LUMINOR BANK AS

CONSOLIDATED ANNUAL REPORT

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Contents

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A REPORT FROM THE MANAGEMENT BOARD AND THE SUPERVISORY COUNCIL

CEO Statement

Building a modern, accessible and truly Baltic banking partner to our customers

I started as CEO of Luminor in October 2017, when the company was created through the merger of DNB's and Nordea's Baltic operations. It was clear then that the transformation of merging and harmonizing these operations into one, modern, pan-Baltic operation would require a lot of effort, but was a necessity to create the nimble, efficient and customer-oriented bank we want to be.

In 2018 we took the first steps on this journey by merging six legal entities into one pan-Baltic organization, by beginning the task of setting up one harmonized and independent IT infrastructure and by launching a number of operating initiatives to improve the viability, profitability and agility of the bank.

Through the hard work of all our employees, we have so far had only minor disruptions to our customer service, which will remain our key priority throughout this transformation.

It is clear that the on-going digitalization of our industry, enabling easy access to products and services and increasing the time available for value-added advice, is dramatically changing customers' perceptions and demands of their banks. So far, financial "disruptors" have primarily operated in the product part of our value chain, but with time they will target banking distribution too, through open architecture aggregator platforms.

I believe in a coherent, trustworthy and complete bank offering, utilizing our core competences of assessing credit risk, helping customers with payments and cash handling, and offering competitive and relevant savings advice, in the best interest of our customers.

Banking should be easy, affordable and accessible, and that requires a deep customer understanding, efficiency and scale, to be competitive in the long-term.

The transformation we have embarked on is crucial for us to achieve the independence and efficiency required to deliver this vision to our customers, as well as for being an attractive partner for innovative 'FinTech' companies.

Our financial results improved quite substantially in 2018 reaching net profit of EUR 125 million, not least considering we had extraordinary expenses for the transformation work of around EUR 26 million. However, profitability is far from satisfactory with a ROE of 7.1%.

To ensure we have the means to invest in relevant solutions and strong service to our customers, we have to improve the bank's profitability. Our earnings are also our first line of defense against any set-backs in the economic or credit environment.

Our activities to improve profitability will be focused around four priority areas, all of which were initiated during the year:

1. Improve our efficiency. One of the rationales behind the merger in 2017 was to create better economies of scale, and to extract synergies. We will harmonize overhead and group functions, remove duplicative and wasteful activities, consolidate our branch network and create more automated processes. We will also ensure that *all* activities in the bank are relevant to our customers.

2. Improve Luminor's funding position. As the third largest player in the market, we should not have a materially different loan-to-deposit ratio from our large competitors. As a response, we have increased our focus on deposits, which will soon be aided by an improved technology offering. We are also well underway with our wholesale funding strategy, having raised our EUR 350 million inaugural senior secured bond in October 2018 under our new EMTN program, and are already evaluating further issuances. We are also preparing to issue covered bonds, should the Estonian covered bond legislation will come into effect in October 2019. We acknowledge that we are a new issuer in the global capital markets, but are working hard to educate investors about our story and build trust in the funding markets through transparency and by delivering on our promises.

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

3. Improve capital efficiency. Luminor is the only large Baltic bank still working under the standardized capital approach under the Basel framework. Even if the differences to the Internal Rating Based approach will decline with Basel 4, we need to ensure we steer and price risk in an adequate way to build an efficient balance sheet, as well as working with our understanding, stress testing, and modelling of our credit risks, to close the gap to our competitors, regarding capital consumption. This work will take time, and it will probably involve regulatory approvals for new risk models, but it will be prioritized.

4. Ensure fair, rational, pricing of risk. Even when adjusting for our relative cost and capital disadvantage versus our competitors, over half of our loan portfolio fails to reach a profitability level above cost of capital. We will strive to price our business fairly and transparently, and to win business on relevance to our customers in our offering and service. We are convinced that we can improve our profitability *and* remain competitive.

We will also ensure that our capital and risk levels are calibrated in a way which allows Luminor to withstand a severe downturn without having to ask for additional capital from its owners. We believe that the stability and independence of a bank from a capital planning perspective is paramount to gaining trust from all stakeholders - customers, the funding market, employees, owners, and the broader society.

This topic will remain a key priority for us as a bank. Our proficiency in monitoring and detecting cases of attempted, or suspicious, money laundering, is continuously improving. However, we can never fully protect ourselves from attempts to abuse our bank for these rogue purposes, but we must tirelessly continue to improve and refine the customer scrutiny before and after on-boarding, improve our transaction monitoring, and report what we find to the authorities. The hard work and investments will continue.

We are continuing the hard work and large investments that we have made over the past years into improving our systems and processes for compliance and prevention of money laundering. The latter topic has received significant, but needed, scrutiny during the year, and will remain a key focus of authorities, regulators, media and the wider society, both in the region and abroad.

The Baltic economic environment is benign currently, with healthy growth rates in GDP, almost full employment and balanced current accounts. Savings rates are also on healthy levels. The Baltic region is also benefitting from low indebtedness compared to many other European countries, with average government debt/GDP of 31.8% and average household debt/GDP of 26.3%.

While this gives room for a sound improvement of living standards relative to our European neighbors in the years to come, we also need to be mindful that times can change, and that as one of the leading bank in the region we play an important role in these respects being large employers and credit providers.

I would also like to highlight another significant event during the year, namely that a consortium led by private equity funds managed by Blackstone - one of the world's largest private equity firms - in September 2018 agreed with Nordea and DNB to acquire 60% of Luminor, with an option to acquire Nordea's remaining 20% over the coming years.

With Blackstone, we get an owner-partner, fully supportive of investing in making Luminor the preferred banking partner for consumers and companies in the region. We now have both the operational and financial muscle to accelerate our change agenda, for the benefit of all our stakeholders. The transaction is still subject to regulatory approval, but is expected to close in the middle of 2019.

In September, Luminor received its first independent credit rating, when Moody's assigned the bank a Baa1/P2. Subsequently we issued our first senior unsecured bond - a EUR 350m three-year benchmark transaction - as an important first step to securing our long-term funding needs as an independent company.

As mentioned, our change program continues and accelerates in 2019. This year, our focus is on improving Luminor's IT-environment, and on improving our underlying profitability and funding position. In addition, we are launching a major initiative to upgrade our online services across our three markets, towards both households and corporates. We also have ongoing initiatives to simplify our product and service portfolios, to make the bank even more accessible to all customers. As a result, we expect to incur a high level of exceptional and restructuring costs during the year.

The transformation will not be without its challenges, but we will work tirelessly to ensure our customers are well served. Ultimately, all our investments in building this bank are supporting our goal to create the modern, accessible, truly Baltic banking partner that our customers deserve.

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

Finally - let me extend a warm thank you to our two most important stakeholders - our customers, and all of my colleagues within the bank - for this last year. As long as we have the trust of our customers, and the integrity, intelligence and energy of all our employees, I know our other stakeholders will also be happy.

