
IFRS 9 transitional impact (Note 3)	-	-	-	-	(16,212)	**(16,212)**
At 30 June 2018	**191,178**	**69,713**	**464,690**	**1,153**	**(191,278)**	**535,456**

Bank

	Share capital EUR'000	Share premium EUR'000	Reserve capital EUR'000	Revaluation reserve EUR'000	Accumulated result EUR'000	Total EUR'000
At 31 December 2016	**191,178**	**69,713**	**224,118**	**155**	**(186,679)**	**298,485**
Profit for the period	-	-	-	-	13,340	**13,340**
Increase of revaluation reserve	-	-	-	195	-	**195**
Total comprehensive income	-	-	-	**195**	**13,340**	**13,535**
Dividends declared (ordinary shares)					(30,174)	**(30,174)**
At 30 June 2017	**191,178**	**69,713**	**224,118**	**350**	**(203,513)**	**281,846**
At 31 December 2017	**191,178**	**69,713**	**464,690**	**666**	**(209,885)**	**516,362**
Profit for the period	-	-	-	-	21,763	**21,763**
Increase of revaluation reserve	-	-	-	487	-	**487**
Total comprehensive income	-	-	-	**487**	**21,763**	**22,250**
IFRS 9 transitional impact (Note 3)	-	-	-	-	(14,184)	**(14,184)**
At 30 June 2018	**191,178**	**69,713**	**464,690**	**1,153**	**(202,306)**	**524,428**

Luminor

Interim condensed statement of cash flows for the six months ended 30 June 2018

		2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Cash flow from operating activities					
Profit before income tax and dividends		27,160	12,735	21,772	13,740
Depreciation and amortization of intangible assets and property and equipment		1,537	1,504	1,106	1,081
Decrease in provisions for doubtful debts and off-balance sheet liabilities		(19,807)	(2,146)	(17,386)	(2,367)
(Profit)/loss from revaluation of securities, derivatives and loans		(207)	139	(207)	139
Loss from revaluation of investment property		168	530	61	388
Loss from revaluation of investment in subsidiaries		-	-	6,095	-
Share of (profit)/loss from associates		(118)	-	-	-
(Profit)/loss from sale of fixed and intangible assets		(348)	-	(348)	-
Dividends received		(28)	(18)	(28)	(2,062)
(Profit)/loss from foreign currency revaluation		(1,694)	13	(1,692)	21
Cash flow from operating activities before changes in assets and liabilities		**6,663**	**12,757**	**9,373**	**10,940**
(Increase)/decrease in loans and advances to customers		(18,420)	27,754	(4,352)	36,173
Increase)/decrease in due from credit institutions		1,632	-	1,632	-
(Increase)/decrease in financial assets designated at fair value through profit and loss		21,955	3,763	21,955	3,763
Increase/(decrease) in due to credit institutions		(91,299)	3,391	(91,299)	3,391
(Increase)/decrease in accrued income and deferred expenses		541	779	(432)	21
Decrease/(increase) in other assets and taxes		(3,439)	11,839	(4,315)	2,041
Increase/(decrease) in clients deposits		(233,383)	(43,051)	(232,772)	(43,481)
Increase/(decrease) in derivatives		(11,763)	13,754	(11,763)	13,754
Increase/(decrease) in accrued expenses and deferred income		4,434	(1,033)	4,383	(997)
Increase/(decrease) in other liabilities		343	(2,477)	(608)	(1,210)
Increase/(decrease) in cash and cash equivalents as a result of operating activities		**(322,736)**	**27,476**	**(308,198)**	**24,395**
Cash flow from investing activities					
(Acquisition) of property and equipment and intangible assets		(31)	(217)	(31)	(204)
Sale of property and equipment and intangible assets		-	3	-	2
Acquisition of participation in share capital of subsidiary and Business Unit		-	-	(8,000)	-
Sale of participation in share capital of subsidiary and Business Unit		-	-	-	285
(Acquisition) of investment property		(146)	-	(3)	-
Sale of investment property		7,491	371	760	1,129
Dividends received		28	18	28	2,062
Increase/(Decrease) in cash and cash equivalents as a result of investment activities		**7,342**	**175**	**(7,246)**	**3,274**
Cash flow from financing activities					
Dividends paid		-	(30,174)	-	(30,174)
Increase/(decrease) in cash and cash equivalents as a result of financing activities		**-**	**(30,174)**	**-**	**(30,174)**
Net (decrease) in cash and cash equivalents		**(315,394)**	**(2,523)**	**(315,444)**	**(2,505)**
Cash and cash equivalents at the beginning of the year		1,152,432	506,027	1,151,663	505,428
Profit/(Loss) of foreign currency revaluation on cash and cash equivalents		1,694	(13)	1,692	(21)
Cash and cash equivalents at the end of the year	11	**838,732**	**503,491**	**837,911**	**502,902**
Cash flow from interest received		52,644	24,089	46,420	21,673
Cash flow from interest paid		7,315	2,396	7,308	2,115

The accompanying notes are an integral part of these financial statements

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Luminor Bank AS was established as Rigas Komercbanka PLC on 26 June 1989. On 6 September 1991 it was incorporated in the Republic of Latvia as a joint stock company. The Bank and its subsidiaries (the Group) are engaged in banking and the financial services business.

On 25 August 2016 DNB Bank ASA, the sole shareholder of the Bank at that time, and Nordea Bank AB (publ) entered into an agreement to combine their operations in Estonia, Latvia and Lithuania in order to create a leading independent main financial services provider in the Baltics. The completion of the transaction was conditional upon receiving regulatory approvals. After receiving all approvals from the respective regulatory bodies, the transaction was closed on 1 October 2017.

As a part of the transaction:

- the Bank (AS DNB banka at that time) was renamed Luminor Bank AS;
- Luminor Group AB, the majority of the shares of which is owned by DNB Bank ASA and Nordea Bank AB (publ), became the sole shareholder of Luminor Bank AS;
- Nordea Bank AB (publ) transferred to Luminor Bank AS the assets and liabilities of Latvia branch of Nordea Bank AB (publ) as well as the shares of certain Latvian companies owned by Nordea Bank AB (publ) (including, among others, Luminor Pensions Latvia IPAS, Luminor Latvijas atklātais pensiju fonds AS and Luminor Līzings SIA).

On 1 October 2017 Nordea Bank AB and DNB ASA combined their Baltic business into a jointly owned bank, Luminor. This should be taken into account when 2017 reference figures are compared with 2018 figures.

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 As (Latvia) and Luminor Bank AB (Lithuania) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a) Reporting currency

The accompanying financial statements are reported in thousands of euro (EUR'000), unless otherwise stated.

b) Basis of presentation

The interim condensed financial statements for the six months ended 30 June 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Consolidated and Bank's annual financial statements as at 31 December 2017.

These financial statements comprise of both, the financial statements of the parent company AS Luminor Bank and the Group interim consolidated statements.

c) Consolidation

Subsidiaries

Subsidiaries are all investees over which the Bank has:

- Power (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power to affect its returns.

The existence and effect of potential voting rights are considered when assessing whether the Bank controls another entity. Investment into subsidiaries is initially recognised at cost in the Bank's separate financial statements. Subsidiaries are fully consolidated from the date on which the control is transferred to the Bank. They are de-consolidated from the date that the control ceases.
Accounting policies of subsidiaries are consistent with the policies adopted by the Bank. Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated upon consolidation.
The Bank assesses whether an impairment loss for subsidiaries should be recorded in the income statement at least once a year. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there are measurable changes in the estimated future cash flows, business growth and risk cost of subsidiaries.
Future events may occur that will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

Investment in associates

An associate is an entity over which the Group has a significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

The Group's investment into associate is accounted for using the equity method and initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. The statement of profit or loss reflects the Group's share of the results of operations of the associate. The financial statements of the associate are prepared for the same reporting period as the Group.

Once a year the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of the impairment as the difference between the recoverable amount of the associate and its carrying value and then recognises the loss as a share of profit of an associate in the statement of profit or loss.

Investments into associates in the Bank's separate financial statements are carried at cost less impairment (if any).

Significant accounting judgment regarding investment funds and pension funds management

The Group assesses that it does not control Investment and pension funds it manages. The Group does not have investments in funds it manages, it has a narrow scope of decision making powers (within local laws and regulations the funds' manager has a discretion about the assets in which to invest) and is not exposed to variable returns (remuneration is a fixed commission rate, which is commensurate with the services provided and there is no obligation to funds losses).

d) Foreign currency transalation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in EUR, which is the Bank's and subsidiaries' functional and presentation currency.
All monetary assets and liabilities denominated in foreign currencies are translated into EUR at the official rate of the European Central Bank valid at the reporting period end. Gains and losses arising from this translation are included in the income statement for the period. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction.

