LUMINOR BANK AS

CONSOLIDATED ANNUAL REPORT, SEPARATE
AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

Contents

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A REPORT FROM THE MANAGEMENT BOARD AND THE SUPERVISORY COUNCIL

Merger disclosure

On October 1st, 2017 Nordea Bank AB (Swedish company registration No 516406-0120) and DNB Bank ASA (Org. No. 984 851 006) after all regulatory approvals and competition clearance were received, have combined their Baltic business into a jointly owned bank, Luminor. By business transfer Nordea Bank AB Lithuania branch, Nordea Bank AB Latvia branch and Nordea Bank AB Estonia branch assets and liabilities, including shares of leasing, pension and distressed assets companies in Baltics were transferred to Luminor Bank AB (prev. AB DNB bankas), Luminor Bank AS in Latvia (prev. DNB banka AS) and Luminor Bank AS in Estonia (prev. Aktsiaselts DNB Pank).

In 2018-2019 an internal corporate restructuring of Luminor Group will take place with an aim to concentrate the entire Baltic businesses of Luminor Group in Luminor Bank AS, a credit institution in Estonia; where Luminor Bank AS in Estonia will remain as the surviving entity while Luminor Bank AB in Lithuania and Luminor Bank AS in Latvia will be merged into Luminor Bank AS in Estonia and cease to exist. A cross border merger would be pursued under Directive (EU) 2017/1132 of the European Parliament and of the Council of 14 June 2017 relating to certain aspects of company law as implemented in Lithuania, Latvia and Estonia respectively. All assets and liabilities of the respective subsidiaries would, in accordance with the relevant laws, be transferred into the Luminor Bank AS in Estonia as a matter of universal succession, and each subsidiary would cease to exist as a legal entity upon registration of the cross-border merger. Following the merger, Luminor Bank AS in Estonia would pursue the banking businesses in Lithuania and Latvia through its branches.

Market environment

The global economic environment was the most favourable since 2011. The acceleration of the world economy that started in 2016 continued. Equity market indices surged, business and consumer confidence indices improved. The upturn was especially pronounced in euro area, however, interest rates remained there at a very low level.

Nevertheless, the impact of global economic events was not crucial for the acceleration of the Latvian economy as real export growth remained almost unchanged. On the other hand, GDP growth more than doubled, from 1.9% to roughly 4.5%. The most pronounced changes occurred in investment flows as gross fixed capital formation grew by 16% after an 15% fall in 2016. The cause was not only the recovery of EU fund flows, but also unrelated surge in private sectors investment in retail and office buildings as well as rising lending to households.

Examining industry performance reveals that the fastest growth was achieved in construction where value added climbed by 19.4%. Construction as well as manufacturing, which achieved 8% growth, had the biggest impact on GDP last year. Also the contribution of trade was significant despite its relatively low growth rate (ca 5.2%) as it is the largest sector. The only sector that experienced decline last year (by ca 16.6%) was finance, affected by a fall of service exports.

After a three year period of almost zero (0-1%) inflation it jumped to 2.9% last year. If in 2014 - 2016 global commodity markets exerted downward pressure on price level in Latvia, in 2017 the impact worked in the same direction as rising wages.

Growth forecasts for 2018 are favourable, it is expected that GDP growth will be similar to the pace achieved in 2017, at ca. 4.2%. Unfortunately also inflation will grow, reaching ~2.8. Nevertheless, also real income will grow fast as gross wages are forecast to grow by 9%, leading to a net wages growth by 11%, supported by tax reform.

Financial results

2017 has been Luminor Group in Latvia creation year and the merger between DNB and Nordea has had significant impact both to the financial result and operational focus. 2017 full year result for Luminor Group in Latvia consists of 9 months DNB Group result plus 3 months Luminor Group result. The new bank is now better equipped to counter increasing competition and capitalise on scale in order to become the main full service bank for more businesses, customers and partners in the Latvia. The larger scale will enable to extract benefits that would be difficult to achieve as stand-alone banks.

Q4 has been the first quarter of combined operations and business as usual has been important and much attention was paid to this to ensure that our customers would receive the same high level of service as they have used to. The customers have been receiving the same product offering as they used to get from the two banks respectively, and all segments have been served through the same channels.

Luminor Group in Latvia has managed to achieve solid financial result from the ordinary banking operations excluding one-offs resulting from operations with investment property and impairment loss. Largely thanks to the merger net interest income and net fees and commissions increased y/y by 32% and 27% respectively reaching combined number of EUR 70.3 million for 2017. Operating profit excluding one-offs[1] amounted to EUR 29 million in 2017; it has increased by 21% in comparison with the previous year when adjusting 2016 operating profit with one-off income from sale of VISA Europe shares worth EUR 11.6 million.

[1] Net result from operations with investment property and net allowances for impairment loss

A REPORT FROM THE MANAGEMENT BOARD AND THE SUPERVISORY COUNCIL (continued)

New lending issued to private individuals increased by 39% in 2017 reaching 51% of total Luminor new lending volumes. In spite of Bank flat new issuing development (+2.3%), leasing shows significant growth (+45%) with 5,028 new contracts signed or EUR 133.5 million issued during year 2017.

Loans quality continued to improve and the level of loans overdue >90 days decreased to 3.6% of total portfolio at the end of 2017. However, Luminor still has quite considerable amount of impaired loans. Most of impaired loans were issued before the crisis, however, recovery process required more time than expected (especially for the largest and the most complicated cases). Most of the increases in loan loss provisions in Q4 are related to the review of existing non-performing customer cases, where actions were decided or collateral revalued. Luminor has clear focus on this and considerable decrease of impaired loans is expected in 2018.

Reduction of repossessed assets portfolio was one of the priorities in 2017 and will be high on agenda also in 2018. Considerable decrease of repossessed assets portfolio has been observed, including sales of large and complex assets. However, for some assets interest from potential buyers was low and it is also reflected in the revaluation results.

As at the end of Q4 2017 Luminor Group total exposure[2] to customers amounted to 4.26 billion euro. Mortgage loans and loans to legal entities represent 41% and 36% respectively of Luminor loan portfolio. Leasing and factoring portfolio is accounting for 14% of total exposure, which is followed by trade finance portfolio representing 7% of portfolio. Remaining 2% is formed by consumer lending.

According to the changes in the regulatory enactments of the Republic of Latvia related to Corporate Income tax, which come into force starting from 1 January 2018, in 2017 deferred tax assets and liabilities are not recognized. Accordingly, deferred tax assets calculated and recognized in previous reporting periods in 2017 are reversed to the statement of comprehensive income (Group EUR 9,889 thou, Bank EUR 9,653 thou).

Combination of DNB and Nordea business also contributed to improvement of funding position of the new bank as loan/deposit ratio improved from 124% to 115% and the bank became one of the three largest banks in Latvia in terms of attracted customer deposits with EUR 2.9 billion total volume.

All the regulatory ratios are observed with healthy buffers. Luminor Group capital adequacy ratio at the end of the financial year stood at 18.5% and liquidity coverage ratio (LCR) was 170%.

In accordance with the audited financial results, the Luminor Bank AS 2017 net loss of EUR 589 thousand is attributed to accumulated result. The total amount of equity is sufficient to cover loss occurred, the Bank`s and the Group`s management is fully convinced of stable and balanced performance going forward.

Other important events

As from 2018 new accounting standard IFRS 9 comes into the force replacing IAS 39. Beside all the other changes, IFRS 9 defines fundamentally redesigned provisioning model. It has caused changes in definitions, parameters, calculation algorithms, which is having impact on provisioning level. Changes include also extended definition of default. IFRS 9 implementation one time impact is around 16 million euro. The Group expects that expected credit losses based on IFRS 9 will be more volatile than provisions calculated based on IAS 39.

FCMC has identified Luminor Bank as one of the other systemically important institutions (O-SIIs) in Latvia. O-SIIs must ensure compliance with higher capital buffer requirements (from June 30, 2018: 2%, December 31, 2017: 1%) and the highest corporate governance standards. Luminor Bank total capital ratio already exceeds the level required from June 30, 2018.

European Central Bank (ECB) has taken decision to classify Luminor Bank as significant, thus starting from 10th of February 2018 Luminor Bank will be supervised by ECB.

Brand

The Luminor brand change is being implemented in several stages. Initially, along with establishing Luminor Bank on the October 1, the corporate identity and name of the new bank was communicated in an image campaign and through customer communication channels. By April 1, 2018, it is planned to complete the change of brand and visual identity of Luminor branches and ATM networks, digital platforms - mobile applications, mobile banking and Internet banking and by the introduction of new Luminor branded payment cards. After finishing the image advertising campaign, the first indicators of the awareness of the Luminor brand are positive and the brand communication is highly evaluated both by customers and general public. It is the foundation for the future brand development plans, which include both a complete replacement of the brand elements and regular and visible communication to the target customers of the bank.

[2] Total exposure includes outstanding amount and off-balance exposure

A REPORT FROM THE MANAGEMENT BOARD AND THE SUPERVISORY COUNCIL (continued)

Main focus for 2018

Luminor is created by merging Nordea's and DNB's Baltic operations to form a new stand-alone Baltic bank with arm's-length governance from both parent banks. Both organisations are proud of their Nordic roots and culture and are built with strong Nordic banking traditions. This entails long term view to strategy, customer centric service models, conservative risk taking and collaborative and balanced corporate culture.

After the merger Luminor in Latvia is the 2nd largest player with 15% market share in deposits and 25% in lending. We will have sufficient scale to compete with the largest players and we are determined to execute on our key strategic priorities:

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

Luminor's core business is to serve entrepreneurial people in the Baltics, with primary focus on local companies as well as financially active people with an entrepreneurial mindset. We are creating a new generation bank because we are determined to build a better tomorrow – for families, businesses, communities and countries where we live and operate. Taking good care of our customers' everyday financial matters is an essential part of the better tomorrow.

Luminor is explicitly for the Baltics. There is no other bank in our region who is independent and self-sustaining while covering all three Baltic countries with a significant footprint. Luminor has the benefit of being the important local financial service provider with significant scale.

Being a Baltic company also brings the richness and diversity that multi-country and -culture organizations can offer. Luminor is building its operating model in a way which supports regional scale, business development and efficiency but also high local relevance and customer intimacy. Luminor's face towards our customers is our strong country service and sales organizations.

The short term focus will be on maintaining business momentum while integrating the operations after the merger. Mid-term focus will be on improving the banks' market position, by cross-selling to a current large customer base of private individuals. Considerable resources during 2018 will also be involved in executing the cross border merger where Luminor Bank AS in Estonia will remain as the surviving entity and will continue conducting the banking business in Latvia via its newly established branch.

Corporate social responsibility

While implementing its business strategy – create value to the customers, employees, shareholders, and society - Luminor group aims at developing its business in compliance with social needs of the present and future generations. Luminor group regards its corporate social responsibility as a shared responsibility towards achieving sustainable development in the areas and business sectors where it operates.

Luminor group takes account of environmental, social and governance-related aspects in product and service development, advisory and sales activities, investment and credit decisions, as well as production and operations, including relations with suppliers. Luminor group shall not contribute to the infringement of human or labour rights, corruption, serious environmental harm or other actions that could be regarded as unethical. The social responsibility principles shall apply, among other things, to the areas of governance, environment and society.

Luminor's corporate social responsibility is based on internationally recognised guidelines, including:

- the OECD's guidelines for multinational companies;
- the IFC's guidelines for environmental and social standards;
- the UNEP FI principles;
- the UN Principles for Responsible Investments;
- the UN Global Compact;
- the UN guiding principles on business and human rights.

A REPORT FROM THE MANAGEMENT BOARD AND THE SUPERVISORY COUNCIL (continued)

Luminor business ethics is driven by several policies: Code of Conduct, Code of Conduct Third parties, Anti-bribery and anti-corruption policy. These documents set the guidelines for ethical behaviour of employees, as well as control mechanism of such behaviours and responsibilities. Luminor Group practices principle of zero tolerance towards bribery and corruption. The same is expected from employees and collaboration partners of any kind. While implementing policies mentioned above, Luminor provides trainings for employees and raises awareness through internal and external communication.

The bank also supports important initiatives of local community by contributing to the community life and cultural events in different towns.

Kerli Gabrilovica	Janis Teteris	Erkki Raasuke
Chairman of the Management Board	Member of the Management Board	Chairman of the Supervisory Council

Riga,
16 March 2018

THE SUPERVISORY COUNCIL AND THE MANAGEMENT BOARD OF THE BANK AS OF 31 DECEMBER 2017

The Supervisory Council

Name	*Position*	*Date of appointment*
Erkki Raasuke	Chairman of the Supervisory Council	1 October 2017
Mari Mois	Member of the Supervisory Council	1 October 2017
Marilin Pikaro	Member of the Supervisory Council	1 October 2017
Hannu Kalevi Saksala	Member of the Supervisory Council	1 October 2017
Karl Christian Wallentin	Member of the Supervisory Council	1 October 2017

The following members of the Supervisory Council have left their positions since 31 December 2016:

Name	*Position*	*Date of resignation*
Atle Knai	Chairman of the Supervisory Council	1 October 2017
Ivars Kapitovics	Member of the Supervisory Council	1 October 2017
Bjornar Lund	Member of the Supervisory Council	1 October 2017
Olaf Tronsgaard	Member of the Supervisory Council	1 October 2017
Eline Skramstad	Member of the Supervisory Council	1 October 2017

The Management Board

Name	*Position*	*Date of appointment*
Kerli Gabrilovica	Chairman of the Management Board	1 October 2017
Ivita Asare	Member of the Management Board	1 October 2017
Janis Buks	Member of the Management Board	1 October 2017
Janis Teteris	Member of the Management Board	1 October 2017*
Kristaps Zakulis	Member of the Management Board	3 October 2017

* From 25 October 2016 till 1 October 2017 Janis Teteris was the Chairman of the Management Board.

The following members of the Management Board have left their positions since 31 December 2016:

Name	*Position*	*Date of resignation*
Anita Berzina	Member of the Management Board	1 October 2017
Dace Kaulina	Member of the Management Board	1 October 2017
Lauris Macijevskis	Member of the Management Board	1 October 2017
Hannu Kalevi Saksala	Member of the Management Board	1 October 2017
Intars Sloka	Member of the Management Board	1 October 2017

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT BOARD

The Management Board of Luminor Bank AS is responsible for the preparation of the financial statements of the Group and the Bank.

The financial statements on pages 14 to 84 are prepared in accordance with the source documents and present fairly the financial position of the Group and the Bank as at 31 December 2017 and the results of their operations and cash flows for the year ended 31 December 2017.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted in European Union (EU) on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the Management Board in the preparation of the financial statements.

The Management Board of Luminor Bank AS is responsible for the maintenance of proper accounting records, the safeguarding of the Group's and the Bank's assets and the prevention and detection of fraud and other irregularities. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Bank of Latvia, Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable for credit institutions.

Kerli Gabrilovica Chairman of the Management Board	Janis Teteris Member of the Management Board	Erkki Raasuke Chairman of the Supervisory Council

Riga,
16 March 2018

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Luminor Bank AS

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Luminor Bank AS and its subsidiaries (the Group) and the accompanying financial statements of Luminor Bank AS (the Bank), set out on pages 14 to 84 of the accompanying Annual Report, which comprise the statements of financial position as at December 31, 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements of the Group and the Bank give a true and fair view of the financial position of the Group and the Bank as at 31 December 2017, and of the financial performance of the Group and the Bank and the cash flows of the Group and the Bank for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group and the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Group and the Bank of the current period. These matters were addressed in the context of our audit of the financial statements of the Group and the Bank as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements of the Group and the Bank. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements of the Group and the Bank.

Building a better working world

Key audit matter	How we addressed the key audit matter
Impairment of loans and advances to customers and finance lease receivables (the Group and the Bank)	
Impairment of loans and advances to customers and finance lease receivables (loans and receivables) is a highly subjective area due to the level of judgement applied by the management in determining the extent of credit losses, which is dependent on the credit risk and other factors related to such loans and receivables. The judgements applied by management in determining the level of impairment for loans and receivables include the identification of events that could possibly result in an impairment, an appropriate valuation of the related collateral, the assessment of customers that are likely to default, and the future expected cash flows relating to loans and receivables. As at 31 December 2017, the gross loans and receivables of the Group and the Bank amounted to EUR 3,527 million and EUR 3,542 million, respectively, and related impairment provision of the Group and the Bank amounted to EUR 155 million and EUR 157 million, respectively, as at 31 December 2017. Due to the material nature of loans and receivables and the related estimation uncertainties involved this is considered a key audit matter. The basis of the Group's and the Bank's impairment accounting policy is presented in the accounting policies section in the *Loans and receivables and allowances for loan impairment* note to the financial statements. Also, attention is drawn to the use of judgements and estimates in this area in the preparation of financial statements disclosures of Impairment losses on loans and lease receivables, set out in the accounting policies section notes, and Notes 17 and 26 of the financial statements.	Our audit procedures among others included the testing of controls over the granting, accounting and monitoring processes of loans and receivables, and the specific and collective impairment provisioning process. As part of the control testing procedures, we assessed whether the key controls in the above processes were designed, implemented and operated effectively. In addition to testing the key controls, we selected samples of loans and receivables outstanding as at the reporting date and assessed the criteria for determining whether an impairment event had occurred that would require an impairment provision. For the samples selected, we also reviewed whether all impairment events as identified by us had also been identified by the Bank's management. Our selected sample also included non-performing loans and receivables where we assessed management's forecast of recoverable cash flows, the valuation of collaterals, estimation of recovery on default and other sources of repayment. For the performing loans and receivables, we assessed whether the borrowers exhibited possible default risk that may affect meeting their scheduled repayment obligations. For collective and incurred but not reported (IBNR) impairment provisions, we obtained an understanding of the methodology used by the Bank to determine the collective and IBNR provision, assessed the underlying assumptions and sufficiency and accuracy of the data used by management. We also assessed the adequacy of the related financial statements disclosures according to IFRS requirements.
Merger with Nordea (the Group and the Bank)	
As further described in Note 42 to the financial statements, Nordea Bank AB and DNB Bank ASA have combined their Baltic business into a jointly owned bank, Luminor. Nordea Bank AB Latvia branch (Nordea branch) assets and liabilities, including shares of leasing and distressed assets companies in Latvia were transferred to Luminor Bank AS as a business transfer. Acquisition of Nordea Bank AB Latvia branch assets and liabilities together with leasing and distressed assets companies has resulted in material increase in the Group's and Bank's total assets and liabilities as disclosed in Note 42 of the financial statements. Moreover, the management of Luminor Bank AS having performed an analysis of IFRS requirements and merger related agreements, has elected to apply the pooling of interest method for accounting for the combination with the	Our audit procedures were related to the audit of existence and valuation of Nordea branch and other acquired companies' assets and liabilities transferred to Luminor Bank AS and included, among others: - identification and understanding of significant classes of transactions of Nordea branch, - evaluating relevant internal control environment, testing of relevant key controls (including IT general controls) related to the significant classes of transactions and functioning of internal control environment, - reconciliation of the acquired assets and liabilities with detailed lists, - confirmation of selected balances with third parties and / or related agreements, accounts extracts, internal cash count documents for existence;

Key audit matter	How we addressed the key audit matter
Merger with Nordea	
Nordea Bank AB Latvia branch together with leasing and distressed assets companies. Significant judgments applied by management are disclosed in section *Combination of entities under common control and usage of the pooling of interest method* of the accounting policies section note of the financial statements. Due to the material nature of balances acquired as well as significant judgments and estimates applied by the management for accounting for the merged operations this is considered a key audit matter.	- performing tests on interest accrual for key assets and liabilities accounted for at amortized cost; - selecting samples of loans and receivables outstanding as at the merger date and assessing the criteria for determining whether an impairment event had occurred that would require an impairment provision and assessing management's forecast of recoverable cash flows, the valuation of collaterals, estimation of recovery on default and other sources of repayment for non-performing loans and receivables; - obtaining an understanding of methodology used by the Bank to determine the collective and IBNR impairment provisions, assessing the underlying assumptions and sufficiency and accuracy of the data used by management; - reviewing transit assets and liabilities accounts as well as purchases transactions recorded after the merger date to assess whether transactions were recorded and classified in the correct period; - review of differences of accounting policies applied and management assessment of their impact for Luminor Bank AS financial statements. We have also reviewed the merger related documents and management assessment of compliance with IFRS requirements for the choice and application of the pooling of interest method for accounting of the merger with Nordea branch and other companies. We also assessed the adequacy of the related financial statements disclosures according to IFRS requirements.