Erkki Raasuke

General information

Luminor (or “Luminor Group”) was established on 1 October 2017 as a result of the merger of DNB Bank ASA (Commercial Register no. 984 851 006) and Nordea Bank AB (Swedish Commercial Register no. 516406-0120) operations in the Baltic countries to create a new-generation financial service provider for local businesses and financially active people.

Luminor is the third-largest financial services provider in the Baltics, with ca 1 million clients, ca 3,000 employees, 16% market share in deposits and 22% market share in lending. Total shareholder equity of Luminor amounts to 1.8 billion euros and is capitalised at CET1 18%. Luminor’s vision is to become the best financial ecosystem for its customers.

On 13 September 2018 an agreement was signed between DNB Bank ASA and Nordea Bank AB with US-based private equity firm Blackstone to sell the majority stake in Luminor. This transaction represents the largest majority-stake acquisition of a universal bank by private equity in the last decade globally and one of the largest M&A transactions in Baltic history.

In 2018 the European Central Bank (ECB) adopted a decision to classify Luminor as significant financial institution, and starting from 10 February 2018 Luminor is under supervision of European Central Bank.

Luminor Bank AS (or “Luminor Latvia”) offers a wide range of products and services to its customers in all channels, digital and physical, with headquarters in Riga and 19 offices in the biggest cities in Latvia, including Rezekne, Daugavpils, Valmiera, Jelgava, Ventspils and Cesis.

It offers a total of 220 ATMs located throughout Latvia. At the end of 2018 Luminor Latvia employed ca 1,000 full-time employees and served ca 266,000 clients in the private and business segments, with a market share of ca 26% in lending and approximately 18% in deposits, making Luminor the second-largest financial services provider on the Latvian market.

The market share of Luminor in both lending and deposits has significantly increased over previous period mostly due to closure of ABLV bank.

Macroeconomic overview

After entering the pick of the business cycle the global economic recovery did become less synchronized in 2018. Escalating trade tensions, tightening of global monetary conditions, geopolitical strains were among the key sources of elevated uncertainty, which resulted in softer business and consumer expectations, as well as increasing market volatility. Markets’ risk-off sentiment hit emerging economies the most and fed safer assets of the developed world. In addition, Emerging Asia, the core engine of the global economy, fell in the epicentre of escalating trade disputes between the U.S. and China. Meanwhile, the U.S. economy, supported by pro-cyclical fiscal stimulus, remained in a good shape. It grew by nearly 3% y/y last year underpinned by further strengthening in the labour markets with emerging signs of wage pressures. The Euro area, the key destination of exports for the Baltic economies, faced softening economic pulse. Euro-area GDP decelerated from a rather strong 2.4% y/y pace in Q1 2018 (0.4% q/q) to a modest 1.6% y/y (0.2% q/q) in Q3 2018, reflecting predominantly weaker impetus from external trade, increasing uncertainty, as well as a number of temporary demand (incl. weather-related) and supply-side factors encompassing difficulties in the car industry (in adapting to new emission-test procedures in Q3). All that resulted in Euro-area annual growth moderated from a bold 2.5% leap in 2017 to a still healthy close to 2% y/y recovery last year.

The Baltic countries have continued to demonstrate robust economic expansion, outpacing Euro-area average by a solid margin. The economic upturn in recent years was broad-based resting on all main growth pillars, i.e. accelerating domestic demand, increasing business appetite for productive investments and expanding exports revenues. Estonia’s growth rate decelerated from a strong 4.9% y/y pace in 2017 to 3.8% y/y (Q1-Q3 2018). In Latvia, the exceptionally strong recovery has continued on the heels of resilient domestic demand, expanding construction and retail activities with an average 4.7% growth rate recorded during the first three quarters of 2018 (4.6% y/y in 2017). Only marginal moderation of strong above-trend growth rate, very much like Estonia, has taken hold in Lithuania with 3.3% y/y GDP development in Q1-Q3 2018 (following 4.1% y/y a year before). Notably softer momentum in Q3 resulted largely from temporary factors (drought affecting agriculture), with overall expansion in investments and manufacturing continuing strong. After the summer months the threat from further escalation of global trade tensions, rising oil prices and EM vulnerabilities have on balance increased the growth risks for the region. Despite a solid underlying demand trend this may weigh on export confidence, orders and could potentially dampen investments appetite. The impact on business and consumer confidence has so far been limited. Overall, despite the accumulating headwinds in the external sector, the economic backdrop in the Baltic countries has remained favourable with ongoing tightening in labour market and unemployment rates falling to new post-crisis lows.

The economy of Latvia

Instead of widely expected slowdown, Latvia's economy maintained or even slightly accelerated the pace of expansion in 2018 with expected 4.7% y/y GDP growth. Recovery has been broad-based with transit business in particular exceeding expectations. As a positive, Latvian ports increased cargo turnover by 6.9%. Manufacturing output expanded by 3.1% y/y in Jan-Nov 2018, pulled down by food processing that declined by 2.1%. Strong performance was evident in the high value added exports with ICT and business services expanding 17% y/y in the first three quarters. The success story of aviation and tourism continued with 22% and 16% annual exports growth so far.

Consumers remained in the driver's seat with household income supported by 8.5% wage growth and employment accelerated from 0.2% in 2017 to 1.9% y/y in Jan-Sep 2018. Labour market improvements are further reflected in the decline of unemployment rate to 7.0% in Q3 2018, down from 8.5% a year ago. Real income growth was supported by slight moderation of inflation to the average of 2.5% in 2018, down from 2.9% a year ago. Average net real wage increased by 7.3% on average in the first three quarters, supported also by tax cuts. Overall, consumption growth has been quite moderate given these circumstances, it was up 4.7% in real terms in the first three quarters. Investment continued to recover from the slump of 2016 with expected 14% expansion in 2018.

Overview of the company

Operating principles

Luminor is a contemporary pan-Baltic financial services provider that considers the region's cultural and business environment for local people and businesses. 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. Luminor's operating model supports regional scale, business development and efficiency but also high local relevance and customer proximity.

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.

Luminor is focused on a customer experience excellence, strong local presence with large-scale advantages, data knowledge, operational excellence and strong, performance driven culture that is rooted in bank's core values – curiosity, collaboration and focus. We develop the products and services based on data and knowledge, and we cooperate with experts operating in other fields.

Luminor has a strong and capable team which consists of people that want to move the organisation forward. We're entrepreneurial and open, and we hold cooperation in high esteem. We aim to become one of the most desirable employers in the region.

Important events in the financial year

In the beginning of 2018 Luminor banks in Lithuania, Latvia and Estonia continued with the next phases of the legal merger, which foresaw full integration of the banks, continuing operations in all Baltic countries through Luminor Bank AS in Estonia and its registered branches in Latvia and Lithuania.

On 19 February 2018 Luminor banks took the first steps to fill in prerequisites of the legal reorganization process by submitting a draft Merger Agreement to State Enterprise Register of Latvia and notifications to the Estonian Financial Supervisory Authority for branches opening in Latvia and Lithuania.

On 28 June 2018 the ECB gave the official approval to carry out the cross-border merger in the Baltics. Throughout the year Luminor banks continued with the finalization the legal aspects of its merger and in November 2018 proceeded with notifying all counterparties and customers in Latvia and Lithuania about the upcoming change.