The principal rates of exchange (1 EUR to foreign currency units) set by the European Central Bank and used in the preparation of the Group's and the Bank's statements of financial position were as follows:

Reporting date	USD
As at 30 June 2018	1.16580
As at 31 December 2017	1.19930

e) Income and expense recognition

Interest income and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest rate method. Interest income includes coupons earned on fixed income investment securities.

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the effective interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Interest expense also comprises regulatory charges such as payments to Deposit Guarantee Fund and Single Resolution Fund as well as charge of financial stability, which are recognised in the statement of comprehensive income as incurred.

Fee and commission income and expense are recognised on an accrual basis. Fees earned from the provision of services over a period of time are recognised over that service period. Fees attributable to loan issuance and other credit related fees are deferred and recognised as an adjustment to the effective interest rate on the loan.

Fee and commission expense paid to other financial institutions are recognised as transaction costs and recorded using the effective interest rate method.

Income and expense other than interest and/ or commission and fee income/ expense represent items associated with the core business of related entities of the Group.

f) Use of judgements and estimates

The Group makes estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Except for IFRS 9 related estimates, further described in Note 3, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2017.

g) Seasonality of operations

The Group's banking and the financial services business is not highly seasonal.

3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's or Bank`s annual financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group or Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the effect of these changes are disclosed below.

Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

IFRS 9 Financial Instruments
The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of1 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.

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.

***Notes to the interim condensed financial statements** (continued)*

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.

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.

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:

Group

Financial assets	Original measurement category under IAS 39	New measurement category under IFRS 9	IAS 39 carrying amount 31 December 2017 EUR'000	New carrying amount under IFRS9 1 January 2018 EUR'000
Cash and balances with central banks	Loans and receivables	Amortised cost	1,067,214	1,067,214
Due from Banks and other credit institutions	Loans and receivables	Amortised cost	105,457	105,406
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)	76,308	76,308
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss	17,223	17,223
Available for sale financial instruments	Available for sale	Fair value through other comprehensive income	2,547	2,547
Loans and advances to customers	Loans and receivables	Amortised cost	2,850,906	2,837,431
Finance lease receivables	Loans and receivables	Amortised cost	521,542	520,722

Debt securitied 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 economicaly hedge the risk of debt decurities fair value. Derivatives are in 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 to 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

***Notes to the interim condensed financial statements** (continued)*

Bank

Financial assets	Original measurement category under IAS 39	New measurement category under IFRS 9	IAS 39 carrying amount 31 December 2017 EUR'000	New carrying amount under IFRS9 1 January 2018 EUR'000
Cash and balances with central banks	Loans and receivables	Amortised cost	1,067,214	1,067,214
Due from Banks and other credit institutions	Loans and receivables	Amortised cost	105,457	105,406
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)	76,308	76,308
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss	17,223	17,223
Available for sale financial instruments	Available for sale	Fair value through other comprehensive income	2,547	2,547
Loans and advances to customers	Loans and receivables	Amortised cost	2,850,906	2,837,431
Finance lease receivables	Loans and receivables	Amortised cost	521,542	520,722

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

Notes to the interim condensed financial statements *(continued)*

Reconciliation of statement of financial position balances from IAS 39 to IFSR 9

The following table reconciles 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:

Group

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	1,067,214	-	-	1,067,214
Due from banks and other credit institutions				
Opening balance under IAS 39	105,457	-	-	-
Remeasurement (ECL allowances)	-	-	(51)	-
Closing balance under IFRS 9	-	-	-	105,406
Loans and advances to customers				
Opening balance under IAS 39	2,850,906	-	-	-
Remeasurement (ECL allowances)	-	-	(13,475))	-
Closing balance under IFRS 9	-	-	-	2,837,431
Finance lease receivables				
Opening balance under IAS 39	521,542	-	-	-
Remeasurement (ECL allowances)	-	-	(820)	-
Closing balance under IFRS 9	-	-	-	520,722
Financial assets measured at amortised cost - total	4,545,119	-	(14,346)	4,530,773
Financial assets designated at fair value through profit or loss				
Opening balance under IAS 39 and closing balance under IFRS 9	76,308	-	-	76,308
Derivative financial instruments				
Opening balance under IAS 39 and closing balance under IFRS 9	17,223	-	-	17,223
Financial assets at fair value through profit or loss - total	93,531	-	-	93,531
Fair value through other comprehensive income				
Equity instruments				
Opening balance under IAS 39 and closing balance under IFRS 9	2,547	-	-	2,547
Assets at fair value through other comprehensive income - total	2,547	-	-	2,547

***Notes to the interim condensed financial statements** (continued)*

Bank

BankFinancial 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	**1,067,214**	-	-	**1,067,214**
Due from banks and other credit institutions				
Opening balance under IAS 39	**104,688**	-	-	-
Remeasurement (ECL allowances)	-	-	**(51)**	-
Closing balance under IFRS 9	-	-	-	**104,637**
Loans and advances to customers				
Opening balance under IAS 39	**3,384,498**	-	-	-
Remeasurement (ECL allowances)	-	-	**(12,737)**	-
Closing balance under IFRS 9	-	-	-	**3,371,761**
Financial assets measured at amortised cost - total	**4,557,169**	-	**(12,788)**	**4,544,381**
Financial assets designated at fair value through profit or loss				
Opening balance under IAS 39 and closing balance under IFRS 9	**76,308**	-	-	**76,308**
Derivative financial instruments				
Opening balance under IAS 39 and closing balance under IFRS 9	**17,223**	-	-	**17,223**
Financial assets at fair value through profit or loss - total	**93,531**	-	-	**93,531**
Fair value through other comprehensive income				
Equity instruments				
Opening balance under IAS 39 and closing balance under IFRS 9	**2,547**	-	-	**2,547**
Assets at fair value through other comprehensive income - total	**2,547**	-	-	**2,547**

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 IFSR 9 expected loss model at 1 January 2018:

Group

Financial assets	Loss allowance under IAS 39/Provision under IAS 37	Reclassifications	Remeasurements 31 December 2017	Credit loss allowance under IFRS 9
Amortised cost				
Cash and balances with central banks	-	-	-	-
Due from banks and other credit institutions	-	-	(51)	(51)
Loans and advances to customers	(151,377)	-	(465)	(151,842
Finance lease receivables	(3,439)	-	(813)	(4,252)
Total	**(154,816)**	-	**(1,329)**	**(156,145)**

Notes to the interim condensed financial statements (continued)

Bank

Financial assets	Loss allowance under IAS 39/Provision under IAS 37	Reclassifications	Remeasurements 31 December 2017	Credit loss allowance under IFRS 9
Amortised cost				
Cash and balances with central banks	-	-	-	-
Due from banks and other credit institutions	-	-	(51)	(51)
Loans and advances to customers	(157,477)	-	486	(156,991)
Finance Lease receivables	-	-	-	-
Total	**(157,477)**	-	**435**	**(157,042)**

Reconcilation of changes in initial application of IFRS 9

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

Group

Remeasurements to loans and finance lease receivables,		**14,346**
of which:	Credit loss allowances	**1,329**
	Reported under loan gross amount for originated credit impaired balances	**13,017**
Provisions for off balance sheet		**1,866**
Total impact to equity		**16,212**

Bank

Remeasurements to loans and finance lease receivables,		**12,574**
of which:	Credit loss allowances	**(435)**
	Reported under loan gross amount for originated credit impaired balances	**13,009**
Provisions for off balance sheet		**1,610**
Total impact to equity		**14,184**

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 did not have 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).

***Notes to the interim condensed financial statements** (continued)*

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 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.

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 and the Bank'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 three stages model was introduced:

Stage 1 – part of the portfolio for which no significant deterioration in credit quality has occurred since 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 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 and
- 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:

***Notes to the interim condensed financial statements** (continued)*

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;
- Sale 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 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). Macroeconomic scenarios that are prepared for the estimation of expected losses are consistent with scenarios which are used in credit risk stress testing process. 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. 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).

***Notes to the interim condensed financial statements** (continued)*

4 DUE FROM CREDIT INSTITUTIONS

	30 June 2018 Group EUR'000	31 December 2017 Group EUR'000	30 June 2018 Bank EUR'000	31 December 2017 Bank EUR'000
Demand deposits				
Republic of Latvia credit institutions	821	784	-	15
OECD credit institutions*	51,108	32,464	51,108	32,464
Non-OECD credit institutions	353	1,386	353	1,386
Total demand deposits	**52,282**	**34,634**	**51,461**	**33,865**
Term deposits				
OECD credit institutions**	13,041	70,823	13,041	70,823
Total term deposits	**13,041**	**70,823**	**13,041**	**70,823**
Total	**65,323**	**105,457**	**64,502**	**104,688**

* Including DNB Bank ASA EUR 22,276 thousand , Nordea group EUR 28,571 thousand and Luminor group EUR 153 thousand (Dec 2017: DNB Bank ASA EUR 15,438 thousand , Nordea group EUR 16,915 thousand and Luminor group EUR 84 thousand).