Reporting on Other Information

Management is responsible for the other information. The other information comprises:

- the Management Report, as set out on pages 3 to 6 of the accompanying Annual Report;
- the Statement of Responsibility of the Management Board, as set out on page 8 of the accompanying Annual Report;

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as described in the Other reporting responsibilities in accordance with the legislation of the Republic of Latvia section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Group and the Bank and their environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of Financial and Capital Market Commission's Regulations of the Republic of Latvia No. 46 "Regulations on the Preparation of Annual Accounts and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies".

Based solely on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Management Report has been prepared in accordance with the requirements of Financial and Capital Market Commission's Regulations of the Republic of Latvia No. 46 "Regulations on the Preparation of Annual Accounts and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies".

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group and the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty

exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Responsibilities and Confirmations Required by the Legislation of the Republic of Latvia and European Union When Providing Audit Services to Public Interest Entities

We were first appointed as auditors of the Group and the Bank on 17 September 2008 by shareholders. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 10 years.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Group and the Bank;
- as stipulated in paragraph 37^6 of the Law on Audit Services of the Republic of Latvia we have not provided to the Group and the Bank the prohibited non-audit services (NASs) referred to in EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

The responsible certified auditor on the audit resulting in this independent auditors' report is Iveta Vimba.

ERNST & YOUNG BALTIC SIA

License No. 17

Iveta Vimba

Member of the Board
Latvian Certified Auditor
Certificate No. 153
Riga, 16 March 2018

Statement of comprehensive income

	Notes	2017 Group EUR`000	2016 Group EUR`000	2017 Bank EUR`000	2016 Bank EUR`000
Interest income	5	62,464	46,538	55,718	41,316
Interest expense	6	(8,944)	(6,078)	(8,505)	(5,438)
Net interest income		**53,520**	**40,460**	**47,213**	**35,878**
Fees and commission income	7	23,558	18,905	19,772	16,218
Fees and commission expenses	8	(6,827)	(5,769)	(6,436)	(5,417)
Net fees and commissions		**16,731**	**13,136**	**13,336**	**10,801**
Net result from operations with foreign currency, trading securities and derivative financial instruments	9	1,875	13,237	1,863	13,253
Net result from operations with investment property	10	(10,514)	(3,275)	(791)	(444)
Other operating income	11	4,185	4,535	5,488	5,248
Share of profit of investment in associates		300	-	-	-
Dividend income		26	20	2,070	1,838
Operating income		**66,123**	**68,113**	**69,179**	**66,574**
Personnel expenses	12	(22,211)	(17,382)	(21,497)	(17,197)
Other administrative expenses	12	(18,498)	(12,915)	(18,160)	(12,863)
Depreciation	22, 23	(3,132)	(3,322)	(2,283)	(2,470)
Other operating expenses	13	(3,908)	(2,197)	(3,688)	(2,005)
Net allowances for impairment loss	26	(4,942)	1,560	(13,742)	(1,865)
Profit before income tax		**13,432**	**33,857**	**9,809**	**30,174**
Corporate income tax	14	(11,410)	(404)	(10,398)	-
Profit/(loss) for the period from continuing operations		**2,022**	**33,453**	**(589)**	**30,174**
Profit/(loss) attributable to:					
Equity holders of the Bank		**2,022**	33,453	**(589)**	30,174
Other comprehensive income					
Items that may be reclassified to profit or loss in the future					
Changes in revaluation reserve of financial assets available for sale	33	511	(10,478)	511	(10,478)
Other comprehensive income total		**511**	**(10,478)**	**511**	**(10,478)**
Total comprehensive income		**2,533**	**22,975**	**(78)**	**19,696**
Total comprehensive income attributable to:					
Equity holders of the Bank		2,533	22,975	(78)	19,696

The financial statements on pages 14 to 84 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Kerli Gabrilovica	Janis Teteris	Erkki Raasuke
Chairman of the Management Board	Member of the Management Board	Chairman of the Supervisory Council

Riga,
16 March 2018

The accompanying notes are an integral part of these financial statements

Statement of financial position

Assets	**Notes**	**2017 Group EUR'000**	**2016 Group EUR'000**	**2017 Bank EUR'000**	**2016 Bank EUR'000**
Cash and balances with central banks	15	1,067,214	63,662	1,067,214	63,662
Due from other credit institutions (on demand)	16	34,634	30,093	33,865	29,494
Derivatives	21	17,223	51,899	17,223	51,899
Financial assets designated at fair value through profit or loss:	18	76,308	84,766	76,308	84,766
Debt securities and other fixed income securities		*76,308*	*84,766*	*76,308*	*84,766*
Financial assets available-for-sale	19	2,547	2,483	2,547	2,483
Loans and advances:		3,443,271	1,927,175	3,455,321	1,843,056
Due from other credit institutions (term)	16	*70,823*	*414,497*	*70,823*	*414,497*
Loans to customers	17	*3,372,448*	*1,512,678*	*3,384,498*	*1,428,559*
Accrued income and deferred expenses		3,726	3,619	2,145	2,453
Investment property	24	34,136	36,854	1,021	4,750
Property, plant and equipment	23	27,583	28,415	4,174	4,245
Intangible assets	22	1,681	2,085	1,297	1,732
Investments in subsidiaries	20	-	-	60,507	9,102
Investments in associates	20	2,987	-	2,687	-
Deferred income tax assets	14	-	8,805	-	8,701
Current income tax assets		90	171	-	-
Non-current assets and disposal groups classified as held for sale		2,656	-	519	-
Other assets	25	24,884	19,220	20,635	8,022
Total assets		**4,738,940**	**2,259,247**	**4,745,463**	**2,114,365**

The financial statements on pages 14 to 84 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	Janis Teteris Member of the Management Board	Erkki Raasuke Chairman of the Supervisory Council

Riga,
16 March 2018

The accompanying notes are an integral part of these financial statements

Statement of financial position *(continued)*

Liabilities	**Notes**	**2017 Group EUR'000**	**2016 Group EUR'000**	**2017 Bank EUR'000**	**2016 Bank EUR'000**
Liabilities to central banks	27	60,500	60,500	60,500	60,500
Liabilities to credit institutions (on demand)	28	5,576	2,225	5,576	2,225
Derivatives	21	21,269	43,729	21,269	43,729
Financial liabilities at amortised cost:		4,108,051	1,838,547	4,126,470	1,695,432
Due to credit institutions (term)	28	*1,165,227*	*615,340*	*1,165,227*	*465,264*
Deposits from customers and other financial liabilities	29	*2,942,824*	*1,223,207*	*2,961,243*	*1,230,168*
Accrued expenses and deferred income	30	11,777	5,084	11,312	4,898
Deferred income tax liabilities	14	-	31	-	-
Current income tax liabilities		1,283	40	1,233	-
Other liabilities	31	5,634	6,165	2,513	1,425
Provisions	32	261	454	228	7,671
Total liabilities		**4,214,351**	**1,956,775**	**4,229,101**	**1,815,880**
Shareholders' equity					
Share capital	33	191,178	191,178	191,178	191,178
Share premium		69,713	69,713	69,713	69,713
Reserve capital	33	464,690	224,118	464,690	224,118
Revaluation reserve	33	666	155	666	155
Accumulated result		(201,658)	(182,692)	(209,885)	(186,679)
Total shareholders' equity attributable to the shareholders of the Bank		**524,589**	**302,472**	**516,362**	**298,485**
Total shareholders' equity		**524,589**	**302,472**	**516,362**	**298,485**
Total liabilities and shareholders' equity		**4,738,940**	**2,259,247**	**4,745,463**	**2,114,365**

The financial statements on pages 14 to 84 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	Janis Teteris Member of the Management Board	Erkki Raasuke Chairman of the Supervisory Council

Riga,
16 March 2018

The accompanying notes are an integral part of these financial statements

Statement of changes in equity for the years ended 31 December 2017 and 31 December 2016

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 2015	**191,178**	**69,713**	**224,118**	**10,633**	**(216,145)**	**279,497**
Profit for the year	-	-	-	-	33,453	**33,453**
Decrease of revaluation reserve	-	-	-	(10,478)	-	**(10,478)**
Total comprehensive income	**-**	**-**	**-**	**(10,478)**	**33,453**	**22,975**
At 31 December 2016	**191,178**	**69,713**	**224,118**	**155**	**(182,692)**	**302,472**
Profit for the year	-	-	-	-	2,022	**2,022**
Increase of revaluation reserve	-	-	-	511	-	**511**
Total comprehensive income	**-**	**-**	**-**	**511**	**2,022**	**2,533**
Increase of reserve capital (refer to Note 33)	-	-	240,572	-	-	**240,572**
Dividends declared	-	-	-	-	(30,174)	**(30,174)**
Equity increase resulting from business combination (refer to Note 2(z) and 42)	-	-	-	-	9,186	**9,186**
At 31 December 2017	**191,178**	**69,713**	**464,690**	**666**	**(201,658)**	**524,589**

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 2015	**191,178**	**69,713**	**224,118**	**10,633**	**(216,853)**	**278,789**
Profit for the year	-	-	-	-	30,174	**30,174**
Decrease of revaluation reserve	-	-	-	(10,478)	-	**(10,478)**
Total comprehensive income	**-**	**-**	**-**	**(10,478)**	**30,174**	**19,696**
At 31 December 2016	**191,178**	**69,713**	**224,118**	**155**	**(186,679)**	**298,485**
Loss for the year	-	-	-	-	(589)	**(589)**
Increase of revaluation reserve	-	-	-	511	**-**	**511**
Total comprehensive income	**-**	**-**	**-**	**511**	**(589)**	**(78)**
Increase of reserve capital (refer to Note 33)	-	-	240,572	-	-	**240,572**
Dividends declared	-	-	-	-	(30,174)	**(30,174)**
Equity increase resulting from business combination (refer to Note 2(z) and 42)	-	-	-	-	7,557	**7,557**
At 31 December 2017	**191,178**	**69,713**	**464,690**	**666**	**(209,885)**	**516,362**

The accompanying notes are an integral part of these financial statements

Statement of cash flows for the years ended 31 December 2017 and 31 December 2016

	Note	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Cash flow from operating activities					
Profit before income tax and dividends		13,432	33,857	9,809	30,174
Depreciation and amortization of intangible assets and property and equipment		3,132	3,322	2,283	2,470
Increase/(Decrease) in allowances for impairment losses and provisions for off-balance sheet liabilities		4,942	(1,402)	4,686	(1,993)
Loss from revaluation of securities, derivatives and loans		1,233	379	1,233	379
Loss from revaluation of investment property		9,996	2,907	578	184
Loss from revaluation of investment in subsidiaries		-	-	9,056	4,040
Loss from sale of fixed and intangible assets		26	217	26	213
Dividends received		(26)	(20)	(2,070)	(1,838)
(Profit)/Loss from foreign currency revaluation		(855)	57	(844)	40
Cash flow from operating activities before changes in assets and liabilities		**31,880**	**39,317**	**24,757**	**33,669**
(Increase)/Decrease in loans and advances to customers		58,397	15,480	(58,955)	29,614
(Increase) in due from credit institutions		(14,663)	-	(14,663)	-
(Increase)/Decrease in financial assets designated at fair value through profit and loss		8,513	(7,255)	8,513	(7,255)
Increase/(Decrease) in due to credit institutions		17,468	(95,966)	167,782	(95,939)
(Increase)/Decrease in accrued income and deferred expenses		1,101	(175)	1,304	(161)
(Increase)/Decrease in other assets and taxes		11,913	(458)	2,621	7,537
Increase /(Decrease) in clients deposits		(1,296)	3,571	2,641	3,339
Increase/(Decrease) in derivatives		10,927	(6,667)	10,927	(6,667)
Increase/(Decrease) in accrued expenses and deferred income		2,778	(502)	2,654	(498)
(Decrease) in other liabilities		(10,393)	(13,120)	(16,112)	(22,744)
Increase/(Decrease) in cash and cash equivalents as a result of operating activities		**116,625**	**(65,775)**	**131,469**	**(59,105)**
Cash flow from investing activities					
(Acquisition) of property and equipment and intangible assets		(695)	(1,728)	(666)	(1,549)
Sale of property and equipment and intangible assets		46	173	47	174
(Acquisition) of participation in share capital of subsidiary and associates		(460)	-	(45,995)	(2,000)
Sale of participation in share capital of subsidiary		-	-	285	-
(Acquisition) of investment property		(10,665)	-	(14)	-
Sale of investment property, net		31,118	8,634	2,646	1,681
Changes related to merger with Nordea (refer to Note 42)		299,157	-	345,152	-
Increase/(Decrease) in cash and cash equivalents as a result of investment activities		**318,501**	**7,079**	**301,455**	**(1,694)**
Cash flow from financing activities					
Dividends received		26	20	2,070	1,838
Dividends paid		(30,174)	-	(30,174)	-
Increase in reserve capital		240,572	-	240,572	-
Increase in cash and cash equivalents as a result of financing activities		**210,424**	**20**	**212,468**	**1,838**
Net increase/ (decrease) in cash and cash equivalents		**645,550**	**(58,676)**	**645,392**	**(58,961)**
Cash and cash equivalents at the beginning of the year		506,027	564,760	505,428	564,429
Profit/(Loss) of foreign currency revaluation on cash and cash equivalents		855	(57)	843	(40)
Cash and cash equivalents at the end of the year	15	**1,152,432**	**506,027**	**1,151,663**	**505,428**
Cash flow from interest received		61,126	46,820	54,315	42,015
Cash flow from interest paid		9,227	6,147	8,864	5,483

The accompanying notes are an integral part of these financial statements

Notes to the 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).

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

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the EU. These financial statements are prepared on a historical cost basis, except for certain financial assets and liabilities (financial assets available-for-sale, land, buildings and investment properties, financial assets and liabilities at fair value through profit or loss and derivatives) which are reported at fair value.

The preparation of financial statements in conformity with IFRS as adopted in the EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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

c) Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:
- Power over the investee (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 over the investee to affect its returns

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

***Notes to the Financial Statements** (continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) 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.

e) Foreign currency translation

Transactions denominated in foreign currencies are recorded in euro at actual rates of exchange set forth by the European Central Bank at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the rate of exchange prevailing at the end of the period. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the statement of comprehensive income as a profit or loss from revaluation of foreign currency positions.

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 31 December 2017	1.19930
As at 31 December 2016	1.05410

f) Taxation

Income taxes include current and deferred taxes. Current corporate income tax is applied at the statutory rate of 15%.
Legal entities will not be required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax will be paid on distributed profits and deemed profit distributions. Consequently, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. Starting from 1 January 2018, both distributed profits and deemed profit distributions will be subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the statement of comprehensive income as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.

Until 31 December 2017, given that the Bank is a group's parent company and prepares consolidated annual reports in accordance with International Financial Reporting Standards, the Bank and Group had chosen to apply Article 13(5)(2) of the Law on Annual Reports and Consolidated Annual Reports and recognized and measured deferred tax assets and deferred tax liabilities, as well as provided explanatory information under the captions "Deferred tax assets", "Deferred tax liabilities" and "Income or expense from changes in deferred tax assets or deferred tax liabilities" in accordance with IAS 12 “Income Taxes”. Deferred tax was provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying value for accounting purposes. Deferred tax assets and liabilities were measured at the tax rates that were expected to apply to the period when the asset was realized or the liability was settled, based on tax rates that had been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are not recognized for the year 2017 in accordance with amendments to the legislation of the Republic of Latvia, which entered into force on 1 January 2018. Accordingly, deferred tax assets which were calculated and recognized in previous reporting periods have been reversed through the current statement of profit or loss in the financial statements for the year ended 31 December 2017; according to IAS 12, changes in the tax legislation must be presented in financial statements in the period when they are adopted.
Taxes other than on income are recorded within operating expenses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Cash and cash equivalents

For purposes of the cash flow statements cash and cash equivalents comprise cash balances, balances due from the central banks, due from other credit institutions with original maturity less than 3 months and insignificant risk due to change in value, less balances on demand due to other credit institutions.

h) Loans and receivables and allowances for loan impairment

Balances due from banks and loans and advances to customers are accounted for as loans and receivables and are carried at amortised cost. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. All loans and advances are recognised in the statement of financial position when cash is advanced to borrowers. For the purposes of these financial statements, finance lease receivables are included in loans and advances to non-banking customers.

A credit risk allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the allowances is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original interest rate of the loans or the current one in case of immaterial deviance.

The Group first assesses whether objective evidence of impairment exists individually for material loans. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If the Group determines that no objective evidence of impairment exists, the loan is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. For the purposes of a collective evaluation of impairment loans are grouped on a basis of similar credit risk characteristics.

The Group reviews their loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Group makes judgements as to whether there is any objective indication that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and current economic climate in which the borrowers operate. The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Nevertheless, it is possible, that outcomes within the next financial year, that are different from assumptions, could require a material adjustment to the carrying amount of the asset or liability affected.

When a loan is uncollectible, it is written off; subsequent recoveries are credited to the statement of comprehensive income.

Allowances for individual loan impairment are made in the currency of the related asset and are subject to revaluation at period end at the rate set by the European Central Bank. Foreign exchange rate differences arising from such revaluation are recorded in the statement of comprehensive income as additional allowances or income from the recovery of existing allowances (if any). The corresponding result of revaluing the respective asset covered by the allowances for loan impairment is recorded as profit / loss to foreign currency transactions. Allowances for collective loan impairment mostly are made in EUR.

Individual and collective impairments

Material loans are subject for quarterly individual assessment of provision need if at least one loss event has occurred, e.g. one or more commitments of the customer are overdue more than 90 days (principal or interest), restructuring of one or more commitments of the customer, customer has major financial problems or other issues that will lead to major financial problems, customer has breached financial covenants / other covenants that affects the customer's ability to service his liabilities, etc. If the Group determines that no loss event has occurred for specific loan, it is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment (using incurred but not reported (IBNR) approach, where provisions amount is based on historical loss rate for specific group and probability of becoming impaired).

Immaterial loans (materiality threshold is set based on exposure amount) are assessed quarterly on the basis of portfolios, i.e. mortgage loans, private loans secured with real estate collateral, small and medium size loans to legal entities, as well as active lease agreements. Within each portfolio approach differs based on loans quality – number of overdue days and status of restructuring. The main part of immaterial loans is mortgage and private loans secured with real estate collateral. Provisions for non-performing loans (over 90 days overdue) are made based on information about updated collateral values, expected realisation value of collateral, estimated expenses related to collateral realisation as well as potential recovery of uncovered loan amount after realisation of collateral. If loan is not due or delayed up to 90 days or restructured, impairment is calculated based on historical and estimated migration to non-performing status. Impairment for non-performing loans is classified as specific provisions while impairment for restructured loans and impairment for performing loans are classified as group provisions (IBNR/collective provisions). Impairment for terminated leasing agreements is calculated based on average realised losses.

***Notes to the Financial Statements** (continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Loans and receivables and allowances for loan impairment (continued)

Restructured loans

Where possible, the Group and the Bank seeks to restructure loans rather than take possession of collateral. This mostly involves adjusting the payment schedule made by a borrower in a manner matching the borrower's financial capacity (temporarily reducing principal repayments, extending payment terms) and the agreement of new loan conditions. If the customer faces long term financial difficulties, the Group and the Bank together with the customer is looking for long term solution if possible (e.g. extended maturity, voluntarily sales of property etc.). Once the terms have been renegotiated and executed a loan is no longer considered non-performing as long as a borrower complies with the renegotiated terms and conditions. Such loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur and interest and fee income is accrued and recognised as for other performing loans. Restructured loans continue to be subject to an individual or collective impairment assessment on a quarterly basis.

The Bank recognises as a part of interest income the decrease in provisions for individually assessed loans due to shortening of discounting period of expected cash flows.

i) Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Bank and the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; and
- the Bank and the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank and the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank and the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank and the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank’s and the Group’s continuing involvement is the amount of the transferred asset that the Bank and the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank’s and the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

j) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific assets and the arrangement conveys a right to use the asset.

The Group or the Bank as a lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Leases (continued)

Leases where the Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Contingent rents are recognised as revenue in the period in which they are earned.

Assets under operating leases are recognised as equipment at historical cost net of accumulated depreciation and impairment, if any. Depreciation is calculated on a straight-line basis. Assets are depreciated till its residual value over the estimated useful life of property and equipment that is determined based on useful lives of similar assets of the Group and the Bank. Rentals receivable under operating leases are credited to the statement of comprehensive income on a straight-line basis over the lease term and presented in other income.