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

Luminor Bank AS (Latvia) does not have an individual rating.

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In September 2018 Moody's Investors Service assigned to Luminor Bank AS (Estonia) first time foreign and local currency long- and short-term deposit ratings of Baa1/Prime-2, as well as a long-term Baa2 senior MTN credit rating. The ratings assigned to Luminor Bank AS (Estonia) reflect the forward-looking assessment of the group's operations as a whole, taking into account the future ownership change and merger effects, which will legally consolidate after the merger.

Corporate clients

During 2018 business customer segment focused on efficiency improvements, new service model implementation and increasing deposits. Luminor Latvia strengthened its focus on target customers by strong regional presence through event marketing and day to day sales activities targeting small and medium customer segment, resulting in significant increase of loans issued. Additionally, focus on deposit level increase contributed to increase reaching 407 million EUR. Several unsecured loan sales activities were implemented during autumn 2018 resulting in significant increase of financing by remote channel. Amongst them, Luminor Latvia offered to its customer's an unsecured loan up to 75 thousand EUR in cooperation with the Development Finance Institution – ALTUM.

In the large Corporate Client segment, overall yearly total income figures of 2018 exceeded the budget with positive stable performance for commission income. Through-out the year the large Corporate Client segment focused on continuing delivering high customer service that resulted with some exceptionally successful deals during the year. We also expanded product range for customers, in such areas as financial risk hedging.

Private clients

During 2018 Luminor Latvia retail segment focused on improving customer service quality and relevant product sales. After the launch of Luminor new self-service concept, promoting usage of digital channels, customer activity in remote channels has grown by 26% and decreased – in physical branch network by half. Also, after introducing the new digital authentication solution Smart ID, the number of unique users during a month and half has grown to around 27 thousand users. General customer satisfaction according to 'secret shopper' reached 88%, which is an increase compared to the previous quarters. In the products sales, focus has been on promoting long-term deposits, new mortgage sales and consultations about the mortgage products. In addition, continuous work continued improving credit portfolio quality.

During 2018 one of the main focus of Private Banking was to increase the quality of customer database according to unified Private Banking customer criteria and low-risk policy of Luminor Latvia. As a result the number of Private Banking customer has decreased though improving the quality of portfolio from a risk perspective and increasing the average volumes per customer.

In year 2018 Private Banking moved to new premises. As well as a new corporate visual identity for the Private Banking segment has been developed and implemented to strengthen general awareness and position of Private Banking in the market. Private Banking service quality standard for customers was developed and implemented. Additionally work on validating the future daily banking offering has continued. General customer satisfaction and net promoter score figures were positive and trending upward in 2018.

Leasing

Luminor Latvia leasing companies provide leases, full service car lease and agriculture machinery financing services. Client service is carried out through both the Luminor customer service network in Latvia and through cooperation partners. Full service car lease and car fleet administration services are provided by related company SIA "ALD Automotive". Lease services are offered to finance various types of industrial equipment, vehicles, agricultural machinery and cars.

Leasing new sales in the industry increased by approximately 5%. The Company's portfolio decreased by 1% keeping the market leading position with 32% leasing portfolio market share. To continue improving efficiency of the Company and to ensure quick reaction to the changes in the market and economy, the Company continued to improve and optimize internal processes, management as well as functional unit Baltic centralization. The Company has continued establishing a quality credit portfolio by diversifying transaction risks related to the financed objects and customer industries.

Pension

The pension assets of more than 132,000 Luminor Latvia customers amounted to 524 million euros at the end of 2018 compared to 488 million euros in the corresponding period of 2017. In 2018 Luminor pension 2nd pillar fund offering was strengthened by merging pension funds with similar investment strategies as well as launching a new equity 75% pension 2nd pillar fund.

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The competitive pension fund offering will facilitate growth of customer pension savings and increase Luminor footprint in the customer wealth management area. In the reporting year two Luminor Latvia pension fund management companies in Latvia- Luminor Asset Management IPAS and Luminor Pensions Latvia IPAS were merged. Customers will directly benefit from the merger since it will further facilitate a reduction of management fees by 14% per annum.

Corporate social responsibility

Luminor is determined to build a better tomorrow – for families and businesses and for the communities and countries in which we live and operate. Luminor believes in contributing to the development of the local communities.

Luminor is committed to taking into account corporate governance, social conditions and environment in all of our activities, including product and service development, advisory services and sales, investment and credit decisions, and other operations. We do not contribute to the infringement of human or labour rights, corruption, serious environmental harm or other actions that could be regarded as unethical.

Luminor has a responsibility to undertake efforts to ensure that the banking industry delivers ethical products and services, and we take responsibility for to whom and how the products and services will be offered.

Luminor distinguishes and describes its CSR principles in four main areas:

1. Corporate governance
2. Employees
3. Customers, products and services
4. Environment and local society

Corporate governance

Luminor is committed to comply with corporate governance principles that include having:

- High ethical standards and sound corporate governance;
- Clear and open communication to all target groups;
- Zero tolerance for corruption and defence against corruption based on transparency and verifiability;
- Regular dialogues with all stakeholders: employees, customers, shareholders, public authorities and other public bodies, suppliers and vendors regarding environmental, social and governance related matters.

Employees

Luminor follows social responsibility that includes:

- Full respect towards internationally recognised human rights;
- Reviewing value chain in order to reveal the risk for actual and potential infringements of human rights which are instrumental and directly connected to company's capacity as employer, investor, lender or buyer;
- Working to achieve dialogue with involved parties and other stakeholders, as well as ensuring or cooperating to ensure the right to effective complaints handling for involved parties through prudent processes;
- Promoting diversity among the employees and ensuring that discrimination against ethnic origin, religion, sexual orientation, functional ability, age or gender shall not occur;
- Neither investing in nor extending loans to companies that manufacture weapons whose normal use violates basic humanitarian principles;
- Supporting socially useful objectives and securing important social values in those areas and industry sectors where Luminor operates.

Customers, products and services

Luminor follows the best practices, ensuring ethical cooperation towards customers, socially responsible product and services development, including:

- In depth analysis in customer needs and good faith when offering Luminor products and services;
- Ethical investments and asset management that follows centrally approved and openly communicated ethical investment guidelines;
- Prudent credit policies and in depth risk analysis;
- Pragmatic business advisory and sales, ensuring fair, open and risk aware communication with customers.

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

Environment and local society

Luminor is committed to taking into account the climate and the environment:

- Operating so that it is possible to measure, report and handle climate risk which company is exposed to, both directly through its own operations and indirectly as an investor and lender;
- Operating as energy efficiently as possible;
- Promoting continual environmental improvements and to meeting requirements from the authorities and internal requirements concerning the external environment;
- Minimising its indirect impact on the environment in its capacity as owner/investor, lender and purchaser;
- Promoting greater environmental responsibility and encouraging the development and distribution of environmentally friendly and sustainable technology and solutions;
- Encouraging and ensuring open dialogue with local societies.