** Including DNB Bank ASA EUR 0 thousand and Luminor group EUR 13,031 thousand (31 Dec 2017: DNB Bank ASA EUR 56,170 thousand and Luminor group EUR 14,663 thousand).

The effective interest rate on balances due from other credit institutions as for 30 June 2018 was 0.07% (31 December 2017: -0.02%)

5 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans by products

	30 June 2018 Group EUR'000	31 December 2017 Group EUR'000	30 June 2018 Bank EUR'000	31 December 2017 Bank EUR'000
Mortgage loans	2,151,913	2,262,338	2,176,681	2,287,288
Commercial loans	769,232	648,359	1,261,471	1,163,094
Leasing	523,726	524,981	-	-
Card loans	19,560	19,645	19,564	19,652
Credit for consumption	33,685	32,285	33,685	32,285
Other	14,081	39,656	14,081	39,656
	3,512,197	**3,527,264**	**3,505,482**	**3,541,975**
Less allowances for loan impairment (Note 11)	(117,786)	(154,816)	(113,218)	(157,477)
Total	**3,394,411**	**3,372,448**	**3,392,264**	**3,384,498**

(b) The following table provides the division of loans and advances to customers by quality:

	30 June 2018 Group EUR'000	31 December 2017 Group EUR'000	30 June 2018 Bank EUR'000	31 December 2017 Bank EUR'000
Neither past due nor impaired	3,004,236	3,018,821	3,037,884	3,047,698
Past due but not impaired	218,783	220,963	193,149	192,791
Impaired	289,178	287,480	274,449	301,486
Total gross loans and advances to customers	**3,512,197**	**3,527,264**	**3,505,482**	**3,541,975**
Less allowances for loan impairment	(117,786)	(154,816)	(113,218)	(157,477)
Total net loans and advances to customers	**3,394,411**	**3,372,448**	**3,392,264**	**3,384,498**

***Notes to the interim condensed financial statements** (continued)*

5 LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) The following table provides the division of loans and advances to customers past due but not impaired:

	30 June 2018 Group EUR'000	31 December 2017 Group EUR'000	30 June 2018 Bank EUR'000	31 December 2017 Bank EUR'000
Past due up to 30 days	199,031	165,805	179,333	141,546
Past due 31-60 days	15,326	43,611	9,846	40,782
Past due 61-90 days	4,304	9,463	3,848	9,247
Past due over 90 days	122	2,084	122	1,216
Total	**218,783**	**220,963**	**193,149**	**192,791**

6 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2018 Group EUR'000	31 December 2017 Group EUR'000	30 June 2018 Bank EUR'000	31 December 2017 Bank EUR'000
Debt securities				
Latvian government securities	31 159	46 111	31 159	46 111
OECD financial institutions securities	23 137	30 197	23 137	30 197
Total debt securities	**54 296**	**76 308**	**54 296**	**76 308**

	Moody's equivalent grades	30 June 2018 EUR'000	30 June 2018 %	31 December 2017 EUR'000	31 December 2017 %
High grade					
Risk rating class 1	**Aaa**	-	-	-	-
Risk rating class 2	**Aa1-A3**	54,296	100	76,308	100
Risk rating class 3	**Baa1-Baa2**	-	-	-	-
Risk rating class 4	**Baa3**	-	-	-	-
Not rated		-	-	-	-
Total		**54,296**	**100**	**76,308**	**100**

* Latvian government securities are classified according to credit rating of Latvia; OECD financial institutions securities are classified according to credit rating of covered securities. In February 2015 the international credit rating agency Moody's Investors Service upgraded Latvia's credit rating from Baa1 to A3. In July 2017 Moody's confirmed it's A3 rating.

The effective interest rate on securities at fair value through profit or loss as at 30 June 2018 was 0.1% (31 December 2017: 0.1%).

***Notes to the interim condensed financial statements** (continued)*

7 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2018 Group EUR'000	31 December 2017 Group EUR'000	30 June 2018 Bank EUR'000	31 December 2017 Bank EUR'000
Equity instruments				
VISA Inc. shares	3,063	2,526	3,063	2,526
S.W.I.F.T. SCRL shares	79	21	79	21
Total	3,142	2,547	3,142	2,547

8 INVESTMENTS IN SUBSIDIARIES

The Bank's investments in subsidiaries are specified as follows:

	Share capital EUR'000	Bank's share %	Investment value 30 June 2018 EUR'000	Impairment 30 June 2018 EUR'000	Net investment Value 30 June 2018 EUR'000	Investment value 31 December 2017 EUR'000	Impairment 31 December 2017 EUR'000	Net investment Value 31 December 2017 EUR'000
SIA Luminor Līzings Latvija	4,838	100	4,838	-	4,838	4,838	-	4,838
IPAS Luminor Asset Management	3,000	100	948	-	948	948	-	948
SIA Skanstes 12	1,181	100	1,181	-	1,181	1,181	-	1,181
SIA Salvus*	9,467	100	13,566	12,068	1,498	9,467	9,467	-
SIA Salvus 2*	3,031	100	3,031	695	2,336	3,031	695	2,336
SIA Salvus 3*	1,307	100	4,007	3,684	323	1,307	1,307	-
SIA Salvus 4*	735	100	1,935	1,851	84	735	735	-
SIA Salvus 6*	300	100	300	-	300	300	-	300
SIA Luminor Līzings	4,410	100	39,083	-	39,083	39,083	-	39,083
AS Luminor Latvijas atklātais pensiju fonds	400	100	200	-	200	200	-	200
IPAS Luminor Pensions Latvia	2,000	100	3,434	-	3,434	3,434	-	3,434
SIA Promano Lat*	29,999	100	7,054	5,725	1,329	7,054	5,725	1,329
SIA Baltik Īpašums*	3	100	440	-	440	440	-	440
SIA Luminor Finance*	1,088	100	630	-	630	630	-	630
SIA Trioleta*	3,965	100	3,573	1,227	2,346	3,573	1,227	2,346
SIA Realm*	10,002	100	6,332	2,890	3,442	6,332	2,890	3,442
	75,726		**90,552**	**28,140**	**62,412**	**82,553**	**22,046**	**60,507**

* Subsidiaries of Luminor bank AS were established with the aim to ensure sales and/or management of real estate foreclosed in the course of compulsory and/or voluntary collection proceedings.

Notes to the interim condensed financial statements (continued)

9 OTHER ASSETS

	30 June 2018 Group EUR'000	31 December 2017 Group EUR'000	30 June 2018 Bank EUR'000	31 December 2017 Bank EUR'000
Guarantee deposits for auctions and prepayments for investment property	12,335	122	12,330	6
Prepayments and overpaid taxes	1,748	963	1,164	14
Credit card claims and other payment services	4,805	5,690	4,805	6,360
Short term debts	269	11,276	269	11,276
Other	8,968	7,256	5,946	3,349
Total	**28,125**	**25,307**	**24,514**	**21,005**
Less provisions for debtors	(581)	(423)	(370)	(370)
Total	**27,544**	**24,884**	**24,144**	**20,635**

10 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial instruments whose value depends on the value of one or more underlying assets defined in the contract.

Derivatives are used to hedge market risk positions arising from ordinary banking operations and from derivative transactions with counterparties.

The Group's and the Bank's counterparty credit risk represents the potential cost to replace derivative contracts if counterparties fail to perform their obligation. Credit risk divides into current and potential credit risk. Current credit risk is the risk that the party owing more than the bank in a derivative contract will default at the reporting date. Potential credit risk is the risk that the counterparty will default at any future time during the life of the contract.

To control the level of credit risk taken, the Group and the Bank assess counterparties using similar techniques as for its lending activities. The counterparty credit risk is managed primarily through limitation of exposures to each counterparty, valuation of exposures on a daily basis and collateralization of exposures.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on off-balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and do not indicate the Group's and the Bank's exposure to credit risks. The financial result from positions in derivatives becomes favorable or unfavorable as a result of fluctuations in market prices, such as interest rates, foreign exchange rates and commodity prices relative to the terms specified in agreements.