If a sale and leaseback transaction results in an operating lease and the sales price is above fair value of the asset sold, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

The Group or the Bank as a lessee

The Group acts as a lessee only in operating leases. A lease where the lessor retains substantially all the risks and benefits of ownership of the asset is classified as operating lease. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

k) Financial assets at fair value through profit or loss

Financial assets designated at fair value through profit and loss are designated by management on initial recognition as a part of financial assets which are managed and their performance evaluated on a fair value basis.

Financial assets at fair value through profit or loss are measured at fair value based on quoted bid prices. In the absence of the active market, the fair value of financial assets at fair value through profit or loss is derived from the value of an instrument that is substantially the same or from discounted cash flow models. Gains and losses arising from changes in the fair value of financial assets are recognised in the statement of comprehensive income.

Interest earned whilst holding financial assets at fair value through profit or loss is recorded as interest income.

All regular way purchases and sales of financial assets at fair value through profit or loss are recognised at settlement date.

l) Financial assets available-for-sale

Financial assets available-for-sale include equity investments. Equity investments classified as financial assets available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, financial assets available-for-sale are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the available-for-sale reserve until the investment is derecognised. If a financial asset available-for-sale is determined to be impaired or the investment is derecognised, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the statement of comprehensive income.

m) Subsidiaries

Investments in subsidiaries in the Bank's financial statements are accounted for under the cost method.

The Bank recognises income from investment only to the extent that the Bank receives dividends from the accumulated profit of the subsidiaries arising after the date of acquisition.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets transferred. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

If there is objective evidence that an impairment loss on investments in subsidiaries carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of investment. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

n) Property, plant and equipment

Land and buildings are carried at revalued amounts less accumulated depreciation on buildings and impairment losses, if any. Equipment and other assets are recorded at cost, less accumulated depreciation and accumulated impairment losses, if any.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Property, plant and equipment (continued)

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Depreciation is provided using the straight-line method to write off the cost or revaluated amount of each asset to their residual value over the estimated useful life of the asset. The following depreciation rates have been applied:

Category	Annual Rate
Buildings	1% – 2%
Building parts	2% – 6%
Engineering networks and equipment	4%
Office equipment	10% – 20%
Network and computer equipment	20% –25%
Vehicles	20%

Maintenance and repair costs are charged to the statement of comprehensive income as incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Leasehold improvements are capitalised and depreciated over the shorter of their useful life and remaining lease contract period on a straight-line basis.

Revaluation reserve

The fair value of land and buildings is determined from market-based evidence by appraisal that is normally undertaken by professionally qualified values. The fair value of items of plant and equipment is their market value determined by appraisal.

The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.

If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Upon disposal, revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

o) Investment property

Investment properties are properties (land and/ or building) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for administrative purposes; or
- sale in the ordinary course of business.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of comprehensive income in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of comprehensive income in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Intangible assets

Acquired computer software licences are recognised as intangible assets on the basis of the costs incurred to acquire and bring to use the software. These costs are amortised on the straight-line basis of their expected useful lives, not exceeding five years.

q) Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest rate swaps and options, commodity swaps are initially recognised and subsequently carried at their fair value. Derivatives are revalued at least monthly. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives are reported in the statement of comprehensive income.

Derivatives notional amounts are recognised in Bank`s and Group's off-balance sheet accounts.

r) Financial liabilities carried at amortised cost

Financial liabilities carried at amortised cost are mainly amounts due to customers and due to banks. These are recognised initially at cost, being their issue proceeds (fair value of consideration received) net of directly attributable transaction costs incurred. Financial liabilities are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

s) Off-balance sheet items

In the ordinary course of business, the Group and the Bank have been involved with off-balance sheet financial instruments consisting of commitments to extend loans and advances, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

t) Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The assumptions used in fair value measurement are described in more details in Note 2(y) and Note 37.

u) Off-setting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liability simultaneously.

v) Provisions

Provisions are recognised when the Group and the Bank have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. These provisions relate to the guarantees issued, to other off-balance sheet items and also to legal reserve. The assessment of provisions requires the application of management's judgement and estimates, as to the probability of an outflow of resources, the probability of recovery of resources from corresponding sources including security or collateral or insurance arrangements where appropriate, and the amounts and timings of such outflows and recoveries, if any.

w) Financial Guarantees

The Group measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight-line basis over the life of the guarantee. At each statement of financial position date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at statement of financial position date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

x) Trust Activities

Assets managed or held in custody by the Group and the Bank on behalf of individuals, trusts and other institutions are not regarded as assets of the Group and the Bank and, therefore, are not included in the statement of financial position.

y) Critical accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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. Such estimates and assumptions are outlined below:

- Impairment losses of loans and advances:
  The Group reviews its loan portfolio to assess impairment on a regular basis as described in Note 2(h).
  The Group in 2017 has reviewed provisioning approach for loans to eliminate the most significant differences within combined bank. No significant changes have been made as approaches used are similar. Pool rates for loans assessed collectively and overdue more than 90 days are reassessed at least once a year.
  To assess the provisioning level for mortgage and private loans secured with real estate collateral, the Group and the Bank has performed individual and statistical revaluation of real estate collaterals, as well as reviewed assumptions used in calculations (e.g. expected recovery of unsecured part after realisation of collateral and estimated migration of restructured loans to non-performing status). It resulted in decrease in provisions by EUR 2,200 thou, mainly as a result of statistical revaluation of real estate collaterals.
  Considerable changes are made in 2018 with implementation of the approach and methodology in compliance with International Financial Reporting Standard 9. Implementation of the standard is described in more details in Note 3.

- Deferred assets and liabilities:
  Deferred tax assets and liabilities are not recognized for the year 2017 in accordance with amendments to the legislation of the Republic of Latvia, which entered into force on 1 January 2018. Accordingly, deferred tax assets which were calculated and recognized in previous reporting periods have been reversed through the statement of comprehensive income or reserves, depending on whether deferred tax liabilities or assets were recognized initially in the statement of comprehensive income or reserves, in the financial statements for the year ended 31 December 2017; according to the International Financial Reporting Standards, changes in the tax legislation must be presented in financial statements in the period when they are adopted.

- Fair values:
  Where the fair value 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 judgements include considerations of liquidity and model inputs. The valuation of financial instruments is described in more detail in Note 37.

  In the fair value measurement of the Series C Preferred Stock in Visa Inc. as at 31 December 2017 the following assumptions have been used:
    - Average share price for Visa Inc. in 2017
    - Conversion rate 13.893 for Class A Common Stock (31 December 2016: 13.952)
    - Liquidity discount of 30%.

  The fair value estimated as at year end is USD 2.8 million (31 December 2016: USD 2.4 million).

- Impairment of investments in subsidiaries:
  Investments in subsidiaries are valued at cost less impairment in the Bank's separate financial statements. On a regular basis, the Bank compares the cost of investment with the carrying value of net assets of a subsidiary to see whether any impairment indication exists. If impairment indication exists, the recoverable amount of the investment is calculated based on discounted estimated future free cash flows to equity of the subsidiary. Future cash flows are based on budgets and projections prepared by the subsidiary and assessed for reasonableness. Discount rate is equal to the required rate of return to equity. An impairment loss is recorded when the decline in value of subsidiary is significant and prolonged.

  Key assumptions used in calculations and sensitivity to changes in assumptions
  Management believes that reasonable impairment of investment indication exists only in SIA Salvus, SIA Salvus 3 and SIA Salvus 4 subsidiaries as of 31 December 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

y) Critical accounting estimates and judgements (continued)

SIA Salvus, SIA Salvus 3 and SIA Salvus 4 subsidiaries cash flows are most sensitive to the following assumptions:
Gross margins - they are based on average actual sales margins of previous periods. The margins are projected to decrease over the budget period as the liquidity of portfolio declines with the assumption that the most appealing objects are sold first.
Discount rates - a pre-tax discount factor of 10% has been applied to forecast free cash flows to equity used in the impairment testing.
Period of cash flow projections – management's cash flow projections until the end of 2020 were used for objects in the portfolio at impairment calculation date. Life cycle of investment property portfolio has been determined based on historical sales volumes, thus, based on reasonable facts.

Impairment has been identified for these subsidiaries in 2017 and 2016 (see Note 20).

- Investment property:
  Investment properties are measured initially at cost, including transaction cost, subsequently they are carried at fair value which reflects market conditions at the reporting date. Investment properties valuation techniques are based on market comparable method, income capitalization method and discounted cash flow method (DCF). More detailed information regarding fair value measurement of investment properties is described in Note 37.

z) Accounting for merger with Nordea

During the Merger with Nordea (see Note 42) an assessment was done on the accounting principle to be used for the transaction.

Control according to IFRS 10
An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. (IFRS 10.6). Thus, an investor controls an investee if and only if the investor has all the following:
a) power over the investee;
b) exposure, or rights, to variable returns from its involvement with the investee; and
c) the ability to use its power over the investee to affect the amount of the investor's returns. (IFRS 10.7)

Joint control according to IFRS 11

The formation of Luminor was a cooperation between DNB and Nordea with the intention for joint decisions and control of the Luminor operations. Shareholders have equal voting rights each and all decisions of relevant activities are taken by the Board of Directors where shareholders appoint two members each and jointly appoint an independent chairman. There are no other factors that indicate that one of the investors has the power to exercise control over the investee as defined in IFRS 10. To account for transaction as a joint venture, management of the Bank had assessed that the agreed decision rules and processes meet the criteria of IFRS 11 as a joint arrangement:

a) The parties are bound by a contractual arrangement.
b) The contractual arrangement gives two or more of those parties joint control of the arrangement. (IFRS 11.5)

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. (IFRS 11.7)

It was concluded that both parties (DNB and Nordea) control the arrangement collectively. Also the conclusion was made that joint control exists because the decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement.

In the formation of a joint arrangement, when no acquirer can be identified and the guidance in IFRS 3 Business Combinations cannot be used as IFRS 3.2(a) specifically scopes out "*the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself*" from this standard. Therefore the Bank selected in its accounting policy for how to account for this transaction by using the general guidance in IAS 8.10-12 - it was decided to use the carrying values. For more information on the accounting policy please refer to section Combination of entities under common control and usage of the pooling of interest method below.

More details on the Merger can be found in Note 42.

Alignment of Accounting Policies between DNB and Nordea
The accounting policies of the two businesses merged were reviewed and no major differences were identified in the accounting principles applied.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

z) Accounting for merger with Nordea (continued)

Combination of entities under common control and usage of the pooling of interest method (see Note 42)
A combination of entities under common control is a transaction when the controlling parties before and after a business combination are the same and the control is not transitory. IFRS 3, 'Business combinations' is not applied to business combinations between entities under common control, therefore such business combinations are accounted for using the pooling of interest method of accounting.

According to the pooling of interest method the assets and liabilities of the combining entities are reflected at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination that would otherwise be done under the acquisition method. No 'new' goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid/transferred or investment cost and the equity 'acquired' is reflected within equity.

aa) Going concern

The Bank's and Group's management is fully convinced of stable and balanced performance going forward and based on that prepared these financial statements on the going concern basis. Please refer to Note 43 which provides an additional information on the Bank's and the Group's activities in the future that do not change management's assessment of going concern since the Bank will continue to operate in Latvia market via banking branch and the mentioned restructuring is merely a change in legal status.

3 ADOPTION OF NEW AND/OR CHANGED IFRS AND INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC) INTERPRETATIONS

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

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group or Bank as of 1 January 2017:

- **Amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative***
  The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The Amendments were not applicable for the Group.
- **Amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses***
  The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The Amendments were not applicable for the Group.
- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The following annual improvement has not yet been endorsed by the EU. This improvement did not have an effect on the Group`s financial statements:
  - ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

Standards issued but not yet effective

The Group or the Bank has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorization of these financial statements for issue, but which are not yet effective:

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2018)

Introduction

In July 2014, the IASB issued IFRS 9 *Financial Instruments*, the standard that will replace IAS 39 for annual periods on or after 1 January 2018, with early adoption permitted. In 2016 the Group set up an implementation team ("the Team") with members from its Credit Risk and Finance teams to prepare for IFRS 9 implementation ("the Project"). The Milestone plan of the projects was approved by the project Steering Group.

3 ADOPTION OF NEW AND/OR CHANGED IFRS AND INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC) INTERPRETATIONS (continued)

Classification and measurement

From a classification and measurement perspective, the new standard requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI) and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

Classification and measurement requirements of IFRS 9 other than those related to impairment and calculation of expected credit losses do not have impact on the Group`s financial statement – based on assessment performed in the Group:

- Loans and advances to banks, loans and advances to customers that are classified as loans and receivables under IAS 39 will be measured at amortised cost under IFRS 9.
- Financial assets and liabilities held for trading and financial assets at FVPL will continue to be measured at FVPL.
- The equity investments classified as available for sale under IAS 39 will be designated to FVOCI option.

Impairment of financial assets

IFRS 9 will also fundamentally change the credit loss recognition methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Group will be 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 will be calculated also for purchased or originated credit-impaired assets (POCI) regardless of the changes in credit risk during the lifetime of an instrument. The Group 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 will be 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 should equal the 12 month expected credit loss. In stage 2 and 3, the allowances should equal the lifetime expected credit losses.

Integration of the IFRS 9 impairment methodology into business processes (related to SPPI checks and accounting for modifications) is not finalized in the Bank. Also, development of some parts (mostly related to internal documentation or those which were evaluated as not having material impact was postponed and is intended to be finalized during the year 2018. None of the mentioned activities relate to IFRS 9 impact calculation. Validation of the model will be done in March 2018. In general, IFRS 9 impairment model will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowances recognised for these items. Moreover, it is expected that the impairment calculations under IFRS 9 will be 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. Based on assessment performed to date, the transition impact (net of tax) on the opening balance of the Group's retained earnings at 1 January 2018 is estimated to fall within the range of EUR 15-18 million (impact to the capital) (Bank`s: approximately EUR 15-17 million).

The results of the assessment presented above are preliminary and based on the facts and circumstances as at 01 January 2018. Due to the possibility of changes in assumptions and estimations, the actual impact of adopting IFRS 9 on 1 January 2018 may be subject to change.

Capital management

The new expected loss approach model will have a negative impact on the Bank's regulatory capital. Upon the decision of the Supervisory Council of Luminor Bank AS the Bank will not apply transitional arrangements allowed by EU Regulation 2017/2395 and will recognise the full effect of the implementation of IFRS 9 from 1 January 2018. The capital adequacy ratio will still be significantly above the regulatory minimum and at the acceptable level according to the internal procedures.

3 ADOPTION OF NEW AND/OR CHANGED IFRS AND INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC) INTERPRETATIONS (continued)

IFRS 15 *Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2018)

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management has assessed that the application of the standard will have no effect on the Bank and the Group financial statements. The current accounting policy for revenue from contracts with customers complies with the new requirements as described below.
The core principle of IFRS 15 is that revenue must be recognised to reflect the transfer of services to customers at an amount that reflects the consideration that is expected to be received in exchange for such services. This core principle is applied through a five-step model:

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

For each performance obligation identified the Group determines at contract inception whether it satisfies the performance obligation over time or at a point in time, whether the consideration is fixed or variable, including whether consideration is constrained due to external factors. Consideration is subsequently allocated to the identified performance obligation.
For services provided over time, consideration is recognised when the service is provided to the customer assuming that a significant reversal of consideration will not occur. Examples of income earned for services satisfied over time include the fee income earned for the asset management services.
If a performance obligation is satisfied at a point in time then the income is recognised when the service is transferred to the customer. Examples of such income include fee income for executing transactions (clearing and settlement, customers' securities trading, payment cards transaction fees).

IFRS 15 *Revenue from Contracts with Customers (Clarifications)* (effective for annual periods beginning on or after 1 January 2018)

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. Management has assessed the application of the standard will have no effect on the Bank and the Group financial statements.

IFRS 16 *Leases* *(*effective for financial years beginning on or after 1 January 2019)

The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Group has not yet evaluated the impact of the implementation of this standard.

Amendment in IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU.)

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not).

A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The Group has not yet evaluated the impact of the implementation of this standard.

3 ADOPTION OF NEW AND/OR CHANGED IFRS AND INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC) INTERPRETATIONS (continued)

Amendments to IFRS 2: *Classification and Measurement of Share based Payment Transactions* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Group has not yet evaluated the impact of the implementation of these amendments.

Amendments to IAS 40: *Transfers to Investment Property* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.The Group has not yet evaluated the impact of the implementation of these amendments.

Amendments to IFRS 9: *Prepayment features with negative compensation* (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)

The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The Group has not yet evaluated the impact of the implementation of these amendments.

Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures* (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)

The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. The Group has not yet evaluated the impact of the implementation of these amendments.

IFRIC INTERPETATION 22: *Foreign Currency Transactions and Advance Consideration* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The Group has not yet evaluated the impact of the implementation of this Interpretation.

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. The adoption of these amendments will not have any impact on the financial position or performance of the Group.

- ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

Notes to the Financial Statements *(continued)*

3 ADOPTION OF NEW AND/OR CHANGED IFRS AND INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC) INTERPRETATIONS (continued)

IFRIC INTERPETATION 23: ***Uncertainty over Income Tax Treatments*** (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The Group has not yet evaluated the impact of the implementation of this Interpretation.

The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any impact on the financial position or performance of the Group.

- ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:*** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business
- ***IAS 12 Income Taxes:*** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- ***IAS 23 Borrowing Costs:*** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

The Group plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

4 RISK MANAGEMENT

Sound risk management is a prerequisite for long-term value generation as the profitability is dependent on Group's ability to identify, manage and accurately price risk. In 2017 the Group and the Bank carried out harmonisation of risk management process within combined bank.

Organisation and authorization structure

- *Supervisory Council and Management Board.* The Supervisory Council sets long-term targets for the Group's risk profile. The risk profile is operationalised through the risk management framework, including the establishment of authorisations. The Management Board is responsible for development, implementation, control and regular revision of risk management framework.
  Risk Committee consists of all members of the Supervisory Council. The objective of the Committee is to ensure the effective formation of optimal capital structure, risk management and control as well as to optimise the Bank's asset and liability structure with regard to acceptable risk and return.
- *Authorisations*. Authorisations must be in place for the extension of credit and for position and trading limits in all critical financial areas.
- *Annual review of limits*. Risk limits are reviewed at least annually.
- *Independent risk management functions*. Risk management functions and the development of risk management tools are undertaken by units that are independent of operations in the individual business areas.

Monitoring and use

- *Accountability*. All executives are responsible for risk within their own area of responsibility and must consequently be fully updated on the risk situation at all times.
- *Risk reporting*. Risk reporting in the Group ensures that all executives have the necessary information about current risk levels and possible future developments. To ensure high-quality, independent risk reports, responsibility for reporting is assigned to units that are independent of the operative units.
- *Capital assessment*. A summary and analysis of the Group's capital and risk situation is presented on a regular basis to the Bank`s senior management.
- *Use of risk information*. Risk is an integral part of the management and monitoring of business areas to the extent possible, including taken into account during strategic and planning processes, lending process, product development and other daily business activities.

4 RISK MANAGEMENT (continued)

Relevant risk measures

Risk is followed up through risk measures adapted to operations in the various business areas, for example, monitoring of set limits, key financial and risk figures and ratios, portfolio risk targets, stress testing as well as risk analysis during internal capital adequacy assessment process.

Risk categories

For risk management purposes, Group distinguishes between the following main risk categories:

- *Credit risk* is the risk of financial losses due to failure on the part of the Group's customers (counterparties) to meet their payment obligations towards Luminor. Credit risk also includes concentration risk, residual risk and models risk.
- *Market risk* is the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices.
- *Liquidity risk* is the risk to incur unacceptable losses due to inability to fund increases in assets and meet obligations as they come due.
- *Operational risk* is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition also includes, but not limited to such types of operational risk like legal risk, compliance risk, money laundering risk, conduct risk, IT risk and information security risk.
- *Business risk* is the risk of profit fluctuations due to changes in external factors such as the market situation, government regulations or the loss of income due to a weakened reputation. Reputational risk is often a consequence of other risk categories. The Group's business risk is generally handled through the strategy process and by maintaining ongoing focus on safeguarding and improving the Group's reputation.
- *Strategic* risk is the risk of a decline in income if the Group fails to exploit the strategic opportunities.

The Group quantifies total risk during internal capital adequacy assessment process by calculating capital needed to cover various types of risk, except liquidity risk. Risk measurement is a field in constant development, and measurement methods and tools are subject to continual improvement.

a) Credit risk

Credit risk is the main risk category in the Group. The credit portfolio includes loans, liabilities in the form of other extended credits, guarantees, leasing, factoring, interest bearing securities, approved, undrawn credits, as well as counterparty risk arising through derivatives and foreign exchange contracts. Settlement risk, which arises in connections with payment transfers as not all transactions take place in real time, also involves counterparty risk.