Anti-money laundering related matters

Luminor has chosen to serve primarily customers having strong presence and connection to the Baltic countries. Focusing on serving the Baltic customers Luminor continuously aims for a full transparency in customers background, availability of KYC data and economic rational in activities. At Luminor, we have zero tolerance towards money laundering and other financial crime risk. Luminor has developed and implemented a comprehensive set of measures to identify, manage and control its risks. Luminor complies with sanctions laws and follow the guidelines, recommendations and standards issued by local regulatory and supervisory authorities and relevant international organizations, as well as those issued by local banking associations and financial intelligence units in each Baltic state.

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

Significant events after 31 December 2018

On 2 January 2019 Luminor banks in Lithuania, Latvia and Estonia has completed cross-border merger and continues its operations in all Baltic countries through the Estonian registered bank and its branches in Latvia and Lithuania. After the completion of the merger, all assets, rights and liabilities of Luminor Latvia were transferred to Luminor Bank AS in Estonia. The bank will continue the same activities in Latvia through its locally established branches.

Starting from 2 January 2019, the deposits and financial instruments of the depositors and investment services clients of Luminor Bank AS Latvia branch will be guaranteed by the deposit guarantee and investor protection scheme established and operated by the Estonian Guarantee Fund.

The new simplified structure and governance model enables the bank faster decision making, provides excellent cross-border collaboration opportunities and improves efficiency.

As of 2 January 2019, after completion of the merger, Luminor Bank AS (Estonia) has a new organizational set up, a new governance structure and new members of management bodies. Erkki Raasuke will continue as Luminor 's CEO and Nils Melngailis will be chairing the supervisory board.

The permanent committees which were previously established for each Baltic country separately are going forward and operating as single committees on a group level, comprising Audit Committee, Risk Committee, Nomination Committee and Remuneration Committee.

After completing the cross-border merger, Luminor has taken steps to re-organize its operative model. On 7 January 2019 Luminor has decided to proceed with the next phase of transformation, including changing operating model. The bank aims to transform its operating model by simplifying its structure and decision process, unifying and executing IT consolidation, strengthening its controls, and becoming more efficient, more resilient and more resolvable. During 2019 Luminor will be simplifying its operating model and reducing its staff numbers from the current ca 3000 employees, at all levels (including management), comprising around 130 employees in Estonia, 250 employees in Latvia and 420 employees in Lithuania.

The bank is customer-driven organization and our operating model is built to support regional scale, business development and efficiency, but also high relevance in customer intimacy. With the adjusted operating model, Luminor expects to significantly reduce the operating expenses and create the capacity to invest for the future.

Financial results

The merger of the Baltic businesses of DNB and Nordea in October 2017 has had a significant impact both on the financial result and operational focus. The consolidated financial information prior to the merger 9 months DNB Group result plus 3 months Luminor Group result. As a result, comparability of consolidated financial information between 2017 and 2018 is limited in light of the effects of the merger. In 2018 Luminor Latvia managed to maintain its business momentum while integrating the operations to achieve a solid financial result.

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. Despite decrease of lending portfolio, the bank was able to achieve an increased net interest income due to high focus on portfolio profitability reaching 89.4 million. Net fees and commissions reached combined number of EUR 25.5 million for 2018. Operating income amounted to EUR 123 million and net profit was EUR 45 million for 2018.

As at the end of 2018 Luminor Latvia credit portfolio amounted to EUR 3.4 billion. Loans to non-financial corporate customers comprised 45% and loans to households 45% of the credit portfolio. The market share of Luminor 's loans in Latvia was approximately 26%.

The focus on the quality of credit portfolio remains strong aiming for a diversified lending structure. Luminor pays special attention to determining proper and acceptable risk criteria that are applicable in credit decision making as well as in monitoring process seeking to sustain optimal credit risk level.

In 2018, total lending portfolio had been slightly decreasing, while the focus on sound credit quality was sustained. Continuous efforts were put forward to right-size and reprice the portfolio, in order to ensure adequate risk adjusted profitability of each individual exposure. Positive portfolio quality trend is supported by lower level of non-performing loans, despite the broader default definition according to IFRS9. Impaired loans were at 7.4% for the end of 2018 (8.2% in 2017), while total on-balance sheet allowances amounted to EUR 91.9 million, adding up to 35.9% provisioning ratio.

Reduction of repossessed assets portfolio was one of the priorities in 2018. Favourable developments in the real estate market, continued commercial and private interest and supportive economic environment contributed to the reduction of repossessed assets portfolio which amounted to EUR 18.1 million as at end of 2018 (2017: EUR 34.1 million). Further reduction in portfolio will be also one of the key priorities in 2019. Luminor continuously reviews and updates credit risk strategy to maintain sound credit culture and sustain high quality of assets.

Deposits from customers (excluding deposits from credit institutions) totalled 2.8 billion euros at 31 December 2018. Deposits from non-financial corporate clients comprised 45% and deposits from households 43% of the customer deposit portfolio of Luminor. The market share of Luminor's deposits in Latvia was approximately 17% end of November 2018.

Funding

One of the main objectives for Luminor is to create a self-sustainable combined banking group. In order to achieve this, one key prerequisites is to gradually replace parent funding with other forms of funding – deposits and wholesale funding from 3rd parties. Among other sources of funding Luminor is also using TLTRO II (Targeted Long-Term Refinancing Operations II) and parent funding. Parent funding is provided by two parent banks in the form of a syndicated loan, where each parent bank provides 50%. In addition to the current outstanding utilized funding, there is also an unutilized committed credit line of 174 million EUR in place as at 31 December 2018 (31 December 2017: 203 million EUR). As at 31 December 2018 outstanding TLTRO funding was 26.5 million EUR (31 December 2017: 60.5 million EUR).

Funding of Luminor is optimized between short and long-term funding to have the Net Stable Funding Ratio (NSFR) above 100%. As at 31 December 2018 NSFR was 113.4% (31 December 2017: 118.2%). For NSFR mortgages that would qualify for 35% or lower risk weight are calculated with 85% Required Stable Funding factor.

Liquidity

Luminor's structural liquidity risk is conservative and well-balanced and appropriately adopted to the current economic and regulatory environment. The short-term liquidity risk is measured using the Liquidity Coverage Ratio (LCR), calculated according to the EBA Delegated Act. LCR was 180% as at 31 December 2018 (31 December 2017: 169%). The liquidity buffer, consisting of highly liquid assets in accordance with the Delegated Act, amounted to 1,107 million EUR as at 31 December 2018 (31 December 2017: 1,112 million EUR). Due to low interest rate levels, which do not support holding Luminor's liquidity buffer primarily in debt securities, only 56.2 million EUR was invested in debt securities and 1,032 EUR was held in the Latvian Central Bank as at 31 December 2018.

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Capital

Capitalization of Luminor Latvia is sufficient to ensure the financial stability of the Group and satisfy the capital needed to deliver the business strategy. Total Capital Ratio of Luminor Latvia is 18.0% as at 31 December 2018 (31 December 2017: 18.5%), which it comfortably above the internal target of 17.0% and the applicable regulatory requirements.