The notional amounts and fair values of derivative instruments held are set out in the following table (Group and Bank):

	30 June 2018			31 December 2017		
		Fair value			Fair value	
	Contract notional amount	Assets	Liabilities	Contract notional amount	Assets	Liabilities
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Derivatives held for trading:						
- currency swaps*	808,572	29,074	21,952	1,080,887	15,673	20,131
- interest rate swaps	311,577	1,377	813	347,901	708	517
- forwards	52,804	313	212	48,078	364	282
- options	55,999	253	168	71,831	354	221
- commodity	6,711	667	557	1,203	124	118
Total		**31,684**	**23,702**		**17,223**	**21,269**

* Including cross-currency interest rate swaps

Notes to the interim condensed financial statements (continued)

11 PROVISIONS FOR IMPAIRMENT LOANS AND OTHER ASSETS (continued)

Group

	Stage 1 EUR'000	Stage 2 EUR'000	Stage3 EUR'000	IAS 39 EUR'000	Total EUR'000
31 December 2016	-	-	-	**76,964**	**76,964**
Fully provided and written off	-	-	-	(10,034)	(10,034)
Charge to statement of comprehensive income	-	-	-	(405)	(405)
Interest income due to shortening of diuscounting period	-	-	-	(729)	(729)
30 June 2017	-	-	-	**(65,796)**	**(65,796)**
Fully provided and written off	-	-	-	(15,274)	(15,274)
Charge to statement of comprehensive income	-	-	-	7,801	7,801
Interest income due to shortening of diuscounting period	-	-	-	(1,075)	(1,075)
Acquired through banks'merger	-	-	-	97,568	97,568
31 December 2017	-	-	-	**154,816**	**154,816**
IFRS 9 impact	4,112	18,269	133,713	(154,816)	1,278
Changes in allowances during the period	1,170	(3,961)	(882)	-	(3,673)
Loans written off during the period	(2,228)	(18)	(32,746)	-	(34,992)
Other changes	81	37	239	-	357
30 June 2018	**3,135**	**14,327**	**100,324**	-	**117,786**

Bank

	Stage 1 EUR'000	Stage 2 EUR'000	Stage3 EUR'000	IAS 39 EUR'000	Total EUR'000
31 December 2016	-	-	-	**68,499**	**68,499**
Fully provided and written off	-	-	-	(21,552)	(21,552)
Charge to statement of comprehensive income	-	-	-	(1,110)	(1,110)
Interest income due to shortening of diuscounting period	-	-	-	(502)	(502)
30 June 2017	-	-	-	**45,335**	**45,335**
Fully provided and written off	-	-	-	2,173	2,173
Charge to statement of comprehensive income	-	-	-	14,571	14,571
Interest income due to shortening of diuscounting period	-	-	-	(1,302)	(1,302)
Acquired through banks'merger	-	-	-	96,700	96,700
31 December 2017	-	-	-	**157,477**	**157,477**
IFRS 9 impact	9,583	16,892	130,516	(157,477)	(486)
Changes in allowances during the period	(4,754)	(2,957)	(1,610)	-	(9,321)
Loans written off during the period	(2,213)	(17)	(32,456)	-	(34,686)
Other changes	26	16	192	-	234
30 June 2018	**2,642**	**13,934**	**96,642**	-	**113,218**

Notes to the interim condensed financial statements (continued)

12 LIABILITIES TO CENTRAL BANKS

	30 June 2018 Group EUR'000	31 December 2017 Group EUR'000	30 June 2018 Bank EUR'000	31 December 2017 Bank EUR'000
Central Bank	26,499	60,500	26,499	60,500
Accrued interest	-	-	-	-
Terms deposits	**26,499**	**60,500**	**26,499**	**60,500**

In June 2018 Luminor Bank AS (Latvia) paid back EUR 34 million of EUR 60.5 million received under the European Central Bank's Targeted Longer-Term Refinancing Operations (TLTRO) into the second series of Targeted Longer-Term Refinancing Operations (TLTRO II) for 4 years. According to the borrowing conditions of TLTROII in June Central Bank of Latvia recalculated interest rate for TLTROII (initial rate was 0%). For Luminor Bank AS it was stated -0.40% for the entire period of this funding.

13 DUE TO OTHER CREDIT INSTITUTIONS

	30 June 2018 Group EUR'000	31 December 2017 Group EUR'000	30 June 2018 Bank EUR'000	31 December 2017 Bank EUR'000
Demand deposits				
Republic of Latvia credit institutions	1,231	1,684	1,231	1,684
OECD credit institutions	9,740	3,648	9,740	3,648
Non-OECD credit institutions	-	244	-	244
Total demand deposits	**10,971**	**5,576**	**10,971**	**5,576**
Term deposits				
Republic of Latvia credit institutions	633	14,806	633	14,806
OECD credit institutions*	1,107,000	1,150,000	1,107,000	1,150,000
	1,107,633	**1,164,806**	**1,107,633**	**1,164,806**
Accrued interest	296	421	296	421
Total term deposits	**1,107,929**	**1,165,227**	**1,107,929**	**1,165,227**
Total deposits	**1,118,900**	**1,170,803**	**1,118,900**	**1,170,803**

* Including DNB Bank ASA - EUR 553,500 thou, Nordea Bank AB (Publ), Finnish Branch - EUR 553,500 thou (Dec 31 2017: DNB Bank ASA: 575,000 thousand; Nordea Bank AB (Publ), Finnish Branch: 575,000 thousand).

***Notes to the interim condensed financial statements** (continued)*

14 DUE TO CUSTOMERS

Analysis of deposits by maturity and client type

	30 June 2018 Group EUR'000	31 December 2017 Group EUR'000	30 June 2018 Bank EUR'000	31 December 2017 Bank EUR'000
Demand deposits				
Private companies	987,489	1,131,626	1,001,125	1,145,826
Individuals	803,425	795,842	803,425	795,842
State institutions	245,029	236,196	245,029	236,196
Funds in transit	15,867	17,745	15,867	17,745
Non-residents OECD	58,792	34,399	58,792	34,399
Non-residents non-OECD	65,983	79,017	65,983	79,017
Total demand deposits	**2,176,585**	**2,294,825**	**2,190,221**	**2,309,025**
Term deposit accounts				
Private companies	237,421	218,237	242,811	222,454
Individuals	254,416	228,975	254,416	228,975
State institutions	8,964	152,992	8,964	152,992
Non-residents OECD	4,712	1,910	4,712	1,910
Non-residents non- OECD	26,591	45,192	26,591	45,192
Accrued interest	752	693	755	695
Total term deposits	**532,856**	**647,999**	**538,249**	**652,218**
Total deposits and transit funds	**2,709,441**	**2,942,824**	**2,728,470**	**2,961,243**

15 OTHER LIABILITIES

	30 June 2018 Group EUR'000	31 December 2017 Group EUR'000	30 June 2018 Bank EUR'000	31 December 2017 Bank EUR'000
Accrued liabilities	3,055	3,325	251	227
Accounts payable	1,217	1,759	178	1,463
Other short-term liabilities	1,585	550	857	823
	5,857	**5,634**	**1,286**	**2,513**

16 OFF-BALANCE SHEET ITEMS

Guarantees, letters of credit and other commitments

	30 June 2018 Group EUR'000	31 December 2017 Group EUR'000	30 June 2018 Bank EUR'000	31 December 2017 Bank EUR'000
Memorandum items				
Contingent liabilities				
Guarantees	183,008	198,785	183,008	198,785
Commitments				
Loan issuing commitments	398,421	424,847	492,199	461,405
Guarantee issue agreements	67,453	73,086	67,453	74,086
Letters of credit	27,840	26,578	27,840	26,578
Total	**676,722**	**723,296**	**770,500**	**760,854**

Notes to the interim condensed financial statements (continued)

17 RELATED PARTY TRANSACTIONS

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

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

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, foreign currency transactions and financial instruments. These transactions were carried out on commercial terms and at market rates. The volumes of related party transactions, outstanding balances at the year end, and relating income and expense for the year are as follows:

Due from related parties	**30 June 2018 Group EUR'000**	**31 December 2017 Group EUR'000**	**30 June 2018 Bank EUR'000**	**31 December 2017 Bank EUR'000**
Due from joint venturers:	78,975	102,152	78,975	102,152
Of which DNB group companies	42,827	84,550	42,827	84,550
Of which Nordea group companies	36,148	17,602	36,148	17,602
Due from subsidiaries	-	-	626,060	581,793
Due from other related parties(Luminor group):	95,967	15,160	95,967	15,160
Balances due from related parties	**174,942**	**117,312**	**801,002**	**699,105**

Due to related parties

	30 June 2018 Group EUR'000	**31 December 2017 Group EUR'000**	**30 June 2018 Bank EUR'000**	**31 December 2017 Bank EUR'000**
Due to joint venturers:	1,125,343	1,166,066	1,125,343	1,166,009
Of which DNB group companies	559,690	582,478	559,690	582,421
Of which Nordea group companies	565,653	583,588	565,653	583,588
Due to subsidiaries	-	-	19,041	18,435
Due to other related parties (Luminor group):	2,620	2,175	2,620	2,175
Balances due to related parties	**1,127,963**	**1,168,241**	**1,147,004**	**1,186,619**