Credit risk management framework

The Group’s credit policy, credit strategies and credit guidelines (*Credit Manual*) regulate credit activity in the Group.

Strategic goal for the whole Luminor Group is to ensure that the loan portfolio has a quality and compositions which secure the Group’s profitability in the short and long term. The Group intends to grow credit portfolio with low and medium risk customers.

Main credit risk management principles

- Customer’s true willingness and ability to repay the loan is/ must be the key element when considering whether to approve a loan; collateral is considered only as a risk mitigant.
- Keep a balanced loan portfolio from concentration point of view, including the balance between private individuals and legal entities.
- Avoidance of large risk concentrations related to a single customer/ group or clusters in higher risk categories and specific business sectors whereby significant changes in one or a few risk drivers may substantially affect the Group’s profitability.
- Not financing industries where the Group does not have competence and experience.
- Any changes to a credit facility are approved at the appropriate decision making level.

4 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Risk classification

Risk classification is an important element of the credit process and the management of the Group's credit risk. The Group has developed different risk classification models to cover specific loan portfolios/ credit products. Risk classification systems are used for decision support, risk monitoring and internal reporting. The risk parameters used in the classification systems are an integral part of the credit process and ongoing monitoring including the follow-up of credit strategies.

The Group's credit risk models provide a basis for statistically based calculations of expected losses in a long-term perspective and risk-adjusted capital in a portfolio perspective. Customers are classified based on the probability of default (PD). Customers are re-classified according to risk with every significant credit approval or major change in customer's risk profile, but at least once a year, unless otherwise decided.

The risk classes are defined on the basis of the scales used by international rating agencies. Probability of default (PD) is a statistical measure representing the expected rate of defaulted customers to the total number of customers initially attributed to the specific class (grade) in one year horizon. There are ten risk classes for performing loans. In addition, doubtful and non-performing commitments are placed in classes 11 and 12 for internal reporting purposes.

Risk segmentation	Risk class	PD (%) as from	PD (%) up to
Low	1	0,01	0,10
	2	0,10	0,25
	3	0,25	0,50
	4	0,50	0,75
Moderate	5	0,75	1,25
	6	1,25	2,00
	7	2,00	3,00
High	8	3,00	5,00
	9	5,00	8,00
	10	8,00	…

Credit approval authorizations

Credit decision making is based on a credit committees system. Credit committees' members represent various areas of the Group, including credit risk officers. Decisions about credits, which are not of material size for the Group, are made in dual approval system with individual credit approval authorities.

Rights to participate in credit committees and all individual credit approval authorities are personal and are assigned based on person's qualification, experience and competence. "Two pairs of eyes" principle follows throughout all credit approval process.

The Group has defined a list of criteria when credit decisions must be lifted one level up than ordinary decision making level or delegated to specially authorized persons

Credit risk mitigation

Credit risk mitigation is an integral part of credit risk management process in the Group. Defined requirements for new customers, prudent evaluation of debt service capacity and collateral held as security are the main credit risk mitigation measures. However, other risk mitigation techniques, tools and processes, including but not limited to different risk classification models, calculation of debt service capacity, transparent credit approval authorities and strict credit decision making rules, ongoing credit risk monitoring are used in daily activities as well.

Credit risk measurement

Credit risk is monitored by following developments in risk parameters, migration and distribution over the various risk classes. Developments in risk concentrations are monitored closely with respect to exposure and risk classes.

The Group has developed different management tools in order to monitor the ongoing credit risk of a customer and implement relevant measures proactively in the case of negative development, already at an early stage. Larger exposures are monitored individually case-on-case basis where the frequency and scope depends on the size and risk classification of the exposure, while monitoring of smaller exposures is performed by business units based on automatically generated reports or in close cooperation with risk reporting unit. The Group has established the system for identification of commitments showing early warning signals when special attention and separate follow up is needed.

4 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Credit risk stress testing

Stress testing is used to define the potential impact of diverse extraordinary, yet possible and materially unfavourable occurrences or changes in market conditions on the risk profile, financial and capital ratios of the Group. Stress testing supports management understanding of risk profile with forward-looking view on resilience under adverse conditions. Stress tests are performed at least once in every six months. Within the stress test at least 2 scenarios are developed – standard scenario and severe scenario. Stress tests are performed for at least two time periods, i.e. 1 and 2 years' periods; within the framework of the annual ICAAP also for 3 years' period.

In case of private individuals stress testing is performed based on top-down method, which is based on macroeconomic indicators (unemployment, GDP, inflation etc.), as well as scenario analysis of non-performing and restructured loan portfolio development.

According to standard scenario macroeconomic situation will improve, e.g. moderate GDP growth, decrease in registered unemployment. According to severe scenario macroeconomic indicators will significantly deteriorate. According to this scenario GDP will decrease, while unemployment will increase.

Stress testing for legal entities is performed based on bottom-up method - enough representative proportion of the performing portfolio in terms of total exposures is subject to individual assessment. Afterwards, results are extrapolated in order to cover whole performing loan portfolio. Also non-performing and doubtful loans are subject for individual assessment.

The stress tests help to identify possible future changes in economic conditions which could have a negative impact on the Group's credit exposure and ability to withstand such changes. These assessments are taken into account in the Group's risk and capital adequacy assessment process as well as to estimate the necessary capital buffer. Results of stress testing have direct impact on strategic and business decisions of the Group.

Industry risk management

The Group has defined maximum limit to any single industry sector. The Group has recognised and regularly reviews sensitive sectors to which lending is frozen on existing level. Acceptable Risk Criteria have been prepared for the different industries. These are used as indicative standards when appraising a customer's creditworthiness.

Country risk management

The Group closely follows "home market" approach. The Group restricts to the large extent any exposure related to countries where Luminor Group and shareholders has no presence.

All countries are classified according to Group's PD risk scale the classification of country risk is based on classification by external rating agencies. Risk grades are reviewed and updated not less than once a year. Country risk limits are reviewed annually, unless there is any deterioration in risk classification of the particular country.

In 2017 the Group continued launching new initiatives in order to improve credit risk management process as well as harmonizing further credit processes with Luminor Group.

b) Market risk

The Group is mainly exposed to such market risks as currency risk and interest rate risk. The Group does not have any open positions in commodity or equity instruments and is not exposed to changes in commodity or equity prices. During the year 2017 there were no significant changes in market risk management process.

Currency risk

The Group and the Bank seek to match assets, liabilities and off-balance sheet items denominated in foreign currencies in order to keep foreign currency exposures within limits set by the Credit Institution Law and internally by the Luminor Management Board. According to the Credit Institution Law the Bank's open position in each foreign currency may not exceed 10% of the Bank's own funds and that the total foreign currency open position may not exceed 20% of the Bank's own funds. During the year 2017 the Bank was in compliance with all limits.

Sensitivity to currency risk

Sensitivity of the Group and the Bank to a reasonably possible change in currency exchange rates, with all other variables held constant, is calculated by multiplying foreign currency open positions by possible changes in currency rates. An impact on the Group's profit or loss, assuming historical changes in currency rates, is EUR 17 thou as of December 31, 2017 (December 31, 2016: EUR 1.4 thou).

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

b) Market risk (continued)

Interest rate risk

In normal course of business, the interest rate risk arise due to timing differences in the maturity (for fixed rate) and repricing (for floating rate) of the Group's and the Bank's assets, liabilities and off-balance sheet items.
Interest rate risk from single currency positions is calculated and monitored, using the basis point value (BPV) analysis, which reflects the sensitivity of the present value of the Group's future cash flows to a parallel shift of 0.01% in market interest rates. The Group follows a conservative approach to interest rate risk and seeks to match maturity and repricing profiles of assets, liabilities and off-balance sheet items in order to keep BPV within limits set by the Luminor Management Board. Limits are set for each currency in which the Group and the Bank have significant activity as well as for all currencies altogether. During the year 2017 the Group and the Bank were in compliance with the limits.
Interest rate risk management involves the usage of funding and fund placements for different time periods or/and different repricing periods as well as derivative financial instruments, such as interest rate swap agreements.

Sensitivity to interest rate risk

Sensitivity of the Group to an interest rate risk, in terms of a basis point value, is provided in the table below.

		EUR'000
	December 31, 2017	**December 31, 2016**
EUR	-3.8	-1.7
USD	-0.3	0.03
Other currencies	0.1	0.1
Total	4.2	1.8

c) Liquidity risk

Group implements the short-term and long-term liquidity risk management strategy to maintain a low liquidity risk profile. The aim of short-term liquidity is to meet the daily need for funds, to ensure the compliance with the minimum reserve requirements set by the Bank of Latvia and liquidity requirement set by Financial and Capital Market Commission as well as the compliance with the internal liquidity limits. Long-term liquidity risk is managed by analysis the predicted future cash flows taking into account the deposit and loan portfolio growth as well as the possible refinancing sources

Liquidity risk management process

The level of the Bank's liquidity risk is limited by the surviving periods analysed across different stress scenarios, which are based on both idiosyncratic and systemic stress assumptions. The survival periods are defined as a period with a positive cumulative cash flow; these are regularly measured and reported to the Bank's management bodies.

The Bank uses a set of liquidity risk metrics to measure its liquidity position, structural liquidity mismatches, and a concentration of funding. Liquidity ratio, calculated using the methodology approved by the Financial and Capital Market Commission (FCMC), as of December 31, 2017 is 41.2% (December 31, 2016: 40.0%), which is sufficiently above the regulatory minimum of 30%.

As at 31 December 2017, the liquidity coverage ratio (LCR) of the Group and the Bank was 170.1% and 159.4% respectively (December 31, 2016: 183.9% and 159.2%). According to the Regulation, as at 31 December 2017 the Group and the Bank were required to maintain an LCR of at least 80%.
In 2017 the Group was in compliance with the liquidity ratio and minimum reserve requirements.

Liquidity risk is managed in a manner to ensure a constant ability to settle contractual obligations. The Bank has developed a set of early warning indicators for a timely identification of liquidity crises, and a contingency funding plan to manage the Bank's liquidity during the market disruption.

d) Operational risk

Operational risk management

Operational risk management in Luminor is performed by following the Operational Risk Policy, the main principle of which is that Operational risk should be low, and risk management should ensure that the risk of unwanted losses is reduced.

Each Head of structural unit and/or Business process owner is responsible for the actions and Business processes performed in its structural unit and risks resulting from them; timely identification, assessment, control, limitation and reporting of the risks encountered in its day-to-day professional activities. It is the obligation of each manager to foster a sound risk management culture in their respective structural unit.

4 RISK MANAGEMENT (continued)

d) Operational risk (continued)

Operational risk incidents in Luminor which result in losses or potential losses are registered, reported and followed up on an ongoing basis in Luminor's incident database. Undesirable incidents which cause, or could have caused, financial losses for Luminor represent valuable information and learning about necessary improvement needs. When a need for improvement measures is identified, special follow-ups are initiated.

In order to limit the consequences of serious incidents, operational disruptions etc., comprehensive contingency and business continuity plans have been drawn up to be able to handle a crisis situation in a rational and effective manner, thus contributing to limiting damage and restoring a normal situation.

Knowledge of Information Security is an integral part of the Luminor's organizational culture. A good culture for maintaining and improving information security is developed by making employees at all levels and all units aware of the risks and the necessary measures. Information Security processes are designed to protect information against accidental or malicious disclosure, modification, or destruction; meet regulatory, legislative and contractual requirements concerning information security; and maintain availability of information.

Luminor's management is kept updated on the status of operational risk through the periodic risk reports, which provides a basis for analysing the risk situation. In addition, Luminor's management is kept updated on the Luminor's operational risk in the annual Risk Assessment report on ongoing management and control of operational risk. The Risk Assessment report includes a presentation of key group-wide operational risks, relevant improvement measures and a detailed qualitative assessment based on the Luminor's ambitions within key areas of risk management and quality assurance.

At the end of 2017, Luminor conducted its first Risk and Control Self-Assessment. During the process the most significant operational risks were identified, assessed and documented, and respective risk mitigation activities described and action plan developed. Report on significant risks together with risk mitigation plan was presented to the Senior Management; risk mitigation activities according to the plan approved.

The Luminor insurance coverage is an element in operational risk management. Insurance contracts are entered into to limit the financial consequences of undesirable incidents which occur in spite of established security routines and other risk-mitigating measures. The insurance program also covers legal liabilities the Luminor may face related to its operations.

5 INTEREST INCOME

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Interest income:				
Interest on financial assets measured at amortised cost:	55,873	43,158	49,127	37,936
- interest on loans and receivables to customers	53,298	40,784	46,552	35,562
- interest on impaired loans	1,152	1,169	1,152	1,169
- interest on balances due from credit institutions and central banks	149	40	149	40
- negative interest on liabilities	1,274	1,165	1,274	1,165
Interest on financial assets designated at fair value through profit or loss	76	323	76	323
Interest on derivatives	6,515	3,057	6,515	3,057
Total interest income	**62,464**	**46,538**	**55,718**	**41,316**

6 INTEREST EXPENSE

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Interest expense:				
- interest on deposits from customers	(1,841)	(953)	(1,848)	(958)
- interest on balances due to credit institutions	(1,476)	(956)	(1,030)	(311)
- negative interest on interest bearing assets	(2,203)	(1,364)	(2,203)	(1,364)
- financial stability fee costs	(1,465)	(919)	(1,465)	(919)
- payments to Deposit Guarantee Fund	(1,404)	(1,138)	(1,404)	(1,138)
- Single Resolution Fund expense	(555)	(737)	(555)	(737)
- interest on derivatives	-	(11)	-	(11)
Total interest expense	**(8,944)**	**(6,078)**	**(8,505)**	**(5,438)**
Net interest income	**53,520**	**40,460**	**47,213**	**35,878**

7 FEES AND COMMISSION INCOME

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Money transfers	3,102	2,497	3,103	2,498
Credit card service	8,959	8,451	8,959	8,451
Assets management	3,927	2,993	-	-
Client service	2,205	1,568	2,204	1,568
Insurance	1,087	910	1,087	910
Commissions on loans monitoring and service	668	157	616	156
Financial instruments	1,034	858	1,044	858
Guarantees	1,062	429	1,136	522
Cash operations	193	175	193	175
Trade finance	323	158	323	158
Other	998	709	1,107	922
Total fees and commission income	**23,558**	**18,905**	**19,772**	**16,218**

8 FEES AND COMMISSION EXPENSES

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Credit card service	(4,739)	(3,743)	(4,739)	(3,743)
Cash operations	(488)	(667)	(488)	(667)
Money transfers	(584)	(375)	(582)	(374)
Client Service	(350)	(355)	(350)	(355)
Securities	(126)	(107)	(127)	(106)
Guarantees	(25)	(23)	(25)	(23)
Other	(515)	(499)	(125)	(149)
Total fee and commission expenses	**(6,827)**	**(5,769)**	**(6,436)**	**(5,417)**
Net fees and commissions	**16,731**	**13,136**	**13,336**	**10,801**

9 NET RESULT FROM OPERATIONS WITH FOREIGN CURRENCY, TRADING SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Gain from operations with foreign currencies	2,437	2,144	2,437	2,144
Gain/ (Loss) from trading with financial assets at fair value through profit or loss*	(184)	11,529	(184)	11,528
Gain/ (Loss) from revaluation of financial assets at fair value through profit or loss	55	(29)	55	(29)
Gain / (Loss) from foreign currency revaluation	855	(57)	843	(40)
(Loss) from derivatives revaluation	(1,288)	(350)	(1,288)	(350)
	1,875	**13,237**	**1,863**	**13,253**

* On 21 June 2016 Visa Inc. completed its acquisition of 100% of the share capital of Visa Europe for a total purchase price of EUR 17.25 billion in cash and Visa Inc. preferred stock to the shareholders of Visa Europe, with a deferred cash payment of EUR 1.12 billion, including interest, to follow in three years' time.

In 2016 the Bank has recognised its VISA Europe shares sale proceeds which comprise cash proceeds EUR 8,780 thou, deferred cash payment EUR 700 thou and Visa Inc. shares with value of USD 2,389 thou (EUR 2,154 thou) as at acquisition date. For additional information refer to Notes 19 and 33. Detailed information regarding fair value measurement of Visa Inc. shares is described in Note 2(y).

10 NET RESULT FROM OPERATIONS WITH INVESTMENT PROPERTY

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Net rental expenses/income				
Rent of investment property	1,263	1,112	34	46
Investment property related expenses	(1,936)	(2,236)	(248)	(344)
Net rental expenses	**(673)**	**(1,124)**	**(214)**	**(298)**
Net profit / loss from revaluation and sale				
Unrealised (loss) from investment property revaluation	(9,995)	(2,907)	(578)	(184)
Realized profit from sale of investment property	154	756	1	38
Net (loss) from revaluation and sale	**(9,841)**	**(2,151)**	**(577)**	**(146)**
	(10,514)	**(3,275)**	**(791)**	**(444)**

Notes to the Financial Statements *(continued)*

11 OTHER OPERATING INCOME

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Income from other related parties	2,542	1,856	2,007	1,304
Profit from sale of fixed assets	-	44	-	44
Income for services provided to subsidiaries	-	-	2,689	2,655
Other operating income	1,643	2,635	792	1,245
	4,185	**4,535**	**5,488**	**5,248**

12 ADMINISTRATIVE EXPENSES

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Salary to Management Board	531	700	531	700
Salary to employees	17,454	13,291	16,874	13,141
Social insurance contributions	4,226	3,391	4,092	3,356
Personnel expenses	**22,211**	**17,382**	**21,497**	**17,197**
IT costs	7,351	5,024	7,182	4,921
Advertising and representation	1,484	1,227	1,389	1,063
Maintenance and occupancy costs of building	2,728	2,344	3,334	3,034
Payments for management services to Group	886	1,071	882	1,068
Communications	544	593	498	560
Professional services	744	250	657	199
Training	114	197	113	195
Insurance to personnel	323	245	320	243
Insurance	140	209	100	178
Business travel	226	89	207	88
Other personal costs	1,147	461	1,146	461
Other	2,811	1,205	2,332	853
Other administrative expenses	**18,498**	**12,915**	**18,160**	**12,863**
Total administrative expenses	**40,709**	**30,297**	**39,657**	**30,060**

Audit and other fees paid to the independent auditor company which has audited these financial statements are presented within professional services expenses. Tax services provided were related to assistance in giving clarifications on work performed with regards to VAT exemption application for intra-group transactions, other advisory services were related to advisory services with regards to merge transaction accounting. These fees by the type of service provided may be specified as follows:

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Annual and interim audit fee	266	115	200	71
Other audit and similar fees	2	10	2	10
Tax advice	-	2	-	2
Other services	6	-	6	-
	274	**127**	**208**	**83**

The number of full-time staff employed:

	2017 Group	2016 Group	2017 Bank	2016 Bank
Number of employees, end of period	1,013	635	942	630
Number of employees, average of period	726	639	707	634

13 OTHER OPERATING EXPENSES

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Loss from write off and sale of fixed assets	26	261	26	258
Other operating expenses	3,882	1,936	3,662	1,747
	3,908	**2,197**	**3,688**	**2,005**

14 CORPORATE INCOME TAX

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Current corporate income tax charge for the reporting year	2,029	396	1,253	-
Deferred corporate income tax due to changes in temporary differences	(508)	8	(508)	-
Reversal of deferred tax	9,889	-	9,653	-
Corporate income tax charged to the statement of comprehensive income:	**11,410**	**404**	**10,398**	**-**

Deferred tax for the Group has been calculated from the following temporary differences between assets and liabilities values for financial and tax purposes:

	Statement of financial position		Statement of comprehensive income	
	2017 EUR'000	**2016 EUR'000**	**2017 EUR'000**	**2016 EUR'000**
Deferred corporate income tax liabilities				
Accelerated depreciation for tax purposes	2,036	1,952	84	(205)
Gross deferred corporate income tax liabilities	**2,036**	**1,952**	**84**	**(205)**
Deferred corporate income tax assets				
Tax loss carried forward	25,428	27,437	(2,009)	(3,741)
Temporary difference on accruals	3,963	2,850	1,113	2,234
Other	(18,073)	(19,561)	1,488	1,310
Gross deferred corporate income tax assets	**11,318**	**10,726**	**592**	**(197)**
Change due to merger with Nordea branch	**607**	**-**	**-**	**-**
Net deferred corporate income tax assets prior to the reversal of deferred tax	**9,889**	**8,774**	**-**	**-**
Net deferred corporate income tax (income)/ expense prior to the reversal of deferred tax	**-**	**-**	**(508)**	**8**
Reversal of deferred tax*:	**9,889**	**-**	**9,889**	**-**
In the statement of profit or loss	9,889	-	9,889	-
Net deferred corporate income tax assets	**-**	**8,774**	**-**	**-**
Net deferred corporate income tax expense	**-**	**-**	**9,381**	**8**

14 CORPORATE INCOME TAX (continued)

Deferred tax for the Bank has been calculated from the following temporary differences between assets and liabilities values for financial and tax purposes:

	Statement of financial position		Statement of comprehensive income	
	2017 EUR'000	**2016 EUR'000**	**2017 EUR'000**	**2016 EUR'000**
Deferred corporate income tax liabilities				
Accelerated depreciation for tax purposes	667	645	22	(113)
Gross deferred corporate income tax liabilities	**667**	**645**	**22**	**(113)**
Deferred corporate income tax assets				
Tax loss carried forward	23,253	25,488	(2,235)	(4,245)
Temporary difference on accruals	3,576	2,638	938	2,099
Other	(16,953)	(18,780)	1,827	2,033
Gross deferred corporate income tax assets	**9,876**	**9,346**	**530**	**(113)**
Change due to merger with Nordea branch	**444**	**-**	**-**	**-**
Net deferred corporate income tax assets prior to the reversal of deferred tax	**9,653**	**8,701**	**-**	**-**
Net deferred corporate income tax (income)/ expense prior to the reversal of deferred tax	**-**	**-**	**(508)**	**-**
Reversal of deferred tax*:	**9,653**	**-**	**9,653**	**-**
In the statement of comprehensive income	9,653	-	9,653	-
Net deferred corporate income tax assets	**-**	**8,701**	**-**	**-**
Net deferred corporate income tax expense	**-**	**-**	**9,145**	**-**

*In 2017, deferred tax assets have been reversed in the statement of comprehensive income, pursuant to amendments made to the tax legislation of the Republic of Latvia, which entered into force on 1 January 2018.