The Total Capital Ratio is fully covered by Common Equity Tier 1 (CET1) capital. Own funds of Luminor Latvia are 504.8 million EUR as at 31 December 2018 (31 December 2017: 516.4 million EUR). For calculating Credit and Market risk Luminor is using the Standardized method in the Capital Adequacy calculations. Operational risk is calculated using the Basic Indicator Approach method.

As at 31 December 2018 the Leverage Ratio, calculated according to Basel Committee on Banking Supervision requirements, was 10.3% (31 December 2017: 10.3%). Leverage ratio is calculated as bank's total Tier 1 own funds divided by its total risk exposure measure (including risk position on assets and off the balance sheet liabilities).

Priorities for 2019

After Luminor establishment the new strategic goals were set by Luminor management board in the beginning of 2018. One of the biggest goals of Luminor has been to complete the activities associated with the merger and build a single well-functioning organisation.

Luminor is focused on a customer experience excellence on the basis of data and knowledge, strong local presence with large-scale advantages, operational excellence and strong, performance driven, culture that is rooted in our core values – curiosity, collaboration and focus.

This starting point impacts many of our strategic choices and short to medium-term activities, but we are determined to execute on our key strategic priorities:

- Excel in customer experience, including new product offerings and improved customer service
- Launch of new digital channels. Today Luminor is a traditional bank with digital products, services and channels. Luminor aims to be a fully digital bank with modern technological platforms
- Ensure robust compliance / AML
- Consolidating information technology systems and operational independence (carve out from parent banks and customer migration into one platform per country)
- Improve capital efficiency and balance sheet risk management
- Quality of talent and leadership

Erkki Raasuke Chairman of the Management Board of Luminor Bank AS (Estonia)	Kerli Gabrilovica Member of the Management Board of Luminor Bank AS (Estonia)	Nils Melngailis Chairman of the Supervisory Council of Luminor Bank AS (Estonia)

Riga,
11 March 2019

THE SUPERVISORY COUNCIL AND THE MANAGEMENT BOARD OF THE BANK AS OF 31 DECEMBER 2018

The Supervisory Council*

Name	*Position*	*Date of appointment*	*End of appointment*
Erkki Raasuke	Chairman of the Supervisory Council	1 October 2017	1 January 2019
Mari Mois	Member of the Supervisory Council	1 October 2017	1 January 2019
Marilin Pikaro	Member of the Supervisory Council	1 October 2017	1 January 2019
Hannu Kalevi Saksala	Member of the Supervisory Council	1 October 2017	1 January 2019
Karl Christian Wallentin	Member of the Supervisory Council	1 October 2017	1 January 2019

The Management Board*

Name	*Position*	*Date of appointment*	*End of appointment*
Kerli Gabrilovica	Chairman of the Management Board	1 October 2017	1 January 2019
Ivita Asare	Member of the Management Board	1 October 2017	1 January 2019
Janis Buks	Member of the Management Board	1 October 2017	31 December 2018
Janis Teteris	Member of the Management Board	1 October 2017	1 January 2019
Kristaps Zakulis	Member of the Management Board	3 October 2017	1 January 2019

* After cross-border merger on 2 January 2019 new Supervisory Council and Management Borad for Luminor bank AS was apponted

The Supervisory Council

Name	*Position*	*Date of appointment*
Nils Melngailis	Chairman of the Supervisory Council	2 January 2019
Bjorn Erik Naess	Member of the Supervisory Council	2 January 2019
Jorgen Christian Andersen	Member of the Supervisory Council	2 January 2019
Michael Jackson	Member of the Supervisory Council	2 January 2019
Trygve Young	Member of the Supervisory Council	2 January 2019

The Management Board

Name	*Position*	*Date of appointment*
Erkki Raasuke	Chairman of the Management Board	2 January 2019
Kristina Siimar	Member of the Management Board	2 January 2019
Kerli Gabrilovica	Member of the Management Board	2 January 2019
Andrius Načajus	Member of the Management Board	2 January 2019
Nannu Saksala	Member of the Management Board	2 January 2019

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT BOARD

The Management Board of Luminor Bank AS (Estonia) and the Supervisory Council of Luminor Bank AS (Estonia), as the management board and the supervisory council (respectively) of the company which acquired Luminor Bank AS (Latvia) as a result of the cross-border merger on 2 January 2019, are responsible:

- for the preparation, in accordance with the effective regulatory enactments of the Republic of Latvia, of the financial statements of the Bank and the Group that give true and fair view of the financial position of the Bank and the Group as at 31 December 2018 as well as results of activity and cash flow of the Bank and of the Group for the year ended 31 December 2018;
- responsible for the conducting of appropriate accounting, maintenance of the funds of the Bank and the Group as well as for the prevention of fraud and other irregularities in relation to the Bank and the Group;
- responsible for operating the Bank in compliance with the Credit Institutions Law on, the regulations of the Financial and Capital Market Commission, the regulations of the Bank of Latvia and other regulatory enactments of the Republic of Latvia applicable for credit institutions.

The financial statements on pages 23 to 128 are prepared in accordance with the source documents and present fairly the financial position of the Group and the Bank as at 31 December 2018 and the results of their operations and cash flows for the year ended 31 December 2018.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the 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 of Luminor Bank AS (Estonia) and the Supervisory Council of Luminor Bank AS (Estonia), as the management board and the supervisory council (respectively) of the company which acquired Luminor Bank AS (Latvia) as a result of the cross-border merger on 2 January 2019, regarding the preparation of the financial statements.

Erkki Raasuke Chairman of the Management Board of Luminor Bank AS (Estonia)	Kerli Gabrilovica Member of the Management Board of Luminor Bank AS (Estonia)	Nils Melngailis Chairman of the Supervisory Council of Luminor Bank AS (Estonia)

Riga,
11 March 2019

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To shareholders of Luminor bank AS

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of Luminor bank AS (the Bank) and its subsidiaries (the Group) as at 31 December 2018, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 11 March 2019.

What we have audited

The separate financial statements of the Bank and the consolidated financial statements of the Group comprise:

- the separate and consolidated statements of comprehensive income for the year ended 31 December 2018;
- the separate and consolidated statements of financial position as at 31 December 2018;
- the separate and consolidated statements of changes in equity for the year then ended;
- the separate and consolidated statements of cash flows for the year then ended; and
- the notes to the separate and consolidated financial statements, which include significant accounting policies.

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 separate and consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) and with the ethical requirements and auditor's independence rules that are relevant to our audit of the separate and consolidated financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Bank and the Group and their related entities are in accordance with the applicable law and regulations in Latvia and that we have not provided non-audit services that are prohibited under Article 37.6 of Law on Audit Services of the Republic of Latvia.

The non-audit services that we have provided to the Bank and the Group in the period from 1 January 2018 to 31 December 2018, are disclosed in Note 12 “Administrative expenses” to the financial statements.

Our audit approach

Overview

- Overall the Bank and the Group materiality: EUR 2,150 thousand.

- We conducted audit work at three reporting units, all of them are in Latvia.
- Audit work in relation to material subsidiaries that were significant for the consolidated financial statements was performed by the Group engagement team, covering substantially all of the Group’s consolidated assets, liabilities, revenues and expenses, no component auditors were involved.
- Our audit scope covered substantially all of the Group’s consolidated assets, liabilities, revenues and expenses.