***Notes to the interim condensed financial statements** (continued)*

17 RELATED PARTY TRANSACTIONS (continued)

The Group's and Bank's income/expenses from transactions with related parties are analyzed as follows:

	for the six months ended 30 June			
	2018 Group EUR'000	**2017 Group EUR'000**	**2018 Bank EUR'000**	**2017 Bank EUR'000**
Interest received from money market deposits/ loans	286	759	2,207	965
Joint venturers and group companies	208	759	208	759
of which: DNB group companies	35	759	35	759
of which: Nordea group companies	173	-	173	-
Subsidiaries	-	-	1,921	206
Other related parties (Luminor group)	78	-	78	-
Commission received	177	389	180	620
Joint venturers and group companies	148	8	148	8
of which: DNB group companies	76	8	76	8
of which: Nordea group companies	72	-	72	-
Subsidiaries	-	-	3	231
Other related parties (Luminor group)	29	381	29	381
Dividends received	-	-	-	2,044
Subsidiaries	-	-	-	2,044
Other income	3,147	909	3,485	1,961
Joint venturers and group companies	346	46	49	46
of which: DNB group companies	325	46	28	46
of which: Nordea group companies	21	-	21	-
Subsidiaries	-	-	635	1,337
Other related parties (Luminor group)	2,801	863	2,801	578
Interest paid on money market deposits/loans	**(1,286)**	**(1,191)**	**(1,289)**	**(909)**
Joint venturers and group companies	(1,286)	(1,190)	(1,286)	(907)
of which: DNB group companies	(711)	(1,190)	(711)	(907)
of which: Nordea group companies	(575)		(575)	-
Subsidiaries	-	-	(3)	(1)
Other related parties (Luminor group)	-	(1)	-	(1)
Income/Expenses from derivatives	**4,920**	**4,071**	**4,920**	**4,071**
Joint venturers and group companies	4,919	4,071	4,919	4,071
of which: DNB group companies	259	4,071	259	4,071
of which: Nordea group companies	4,660	-	4,660	-
Subsidiaries	-	-	-	-
Other related parties (Luminor group)	1	-	1	-
Derivative revaluation result	**7,025**	**(15 389)**	**7,025**	**(15 389)**
Joint venturers and group companies	7,025	(15 389)	7,025	(15 389)
of which: DNB group companies	7,222	(15 389)	7,222	(15 389)
of which: Nordea group companies	(197)	-	(197)	-
Subsidiaries	-	-	-	-
Other related parties (Luminor group)	-	-	-	-
Commission paid	**(295)**	**(71)**	**(295)**	**(71)**
Joint venturers and group companies	(259)	(38)	(259)	(38)
of which: DNB group companies	(204)	(38)	(204)	(38)
of which: Nordea group companies	(55)	-	(55)	-
Subsidiaries	-	-	-	-
Other related parties (Luminor group)	(36)	(33)	(36)	(33)
Other expenses	**(5,885)**	**(646)**	**(6,557)**	**(1,314)**
Joint venturers and group companies	(2,413)	(355)	(2,413)	(355)
of which: DNB group companies	(111)	(355)	(111)	(355)
Of which : Nordea group companies	(2,302)	-	(2,302)	-
Subsidiaries	-	-	(672)	(668)
Other related parties (Luminor group)	(3,472)	(291)	(3,472)	(291)
	8,089	**(11,169)**	**(9,676)**	**(8,022)**

As at 30 June 2018 loans issued to key management personnel amounted to EUR 671 thousand (31 Dec 2017: EUR 560 thousand).
As at 30 June 2018 the provision for investment in subsidiaries amounted to EUR 28,140 thousand (31 Dec 2017: EUR 22,045 thousand)

On March 2017 dividends where paid to AS DNB Banka shareholder in the amount of EUR 30,174 thousand.

***Notes to the interim condensed financial statements** (continued)*

18 FAIR VALUES OF ASSETS AND LIABILITIES

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 are not available, judgment is required to establish fair values.

The Bank and the Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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 re-assessing 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.

Assets
Fair value of securities has been estimated based on quoted price where available. To build the yield curve, debt securities of the same issuer with known average bid yields are used and connected into a curve using a linear interpolation. An average bid yield is used in case the market price is observable from more than one source. In assessing the fair value for other financial assets, the management has performed discounted cash flow analysis; up-to-date market information at assessment moment is being used 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.

Liabilities
Fair value of financial liabilities at amortized cost such as Due to credit institutions and Due to customers which are not on demand have been estimated based on discounted cash flow model using interest rates for similar products as at year end. Fair value of those financial liabilities that are on demand or have floating interest rate (e.g. Due to credit institutions) have been estimated to be approximately equal to its carrying amount.

A discounted cash flow model is used to value foreign exchange derivatives, commodity derivatives and over-the-counter vanilla interest rate swaps. The model estimates future variable cash flows and discounts those cash flows, together with the fixed cash flows, to arrive at a net present value. Market value of interest rate option is calculated using Black-Scholes option pricing model.

(a) Fair value hierarchy: assets and liabilities recognized at fair value in the statement of financial position

Group			**30 June 2018**		
	Level 1 EUR'000	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total fair value EUR'000**	**Statement of financial position EUR'000**
Recurring fair value					
Assets					
Derivatives	-	31,684	-	**31,684**	**31,684**
Financial assets designated at fair value through profit or loss	-	54,296	-	**54,296**	**54,296**
Financial assets at fair value through other comprehensive income	-	-	3,142	**3,142**	**3,142**
Investment properties	-	-	29,133	**29,133**	**29,133**
Liabilities					
Derivatives	-	10,971	-	**10,971**	**10,971**

Notes to the interim condensed financial statements *(continued)*

18 FAIR VALUES OF ASSETS AND LIABILITIES *(continued)*

Bank — **30 June 2018**

	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair value EUR'000	Statement of financial position EUR'000
Recurring fair value					
Assets					
Derivatives	-	31,684	-	**31,684**	**31,684**
Financial assets designated at fair value through profit or loss	-	54,296	-	**54,296**	**54,296**
Financial assets at fair value through other comprehensive income	-	-	3,142	**3,142**	**3,142**
Investment properties	-	-	722	**722**	**722**
Liabilities					
Derivatives	-	10,971	-	**10,971**	**10,971**

(a) Fair value hierarchy: assets and liabilities recognized at fair value in the statement of financial position *(continued)*

Group — **31 December 2017**

	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair value EUR'000	Statement of financial position EUR'000
Recurring fair value					
Assets					
Derivatives	-	17,223	-	**17,223**	**17,223**
Financial assets designated at fair value through profit or loss	-	76,308	-	**76,308**	**76,308**
Financial assets at fair value through other comprehensive income	-	-	2,547	**2,547**	**2,547**
Investment properties	-	-	34,136	**34,136**	**34,136**
Liabilities					
Derivatives	-	21,269	-	**21,269**	**21,269**

Bank — **30 June 2017**

	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair value EUR'000	Statement of financial position EUR'000
Recurring fair value					
Assets					
Derivatives	-	17,223	-	**17,223**	**17,223**
Financial assets designated at fair value through profit or loss	-	76,308	-	**76,308**	**76,308**
Financial assets at fair value through other comprehensive income	-	-	2,547	**2,547**	**2,547**
Investment properties	-	-	1,021	**1,021**	**1,021**
Liabilities					
Derivatives	-	21,269	-	**21,269**	**21,2691**

* Under Level 3 of fair value hierarchy there are shares classified, the fair value of which is measured based on estimated fair value.

***Notes to the interim condensed financial statements** (continued)*

18 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

(b) Fair value hierarchy: assets and liabilities recognized at amortized cost in the statement of financial position

Group	**30 June 2018**				
	Level 1 EUR'000	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total fair value EUR'000**	**Statement of financial position EUR'000**
Assets					
Due from credit institutions on demand	-	52,282	-	52,282	**52,282**
Loans	-	-	3,293,547	3,293,547	**3,407,452**
Liabilities					
Liabilities to credit institutions on demand	-	10,971	-	10,971	**10,971**
Financial liabilities at amortized cost	-	-	3,817,597	3,817,597	**3,817,370**

Bank	**31 June 2018**				
	Level 1 EUR'000	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total fair value EUR'000**	**Statement of financial position EUR'000**
Assets					
Due from credit institutions on demand	-	51,461	-	**51,461**	**51,461**
Loans	-	-	3,291,400	**3,291,400**	**3,405,305**
Liabilities					
Liabilities to credit institutions on demand	-	10,971	-	**10,971**	**10,971**
Financial liabilities at amortized cost	-	-	3,836,626	**3,836,626**	**3,836,399**

Group	**31 December 2017**				
	Level 1 EUR'000	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total fair value EUR'000**	**Statement of financial position EUR'000**
Assets					
Due from credit institutions on demand	-	34,634	-	**34,634**	**34,634**
Loans	-	-	3,348,391	**3,348,391**	**3,443,271**
Liabilities					
Liabilities to credit institutions on demand	-	5,576	-	**5,576**	**5,576**
Financial liabilities at amortized cost	-	-	4,108,278	**4,108,278**	**4,108,051**

Bank	**31 December 2017**				
	Level 1 EUR'000	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total fair value EUR'000**	**Statement of financial position EUR'000**
Assets					
Due from credit institutions on demand	-	33,865	-	**33,865**	**33,865**
Loans	-	-	3,359,531	**3,359,531**	**3,455,321**
Liabilities					
Liabilities to credit institutions on demand	-	5,576	-	**5,576**	**5,576**
Financial liabilities at amortized cost	-	-	4,126,697	**4,126,697**	**4,126,470**

There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the six-month period ended 30 June 2018.