In accordance with the Corporate Income Tax Law, a taxable person which has reported a loss as at 31 December 2017 in their corporate income tax return may decrease corporate income tax charged for dividends in the reporting year by the amount equal to 15 per cent of the total uncovered loss. If this amount is not used or is used only partially in the reporting year, the balance (tax on uncovered loss) may be attributed to corporate income tax which will be charged on dividends in the subsequent four reporting years by decreasing the balance (tax on uncovered loss) to the extent of the discount used each year accordingly. As at 31 December 2017 tax losses of the Group constituted EUR 186 million (as at 31 December 2016: EUR 187 million).

Actual corporate income tax charge for the reporting year, if compared with theoretical calculations:

	2017 Group EUR'000	**2016 Group EUR'000**	**2017 Bank EUR'000**	**2016 Bank EUR'000**
Profit before taxation	**13,432**	**33,857**	**9,809**	**30,174**
Tax at the applicable tax rate of 15%	2,015	5,079	1,471	4,526
Non-deductible revaluation of assets	1,636	1,000	265	83
Impairment for debtors	247	22	-	-
Non-taxable income	(354)	(2,082)	(354)	(2,082)
Transfer pricing adjustments in relation to leasing portfolio cession (refer to Note 32)	-	-	129	898
Other net expenses not deductible for tax purposes	1,127	117	1,469	113
Deferred tax	(3,150)	(3,732)	(2,235)	(3,538)
Actual income tax for the reporting year:	**1,521**	**404**	**745**	**-**
Reversal of deferred tax	9,889	-	9,653	-
Corporate income tax charged to the statement of profit or loss:	**11,410**	**404**	**10,398**	**-**
Effective income tax rate	85%	1%	106%	0%

***Notes to the Financial Statements** (continued)*

15 CASH AND CASH EQUIVALENTS

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Cash	44,966	25,878	44,966	25,878
Balances with the central banks	1,022,248	37,784	1,022,248	37,784
Cash and balances with central banks	**1,067,214**	**63,662**	**1,067,214**	**63,662**
Balances due from other credit institutions with the original maturity less than 3 months	90,794	444,590	90,025	443,991
Balances on demand due to other credit institutions	(5,576)	(2,225)	(5,576)	(2,225)
Total cash and cash equivalents	**1,152,432**	**506,027**	**1,151,663**	**505,428**

The Bank is required to comply with minimum reserve requirements set by the European Central Bank. This requires the Bank's monthly average EUR balance on its correspondent account with the Bank of Latvia to exceed a specified minimum during the maintenance period of requirements.

The Bank was in compliance with the reserve requirement during the reporting period.

16 DUE FROM CREDIT INSTITUTIONS

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Demand deposits				
Republic of Latvia credit institutions	784	604	15	5
OECD credit institutions*	32,464	28,814	32,464	28,814
Non-OECD credit institutions	1,386	675	1,386	675
Total demand deposits	**34,634**	**30,093**	**33,865**	**29,494**
Term deposits				
OECD credit institutions**	70,823	414,497	70,823	414,497
Total term deposits	**70,823**	**414,497**	**70,823**	**414,497**
Total	**105,457**	**444,590**	**104,688**	**443,991**

The effective interest rate on balances due from other credit institutions as for 31 December 2017 was -0.02% (2016: -0.34%)

* Including DNB Bank ASA EUR 15,438 thou and Nordea Bank AB EUR 2,300 thou (2016: EUR 27,695 thou)
** Including DNB Bank ASA EUR 56,170 thou (2016: EUR 414,591 thou)

Due from credit institutions includes one buy/sell-back deal (2016: eight buy/sell-back deal) with DNB Bank ASA totalling to EUR 56,170 thou (2016: EUR 57,591 thou) with the rollover option. Several issues of the bonds were received as collateral for these deals. According to the terms of transactions, price risk arising from the off-balance sheet bonds position is borne by DNB Bank ASA. The bonds thus received are used as collateral for long-term funding from the Bank of Latvia (see Note 27).

***Notes to the Financial Statements** (continued)*

17 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans by original maturity

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Less than a year	24,064	16,703	10,758	13,867
More than a year	3,503,200	1,572,939	3,531,217	1,483,191
	3,527,264	**1,589,642**	**3,541,975**	**1,497,058**
Less allowances for loan impairment	(154,816)	(76,964)	(157,477)	(68,499)
Total	**3,372,448**	**1,512,678**	**3,384,498**	**1,428,559**

The average interest rate on loans as at 31 December 2017 was 2.2% (2016: 2.1%).

(b) Analysis of loans by client type

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Central banks	104	-	-	-
General governments	10,756	6,776	9,150	5,286
Credit institutions	-	12	-	-
Other financial corporations	3,344	3,609	523,392	19,738
Non-financial corporations	1,630,824	590,674	1,237,962	532,246
Households	1,882,236	988,571	1,771,471	939,788
	3,527,264	**1,589,642**	**3,541,975**	**1,497,058**
Less allowances for loan impairment	(154,816)	(76,964)	(157,477)	(68,499)
Total	**3,372,448**	**1,512,678**	**3,384,498**	**1,428,559**

(c) Analysis of loans by products

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Mortgage loans	2,262,338	1,210,273	2,287,288	1,210,273
Commercial loans	648,359	186,551	1,163,094	252,819
Leasing	524,981	158,852	-	-
Card loans	19,645	8,907	19,652	8,907
Credit for consumption	32,285	16,379	32,285	16,379
Other	39,656	8,680	39,656	8,680
	3,527,264	**1,589,642**	**3,541,975**	**1,497,058**
Less allowances for loan impairment	(154,816)	(76,964)	(157,477)	(68,499)
Total	**3,372,448**	**1,512,678**	**3,384,498**	**1,428,559**

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(d) Analysis of loans by industry

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Households	1,846,949	985,039	1,736,096	936,361
Management of real estate	381,172	129,214	436,225	193,140
Manufacturing	162,594	64,444	115,311	48,046
Trade	230,571	89,453	160,735	70,147
Transport	162,992	54,329	64,911	37,824
Agriculture	164,569	51,588	94,703	28,788
Construction	65,695	20,626	39,235	11,349
Accommodation and food service activities	30,560	41,927	28,994	41,212
Electricity, gas, steam and air conditioning supply	112,930	52,775	110,207	52,442
Other	214,587	67,727	613,540	57,600
Total loans to residents	**3,372,619**	**1,557,122**	**3,399,957**	**1,476,909**
Loans issued to non-residents	154,645	32,520	142,018	20,149
	3,527,264	**1,589,642**	**3,541,975**	**1,497,058**
Less allowances for loan impairment	(154,816)	(76,964)	(157,477)	(68,499)
Total	**3,372,448**	**1,512,678**	**3,384,498**	**1,428,559**

(e) Analysis of loans by countries

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Latvia	3,372,619	1,557,122	3,399,957	1,476,909
Other countries	154,645	32,520	142,018	20,149
Total	**3,527,264**	**1,589,642**	**3,541,975**	**1,497,058**
Less allowances for loan impairment	(154,816)	(76,964)	(157,477)	(68,499)
Total	**3,372,448**	**1,512,678**	**3,384,498**	**1,428,559**

(f) Gross investment in finance lease

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Not later than 1 year	185,847	54,250	-	-
1 – 5 years	357,000	109,651	-	-
More than 5 years	5,762	1,033	-	-
Total gross finance lease receivables	**548,609**	**164,934**	**-**	**-**

Unearned future interest income from investments in finance lease

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Not later than 1 year	10,147	2,816	-	-
1 – 5 years	12,282	3,365	-	-
More than 5 years	80	-	-	-
Total unearned future interest income	**22,509**	**6,181**	**-**	**-**

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(f) Gross investment in finance lease (continued)

Net investment in finance lease

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Not later than 1 year	175,700	51,434	-	-
1 – 5 years	344,718	106,286	-	-
More than 5 years	5,682	1,033	-	-
Total investment in finance lease	**526,100**	**158,753**	**-**	**-**
Less allowances for individual loan impairment	(3,427)	(6,689)	-	-
Total net investment in finance lease	**522,673**	**152,064**	**-**	**-**

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

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Neither past due nor impaired	3,018,821	1,365,572	3,047,698	1,291,368
Past due but not impaired	220,963	86,448	192,791	76,161
Impaired	287,480	137,622	301,486	129,529
Total gross loans and advances to customers	**3,527,264**	**1,589,642**	**3,541,975**	**1,497,058**
Less allowances for individual loan impairment	(139,103)	(68,599)	(142,717)	(60,668)
Less allowances for homogenous groups of loans	(15,713)	(8,365)	(14,760)	(7,831)
Total net loans and advances to customers	**3,372,448**	**1,512,678**	**3,384,498**	**1,428,559**

(h) The following table provides the division of loans and advances to customers neither past due nor impaired:

Grades	**Risk classes**	**2017 Group EUR'000**	**2016 Group EUR'000**	**2017 Bank EUR'000**	**2016 Bank EUR'000**
Corporate *	**Low**	96,819	107,649	612,598	182,382
	Medium	236,798	103,998	203,127	104,153
	High	23,896	10,327	22,685	10,204
SME*	**Low**	107,475	97,249	112,296	82,371
(Small and medium sized	**Medium**	711,928	170,477	440,345	88,243
enterprises)	**High**	167,184	27,028	87,603	20,236
Households	**Low**	1,216,263	677,416	1,189,562	654,731
	Medium	379,620	122,826	303,661	103,690
	High	78,838	48,602	75,821	45,358
	Total	**3,018,821**	**1,365,572**	**3,047,698**	**1,291,368**

***** The information is based on parameters as follows. The legal entities are treated as Corporate if number of employees is over 250 and turnover is more than 50 MEUR, and/ or the balance sheet more than 43 MEUR. Central and local government are also treated as Corporate. The legal entities are treated as SME if number of employees is less than 250 and turnover is less than 50 MEUR, and/ or the balance sheet less than 43 MEUR. Individuals and non-profit organizations servicing individuals are treated as Households.

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(h) The following table provides the division of loans and advances to customers neither past due nor impaired (continued)**:**

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Mortgage loans	1,958,674	1,029,588	1,983,624	1,029,588
Commercial loans	506,505	169,824	1,008,401	238,480
Leasing	497,976	142,860	-	-
Card loans	13,875	5,706	13,882	5,706
Credit for consumption	30,681	15,997	30,681	15,997
Other	11,110	1,597	11,110	1,597
Total	**3,018,821**	**1,365,572**	**3,047,698**	**1,291,368**

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

		2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Mortgage loans					
Past due up to 30 days		98,214	53,827	98,214	53,827
Past due 31-60 days		18,243	12,843	18,243	12,843
Past due 61-90 days		6,216	5,535	6,216	5,535
Past due over 90 days		615	-	615	-
	Total	**123,288**	**72,205**	**123,288**	**72,205**
Commercial loans					
Past due up to 30 days		41,641	971	36,379	389
Past due 31-60 days		21,705	41	21,705	11
Past due 61-90 days		2,845	47	2,845	47
Past due over 90 days		372	-	372	-
	Total	**66,563**	**1,059**	**61,301**	**447**
Leasing					
Past due up to 30 days		18,997	8,353	-	-
Past due 31-60 days		2,829	933	-	-
Past due 61-90 days		216	304	-	-
Past due over 90 days		868	85	-	-
	Total	**22,910**	**9,675**	**-**	**-**
Card loans					
Past due up to 30 days		4,637	2,933	4,637	2,933
Past due 31-60 days		223	112	223	112
Past due 61-90 days		76	43	76	43
Past due over 90 days		80	5	80	5
	Total	**5,016**	**3,093**	**5,016**	**3,093**
Credit for consumption					
Past due up to 30 days		1,067	254	1,067	254
Past due 31-60 days		95	46	95	46
Past due 61-90 days		65	28	65	28
Past due over 90 days		15	-	15	-
	Total	**1,242**	**328**	**1,242**	**328**

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Other loans				
Past due up to 30 days	1,249	80	1,249	80
Past due 31-60 days	516	8	516	8
Past due 61-90 days	45	-	45	-
Past due over 90 days	134	-	134	-
Total	**1,944**	**88**	**1,944**	**88**
Total				
Past due up to 30 days	165,805	66,418	141,546	57,483
Past due 31-60 days	43,611	13,983	40,782	13,020
Past due 61-90 days	9,463	5,957	9,247	5,653
Past due over 90 days	2,084	90	1,216	5
Total	**220,963**	**86,448**	**192,791**	**76,161**
Total gross loans and advances to customers past due but not impaired	**220,963**	**86,448**	**192,791**	**76,161**
Fair value of collateral	**133,184**	**62,778**	**130,553**	**62,472**

(j) The following table provides the division of impaired loans and advances to customers of Group and Bank:

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Mortgage loans	180,376	108,479	180,376	108,479
Commercial loans	75,290	15,669	93,392	13,893
Leasing	4,096	6,317	-	-
Card loans	754	109	754	109
Credit for consumption	362	54	362	54
Other	26,602	6,994	26,602	6,994
Total	**287,480**	**137,622**	**301,486**	**129,529**

(k) The following table provides the total fair value of collateral by class of Group`s loans and advances to customers:

	Mortgage loans EUR'000	Commercial loans EUR'000	Other loans EUR'000	Total EUR'000
31 December 2017				
Total gross loans	2,262,338	648,359	616,567	**3,527,264**
Fair value of collateral	2,063,096	269,762	8,622	**2,341,480**
31 December 2016				
Total gross loans	1,210,273	186,551	192,818	**1,589,642**
Fair value of collateral	1,067,664	91,347	1,037	**1,160,048**

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(k) The following table provides the total fair value of collateral by class of Bank`s loans and advances to customers:

	Mortgage loans EUR'000	Commercial loans EUR'000	Other loans EUR'000	Total EUR'000
31 December 2017				
Total gross loans	2,287,288	1,163,094	91,593	**3,541,975**
Fair value of collateral	2,088,046	248,615	8,622	**2,345,283**
31 December 2016				
Total gross loans	1,210,273	252,819	33,966	**1,497,058**
Fair value of collateral	1,067,664	82,791	1,037	**1,151,492**

(l) The following table provides the division of restructured loans and advances to customers:

Information regarding all kinds of restructured loans included (impaired, past due but not impaired and neither past due nor impaired)

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Mortgage loans	91,836	77,782	91,836	77,782
Commercial loans	8,347	542	8,347	542
Leasing	2,014	413	-	-
Credit for consumption	51	56	51	56
Other	3,088	2,837	3,088	2,837
Total	**105,336**	**81,630**	**103,322**	**81,217**

The following table provides the division of Group's restructured loans and advances to customers as at 31 December 2017:

	Neither past due nor impaired EUR'000	Past due but not impaired EUR'000	Impaired EUR'000	Total EUR'000
Mortgage loans	35,070	12,094	44,672	**91,836**
Commercial loans	6,469	56	1,822	**8,347**
Leasing	1,830	116	68	**2,014**
Credit for consumption	35	11	5	**51**
Other	1,067	87	1,934	**3,088**
Total	**44,471**	**12,364**	**48,501**	**105,336**

The following table provides the division of Bank's restructured loans and advances to customers as at 31 December 2017:

	Neither past due nor impaired EUR'000	Past due but not impaired EUR'000	Impaired EUR'000	Total EUR'000
Mortgage loans	35,070	12,094	44,672	**91,836**
Commercial loans	6,469	56	1,822	**8,347**
Credit for consumption	35	11	5	**51**
Other	1,067	87	1,934	**3,088**
Other	**42,641**	**12,248**	**48,433**	**103,322**

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(l) The following table provides the division of restructured loans and advances to customers (continued):

The following table provides the division of Group's restructured loans and advances to customers as at 31 December 2016:

	Neither past due nor impaired EUR'000	Past due but not impaired EUR'000	Impaired EUR'000	Total EUR'000
Mortgage loans	13,739	18,631	45,412	**77,782**
Commercial loans	116	29	397	**542**
Leasing	56	205	152	**413**
Credit for consumption	46	10	-	**56**
Other	29	3	2,805	**2,837**
Total	**13,986**	**18,878**	**48,766**	**81,630**

The following table provides the division of Bank's restructured loans and advances to customers as at 31 December 2016:

	Neither past due nor impaired EUR'000	Past due but not impaired EUR'000	Impaired EUR'000	Total EUR'000
Mortgage loans	13,739	18,631	45,412	**77,782**
Commercial loans	116	29	397	**542**
Credit for consumption	46	10	-	**56**
Other	29	3	2,805	**2,837**
Total	**13,930**	**18,673**	**48,614**	**81,217**

Loan is considered as restructured if at least one of following action has been performed:

- There are postponed or cancelled principal payment for the Loan for period that is longer than 3 months or repeatedly postponed or cancelled principal payments and total period in last year exceeds 3 months;
- There are postponed, cancelled or capitalized interest payments for the Loan for period that is longer than 3 months or repeatedly postponed, cancelled or capitalized interest payments and total period in last year exceeds 3 months;
- Change of Loan principal repayment schedule that result in decrease of monthly payments by more than 30%;
- There are repossessed collateral or other assets for full or partial loan repayment;
- Substitution of initial borrower or attraction of additional borrower if in case attraction of additional borrower would not be performed that would result in overdue of payments more than 90 days;
- Decrease of loan interest rate due to financial difficulties of the customer.

Loan is not considered as restructured anymore if at least for one year customer has done all payments in accordance with amount and term stated in new changed agreement never behind the schedule by more than 30 days.

18 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets designated at fair value through profit or loss

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Debt securities				
Latvian government securities	46,111	50,211	46,111	50,211
OECD financial institutions securities	30,197	34,555	30,197	34,555
Total debt securities	**76,308**	**84,766**	**76,308**	**84,766**
Total	**76,308**	**84,766**	**76,308**	**84,766**

18 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

	Moody's equivalent grades	2017 EUR'000	2017 %	2016 EUR'000	2016 %
High grade					
Risk rating class 1	**Aaa**	-	-	-	-
Risk rating class 2	**Aa1-A3**	76,308*	100	84,766*	100
Risk rating class 3	**Baa1-Baa2**	-	-	-	-
Risk rating class 4	**Baa3**	-	-	-	-
Not rated		-	-	-	-
Total		**76,308**	**100**	**84,766**	**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.

The effective interest rate on securities at fair value through profit or loss as at December 31, 2017 was 0.1% (2016: 0.3%).