- Impairment of loans to customers.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate and consolidated financial statements (together “the financial statements”). In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate and consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate and consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Bank and Group materiality for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the separate and consolidated financial statements as a whole.

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Overall Bank and Group materiality	Overall materiality applied to the Bank and the Group was EUR 2,150 thousand.
How we determined it	5% of profit before tax of the Bank
Rationale for the materiality benchmark applied	We chose profit before tax as the base benchmark because, in our view, it is the benchmark against which the performance of the Bank and the Group is most commonly measured by users of the financial statements, and it is a generally accepted benchmark. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented entities in this sector.

We agreed with the Audit Committee that we would report to them the misstatements identified during our audit above EUR 107 thousand, as well as the misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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 current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans to customers (refer to Note 2 “Summary of significant accounting policies”, Note 3 “New standards, interpretations and amendments adopted by the Group”, Note 4 – “Risk management” and Note 17 “Loans and advances to customers” for further details). On 1 January 2018, a new accounting standard IFRS 9 became effective that replaced the previously applied incurred loss model with a new 3-stage impairment model based on expected credit losses (ECL). ECL calculations are forward looking and probability-weighted, based on complex modelling and subjective inputs determined by the management. The adoption of IFRS 9 resulted in a reduction of the carrying amount of loans to	We assessed whether the Group’s and the Bank’s accounting policies and methodology applied for the calculation of impairment of loans to customers are in compliance with IFRS 9. We assessed the design and operating effectiveness of key controls over ECL data and respective calculations, including: • IT general controls over relevant systems; • IT application controls over exposure balances and overdue information; • review and approval of customer credit rating grades; • review and update of collateral values;

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customers by EUR 13,475 thousand, which was recorded as an adjustment to retained earnings as at 1 January 2018 (refer to Impact of Adoption of IFRS 9 on page 41). As at 31 December 2018 net carrying amount of loans to customers amounted to EUR 3,372,824 thousand and related impairment allowance to EUR 93,932 thousand.

We focused on this area because management uses complex models with subjective inputs to assess the timing and the amount of expected credit losses. Key areas requiring significant management judgements and modelling include:

- evaluating the criteria for assessment of significant increase in credit risk and allocation of loans to stage 1, 2 or 3;
- assessing accounting interpretations and modelling assumptions used to build the models that calculate ECL;
- the modelling and calculation of key parameters of ECL model, including probability of default (PD), loss given default (LGD) and exposure at default (EAD);
- determining the macro-economic indicators and incorporating forward-looking information into the ECL model;
- estimating the above mentioned indicators for reliable future period and for three different scenarios (baseline, optimistic and pessimistic) and assigning probabilities to those scenarios; and
- estimating ECL under base case and risk case scenarios for Stage 3 individual assessments and assigning probabilities to those scenarios.

- regular customer reviews.

We determined that we could rely on these controls for the purposes of our audit.

We performed detailed testing on a sample basis over:

- the completeness and accuracy of data used in the ECL calculation system;
- the compliance of key inputs used in ECL calculation system with IFRS 9 methodology;
- the accuracy and compliance of 12-month and lifetime ECL calculations with IFRS 9 methodology;
- the accuracy of discounting in the ECL system;
- the accuracy and completeness of data used for staging of loans (including applying the criteria for determining significant increase in credit risk);
- the internal assignment of credit ratings for corporate loan customers, which serve as inputs into the corporate loan ECL model;
- the correctness of information on collaterals and their values in the loan systems, which serve as an input into the ECL model; and
- the completeness of loans subject to stage 3 assessment and related ECL calculations.

We have assessed the reasonableness of key assumptions made by management, which serve as critical inputs in the ECL model, such as weights of different scenarios, corporate portfolio point in time PD estimate and key forecasts of macroeconomic information.

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How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the separate and consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises of a number of subsidiaries all operating in Latvia and that are further disclosed in Note 20 of the separate and consolidated financial statements. Audit work in relation to material balances and transactions of subsidiaries that were significant for the consolidated financial statements was performed by the Group engagement team, covering substantially all of the Group's consolidated assets, liabilities, revenues and expenses, no component auditors were involved. At the Group level we audited the consolidation process and performed selected audit procedures on remaining balances to ensure we obtained sufficient audit evidence to express an opinion on the Group's financial statements as a whole.

Reporting on other information including the Report from the Management Board and the Supervisory Council

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

- the Report from the Management Board and the Supervisory Council (including Non-financial Statement) as set out on pages 3 to 12 of the accompanying annual report;
- the Supervisory Council and the Management Board of the Bank as of 31 December 2018 as set out on page 13 of the accompanying Annual Report; and
- the Statement of Responsibility of the Management Board, as set out on page 14 of the accompanying Annual Report

(but does not include the separate and consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the separate and consolidated financial statements does not cover the other information, including the Report from the Management Board and the Supervisory Council (including Non-financial statement), the Supervisory Council and the Management Board of the Bank as of 31 December 2018 and the Statement of Responsibility of the Management Board.

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

With respect to the Report from the Management Board and the Supervisory Council (including Non-financial statement), we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Report from the Management Board and the Supervisory Council (including Non-financial statement) is prepared in accordance with the requirements of the applicable legislation.

Based on the work undertaken in the course of our audit, in our opinion, in all material respects:

- the information given in the Report from the Management Board and the Supervisory Council (including Non-financial statement), the Supervisory Council and the

Management Board of the Bank as of 31 December 2018 and the Statement of Responsibility of the Management Board for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and

- the Report from the Management Board and the Supervisory Council (including Non-financial statement) has been prepared in accordance with the requirements of the Financial and Capital Market Commission Regulation No. 46 "Regulation on preparation of the annual report and consolidated annual report of credit institutions, investment brokerage companies and investment management companies".

Furthermore, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Non-financial statement, our responsibility is to report whether the Non-financial Statement is included in the Report of the Management Board and the Supervisory Council or prepared as a separate element of the Annual Report.

We hereby report that the Bank and the Group has prepared a Non-financial statement, and it is included in the Report of the Management Board and the Supervisory Council.

In addition, in light of the knowledge and understanding of the Bank and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in Report from the Management Board and the Supervisory Council (including Non-financial statement), the Supervisory Council and the Management Board of the Bank as of 31 December 2018 and the Statement of Responsibility of the Management Board that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the separate and consolidated financial statements

Management is responsible for the preparation of the separate and consolidated financial statements that give a true and fair view in accordance with 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 separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Bank's and the Group'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 Bank or the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated 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 separate and consolidated 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 separate and consolidated 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 Bank's and the Group'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 Bank's or the Group'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 separate and consolidated 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 Bank or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated 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 separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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

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communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Bank and the Group financial statements for the year ended 31 December 2018 by shareholder's resolution dated 31 March 2018.