Notes to the interim condensed financial statements (continued)

18 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

(c) Fair value: investment properties and fixed assets (building)

Classes of investment properties

Level 3 measurement of fair value is applied for all investment properties. Properties are categorized according to the real estate segment:

- residential (apartments, living houses)
- land plots
- commercial objects

Fair value measurement, valuation techniques, changes in valuation techniques, inputs and other key information

Valuation methods in fair value measurement have remained as before – market comparable method, income capitalization method and discounted cash flow method (DCF). All valuations are carried out according to the market value definition and calculations are performed at highest and best use.

Portfolio	Valuation technique	Inputs		Average per square meter 2018, EUR	Range* per sqm 2018, EUR
Residential					
Apartments	comparable method			1080	23-2,667
Living house	comparable method			493	102,-1,963
Land plots					
Residential (incl. agricult.)	comparable method			7.38	1-212
Commercial	comparable method, DCF			47	1-,11,358
Commercial					
Offices	DCF	rent rate	3 – 8.5 EUR/sqm		
		occupancy	70%-90%		
		discount rates	9%-12%		
		exit yield	8%-11%		
Industrial	DCF	rent rate	0.5 – 3 EUR/sqm		
		occupancy	70%-90%		
		discount rates	10%-15%		
		exit yield	9%-14%		

* Due to extensive variety of properties in real estate portfolio, indicated price ranges are wide. Each portfolio consists of properties in different technical conditions/with different zoning, located in different regions of Latvia. Value difference between capital city and other cities/country side is very substantial.

Reconciliation of balances of classes of investment property

Group

	Apartments EUR'000	Land plots EUR'000	Living houses EUR'000	Commercial objects EUR'000	Total EUR'000
Book value as at 31 December 2017	**12,281**	**8,990**	**7,287**	**5,578**	**34,136**
Additions, purchases of new properties	11	132	3	-	**146**
Net result from adjustment to fair value projects	(41)	(60)	(23)	(44)	**(168)**
Disposal	(2,858)	(755)	(1,368)	-	**(4,981)**
Book value as at 30 June 2018	**9,393**	**8,307**	**5,899**	**5,534**	**29,133**

***Notes to the interim condensed financial statements** (continued)*

18 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

(c) Fair value: investment properties and fixed assets (building) (continued)

Bank

	Apartments EUR'000	Land plots EUR'000	Living houses EUR'000	Commercial objects EUR'000	Total EUR'000
Book value as at 31 December 2017	**312**	**118**	**161**	**430**	**1,021**
Additions, purchases of new properties	-	-	3	-	**3**
Net result from adjustment to fair value projects	-	(6)	(11)	(44)	**(61)**
Disposal	(92)	(44)	(105)	-	**(241)**
Book value as at 30 June 2018	**220**	**68**	**48**	**386**	**722**

Reconciliation of balances of classes of investment property

Group

	Apartments EUR'000	Land plots EUR'000	Living houses EUR'000	Commercial objects EUR'000	Total EUR'000
Book value as at 31 December 2016	**9,929**	**11,663**	**3,244**	**12,018**	**36,854**
Additions, purchases of new properties	15,285	4,959	8,733	12,075	**41,052**
Net result from adjustment to fair value projects	(3,391)	(3,764)	(1,649)	(1,037)	**(9,841)**
Disposal	(8 478)	(2,486)	(2,831)	(17,478)	**(31,273)**
Reclassification	(1,064)	(1,382)	(210)	-	(2,656)
Book value as at 30 June 2017	**12,281**	**8,990**	**7,287**	**5,578**	**34,136**

Bank

	Apartments EUR'000	Land plots EUR'000	Living houses EUR'000	Commercial objects EUR'000	Total EUR'000
Book value as at 31 December 2016	**2,497**	**655**	**930**	**668**	**4,750**
Additions, purchases of new properties	14	-	-	-	**14**
Net result from adjustment to fair value projects	(196)	(284)	(15)	(82)	**(577)**
Disposal	(1,703)	(244)	(544)	(156)	**(2,647)**
Reclassification	(300)	(9)	(210)	-	**(519)**
Book value as at 30 June 2017	**312**	**118**	**161**	**430**	**1,021**

***Notes to the interim condensed financial statements** (continued)*

18 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

General approach

Process

Revaluation was conducted by virtue of the new guidelines:

Fair value measurement principles are applied for the whole repossessed real estate portfolio where assets are classified as investment property and property for sale (in Banks' balance sheet). Total fair value adjustment result is approved at a relevant authority level.

Annual fair value adjustment is performed for total portfolio. Quarterly fair value adjustment covers properties with sales prices below book values.

Fair value measurement is performed as case by case on the following principles:

	Book value above EUR 300 thousand	Book value below EUR 300 thousand
External valuation should be made	Once per year	Once per 3 years
Book value adjustments if lower sale price is applied	Quarterly	Quarterly

When adjusting balance sheet value of property, last evaluation and also sales price (after taxes) set by the Bank has to be compared. Lowest of the two values has to be used as new book value.

Depending on type of property, acquisition conditions and other aspects different level of VAT might be applicable when property is sold. When fair value adjustment is done book value has to be set to the value which would be received after VAT is paid.

Additional Value Decrease by 10%

All individual valuations can be considered as subjective, so there exists and can exist a difference between two valuators/valuations (i.e. market values) for one property. Luminor uses a number of valuation counterparties and also experiences that external evaluations among them differ. Latvian Association of Property Appraisers accepts difference up to +/- 15% depending on the complexity of the property. To avoid reflecting over-optimistic valuations in Luminor books additional downward adjustments by 10% are applied.
Note: Such additional adjustment was applied also previously by DNB for assets with value up to EUR 500 thousand and recent results show that such practice is reasonable (average transactions in Q3 2017 were with -1% margin to the balance values which included particular buffer).

Exception:
As to properties with signed purchase agreements (if applicable is made the VAT adjustment), the transaction amount is the new revaluation result (proposed book value), including situations, where the transaction amount exceeds the Current book value.

Sensitivity information

Fair value measurement inputs (i.e. rent rates and their growth, occupancy rates, discount rates, yield etc.) used in income method calculations (direct income capitalization method or discounted cash flow method) can significantly influence outcome of calculations. Higher rent rates and occupancy rates gives higher value and vice versa if the rates are lower. Higher discount rates and exit yields gives lower value and vice versa if the rates are lower.
However all those inputs are connected and significant changes in one input trigger changes in other inputs; e.g. if an optimistic rent rates and long term occupancy rates are used then it affects discount rate and it should go up and this understanding is maintained through the whole valuation process.

Notes to the interim condensed financial statements (continued)

20 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below allocates the Bank's assets and liabilities to maturity groupings based on the time remaining from the statement of financial position date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 30 June 2018 was as follows:

	Up to 1 month	1 - 3 months	3 – 12 months	Over 12 months	Total
	EUR`000	EUR`000	EUR`000	EUR`000	EUR`000
ASSETS					
Cash and balances with central banks	797,410	-	-	-	797,410
Due from other credit institutions (demand)	51,461	-	-	-	51,461
Derivatives_assets	2,255	3,397	2,763	23,269	31,684
Financial assets designated at fair value through profit or loss:	54,296	-	-	-	54,296
Debt securities and other fixed income securities	54,296	-	-	-	54,296
Investment funds	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	-	3,142	3,142
Loans and advances	29,003	114,131	419,592	2,842,579	3,405,305
Due from other credit institutios (term)	0	10	3,270	9,761	13,041
Loans to customers	29,003	114,121	416,322	2,832,818	3,392,264
Accrued income and deferred expenses	1,982	567	1	28	2,578
Investment property	-	-	-	722	722
Property and equipment	-	-	-	3,744	3,744
Intangible assets	-	-	-	999	999
Investments in subsidiaries	-	-	-	62,412	62,412
Investments in associated companies	-	-	-	2,687	2,687
Other assets	22,819	1,235	90	-	24,144
Total assets	**959,226**	**119,330**	**422,446**	**2,939,582**	**4,440,584**
LIABILITIES					
Liabilities to central banks	-	-	-	26,499	26,499
Liabilities on credit institutions on demand	10,971	-	-	-	10,971
Derivatives_liabilities	653	449	621	21,979	23,702
Financial liabilities at amortised cost	2,414,866	144,008	936,741	340,784	3,836,399
Due to credit instituruons (term)	1	266	782,394	325,268	1,107,929
Deposits from customers and other financial liabilities	2,414,865*	143,742	154,347	15,516	2,728,470
Accrued expenses and deffered income	29	-	15,667	-	15,696
Income tax liability	342	-	-	-	342
Other liabilities	1,247	22	-	17	1,286
Provisions	707	47	253	254	1,261
Total liabilities	**2,428,815**	**144,526**	**953,282**	**389,533**	**3,916,156**
Shareholders` equity	-	-	-	524,428	**524,428**
Total liabilities and shareholders` equity	**2,428,815**	**144,526**	**953,282**	**913,961**	**4,440,584**
Contingent liabilities (guarantees)	6,914	21,391	61,933	92,770	**183,008**
Commitments**	191,433	15,556	12,061	37,929	**256,979**
Liquidity risk	**(1,667,936)**	**(62,143)**	**(604,830)**	**1,894,922**	**(439,987)**

* Including demand deposits from customers in amount of EUR 2,190,221 thousand.