19 FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Equity instruments				
VISA Inc. shares	2,526	2,302	2,526	2,302
AS Kredītinformācijas Birojs shares (refer to Note 20)	-	160	-	160
S.W.I.F.T. SCRL shares	21	21	21	21
Total	**2,547**	**2,483**	**2,547**	**2,483**

20 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

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

	Share capital EUR'000	Bank's share %	Investment value 2017 EUR'000	Impairment 2017 EUR'000	Net investment Value 2017 EUR'000	Investment value 2016 EUR'000	Impairment 2016 EUR'000	Net investment Value 2016 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	947	-	947
SIA Skanstes 12	1,181	100	1,181	-	1,181	1,181	-	1,181
SIA SALVUS*	9,467	100	9,467	9,467	-	9,467	8,625	842
SIA SALVUS 2*	3,031	100	3,031	695	2,336	3,031	2,917	114
SIA SALVUS 3*	1,307	100	1,307	1,307	-	1,307	1,137	170
SIA SALVUS 4*	735	100	735	735	-	735	310	425
SIA SALVUS 5*	-	-	-	-	-	285	-	285
SIA SALVUS 6*	300	100	300	-	300	300	-	300
SIA Luminor Līzings	4,410	100	39,083	-	39,083	-	-	-
AS Luminor Latvijas atklātais pensiju fonds	400	100	200	-	200	-	-	-
IPAS Luminor Pensions Latvia	2,000	100	3,434	-	3,434	-	-	-
SIA Promano Lat*	29,999	100	7,054	5,725	1,329	-	-	-
SIA Baltik Īpašums*	3	100	440	-	440	-	-	-
SIA Luminor Finance*	1,088	100	630	-	630	-	-	-
SIA Trioleta*	3,965	100	3,573	1,227	2,346	-	-	-
SIA Realm*	10,002	100	6,332	2,890	3,442	-	-	-
	75,726		**82,553**	**22,046**	**60,507**	**22,091**	**12,989**	**9,102**

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

During the reporting period the shares of SIA Salvus 5 were sold.

20 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (continued)

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

	Share capital 2017 EUR'000	Equity 2017 EUR'000	Bank's share 2017 %	Book value 2017 EUR'000	Share capital 2016 EUR'000	Equity 2016 EUR'000	Bank's share 2016 %	Book value 2016 EUR'000
SIA Kredītinformācijas Birojs	2,653	853	22.6	160	2,166	898	13.9	160
SIA ALD Automotive	950	11,369	25.0	2,527	-	-	-	-
				2,687	**-**	**-**	**-**	**160**

The Group's investments in associates are specified as follows:

	Share capital 2017 EUR'000	Equity 2017 EUR'000	Bank's share 2017 %	Book value 2017 EUR'000	Share capital 2016 EUR'000	Equity 2016 EUR'000	Bank's share 2016 %	Book value 2016 EUR'000
SIA Kredītinformācijas Birojs	2,653	853	22.6	160	2,166	898	13.9	160
SIA ALD Automotive	950	11,369	25.0	2,827	-	-	-	-
				2,987	**-**	**-**	**-**	**160**

21 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.

Types of derivatives held:

- **Foreign exchange forward** – agreement to exchange two currencies at a future date at an agreed upon forward exchange rate.

- **Foreign exchange swap** – agreement to exchange two currencies at a set rate and then to re-exchange those currencies at an agreed upon rate at a fixed date in the future.

- **Interest rate swap** – agreement to exchange a series of periodic interest payments which are calculated on a notional amount. The most common interest rate swap is an agreement that involves the exchange of fixed-rate payments for floating-rate payments.

- **Cross-currency interest rate swap** – agreement to exchange interest payments and principals denominated in two different currencies and then to re-exchange those principals at an agreed upon rate at a fixed date in the future. The most common cross-currency interest rate swap is an agreement that involves the exchange of principals and floating-rate payments in one currency for floating-rate payments in another currency.

- **Interest rate caps** – an interest rate cap is a series of interest rate calls designed to protect a buyer from losses resulting from an increase in interest rates. The option buyer has to pay an initial payment – premium to owe the right to receive compensation when an interest rate exceeds agreed level of rate.

- **Interest rate floors** – an interest rate floor is a series of interest rate puts designed to protect a buyer from losses resulting from a decrease in interest rates. The option buyer has to pay an initial payment – premium to owe the right to receive compensation when an interest rate is below agreed level of rate.

- **Interest rate collars** – an interest rate collar is combination of an interest rate cap and an interest rate floor. Depending on the terms the buyer of interest rate collar option pays or receives an initial payment – a premium.

- **Commodity swaps** – agreement to exchange cash flows based on the fixed price calculated on the notional amount of commodity for a cash flow based on the floating price calculated on the same notional amount of commodity.

21 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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 recognised 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 favourable or unfavourable 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):

	2017			2016		
	Contract notional amount EUR'000	Fair value Assets EUR'000	Fair value Liabilities EUR'000	Contract notional amount EUR'000	Fair value Assets EUR'000	Fair value Liabilities EUR'000
Derivatives held for trading:						
- currency swaps*	1,080,877	15,673	20,131	835,512	49,610	41,872
- interest rate swaps	347,901	708	517	255,069	1,493	1,423
- forwards	48,078	364	282	3,199	66	59
- options	71,831	354	221	122,452	394	63
- commodity	1,203	124	118	5,120	336	312
Total		**17,223**	**21,269**		**51,899**	**43,729**

* Including cross-currency interest rate swaps

22 INTANGIBLE ASSETS

Movement table of intangible assets of the Group and the Bank for 2017 is as follows:

	Licences and software Group EUR'000	Goodwill Group EUR'000	Total intangible assets Group EUR'000	Licences and software Bank EUR'000	Total intangible assets Bank EUR'000
Historical cost					
31 December 2016	**9,889**	**351**	**10,240**	**9,328**	**9,328**
Additions	277	-	**277**	243	**243**
Disposals and write-offs	(30)	-	**(30)**	(30)	**(30)**
31 December 2017	**10,136**	**351**	**10,487**	**9,541**	**9,541**
Amortisation					
31 December 2016	**8,155**	**-**	**8,155**	**7,596**	**7,596**
Amortisation for the period	653	-	**653**	650	**650**
Disposals and write-offs	(2)	-	**(2)**	(2)	**(2)**
31 December 2017	**8,806**	**-**	**8,806**	**8,244**	**8,244**
Net book value					
31 December 2016	**1,734**	**351**	**2,085**	**1,732**	**1,732**
31 December 2017	**1,330**	**351**	**1,681**	**1,297**	**1,297**

Intangible assets include advance payments for acquired intangible assets as of 31 December 2017 in amount of EUR 0 thou (2016: EUR 28.3 thou).

Notes to the Financial Statements *(continued)*

22 INTANGIBLE ASSETS (continued)

Movement table of intangible assets of the Group and the Bank for 2016 is as follows:

	Licences and software Group EUR'000	Goodwill Group EUR'000	Total intangible assets Group EUR'000	Licences and software Bank EUR'000	Total intangible assets Bank EUR'000
Historical cost					
31 December 2015	**9,320**	**351**	**9,671**	**8,759**	**8,759**
Additions	578	-	**578**	578	**578**
Disposals and write-offs	(9)	-	**(9)**	(9)	**(9)**
31 December 2016	**9,889**	**351**	**10,240**	**9,328**	**9,328**
Amortisation					
31 December 2015	**7,294**	**-**	**7,294**	**6,754**	**6,754**
Amortisation for the period	870	-	**870**	851	**851**
Disposals and write-offs	(9)	-	**(9)**	(9)	**(9)**
31 December 2016	**8,155**	**-**	**8,155**	**7,596**	**7,596**
Net book value					
31 December 2015	**2,026**	**351**	**2,377**	**2,005**	**2,005**
31 December 2016	**1,734**	**351**	**2,085**	**1,732**	**1,732**

Intangible assets include advance payments for acquired intangible assets as of 31 December 2016 in amount of EUR 28.3 thou (2015: EUR 5.6 thou).

23 PROPERTY, PLANT AND EQUIPMENT

Movement table of property, plant and equipment of the Group for 2017 is as follows:

	Land and buildings EUR'000	Office equipment EUR'000	Leasehold improve-ments EUR'000	Operating lease EUR'000	Total EUR'000
Historical cost or revaluation					
31 December 2016	**28,922**	**16,841**	**2,527**	**-**	**48,290**
Additions	-	1,217	474	-	1,691
Disposals and write-offs	-	(2,350)	(362)	-	(2,712)
31 December 2017	**28,922**	**15,708**	**2,639**	**-**	**47,269**
Depreciation					
31 December 2016	**4,619**	**13,607**	**1,649**	**-**	**19,875**
Depreciation for the year	721	1,478	280	-	2,479
Disposals and write-offs	-	(2,306)	(362)	-	(2,668)
31 December 2017	**5,340**	**12,779**	**1,567**	**-**	**19,686**
Net book value					
31 December 2016	**24,303**	**3,234**	**878**	**-**	**28,415**
31 December 2017	**23,582**	**2,929**	**1,072**	**-**	**27,583**

***Notes to the Financial Statements** (continued)*

23 PROPERTY, PLANT AND EQUIPMENT (continued)

Movement table of property, plant and equipment of the Group for 2016 is as follows:

	Land and buildings EUR'000	Office equipment EUR'000	Leasehold improve-ments EUR'000	Operating lease EUR'000	Total EUR'000
Historical cost or revaluation					
31 December 2015	**29,074**	**17,407**	**3,188**	**-**	**49,669**
Additions	23	972	156	-	**1,151**
Disposals and write-offs	(175)	(1,538)	(817)	-	**(2,530)**
31 December 2016	**28,922**	**16,841**	**2,527**	**-**	**48,290**
Depreciation					
31 December 2015	**3,949**	**13,545**	**2,068**	**-**	**19,562**
Depreciation for the year	720	1,529	203	-	**2,452**
Disposals and write-offs	(50)	(1,467)	(622)	-	**(2,139)**
31 December 2016	**4,619**	**13,607**	**1,649**	**-**	**19,875**
Net book value					
31 December 2015	**25,125**	**3,862**	**1,120**	**-**	**30,107**
31 December 2016	**24,303**	**3,234**	**878**	**-**	**28,415**

Movement table of property, plant and equipment of the Bank for 2017 is as follows:

	Land and buildings EUR'000	Office equipment EUR'000	Leasehold improve-ments EUR'000	Total EUR'000
Historical cost or revaluation				
31 December 2016	**912**	**16,559**	**1,732**	**19,203**
Additions	-	1,138	468	1,606
Disposals and write-offs	-	(2,317)	(362)	(2,679)
31 December 2017	**912**	**15,380**	**1,838**	**18,130**
Depreciation				
31 December 2016	**165**	**13,457**	**1,336**	**14,958**
Depreciation for the year	9	1,424	200	1,633
Disposals and write-offs	-	(2,273)	(362)	(2,635)
31 December 2017	**174**	**12,608**	**1,174**	**13,956**
Net book value				
31 December 2016	**747**	**3,102**	**396**	**4,245**
31 December 2017	**738**	**2,772**	**664**	**4,174**

Property, plant and equipment include advance payments as of 31 December 2017 in amount of EUR 0 thou (2016: EUR 18.8 thou).

23 PROPERTY, PLANT AND EQUIPMENT (continued)

Movement table of property, plant and equipment of the Bank for 2016 is as follows:

	Land and buildings	**Office equipment**	**Leasehold improve-ments**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**
Historical cost or revaluation				
31 December 2015	**1,069**	**17,196**	**2,483**	**20,748**
Additions	18	888	65	971
Disposals and write-offs	(175)	(1,525)	(816)	(2,516)
31 December 2016	**912**	**16,559**	**1,732**	**19,203**
Depreciation				
31 December 2015	**206**	**13,428**	**1,833**	**15,467**
Depreciation for the year	9	1,485	125	1,619
Disposals and write-offs	(50)	(1,456)	(622)	(2,128)
31 December 2016	**165**	**13,457**	**1,336**	**14,958**
Net book value				
31 December 2015	**863**	**3,768**	**650**	**5,281**
31 December 2016	**747**	**3,102**	**396**	**4,245**

Property, plant and equipment include advance payments as of 31 December 2016 in amount of EUR 18.8 thou (2015: EUR 149.5 thou).

24 INVESTMENT PROPERTY

Investment property contains properties that Group has overtaken from existing loans (as collaterals).
The structure of investment property by type (based on investment amount) is following:

	2017 Group	**2016 Group**
Apartments, parking places	37%	18%
Empty land plots	26%	27%
Private house	21%	11%
Objects for commercial use	16%	44%

The structure of investment property by geographic location:

	2017 Group	**2016 Group**
Riga and Riga region (incl. Jurmala)	97%	93%
Other regions	3%	7%

24 INVESTMENT PROPERTY (continued)

Movement table of investment property of the Group and Bank is as follows:

	Group EUR'000	Bank EUR'000
Investment property book value as at 31 December 2015	**48,395**	**6,615**
Additions, purchases of new properties	6,996	101
Net (loss) resulting from adjustment to fair value of projects	(2,151)	(146)
Disposals	(16,386)	(1,820)
Investment property book value as at 31 December 2016	**36,854**	**4,750**
Additions, purchases of new properties	41,052	14
Net (loss) resulting from adjustment to fair value of projects	(9,841)	(577)
Disposals	(31,273)	(2,647)
Movement to non-current assets classified as held for sale	(2,656)	(519)
Investment property book value as at 31 December 2017	**34,136**	**1,021**

Detailed information regarding fair value measurement of investment properties is described in Note 37.

25 OTHER ASSETS

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Guarantee deposits for auctions and prepayments for investment property	122	10,199	6	4
Prepayments and overpaid taxes	963	2,203	14	609
Credit card claims and other payment services	5,690	5,163	6,360	5,945
Short term debts	11,276	502	11,276	502
Other	7,256	2,017	3,349	1,752
Total	**25,307**	**20,084**	**21,005**	**8,812**
Less provisions for debtors	(423)	(864)	(370)	(790)
Total	**24,884**	**19,220**	**20,635**	**8,022**

26 PROVISIONS FOR IMPAIRMENT LOANS AND OTHER ASSETS

Group	**Loans**	Other financial corporations	Non-financial corporations	Households	Collective provisions	**Other assets**	**Off-balance sheet liabilities**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
31 December 2015	**139,630**	**1,142**	**55,129**	**75,788**	**7,571**	**616**	**-**	**140,246**
Fully provided for and written off	**(61,466)**	-	(28,044)	(33,422)	-	(192)	-	**(61,658)**
Charge to comprehensive income statement	**(255)**	(211)	(1,152)	314	794	251	-	**(4)**
Interest income due to shortening of discounting period	**(945)**	(47)	(847)	(51)	-	-	-	**(945)**
Other changes	**-**	-	(219)	219	-	330	-	**330**
31 December 2016	**76,964**	**884**	**24,867**	**42,848**	**8,365**	**1,005**	**-**	**77,969**
Fully provided for and written off	**(25,308)**	-	(7,233)	(18,075)	-	(422)	-	**(25,730)**
Charge to comprehensive income statement	**7,396**	77	11,775	(1,782)	(2,674)	299	**-**	**7,695**
Interest income due to shortening of discounting period	**(1,804)**	(49)	(1,473)	(262)	(20)	-	-	**(1,804)**
Acquired through banks' merger	**97,568**	-	69,554	17,972	10,042	-	-	**97,568**
Other changes	**-**	-	(536)	536	-	(18)	-	**(18)**
31 December 2017	**154,816**	**912**	**96,954**	**41,237**	**15,713**	**864**	**-**	**155,680**

Statement of comprehensive income item "Net allowances for impairment loss" also includes recovered loans and other assets that were written-off in previous periods in amount of EUR 2,753 thou (2016: EUR 1,556 thou).

Bank	**Loans**	Other financial corporations	Non-financial corporations	Households	Collective provisions	**Other assets**	**Off-balance sheet liabilities**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
31 December 2015	**120,465**	**1,142**	**41,999**	**69,964**	**7,360**	**9,469**	**18,379**	**148,313**
Fully provided for and written off	**(51,118)**	-	(21,344)	(29,774)	-	-	(10,065)	**(61,183)**
Charge to comprehensive income statement	**97**	(210)	(520)	356	471	4,120	(742)	**3,475**
Interest income due to shortening of discounting period	**(945)**	(48)	(846)	(51)	-	-	-	**(945)**
Other changes	**-**	-	(219)	219	-	330	-	**330**
31 December 2016	**68,499**	**884**	**19,070**	**40,714**	**7,831**	**13,919**	**7,572**	**89,990**
Fully provided for and written off	**(19,379)**	-	(2,548)	(16,831)	-	(383)	(1,121)	**(20,883)**
Charge to comprehensive income statement	**13,461**	75	17,820	(1,745)	(2,689)	9,319	(6,451)	**16,329**
Interest income due to shortening of discounting period	**(1,804)**	(49)	(1,472)	(262)	(21)	-	-	**(1,804)**
Acquired through banks' merger	**96,700**	-	69,179	17,882	9,639	-	-	**96,700**
Other changes	**-**	-	(528)	528	-	-	-	**-**
31 December 2017	**157,477**	**910**	**101,521**	**40,286**	**14,760**	**22,855**	**-**	**180,332**

Statement of comprehensive income item "Net allowances for impairment loss" also includes recovered loans and other assets that were written-off in previous periods in amount of EUR 2,587 thou (2016: EUR 1,610 thou).

***Notes to the Financial Statements** (continued)*

27 LIABILITIES TO CENTRAL BANKS

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Central Bank	60,500	60,500	60,500	60,500
Accrued interest	-	-	-	-
Terms deposits	**60,500**	**60,500**	**60,500**	**60,500**

In June 2016 Bank rolled over 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 at 0.00%.

28 DUE TO OTHER CREDIT INSTITUTIONS

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Demand deposits				
Republic of Latvia credit institutions	1,684	1,325	1,684	1,325
OECD credit institutions	3,648	311	3,648	311
Non-OECD credit institutions	244	589	244	589
Total demand deposits	**5,576**	**2,225**	**5,576**	**2,225**
Term deposits				
Republic of Latvia credit institutions	14,806	10,400	14,806	10,400
OECD credit institutions*	1,150,000	605,000	1,150,000	455,000
	1,164,806	615,400	1,164,806	465,400
Accrued interest	421	(60)	421	(136)
Total term deposits	**1,165,227**	615,340	**1,165,227**	465,264
Total deposits	**1,170,803**	**617,565**	**1,170,803**	**467,489**

* Including DNB Bank ASA EUR 575,000 and Nordea Bank AB EUR 575,000 (2016: Group – EUR 605,000 thou, Bank – EUR 455,000 thou).

29 DUE TO CUSTOMERS

Analysis of deposits by maturity and client type

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Demand deposits				
Private companies	1,131,626	438,691	1,145,826	441,602
Individuals	795,842	438,966	795,842	438,966
State institutions	236,196	17,770	236,196	17,770
Funds in transit	17,745	9,035	17,745	9,035
Non-residents OECD	34,399	10,355	34,399	10,355
Non-residents non-OECD	79,017	21,585	79,017	21,585
Total demand deposits	**2,294,825**	**936,402**	**2,309,025**	**939,313**
Term deposit accounts				
Private companies	218,237	123,588	222,454	127,637
Individuals	228,975	127,504	228,975	127,504
State institutions	152,992	29,645	152,992	29,645
Non-residents OECD	1,910	455	1,910	455
Non-residents non- OECD	45,192	5,306	45,192	5,306
Accrued interest	693	307	695	308
Total term deposits	**647,999**	**286,805**	**652,218**	**290,855**
Total deposits and transit funds	**2,942,824**	**1,223,207**	**2,961,243**	**1,230,168**

Notes to the Financial Statements (continued)

30 ACCRUED EXPENSES AND DEFERRED INCOME

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Accrued expenses for unused annual leave and bonuses	2,611	974	2,419	969
Accrued expenses for payments to Deposit Guarantee Fund and FCMC	842	1,208	842	1,208
Other accrued expenses	8,324	2,902	8,051	2,721
	11,777	**5,084**	**11,312**	**4,898**

31 OTHER LIABILITIES

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Accrued liabilities	3,325	4,683	227	100
Accounts payable	1,759	326	1,463	326
Other short-term liabilities	550	1,156	823	999
	5,634	**6,165**	**2,513**	**1,425**

32 PROVISIONS

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Provisions for SIA Luminor Līzings Latvija (previously - SIA DNB līzings) obligations	-	-	-	7,572
Other provisions	261	454	228	99
	261	**454**	**228**	**7,671**

Provisions for the portfolio loss compensation had been made previously according to the guarantee agreement of 10 May 2010 between the Bank and SIA DNB līzings. This guarantee agreement has ceased in December 2017 and the obligation to compensate SIA Luminor Līzings Latvija (previously - SIA DNB līzings) loss from bad debt portfolio was dismissed. Consequently, the Bank released the respective provisions.