PricewaterhouseCoopers SIA
Certified audit company
License No. 5

Ilandra Lejina
Certified auditor in charge
Certificate No.168

Member of the Board

Riga, Latvia
11 March 2019

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Statements of comprehensive income

	Notes	2018 Group EUR`000	2017 Group EUR`000	2018 Bank EUR`000	2017 Bank EUR`000
Interest income	5	80 979	48 552	83 054	49 203
Interest income – finance lease	5	14 702	7 397	-	-
Interest expense	6	(15 160)	(8 944)	(15 166)	(8 505)
Net interest income		**80 521**	**47 005**	**67 888**	**40 698**
Fees and commission income	7	34 530	23 558	30 032	19 772
Fees and commission expenses	8	(8 977)	(6 827)	(9 163)	(6 436)
Net fees and commissions		**25 553**	**16 731**	**20 869**	**13 336**
Net result from operations with foreign currency, trading securities and derivative financial instruments	9	15 956	8 390	15 963	8 378
Net result from operations with investment property	10	(3 171)	(10 514)	(115)	(791)
Other operating income	11	4 337	4 185	5 412	5 488
Dividend income		40	26	7 940	2 070
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net		(473)	-	234	-
Share of profit of investment in associates		332	300	-	-
Operating income		**123 095**	**66 123**	**118 191**	**69 179**
Personnel expenses	12	(35 807)	(23 681)	(33 240)	(22 963)
Other administrative expenses	12	(31 882)	(17 028)	(31 444)	(16 694)
Depreciation	22, 23	(3 989)	(3 132)	(3 036)	(2 283)
Modification gains		236	-	230	-
Other operating expenses	13	(6 964)	(3 908)	(6 858)	(3 688)
Net allowances for impairment loss		33	(4 942)	(560)	(13 742)
Profit before income tax		**44 722**	**13 432**	**43 283**	**9 809**
Corporate income tax	14	292	(11 410)	860	(10 398)
Profit/(loss) for the period from continuing operations		**45 014**	**2 022**	**44 143**	**(589)**
Other comprehensive income					
Items that will not be reclassified to profit or loss in the future					
Changes in revaluation reserves of financial assets available for sale		-	511	-	511
Items that may not be reclassified to profit or loss in the future					
Changes in revaluation reserve of financial assets at fair value through other comprehensive income		968	-	968	-
Other comprehensive income total		**968**	**511**	**968**	**511**
Total comprehensive income		**45 982**	**2 533**	**45 111**	**(78)**

The financial statements on pages 23 to 128 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Erkki Raasuke Chairman of the Management Board of Luminor Bank AS (Estonia)	Kerli Gabrilovica Member of the Management Board of Luminor Bank AS (Estonia)	Nils Melngailis Chairman of the Supervisory Council of Luminor Bank AS (Estonia)

Riga,
11 March 2019

Statements of financial position

Assets	**Notes**	**2018 Group EUR'000**	**2017 Group EUR'000**	**2018 Bank EUR'000**	**2017 Bank EUR'000**
Cash and balances with central banks	15	1 078 401	1 067 214	1 078 401	1 067 214
Due from other credit institutions (on demand)	16	40 309	34 634	40 309	33 865
Derivatives	21	33 713	17 223	33 713	17 223
Financial assets designated at fair value through profit or loss:	18	56 210	76 308	56 210	76 308
Debt securities and other fixed income securities		*56 210*	*76 308*	*56 210*	*76 308*
Financial assets designated at fair value through other comprehensive income	19	3 661	2 547	3 661	2 547
Loans and advances:		3 384 232	3 443 271	3 372 146	3 455 321
Due from other credit institutions (term)	16	*11 408*	*70 823*	*11 408*	*70 823*
Loans to customers	17	*3 372 824*	*3 372 448*	*3 360 738*	*3 384 498*
Accrued income and deferred expenses		3 151	3 726	2 802	2 145
Investment property	24	18 103	34 136	459	1 021
Property, plant and equipment	23	4 154	27 583	3 758	4 174
Intangible assets	22	1 558	1 681	1 080	1 297
Investments in subsidiaries	20	-	-	60 579	60 507
Investments in associates	20	3 013	2 987	2 617	2 687
Current income tax assets		886	90	560	-
Non-current assets and disposal groups classified as held for sale	26	22 714	2 656	-	519
Other assets	25	30 900	24 884	35 697	20 635
Total assets		**4 681 005**	**4 738 940**	**4 691 992**	**4 745 463**

The financial statements on pages 23 to 128 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Erkki Raasuke Chairman of the Management Board of Luminor Bank AS (Estonia)	Kerli Gabrilovica Member of the Management Board of Luminor Bank AS (Estonia)	Nils Melngailis Chairman of the Supervisory Council of Luminor Bank AS (Estonia)

Riga,
11 March 2019

The accompanying notes are an integral part of these financial statements

***Statements of financial position** (continued)*

Liabilities	**Notes**	**2018 Group EUR'000**	**2017 Group EUR'000**	**2018 Bank EUR'000**	**2017 Bank EUR'000**
Liabilities to central banks	27	26 445	60 500	26 445	60 500
Liabilities to credit institutions (on demand)	28	2 864	5 576	2 864	5 576
Derivatives	21	30 370	21 269	30 370	21 269
Financial liabilities at amortised cost:		4 046 898	4 108 051	4 068 094	4 126 470
Due to credit institutions (term)	28	*1 226 423*	*1 165 227*	*1 226 423*	*1 165 227*
Deposits from customers and other financial liabilities	29	*2 820 475*	*2 942 824*	*2 841 671*	*2 961 243*
Accrued expenses and deferred income	30	12 007	11 777	11 509	11 312
Current income tax liabilities		52	1 283	-	1 233
Other liabilities	31	6 999	5 634	4 500	2 513
Provisions	32	1 012	261	921	228
Total liabilities		**4 126 647**	**4 214 351**	**4 144 703**	**4 229 101**
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	464 690	464 690	464 690
Revaluation reserve	33	1 634	666	1 634	666
Accumulated result		(172 857)	(201 658)	(179 926)	(209 885)
Total shareholders' equity attributable to the shareholders of the Bank		**554 358**	**524 589**	**547 289**	**516 362**
Total shareholders' equity		**554 358**	**524 589**	**547 289**	**516 362**
Total liabilities and shareholders' equity		**4 681 005**	**4 738 940**	**4 691 992**	**4 745 463**

The financial statements on pages 23 to 128 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Erkki Raasuke Chairman of the Management Board of Luminor Bank AS (Estonia)	Kerli Gabrilovica Member of the Management Board of Luminor Bank AS (Estonia)	Nils Melngailis Chairman of the Supervisory Council of Luminor Bank AS (Estonia)

Riga,
11 March 2019

The accompanying notes are an integral part of these financial statements

Statements of changes in equity for the years ended 31 December 2018 and 31 December 2017