** Excluding uncommitted commitments in amount of EUR 330,513 thousand.

Notes to the interim condensed financial statements (continued)

20 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Group's assets and liabilities to maturity groupings based on the time remaining from the statement of financial position date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 30 June 2018 was as follows:

	Up to 1 month	1 - 3 months	3 – 12 months	Over 12 months	Total
	EUR`000	EUR`000	EUR`000	EUR`000	EUR`000
ASSETS					
Cash and balances with central banks	797,410	-	-	-	797,410
Due from other credit institutions (demand)	52,282	-	-	-	52,282
Derivatives_assets	2,255	3,397	2,763	23,269	31,684
Financial assets designated at fair value through profit or loss:	54,296	-	-	-	54,296
Debt securities and other fixed income securities	54,296	-	-	-	54,296
Investment funds	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	-	3,142	3,142
Loans and advances	220,788	156,700	512,671	2,517,293	3,407,452
Due from other credit institutios (term)	-	10	3,270	9,761	13,041
Loans to customers	220,788	156,690	509,401	2,507,532	3,394,411
Accrued income and deferred expenses	2,268	888	1	28	3,185
Investment property	-	-	-	29,133	29,133
Property and equipment	-	-	-	26,725	26,725
Intangible assets	-	-	-	1,379	1,379
Investments in subsidiaries	-	-	-	-	-
Investments in associated companies	-	-	-	3,105	3,105
Deffered corporate income tax	-	-	-	-	-
Current corporate income tax	327	-	-	-	327
Non-current assets and disposal groups classified as held for sale	-	-	147	-	147
Other assets	26,219	1,235	90	-	27,544
Total assets	**1,155,845**	**162,220**	**515,672**	**2,604,074**	**4,437,811**
LIABILITIES					
Liabilities to central banks	-	-	-	26,499	26,499
Liabilities on credit institutions on demand	10,971	-	-	-	10,971
Derivatives_liabilities	653	449	621	21,979	23,702
Financial liabilities at amortised cost	2,398,348	143,318	934 920	340,784	3,817,370
Due to credit instirurions (term)	1	266	782 394	325,268	1,107,929
Deposits from customers and other financial liabilities	2,398,347*	143,052	152 526	15,516	2,709,441
Accrued expenses and deffered income	122	448	15 641	-	16,211
Income tax liability	393	-	-	-	393
Other liabilities	5,719	22	62	54	5,857
Provisions	779	45	220	308	1,352
Total liabilities	**2,416,985**	**144,282**	**951,464**	**389,624**	**3,902,355**
Shareholders` equity				535,456	**535,456**
Total liabilities and shareholders` equity	**2,416,985**	**144,282**	**951,464**	**925,080**	**4,437,811**
Contingent liabilities (guarantees)	6,914	21,391	61,933	92,771	**183,009**
Commitments**	222,044	15,556	12,061	37,929	**287,590**
Liquidity risk	**(1,490,098)**	**(19,009)**	**(509,786)**	**1,548,294**	**(470,599)**

* Including demand deposits from customers in amount of EUR 2,176,585 thousand

** Excluding uncommitted commitments in amount of EUR 206,124 thousand.

Notes to the interim condensed financial statements *(continued)*

20 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Banks'sassets and liabilities to maturity groupings based on the time remaining from the statement of financial position date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 30 December 2017 was as follows:

Bank	Up to 1 month	1 - 3 months	3 – 12 months	Over 12 months	Total
	EUR`000	EUR`000	EUR`000	EUR`000	EUR`000
ASSETS					
Cash and balances with the Central banks	1,067,214	-	-	-	1,067,214
Due from other credit institutions (demand)	33,865	-	-	-	33,865
Derivatives	5,052	299	574	11, 298	17,223
Financial assets at fair value through profit or loss	76,308	-	-	-	76,308
Debt securities and other fixed income securities	76,308	-	-	-	76,308
Investment funds	-	-	-	-	-
Financial assets available-for-sale	-	-	-	2,547	2,547
Loans and advances to customers	26,645	474,870	666,280	2,287,526	3,455,321
Due from other credit institutions (term)	-	56,160	3,272	11,391	70,823
Loans	26,645	418,710	663,008	2,276,135	3,384,498
Accrued income and deferred expenses	1,736	374	6	29	2,145
Investment property	-	-	-	1,021	1,021
Property and equipment	-	-	-	4,174	4,174
Intangible assets	-	-	-	1,297	1,297
Investments in subsidiaries	-	-	-	60,507	60,507
Investments in associated companies	-	-	-	2,687	2,687
Deffered corporate income tax	-	-	-	-	-
Current corporate income tax	-	-	-	-	-
Non-current assets and disposal groups classified as held for sale				519	519
Other assets	19,285	1,254	83	13	20,635
Total assets	**1,230,105**	**476,797**	**666,943**	**2,371,618**	**4,745,463**
LIABILITIES					
Liabilities to central banks	-	-	-	60,500	60,500
Liabilities on demand to credit institutions	5,576	-	-	-	5,576
Derivatives	6,349	2,180	2,370	10,370	21,269
Financial liabilities at amortised cost:	2,554,540	263,054	1,027,344	281,532	4,126,470
Due to credit institutions (term)	12,555	2,256	887,030	263,386	1,165,227
Deposits from customers and other financial liabilities	2,541,985*	260,798	140,314	18,146	2,961,243
Accrued expenses and deferred income	580	1,031	9,701	-	11 ,312
Deferred tax liability	-	-	-	-	-
Income tax liabilities	154	-	1,079	-	1,233
Other liabilities	2,463	27	-	23	2,513
Provisions	80	-	148	-	228
Total liabilities	**2,569,742**	**266,292**	**1,040,642**	**352,425**	**4,229,101**
Shareholders` equity	-	-	-	**516,362**	**516,362**
Total liabilities and shareholders` equity	**2,569,742**	**266,292**	**1,040,642**	**868,787**	**4,745,463**
Contingent liabilities (guarantees)	15,855	13,764	64,509	104,657	**198,785**
Commitments**	249,055	16,732	13,747	35,226	**314,760**
Liquidity risk	**(1,604,547)**	**180,009**	**(451,955)**	**1,362,948**	**(513,545)**

* Including demand deposits from customers in amount of EUR 2,309,025 thousand
** Excluding uncommitted commitments in amount of EUR 247,309 thousand.

***Notes to the interim condensed financial statements** (continued)*

20 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Groups' assets and liabilities to maturity groupings based on the time remaining from the statement of financial position date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 30 December 2017 was as follows:

Group	Up to 1 month EUR`000	1 - 3 months EUR`000	3 – 12 months EUR`000	Over 12 months EUR`000	Total EUR`000
ASSETS					
Cash and balances with the Central banks	1,067,214	-	-	-	1,067,214
Due from other credit institutions (demand)	34,634	-	-	-	34,634
Derivatives	5,052	299	574	11,298	17,223
Financial assets at fair value through profit or loss	76,308	-	-	-	76,308
Debt securities and other fixed income securities	76,308	-	-	-	76,308
Investment funds	-	-	-	-	-
Financial assets available-for-sale	-	-	-	2,547	2,547
Loans and advances to customers	52,361	216,834	549,699	2,624,377	3,443,271
Due from other credit institutios (term)	-	56,160	3,272	11,391	70,823
Loans to customers	52,361	160,674	546,427	2,612,986	3,372,448
Accrued income and deferred expenses	1,833	1,858	6	29	3,726
Investment property	-	-	-	34,136	34,136
Property and equipment	-	-	-	27,583	27,583
Intangible assets	-	-	-	1,681	1,681
Investments in subsidiaries	-	-	-	-	-
Investments in associated companies	-	-	-	2,987	2,987
Deffered corporate income tax	-	-	-	-	-
Current corporate income tax	90	-	-	-	90
Non-current assets and disposal groups classified as held for sale	-	-	-	2,656	2,656
Other assets	19,547	5,295	29	13	24,884
Total assets	**1,257,039**	**224,286**	**550,308**	**2,707,307**	**4,738,940**
LIABILITIES					
Liabilities to central banks	-	-	-	60,500	60,500
Liabilities on demand to credit institutions	5,576	-	-	-	5,576
Derivatives	6,349	2,180	2,370	10,370	21,269
Financial liabilities at amortised cost:	2,539,272	262,704	1,024,543	281,532	4,108,051
Due to credit institutions	12,555	2,256	887,030	263,386	1,165,227
Deposits and other financial liabilities	2,526,717*	260,448	137,513	18,146	2,942,824
Accrued expenses and deferred income	580	1,045	10,152	-	11,777
Deferred tax liability	-	-	-	-	-
Income tax liabilities	204	-	1,079	-	1,283
Other liabilities	1,662	3,949	0	23	5,634
Provisions	113	-	148	-	261
Total liabilities	**2,553,756**	**269,878**	**1 038 292**	**352,425**	**4,214,351**
Shareholders` equity	-	-	-	**524,589**	**524,589**
Total liabilities and shareholders` equity	**2,553,756**	**269,878**	**1,038,292**	**877,014**	**4,738,940**
Contingent liabilities (guarantees)	15,855	13,764	64,509	104,657	**198,785**
Commitments**	250,661	16,732	12,747	36,136	**316,276**
Liquidity risk	**(1,563,233)**	**(76,088)**	**(565,240)**	**(1,689,500)**	**(515,061)**

* Including demand deposits from customers in amount of EUR 2,294,824 thousand
** Excluding uncommitted commitments in amount of EUR 208,235 thousand.

***Notes to the interim condensed financial statements** (continued)*

20 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The following table represents the analysis of the remaining cash flows of financial liabilities.

The table below allocates the Bank's financial liabilities undiscounted cash flows as at 30 une 2018:

	Up to 1 month EUR'000	1-3 months EUR'000	3-12 months EUR'000	1-5 years EUR'000	More than 5 years EUR'000	Total EUR'000
Short term funding	(10,964)	-	-	-	-	**(10,964)**
Long term funding	-	(270)	(782,584)	(354,061)	-	**(1,136,915)**
Demand deposits	(2,330,458)	-	-	-	-	**(2,330,458)**
Term deposits	(69,722)	(260,570)	(138,164)	(16,252)	(1,975)	**(383,275)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
Inflow	1,365	2,700	2,292	25,452	-	**31,809**
outflow	(318)	(44)	(219)	(25,433)	-	**(26,014)**
Foreign exchange derivatives						
inflow	1	20	206	124		**351**
outflow	0	(3)	(164)	(102)		**(269)**
Derivatives settled on a net basis	127	635	2,190	7,916	3	**10,871**
Total	**(2,408,796)**	**(141,003)**	**(933,193)**	**(359,193)**	**(2,679)**	**(3,844,864)**
Memorandum items	**(439,987)**	-	-	-	-	**(439,987)**
Financial guarantees	**(183,009)**	-	-	-	-	**(183,009)**
Commitments	**(256,978)**	-	-	-	-	**(256,978)**
Total financial liabilities and memorandum items	**(2,848,783)**	**(141,003)**	**(933,193)**	**(359,193)**	**(2,679)**	**(4,284,851)**

The table below allocates the Grop's financial liabilities cash flows as at 30 June 2018:

	Up to 1 month EUR'000	1-3 months EUR'000	3-12 months EUR'000	1-5 years EUR'000	More than 5 years EUR'000	Total EUR'000
Short term funding	(10,964)	-	-	-	-	**(10,964)**
Long term funding	-	(270)	(782,584)	(354,061)	-	**(1,136,915)**
Demand deposits	(2,314,601)	-	-	-	-	**(2,314,601)**
Term deposits	(67,881)	(143,351)	(153,094)	(13,089)	(2,014)	**(379,429)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
inflow	1,365	2,700	2,292	25,452	-	**31,809**
outflow	(318)	(44)	(219)	(25,433)	-	**(26,014)**
Foreign exchange derivatives						
inflow	1	20	206	124		**351**
outflow	0	(3)	(164)	(102)		**(269)**
Derivatives settled on a net basis	127	635	2,190	7,916	3	**10,871**
Total	**(2,392,271)**	**(140,313)**	**(931,373)**	**(359,193)**	**(2,011)**	**(3,825,161)**
Memorandum items	**(470,599)**	-	-	-	-	**(470,599)**
Financial guarantees	(183,009)	-	-	-	-	**(183,009)**
Commitments	(287,590)	-	-	-	-	**(287,590)**
Total financial liabilities and memorandum items	**(2,862,870)**	**(140,313)**	**(931,373)**	**(359,193)**	**(2,011)**	**(4,295,760)**

***Notes to the interim condensed financial statements** (continued)*

20 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The following table represents the analysis of the remaining cash flows of financila liabilities:

The table below allocates the Bank's financial liabilities cash flows as at 31 December 2017:

	Up to 1 month EUR'000	1-3 months EUR'000	3-12 months EUR'000	1-5 years EUR'000	More than 5 years EUR'000	Total EUR'000
Short term funding	(18,133)	(2,257)	-	-	-	**(20,390)**
Long term funding	-	-	(887,150)	(328,144)	-	**(1,215,294)**
Demand deposits	(2,454,537)	-	-	-	-	**(2,454,537)**
Term deposits	(69,722)	(260,920)	(140,966)	(16,252)	(1,975)	**(489,835)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
inflow	1,458	237	1,020	21,793	-	**24,508**
outflow	(2,578)	(1,719)	(1,589)	(21,407)	-	**(27,293)**
Foreign exchange derivatives						
inflow	-	28	90	225	-	**343**
outflow	(21)	(24)	(48)	(175)	-	**(268)**
Derivatives settled on a net basis	(5)	365	600	879	6	**1,845**
Total	**(2,543,538)**	**(264,290)**	**(1,028,043)**	**(343,081)**	**(1,969)**	**(4,180,921)**
Memorandum items	(513,545)	-	-	-	-	**(513,545)**
Financial guarantees	(198,785)	-	-	-	-	***(198,785)***
Commitments	(314,760)	-	-	-	-	***(314,760)***
Total financial liabilities and memorandum items	**(3,057,083)**	**(264,290)**	**(1,028,043)**	**(343,081)**	**(1,969)**	**(4,694,466)**

The table below allocates the Group's financial liabilities undiscounted cash flows as at 31 December 2017:

	Up to 1 month EUR'000	1-3 months EUR'000	3-12 months EUR'000	1-5 years EUR'000	More than 5 years EUR'000	Total EUR'000
Short term funding	(18,133)	(2,257)	-	-	-	(20,390)
Long term funding	-	-	(887,150)	(328,144)	-	**(1,215,294)**
Demand deposits	(2,439,270)	-	-	-	-	**(2,439,270)**
Term deposits	(69,722)	(260,570)	(138,164)	(16,252)	(1,975)	**(486,683)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
Inflow	1,458	237	1,020	21,793	-	**24,508**
outflow	(2,578)	(1,719)	(1,589)	(21,407)	-	**(27,293)**
Foreign exchange derivatives						
inflow	-	28	90	225	-	**343**
outflow	(21)	(24)	(48)	(175)	-	**(268)**
Derivatives settled on a net basis	(5)	365	600	879	6	**1,845**
Total	**(2,528,271)**	**(263,940)**	**(1,025,241)**	**(343,081)**	**(1,969)**	**(4,162,502)**
Memorandum items*	(515,061)	-	-	-	-	**(515,061)**
Financial guarantees	*(198,785)*	-	-	-	-	***(198,785)***
Commitments	*(316,276)*	-	-	-	-	***(316,276)***
Total financial liabilities and memorandum items	**(3,043,332)**	**(263,940)**	**(1,025,241)**	**(343,081)**	**(1,969)**	**(4,677,563)**

***Notes to the interim condensed financial statements** (continued)*

21 LITIGATION AND CLAIMS

Due to its extensive operations in Latvia, the Luminor Bank AS and its subsidiaries will regularly be party to a number of legal actions. The foregoing actions, in most cases, are related to recovery of debts owed to Luminor Bank AS or its subsidiaries under loan agreements or other financial services agreements or to disputes connected with real estates which are or were pledged to Luminor Bank AS or its subsidiaries. However, none of the current disputes are expected to have any material impact on Luminor bank AS or its subsidiaries financial position.

21 SUBSEQUENT EVENTS

Theres is no subsequent events since the last date of the reporting year which would have a significant effect on the financial position of the Group or the Bank as at 30 June 2018.