33 SHARE CAPITAL AND RESERVES

Share capital

On 15 September 2015 the denomination of Bank`s share capital took place. As a result, the share capital of the Bank is EUR 191,178,337, consisting of 191,178,337 shares, each share having the par value of EUR 1.

As of December 31, 2017 100% of Luminor Bank AS were owned by Luminor Group AB.

Reserve capital

As of December 31, 2017 reserve capital in amount of EUR 464,690 thou (2016: EUR 224,118 thou) represents contributions made by the shareholder in current and previous years.

Accumulated result

As result of business combination of DNB banka AS and Nordea Bank AB Latvia branch accumulated result increased by EUR 9,186 thou (Group) and EUR 7,557 thou (Bank). For more details refer to Note 42.

33 SHARE CAPITAL AND RESERVES (continued)

Revaluation reserve

A revaluation reserve represents the increase in the fair value of property, plant and equipment and financial assets available for sale

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
As at 1 January	**155**	**10,633**	**155**	**10,633**
Increase due to fair value adjustment of financial assets available-for-sale	511	22	511	22
(Decrease) due to sale of financial assets available-for-sale (refer to Note 9)	-	(10,500)	-	(10,500)
As at 31 December	**666**	**155**	**666**	**155**

34 OFF-BALANCE SHEET ITEMS

(a) Guarantees, letters of credit and other commitments

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Memorandum items				
Contingent liabilities				
Guarantees	198,785	50,390	198,785	95,391
Commitments				
Loan issuing commitments	424,847	128,729	461,405	164,292
Guarantee issue agreements	73,086	12,271	74,086	12,271
Letters of credit	26,578	1,349	26,578	1,349
Total	**723,296**	**192,739**	**760,854**	**273,303**

(b) Assets under management

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Luminor (D) Conservative Investment Plan	75,494	71,226	-	-
Luminor Balanced Investment Plan	112,061	99,400	-	-
Luminor (D) Active Investment Plan	103,536	87,629	-	-
Luminor (N) Active Investment Plan	133,974	-	-	-
Luminor (N) Conservative Investment Plan	38,148	-	-	-
Luminor Balanced Pension Plan	16,454	-	-	-
Luminor Progressive Pension Plan	9,840	-	-	-
	489,507	**258,255**	**-**	**-**

35 MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD OR OTHER CREDIT ENHANCEMENTS

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Credit risk exposures relating to on-balance sheet assets are as follows:				
Balances due from banks	105,457	444,590	104,688	443,991
Loans and advances to customers	3,372,448	1,512,678	3,384,498	1,428,559
Securities designated at fair value through profit and loss	76,308	84,766	76,308	84,766
Derivative financial instruments	17,223	51,899	17,223	51,899
Credit risk exposures relating to off-balance sheet items are as follows:				
Contingent liabilities	198,785	50,390	198,785	95,391
Financial commitments	26,578	1,349	26,578	1,349

36 RELATED PARTY TRANSACTIONS

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

Related parties are defined as shareholders, 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	**2017 Group EUR'000**	**2016 Group EUR'000**	**2017 Bank EUR'000**	**2016 Bank EUR'000**
Due from parent companies:				
DNB group companies	84,550	489,921	84,550	489,921
Nordea group companies	17,602	-	17,602	-
Subsidiaries	-	-	581,793	83,426
Other related parties (Luminor group)	15,160	32	15,160	32
Balances due from related parties	**117,312**	**489,953**	**699,105**	**573,379**

Due to related parties

	2017 Group EUR'000	**2016 Group EUR'000**	**2017 Bank EUR'000**	**2016 Bank EUR'000**
Parent and parent group companies:				
DNB group companies	582,478	610,281	582,421	460,154
Nordea group companies	583,588	-	583,588	-
Subsidiaries	-	-	18,435	6,961
Other related parties (Luminor group)	2,175	863	2,175	863
Balances due to related parties	**1,168,241**	**611,144**	**1,186,619**	**467,978**

36 RELATED PARTY TRANSACTIONS (continued)

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

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Interest received for money market deposits/ loans	**1,322**	**1,152**	**2,609**	**1,576**
Parent and parent group companies	1,181	1,152	1,181	1,152
of which: DNB group companies	1,176	1,152	1,176	1,152
of which: Nordea group companies	5	-	5	-
Subsidiaries	-	-	1,287	424
Other related parties (Luminor group)	141	-	141	-
Commission received	**544**	**506**	**926**	**858**
Parent and parent group companies	521	56	521	56
of which: DNB group companies	479	56	479	56
of which: Nordea group companies	42	-	42	-
Subsidiaries	-	-	382	352
Other related parties (Luminor group)	23	450	23	450
Dividends	**-**	**-**	**2,044**	**1,818**
Subsidiaries	-	-	2,044	1,818
Other income	**2,543**	**1,857**	**4,697**	**3,956**
Parent and parent group companies	1,616	850	1,081	298
of which: DNB group companies	1,554	850	1,019	298
of which: Nordea group companies	62	-	62	-
Subsidiaries	-	-	2,689	2,651
Other related parties (Luminor group)	927	1,007	927	1,007
Interest paid on money market deposits/loans	**(2,446)**	**(2,195)**	**(2,020)**	**(1,554)**
Parent and parent group companies	(2,446)	(2,195)	(2,018)	(1,549)
of which: DNB group companies	(2,119)	(2,195)	(1,691)	(1,549)
of which: Nordea group companies	(327)	-	(327)	-
Subsidiaries	-	-	(2)	(5)
Income/Expenses from derivatives	**5,639**	**3,823**	**5,639**	**3,823**
Parent and parent group companies	5,639	3,823	5,639	3,823
of which: DNB group companies	5,578	3,823	5,578	3,823
of which: Nordea group companies	61	-	61	-
Derivative revaluation result	**(25,448)**	**6,126**	**(25,448)**	**6,126**
Parent and parent group companies	(25,448)	6,126	(25,448)	6,126
of which: DNB group companies	(25,448)	6,126	(25,448)	6,126
of which: Nordea group companies	-	-	-	-
Commission paid	**(296)**	**(70)**	**(296)**	**(70)**
Parent and parent group companies	(264)	(35)	(264)	(35)
of which: DNB group companies	(240)	(35)	(240)	(35)
of which: Nordea group companies	(24)	-	(24)	-
Other related parties (Luminor group)	(32)	(35)	(32)	(35)

***Notes to the Financial Statements** (continued)*

36 RELATED PARTY TRANSACTIONS (continued)

Other expenses	**(3,329)**	**(1,191)**	**(4,600)**	**(2,512)**
Parent and parent group companies	(1,817)	(816)	(1,789)	(816)
of which: DNB group companies	(855)	(816)	(855)	(816)
of which: Nordea group companies	(962)	-	(934)	-
Subsidiaries	-	-	(1,299)	(1,321)
Other related parties (Luminor group)	(1,512)	(375)	(1,512)	(375)
	(21,471)	**10,008**	**(16,449)**	**14,021**

As at 31 December 2017 loans issued to key management personnel amounted to EUR 560 thou (2016: EUR 287 thou).

As at 31 December 2017 the provision for investment in subsidiaries were made in amount EUR 22,046 thou (2016: EUR 12,989 thou).

According to agreement the Bank made settlement for debtor in SIA Luminor Līzings Latvija in amount of EUR 1,121 thou (2016: EUR 10,065 thou) for debts covering and write-off.

For information regarding salary to Management Board see Note 12.

37 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, there 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.

37 FAIR VALUES OF ASSETS AND LIABILITIES (continued)

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. Given that for part of the loan portfolio this margin has been changed (increased) since issuance, the Group has estimated that for such loans the carrying value is considered equal to fair value.

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 recognised at fair value in statement of financial position

Group		**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					
<u>Assets</u>					
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 available-for-sale*	-	-	2,547	**2,547**	**2,547**
Investment properties	-	-	34,136	**34,136**	**34,136**
<u>Liabilities</u>					
Derivatives	-	21,269	-	**21,269**	**21,269**
Non-recurring fair value					
<u>Assets</u>					
Fixed assets – land and buildings	-	-	23,582	**23,582**	**23,582**

37 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

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

Group **2016**

	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	-	51,899	-	**51,899**	**51,899**
Financial assets designated at fair value through profit or loss	-	84,766	-	**84,766**	**84,766**
Financial assets available-for-sale*	-	-	2,483	**2,483**	**2,483**
Investment properties	-	-	36,854	**36,854**	**36,854**
Liabilities					
Derivatives	-	43,729	-	**43,729**	**43,729**
Non-recurring fair value					
Assets					
Fixed assets – land and buildings	-	-	24,303	**24,303**	**24,303**

Bank **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 available-for-sale*	-	-	2,547	**2,547**	**2,547**
Investment properties	-	-	1,021	**1,021**	**1,021**
Liabilities					
Derivatives	-	21,269	-	**21,269**	**21,269**
Non-recurring fair value					
Assets					
Fixed assets – land and buildings	-	-	738	**738**	**738**

Bank **2016**

	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	-	51,899	-	**51,899**	**51,899**
Financial assets designated at fair value through profit or loss	-	84,766	-	**84,766**	**84,766**
Financial assets available-for-sale*	-	-	2,483	**2,483**	**2,483**
Investment properties	-	-	4,750	**4,750**	**4,750**
Liabilities					
Derivatives	-	43,729	-	**43,729**	**43,729**
Non-recurring fair value					
Assets					
Fixed assets – land and buildings	-	-	747	**747**	**747**

* Under Level 3 of fair value hierarchy there are shares classified, the fair value of which is measured based on estimated fair value (see Note 2y).

37 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

(b) Fair value hierarchy: assets and liabilities recognised at amortised cost in statement of financial position

Group — **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 amortised cost	-	-	4,108,278	**4,108,278**	**4,108,051**

Group — **2016**

	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	-	-	30,093	**30,093**	**30,093**
Loans	-	-	1,889,874	**1,889,874**	**1,927,175**
Liabilities					
Liabilities to credit institutions on demand	-	-	2,225	**2,225**	**2,225**
Financial liabilities at amortised cost	-	-	1,899,203	**1,899,203**	**1,899,047**

Bank — **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 amortised cost	-	-	4,126,697	**4,126,697**	**4,126,470**

Bank — **2016**

	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	-	-	29,494	**29,494**	**29,494**
Loans	-	-	1,805,755	**1,805,755**	**1,843,056**
Liabilities					
Liabilities to credit institutions on demand	-	-	2,225	**2,225**	**2,225**
Financial liabilities at amortised cost	-	-	1,756,088	**1,756,088**	**1,755,932**

37 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

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

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 sqm 2017, EUR	Range* per sqm 2017, EUR
Residential					
Apartments	comparable method			982	200 – 2,667
Living house	comparable method			528	103 – 1,963
Land plots					
Residential	comparable method			4	1 – 105
Commercial	comparable method, DCF			43	1 – 11,358
Commercial					
Offices	DCF	rent rate	3 - 10 EUR/sqm		
		occupancy	70%-95%		
		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 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)**
Movement to non-current assets classified as held for sale	(1,064)	(1,382)	(210)	-	**(2,656)**
Book value as at 31 December 2017	**12,281**	**8,990**	**7,287**	**5,578**	**34,136**

37 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 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)**
Movement to non-current assets classified as held for sale	(300)	(9)	(210)	-	**(519)**
Book value as at 31 December 2017	**312**	**118**	**161**	**430**	**1,021**

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 thou	Book value below EUR 300 thou
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 thou 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.

37 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

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

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.

38 CAPITAL ADEQUACY

Regulation (EU) No 575/2013 (Capital requirements regulation) of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 and Directive 2013/36/EU (Capital requirements directive) of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC were approved on 26th of June 2013. Capital adequacy assessment of the Group is performed according to the requirements of the Capital requirements regulation and Capital requirements directive.

The Group from year to year concentrates its' attention to continuously improve capital adequacy assessment processes.

The capital of the Group is calculated and allocated for the risk coverage following the Capital requirements regulation and the Group's Capital Adequacy Assessment Policy. The Group's objectives when managing capital are:

1) to comply with the capital requirements set by the European Union, the Financial and Capital Market Commission as well as the internal targets set by the Bank's senior management
2) to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders
3) to support the development of the Group's business with the help of the strong capital base.

Capital adequacy report is submitted to the supervising authority quarterly. Internally reports on capital adequacy are available on request, however, usually are prepared on a quarterly basis and submitted to the senior management afterwards.

The Group's regulatory capital is equal to Tier 1 capital which consists of the ordinary shares, share premium, reserve capital, accumulated results of the previous financial years, the audited profit of current financial year, transitional part of revaluation reserves and less the intangible assets, current year losses, other elements, required by the Regulation (e.g. Prudent Valuation AVAs) or by the Regulator (e.g. requirements, that are stricter than required by the Regulation), if any.

At the end of 2017 the Group's capital adequacy ratio was 18.5% and the Bank's – 17.6% (2016: 17.6%; 18.2%). The Capital requirements regulation determines capital ratio as at least 8%. The Group and the Bank fully comply with requirements of capital conservation buffer (2.5% or total risk exposure amount) and other systemically important institutions capital buffer (1% or total risk exposure amount).

According to the Capital requirements regulation, the Bank shall provide own funds which shall at all times exceed or equal the sum of the capital requirements for:

- credit risk
- market risk
- operational risk

The Group calculates credit risk capital requirement using standardised approach, for the calculation of market risk capital requirement the Group uses open positions and applies Basic Indicators Approach for calculation of operational risk capital requirement.

The risk-weighted assets are measured by means of risk weights classified according to the essence of each asset and counterparty. A similar treatment with some adjustments is adopted for the off-balance sheet exposures.

38 CAPITAL ADEQUACY (continued)

The Group reviews and improves the risk identification and management policies and procedures according to changes in the Group's activities and financial situation at least once a year. Amendments and updates mostly are done during annual internal capital adequacy assessment process when significant risks are to be reassessed or identified and assessed.

	2017 Group EUR'000	2016 Group EUR'000	2017 Bank EUR'000	2016 Bank EUR'000
Total own funds for solvency purposes	**516,460**	**258,675**	**510,650**	**258,727**
Tier 1: Original own funds	516,460	258,675	510,650	258,727
--Paid up capital	191,178	191,178	191,178	191,178
--Share premium	69,713	69,713	69,713	69,713
Reserves	261,676	8,129	255,470	7,420
-Valuation differences to eligible as original own funds	(1,148)	(1,670)	(1,136)	(1,261)
Other deductions from Original Own Funds				
-- Intangible assets	(1,681)	(2,084)	(1,297)	(1,732)
-- Due to requirements, that are stricter than required by Regulation	(3,278)	(6,591)	(3,278)	(6,591)
Tier 2: Additional own funds	-	-	-	-
--Revaluation reserves	-	-	-	-
Total own funds for solvency purposes	**516,460**	**258,675**	**510,650**	**258,727**
Capital requirements	**223,502**	**117,408**	**232,810**	**113,486**
Capital requirements for credit risk , standardised approach (SA)	205,131	106,134	216,227	102,922
Capital requirements for operational risks (OpR)	17,752	9,759	15,964	9,049
Capital requirements for credit valuation adjustment risk	620	1,515	620	1,515
Surplus /(Deficit) of own funds, before other and transitional capital requirements	292,958	141,267	277,840	145,241
Solvency ratio (%)*	**18.5%**	**17.6%**	**17.6%**	**18.2%**
Internal assessment of capital	**516,460**	**258,675**	**510,650**	**258,727**

* Solvency ratio is the own funds of the institution expressed as a percentage of the total risk exposure amount.

The Group uses "Pillar 1 +" approach for internal capital adequacy assessment, at first minimum regulatory capital requirements are analysed and after that internal capital add-ons are calculated without taking into account any diversification effects between particular risks.

During internal capital adequacy assessment process, the Group usually performs actions as follows:

- analyses available amount of own funds and its historical volatility, including the breakdown of certain capital elements
- analyses amount of minimum and internal capital requirements and its historical volatility in the breakdown of the risk types
- analyses significant risks for which capital needs to be maintained
- analyses asset and off-balance sheet items, including analysis of loan portfolio volume, structure, quality, amount of provisions made as well as estimates appropriate forecasts for following periods
- calculates minimum and internal capital requirements by taking into account planned changes in the Group's activities and financial situation
- performs stress testing and estimates capital buffer
- prepares forecast of available own funds by taking into account planned incomes and expenses, including provision amount to be made, planned capital injections and other significant factors
- prepares regulatory and internal capital adequacy forecast, including setting appropriate strategic goals.

38 CAPITAL ADEQUACY (continued)

Regular monitoring and control of capital adequacy has been carried out in the Group. Internal capital adequacy assessment process has been done according to the Financial and Capital Market Commission requirements. Improvement of internal capital adequacy assessment process will continue in the coming years by taking into account changes in internal and external factors.

There were several risks that have been assessed as significant for 2017 and for which adequate internal capital has been kept in addition to the set of minimum regulatory capital requirements.

Concentration risk
Internal capital requirements for individual and inter-connected party's concentration, industries concentration, collateral concentration and concentration of currencies are calculated. The Group applies its internal methodology based on standardized Herfindahl-Hirshmann Index to calculate add-ons to the regulatory capital for specific concentration dimensions.

Operational risk
The basic indicator approach is used for the regulatory capital requirement calculation for the operational risk. The internal capital requirement is calculated by comparing regulatory capital requirement with the amount evaluated during the internal capital adequacy assessment process. The most conservative of the two values is used for the capital requirement.

Business risk
Business risk is mitigated through annual budgeting and strategic planning processes. However, according to the requirements stipulated by the Financial and Capital Market Commission, the Group keeps capital not less than 5% of the sum of minimum capital requirements to cover these risks.

Interest rate risk
For interest rate risk management the Group uses an internal model based on gap analysis and Basis Point Value method, which covers the most significant interest rate risk sources and allows assessing influence on the Group's income and economic value. The Group has set internal parameters for possible changes in interest rates for each significant currency. Capital add-on is calculated as an absolute maximum impact on the Group's economic value.

As internal capital adequacy assessment process (ICAAP) is an integral part of risk management framework, the risk definitions used are the same as in overall risk management.

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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 31 December 2017 was as follows:

	Up to 1 month EUR`000	1 - 3 months EUR`000	3 – 12 months EUR`000	Over 12 months and undated EUR`000	Total EUR`000
Assets					
Cash and balances with the Central banks	1,067,214	-	-	-	**1,067,214**
Due from other credit institutions (on 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***
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 institutions (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, plant and equipment	-	-	-	27,583	**27,583**
Intangible assets	-	-	-	1,681	**1,681**
Investments in subsidiaries and associates	-	-	-	2,987	**2,987**
Deferred 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	-	23	**5,634**
Provisions	113	-	148	-	**261**
Total liabilities	**2,553,756**	**269,878**	**1,038,292**	**352,425**	**4,214,351**
Contingent liabilities	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)**	**2,214,089**	**9,528**

* Including demand deposits from customers in amount of EUR 2,294,824 thou

For the Group's risk management policy, refer to Note 4.

39 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 31 December 2016 was as follows:

	Up to 1 month EUR`000	1 - 3 months EUR`000	3 – 12 months EUR`000	Over 12 months and undated EUR`000	Total EUR`000
Assets					
Cash and balances with the Central banks	63,662	-	-	-	**63,662**
Due from other credit institutions (on demand)	30,093	-	-	-	**30,093**
Derivatives	6,897	6,689	1,924	36,389	**51,899**
Financial assets at fair value through profit or loss	84,766	-	-	-	**84,766**
Debt securities and other fixed income securities	*84,766*	-	-	-	***84,766***
Financial assets available-for-sale	-	-	-	2,483	**2,483**
Loans and advances to customers	404,072	125,427	200,598	1,197,078	**1,927,175**
Due from other credit institutions (term)	*339,248*	*75,249*	-	-	***414,497***
Loans to customers	*64,824*	*50,178*	*200,598*	*1,197,078*	***1,512,678***
Accrued income and deferred expenses	1,105	2,483	25	6	**3,619**
Investment property	-	-	-	36,854	**36,854**
Property, plant and equipment	-	-	-	28,415	**28,415**
Intangible assets	-	-	-	2,085	**2,085**
Investments in subsidiaries	-	-	-	-	**-**
Deferred corporate income tax	-	-	-	8,805	**8,805**
Current corporate income tax	171	-	-	-	**171**
Other assets	7,523	946	10,751	-	**19,220**
Total assets	**598,289**	**135,545**	**213,298**	**1,312,115**	**2,259,247**
Liabilities					
Liabilities to central banks	-	-	-	60,500	**60,500**
Liabilities on demand to credit institutions	2,225	-	-	-	**2,225**
Derivatives	4,724	3,574	390	35,041	**43,729**
Financial liabilities at amortised cost:	1,082,864	75,216	425,912	254,555	**1,838,547**
Due to credit institutions	*10,339*	*(75)*	*360,076*	*245,000*	***615,340***
Deposits and other financial liabilities	*1,072,525**	*75,291*	*65,836*	*9,555*	***1,223,207***
Accrued expenses and deferred income	1	4,934	149	-	**5,084**
Deferred tax liability	-	-	31	-	**31**
Income tax liabilities	-	40	-	-	**40**
Other liabilities	1,477	2,579	1,999	110	**6,165**
Provisions	30	-	68	356	**454**
Total liabilities	**1,091,321**	**86,343**	**428,549**	**350,562**	**1,956,775**
Contingent liabilities	763	3,498	20,800	25,329	**50,390**
Commitments	128,728	279	3,557	9,785	**142,349**
Liquidity risk	**(622,523)**	**45,425**	**(239,608)**	**926,439**	**109,733**

* Including demand deposits from customers in amount of EUR 936,402 thou

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

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 31 December 2017 was as follows:

	Up to 1 month EUR`000	1 - 3 months EUR`000	3 – 12 months EUR`000	Over 12 months and undated 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)	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***
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 to customers	*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, plant and equipment	-	-	-	4,174	**4,174**
Intangible assets	-	-	-	1,297	**1,297**
Investments in subsidiaries and associates	-	-	-	63,194	**63,194**
Deferred 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	*2,541,985**	*260,798*	*140,314*	*18,146*	***2,961,243***
Accrued expenses and deferred income	580	1,031	9,701	-	**11,312**
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**
Contingent liabilities	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)**	**1,879,310**	**2,817**

* Including demand deposits from customers in amount of EUR 2,309,025 thou

Notes to the Financial Statements *(continued)*

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

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 31 December 2016 was as follows:

	Up to 1 month EUR`000	1 - 3 months EUR`000	3 – 12 months EUR`000	Over 12 months and undated EUR`000	Total EUR`000
Assets					
Cash and balances with the Central banks	63,662	-	-	-	**63,662**
Due from other credit institutions (demand)	29,494	-	-	-	**29,494**
Derivatives	6,897	6,689	1,924	36,389	**51,899**
Financial assets at fair value through profit or loss	84,766	-	-	-	**84,766**
Debt securities and other fixed income securities	*84,766*	-	-	-	***84,766***
Financial assets available-for-sale	-	-	-	2,483	**2,483**
Loans and advances to customers	397,220	111,278	243,246	1,091,312	**1,843,056**
Due from other credit institutions (term)	*339,248*	*75,249*	-	-	***414,497***
Loans to customers	*57,972*	*36,029*	*243,246*	*1,091,312*	***1,428,559***
Accrued income and deferred expenses	3	2,450	-	-	**2,453**
Investment property	-	-	-	4,750	**4,750**
Property, plant and equipment	-	-	-	4,245	**4,245**
Intangible assets	-	-	-	1,732	**1,732**
Investments in subsidiaries	-	-	-	9,102	**9,102**
Deferred corporate income tax	-	-	-	8,701	**8,701**
Other assets	7,520	-	502	-	**8,022**
Total assets	**589,562**	**120,417**	**245,672**	**1,158,714**	**2,114,365**
Liabilities					
Liabilities to central banks	-	-	-	60,500	**60,500**
Liabilities on demand to credit institutions	2,225	-	-	-	**2,225**
Derivatives	4,724	3,574	390	35,041	**43,729**
Financial liabilities at amortised cost:	1,087,099	75,216	278,562	254,555	**1,695,432**
Due to credit institutions (term)	*10,339*	*(75)*	*210,000*	*245,000*	***465,264***
Deposits from customers	*1,076,760**	*75,291*	*68,562*	*9,555*	***1,230,168***
Accrued expenses and deferred income	-	4,898	-	-	**4,898**
Other liabilities	1,421	4	-	-	**1,425**
Provisions	30	-	68	7,573	**7,671**
Total liabilities	**1,095,499**	**83,692**	**279,020**	**357,669**	**1,815,880**
Contingent liabilities	764	3,498	20,800	70,329	**95,391**
Commitments	164,292	279	3,557	9,784	**177,912**
Liquidity risk	**(670,993)**	**32,948**	**(57,705)**	**720,932**	**25,182**

* Including demand deposits from customers in amount of EUR 939,313 thou

39 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 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*	(266,516)	(30,496)	(77,256)	(80,359)	(60,434)	**(515,061)**
Total financial liabilities and memorandum items	**(2,794,787)**	**(294,436)**	**(1,102,497)**	**(423,440)**	**(62,403)**	**(4,677,563)**

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*	(264,910)	(30,496)	(78,256)	(79,449)	(60,434)	**(513,545)**
Total financial liabilities and memorandum items	**(2,808,448)**	**(294,786)**	**(1,106,299)**	**(422,530)**	**(62,403)**	**(4,694,466)**

* Including financial guarantee contracts.

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Group's financial liabilities undiscounted cash flows as at 31 December 2016:

	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	(12,629)	-	-	-	-	**(12,629)**
Long term funding	109	59	(359,613)	(303,341)	-	**(662,786)**
Demand deposits	(936,402)	-	-	-	-	**(936,402)**
Term deposits	(136,392)	(75,605)	(67,019)	(7,873)	(1,764)	**(288,653)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
Inflow	224,956	89,531	66,485	443,314	-	**824,286**
outflow	(222,632)	(86,027)	(64,371)	(442,668)	-	**(815,698)**
Foreign exchange derivatives						
inflow	497	2,641	-	-	-	**3,138**
outflow	(496)	(2,635)	-	-	-	**(3,131)**
Derivatives settled on a net basis	11	89	545	2,179	-	**2,824**
Total	**(1,082,978)**	**(71,947)**	**(423,973)**	**(308,389)**	**(1,764)**	**(1,889,051)**
Memorandum items*	(129,491)	(3,777)	(24,357)	(14,712)	(20,402)	**(192,739)**
Total financial liabilities and memorandum items	**(1,212,469)**	**(75,724)**	**(448,330)**	**(323,101)**	**(22,166)**	**(2,081,790)**

The table below allocates the Bank's financial liabilities cash flows as at 31 December 2016:

	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	(12,629)	-	-	-	-	**(12,629)**
Long term funding	109	248	(209,047)	(303,341)	-	**(512,031)**
Demand deposits	(939,313)	-	-	-	-	**(939,313)**
Term deposits	(137,716)	(75,605)	(69,747)	(7,873)	(1,764)	**(292,705)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
inflow	224,956	89,531	66,485	443,314	-	**824,286**
outflow	(222,632)	(86,027)	(64,371)	(442,668)	-	**(815,698)**
Foreign exchange derivatives						
inflow	497	2,641	-	-	-	**3,138**
outflow	(496)	(2,635)	-	-	-	**(3,131)**
Derivatives settled on a net basis	11	89	545	2,179	-	**2,824**
Total	**(1,087,213)**	**(71,758)**	**(276,135)**	**(308,389)**	**(1,764)**	**(1,745,259)**
Memorandum items*	(165,056)	(3,777)	(24,357)	(59,711)	(20,402)	**(273,303)**
Total financial liabilities and memorandum items	**(1,252,269)**	**(75,535)**	**(300,492)**	**(368,100)**	**(22,166)**	**(2,018,562)**

* Including financial guarantee contracts.

***Notes to the Financial Statements** (continued)*

40 CURRENCY ANALYSIS

The currency analysis of assets and liabilities by currency profile of the Group as at 31 December 2017 was as follows:

	USD	EUR	Other currencies	Total EUR'000
Assets				
Cash and balances with the central banks	2,518	1,064,572	124	**1,067,214**
Due from other credit institutions (on demand)	1,748	13,708	19,178	**34,634**
Derivatives	2,226	14,997	-	**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***
Financial assets available-for-sale	2,527	20	-	**2,547**
Loans and advances	26,548	3,369,919	46,804	**3,443,271**
Due from other credit institutions (term)	-	*70,823*	-	***70,823***
Loans to customers	*26,548*	*3,299,096*	*46,804*	***3,372,448***
Accrued income and deferred expenses	-	3,725	1	**3,726**
Investment property	-	34,136	-	**34,136**
Property, plant and equipment	-	27,583	-	**27,583**
Intangible assets	-	1,681	-	**1,681**
Investments in subsidiaries and associates	-	2,987	-	**2,987**
Deferred 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	2,799	21,416	669	**24,884**
Total assets	**38,366**	**4,633,798**	**66,776**	**4,738,940**
Liabilities				
Liabilities to central banks	-	60,500	-	**60,500**
Liabilities to credit institutions (on demand)	3,243	1,597	736	**5,576**
Derivatives	2,226	19,043	-	**21,269**
Financial liabilities at amortised cost:	424,408	3,603,300	80,343	**4,108,051**
Due to credit institutions (term)	*11,760*	*1,151,211*	*2,256*	***1,165,227***
Deposits from customers	*412,648*	*2,452,089*	*78,087*	***2,942,824***
Accrued expenses and deferred income	-	11,777	-	**11,777**
Deferred tax liability	-	-	-	**-**
Income tax liability	-	1,283	-	**1,283**
Other liabilities	-	5,624	10	**5,634**
Provisions	-	261	-	**261**
Total liabilities	**429,877**	**3,703,385**	**81,089**	**4,214,351**
Net long / (short) balance sheet position	(391,511)	-	(14,313)	-
Off-balance sheet claims arising from foreign exchange				
Net long / (short) position on foreign exchange	*391,921*	-	*14,281*	-
Net long / (short) position	**410**	**-**	**(32)**	**-**

40 CURRENCY ANALYSIS (continued)

The currency analysis of assets and liabilities by currency profile of the Group as at 31 December 2016 was as follows:

	USD	EUR	Other currencies	Total EUR'000
Assets				
Cash and balances with the central banks	3,514	60,067	81	**63,662**
Due from other credit institutions (on demand)	146	19,604	10,343	**30,093**
Derivatives	2,764	49,135	-	**51,899**
Financial assets at fair value through profit or loss	-	84,766	-	**84,766**
Debt securities and other fixed income securities	-	*84,766*	-	***84,766***
Financial assets available-for-sale	2,301	182	-	**2,483**
Loans and advances	12,310	1,913,094	1,771	**1,927,175**
Due from other credit institutions (term)	-	*414,497*	-	***414,497***
Loans to customers	*12,310*	*1,498,597*	*1,771*	***1,512,678***
Accrued income and deferred expenses	-	3,619	-	**3,619**
Investment property	-	36,854	-	**36,854**
Property, plant and equipment	-	28,415	-	**28,415**
Intangible assets	-	2,085	-	**2,085**
Deferred corporate income tax	-	8,805	-	**8,805**
Current corporate income tax	-	171	-	**171**
Other assets	255	18,965	-	**19,220**
Total assets	**21,290**	**2,225,762**	**12,195**	**2,259,247**
Liabilities				
Liabilities to central banks	-	60,500	-	**60,500**
Liabilities to credit institutions (on demand)	347	1,791	87	**2,225**
Derivatives	2,764	40,965	-	**43,729**
Financial liabilities at amortised cost:	208,152	1,584,133	46,262	**1,838,547**
Due to credit institutions (term)	*8,065*	*604,939*	*2,336*	***615,340***
Deposits from customers	*200,087*	*979,194*	*43,926*	***1,223,207***
Accrued expenses and deferred income	-	5,084	-	**5,084**
Deferred tax liability	-	31	-	**31**
Income tax liability	-	40	-	**40**
Other liabilities	74	6,086	4	**6,164**
Provisions	-	454	-	**454**
Total liabilities	**211,337**	**1,699,084**	**46,353**	**1,956,774**
Net long / (short) balance sheet position	*(190,047)*	-	*(34,158)*	-
Off-balance sheet claims arising from foreign exchange				
Net long / (short) position on foreign exchange	*189,897*	-	*34,304*	-
Net long / (short) position	**(150)**	**-**	**146**	**-**

Notes to the Financial Statements *(continued)*

40 CURRENCY ANALYSIS (continued)

The currency analysis of assets and liabilities by currency profile of the Bank as at 31 December 2017 was as follows:

	USD	EUR	Other currencies	Total EUR'000
Assets				
Cash and balances with the central banks	2,518	1,064,572	124	**1,067,214**
Due from other credit institutions (on demand)	1,748	12,939	19,178	**33,865**
Derivatives	2,226	14,997	-	**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***
Financial assets available-for-sale	2,527	20	-	**2,547**
Loans and advances	26,754	3,381,922	46,645	**3,455,321**
Due from other credit institutions (term)	-	*70,823*	-	***70,823***
Loans to customers	*26,754*	*3,311,099*	*46,645*	***3,384,498***
Accrued income and deferred expenses	-	2,144	1	**2,145**
Investment property	-	1,021	-	**1,021**
Property, plant and equipment	-	4,174	-	**4,174**
Intangible assets	-	1,297	-	**1,297**
Investments in subsidiaries and associates	-	63,194	-	**63,194**
Deferred corporate income tax	-	-	-	**-**
Non-current assets and disposal groups classified as held for sale	-	519	-	**519**
Other assets	2,799	17,167	669	**20,635**
Total assets	**38,572**	**4,640,274**	**66,617**	**4,745,463**
Liabilities				
Liabilities to central banks	-	60,500	-	**60,500**
Liabilities to credit institutions (on demand)	3,243	1,597	736	**5,576**
Derivatives	2,226	19,043	-	**21,269**
Financial liabilities at amortised cost:	424,410	3,621,717	80,343	**4,126,470**
Due to credit institutions (term)	*11,760*	*1,151,211*	*2,256*	***1,165,227***
Deposits from customers	*412,650*	*2,470,506*	*78,087*	***2,961,243***
Accrued expenses and deferred income	-	11,312	-	**11,312**
Income tax liability	-	1,233	-	**1,233**
Other liabilities	-	2,503	10	**2,513**
Provisions	-	228	-	**228**
Total liabilities	**429,879**	**3,718,133**	**81,089**	**4,229,101**
Net long / (short) balance sheet position	(391,307)	-	(14,472)	**-**
Off-balance sheet claims arising from foreign exchange				
Net long / (short) position on foreign exchange	*391,921*	-	*14,281*	**-**
Net long / (short) position	**614**	**-**	**(191)**	**-**

Notes to the Financial Statements *(continued)*

40 CURRENCY ANALYSIS (continued)

The currency analysis of assets and liabilities by currency profile of the Bank as at 31 December 2016 was as follows:

	USD	EUR	Other currencies	Total EUR'000
Assets				
Cash and balances with the central banks	3,514	60,067	81	**63,662**
Due from other credit institutions (on demand)	146	19,005	10,343	**29,494**
Derivatives	2,764	49,135	-	**51,899**
Financial assets at fair value through profit or loss	-	84,766	-	**84,766**
Debt securities and other fixed income securities	-	*84,766*	-	***84,766***
Financial assets available-for-sale	2,301	182	-	**2,483**
Loans and advances	12,473	1,828,894	1,689	**1,843,056**
Due from other credit institutions (term)	-	*414,497*	-	***414,497***
Loans to customers	*12,473*	*1,414,397*	*1,689*	***1,428,559***
Accrued income and deferred expenses	-	2,453	-	**2,453**
Investment property	-	4,750	-	**4,750**
Property, plant and equipment	-	4,245	-	**4,245**
Intangible assets	-	1,732	-	**1,732**
Investments in the share capital of related companies	-	9,102	-	**9,102**
Deferred corporate income tax	-	8,700	-	**8,700**
Other assets	255	7,768	-	**8,023**
Total assets	**21,453**	**2,080,799**	**12,113**	**2,114,365**
Liabilities				
Liabilities to central banks	-	60,500	-	**60,500**
Liabilities to credit institutions (on demand)	347	1,791	87	**2,225**
Derivatives	2,764	40,965	-	**43,729**
Financial liabilities at amortised cost:	208,152	1,441,018	46,262	**1,695,432**
Due to credit institutions (term)	*8,065*	*454,863*	*2,336*	***465,264***
Deposits from customers	*200,087*	*986,155*	*43,926*	***1,230,168***
Accrued expenses and deferred income	-	4,898	-	**4,898**
Other liabilities	74	1,347	4	**1,425**
Provisions	16	7,655	-	**7,671**
Total liabilities	**211,353**	**1,558,174**	**46,353**	**1,815,880**
Net long / (short) balance sheet position	*(189,900)*	-	*(34,240)*	-
Off-balance sheet claims arising from foreign exchange				
Net long / (short) position on foreign exchange	*189,897*	-	*34,304*	-
Net long / (short) position	**(3)**	**-**	**64**	**-**

41 LITIGATION AND CLAIMS

Due to its extensive operations in Latvia, 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.

42 MERGER WITH NORDEA

On 1 October 2017 Nordea Bank AB (Swedish company registration No 516406-0120) and DNB Bank ASA (Org. No. 984 851 006) after all regulatory approvals and competition clearance were received, combined their Baltic business into a jointly owned bank, Luminor. By business transfer Nordea Bank AB Lithuania branch, Nordea Bank AB Latvia branch and Nordea Bank AB Estonia branch assets and liabilities, including shares of leasing, pension and distressed assets companies in Baltics were transferred to Luminor Bank AB (prev. AB DNB bankas), Luminor Bank AS in Latvia (prev. DNB banka AS) and Luminor Bank AS in Estonia (prev. Aktsiaselts DNB Pank).

The last statement of financial position of Nordea Bank AB Latvia branch is presented below:

	Nordea bank AB Latvia branch as at 30 September 2017 EUR'000
ASSETS	
Cash and balances with central banks	355,572
Financial assets held for trading	222
Loans and advances to customers	1,901,670
Investments in subsidiaries	17,278
Tangible and Intangible assets	1,183
Deferred income tax asset	444
Other assets	7,146
Total assets	**2,283,515**
LIABILITIES AND EQUITY	
Financial liabilities held for trading	222
Financial liabilities measured at amortised cost	2,260,614
Tax liabilities	705
Other liabilities	3,997
Total liabilities	**2,265,538**
Total equity	17,977
Total liabilities and equity	**2,283,515**
OFF-BALANCE	
Financial guarantees	176,310
Loan commitments and other credit related liabilities	455,924
Total Off –balance sheet items	**632,234**

Consideration paid for the Nordea Branch amounted to EUR 10,420 thousand. Difference between consideration paid and net assets acquired in amount of EUR 7,557 thousand were accounted for directly into Equity of the Bank as merger effect.

Total consideration paid for the Nordea Branch and newly acquired subsidiaries' SIA Luminor Līzings, AS Luminor Latvijas atklātais pensiju fonds, IPAS Luminor Pensions Latvia, SIA Promano Lat, SIA Baltik Īpašums, SIA Luminor Finance, SIA Trioleta and SIA Realm amounted to EUR 56,415 thousand. Difference between total consideration paid and net assets acquired in amount of EUR 9,186 thousand were accounted for directly into Equity of the Group as merger effect.

Reconciliation of the transaction for cash flows statement:

	Group EUR'000	Bank EUR'000
Consideration paid	56,415	10,420
Cash and cash equivalents acquired	355,572	355,572
Consideration paid, less cash and cash equivalents acquired	(299,157)	(345,152)

43 EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

As it was announced on 19th of February 2018, in 2018-2019, an internal corporate restructuring of Luminor Group will take place with an aim to concentrate the entire Baltic businesses of Luminor Group in Luminor Bank AS, a credit institution in Estonia; where Luminor Bank AS in Estonia will remain as the surviving entity while Luminor Bank AB in Lithuania and Luminor Bank AS in Latvia will be merged into Luminor Bank AS in Estonia and cease to exist. A cross border merger would be pursued under Directive (EU) 2017/1132 of the European Parliament and of the Council of 14 June 2017 relating to certain aspects of company law as implemented in Lithuania, Latvia and Estonia respectively. All assets and liabilities of the respective subsidiaries would, in accordance with the relevant laws, be transferred into Luminor Bank AS in Estonia as a matter of universal succession, and each subsidiary would cease to exist as a legal entity upon registration of the cross-border merger. Following the merger, Luminor Bank AS in Estonia would pursue the banking businesses in Lithuania and Latvia through its branches.