Group

	Share capital EUR'000	Share premium EUR'000	Reserve capital EUR'000	Revaluation reserve EUR'000	Accumulated result EUR'000	Total EUR'000
At 31 December 2016	**191 178**	**69 713**	**224 118**	**155**	**(182 692)**	**302 472**
Profit for the year	-	-	-	-	2 022	**2 022**
Increase of revaluation reserve	-	-	-	511	-	**511**
Total comprehensive income	**-**	**-**	**-**	**511**	**2 022**	**2 533**
Increase of reserve capital	-	-	240 572	-	-	**240 572**
Dividends declared	-	-	-	-	(30 174)	**(30 174)**
Equity increase resulting from business combination (refer to Note 40)	-	-	-	-	9 186	**9 186**
At 31 December 2017	**191 178**	**69 713**	**464 690**	**666**	**(201 658)**	**524 589**
Changes on initial application of IFRS 9	-	-	-	-	(16 213)	**(16 213)**
As at 1 January 2018	**191 178**	**69 713**	**464 690**	**666**	**(217 871)**	**508 376**
Profit for the year	-	-	-	-	45 014	**45 014**
Increase of revaluation reserve	-	-	-	968	-	**968**
Total comprehensive income	**-**	**-**	**-**	**968**	**45 014**	**45 982**
At 31 December 2018	**191 178**	**69 713**	**464 690**	**1 634**	**(172 857)**	**554 358**

Bank

	Share capital EUR'000	Share premium EUR'000	Reserve capital EUR'000	Revaluation reserve EUR'000	Accumulated result EUR'000	Total EUR'000
At 31 December 2016	**191 178**	**69 713**	**224 118**	**155**	**(186 679)**	**298 485**
Loss for the year	-	-	-	-	(589)	**(589)**
Increase of revaluation reserve	-	-	-	511	**-**	**511**
Total comprehensive income	**-**	**-**	**-**	**511**	**(589)**	**(78)**
Increase of reserve capital	-	-	240 572	-	-	**240 572**
Dividends declared	-	-	-	-	(30 174)	**(30 174)**
Equity increase resulting from business combination (refer to Note 40)	-	-	-	-	7 557	**7 557**
At 31 December 2017	**191 178**	**69 713**	**464 690**	**666**	**(209 885)**	**516 362**
Changes on initial application of IFRS 9	-	-	-	-	(14 184)	**(14 184)**
As at 1 January 2018	**191 178**	**69 713**	**464 690**	**666**	(224 069)	**502 178**
Profit for the year	-	-	-	-	44 143	**44 143**
Increase of revaluation reserve	-	-	-	968	**-**	**968**
Total comprehensive income	**-**	**-**	**-**	**968**	**44 143**	**45 111**
At 31 December 2018	**191 178**	**69 713**	**464 690**	**1 634**	**(179 926)**	**547 289**

The accompanying notes are an integral part of these financial statements

Statements of cash flows for the years ended 31 December 2018 and 31 December 2017

	Note	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Cash flow from operating activities					
Profit before income tax		44 722	13 432	43 283	9 809
Depreciation and amortization of intangible assets and property and equipment		3 989	3 132	3 037	2 283
Increase/(Decrease) in allowances for impairment losses and provisions for off-balance sheet liabilities		(16 245)	4 942	(13 624)	4 686
(Profit)/Loss from revaluation of securities, derivatives and loans		(381)	1 233	(381)	1 233
Loss from revaluation of investment property		1 890	9 996	63	578
Loss from recognised impairment of investment in subsidiaries		-	-	7 928	9 056
Share of (profit)/loss from associates		(26)		-	
(Profit)/Loss from sale of fixed and intangible assets		540	26	518	26
Dividends income		(40)	(26)	(7 940)	(2 070)
Gain from foreign currency revaluation		329	(855)	269	(844)
Cash flow from operating activities before changes in assets and liabilities		**34 778**	**31 880**	**33 153**	**24 757**
(Increase)/Decrease in loans and advances to customers		(200)	58 397	24 392	(58 955)
(Increase)/Decrease in due from credit institutions		3 255	(14 663)	3 255	(14 663)
Increase in financial assets designated at fair value through profit and loss		19 979	8 513	19 979	8 513
Increase in due to credit institutions		27 140	17 468	27 140	167 782
(Increase)/Decrease in accrued income and deferred expenses		575	1 101	(656)	1 304
(Increase)/Decrease in other assets and taxes		(8 135)	11 913	(16 808)	2 621
(Increase)/(Decrease) in clients deposits		(122 349)	(1 296)	(119 572)	2 641
(Increase)/(Decrease) in derivatives		(6 889)	10 927	(6 889)	10 927
Increase in accrued expenses and deferred income		229	2 778	97	2 654
(Increase)/(Decrease) in other liabilities		1 559	(10 393)	1 554	(16 112)
Increase/(Decrease) in cash and cash equivalents as a result of operating activities		**(50 058)**	**116 625**	**(34 355)**	**131 469**
Cash flow from investing activities					
(Acquisition) of property and equipment and intangible assets		(4 263)	(695)	(3 643)	(666)
Sale of property and equipment and intangible assets		1 371	46	1 421	47
(Acquisition) of participation in share capital of subsidiary and associates		-	(460)	(8 000)	(45 995)
Sale of participation in share capital of subsidiary		-	-	70	285
(Acquisition) of investment property		(146)	(10 665)	(3)	(14)
Sale of investment property, net		16 799	31 118	1 022	2 646
Changes related to merger with Nordea (refer to note 40)		-	299 157	-	345 152
Increase/(Decrease) in cash and cash equivalents as a result of investment activities		**13 761**	**318 501**	**(9 133)**	**301 455**
Cash flow from financing activities					
Dividends received		40	26	7 940	2 070
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		**40**	**210 424**	**7 940**	**212 468**
Net increase/ (decrease) in cash and cash equivalents		**(36 257)**	**645 550**	**(35 548)**	**645 392**
Cash and cash equivalents at the beginning of the year		1 152 432	506 027	1 151 663	505 428
Profit/(Loss) of foreign currency revaluation on cash and cash equivalents		(329)	855	(269)	843
Cash and cash equivalents at the end of the year	15	**1 115 846**	**1 152 432**	**1 115 846**	**1 151 663**
Cash flow from interest received		105 260	61 126	92 626	54 315
Cash flow from interest paid		15 231	9 227	15 240	8 864

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Luminor Bank AS (the Bank) 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 Abp 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 Abp, became the sole shareholder of Luminor Bank AS;
- Nordea Bank Abp transferred to Luminor Bank AS the assets and liabilities of Latvia branch of Nordea Bank Abp as well as the shares of certain Latvian companies owned by Nordea Bank Abp (including, among others, Luminor Pensions Latvia IPAS, Luminor Latvijas atklātais pensiju fonds AS and Luminor Līzings SIA).

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

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

In July 2018 Luminor Pensions Latvia IPAS merged with Luminor Asset management IPAS.
In 2018 an internal corporate restructuring of Luminor Group has been taken 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 remains as the acquiring entity while Luminor Bank AB in Lithuania and Luminor Bank AS in Latvia are merged into Luminor Bank AS in Estonia and cease to exist as separate legal entities. A cross border merger is 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 banks are, in accordance with the relevant laws, transferred into the Luminor Bank AS in Estonia as a matter of universal succession, and each banks ceased to exist as a legal entity upon registration of the cross-border merger.
On 2 January 2019 Luminor has completed its cross-border merger and continues its operations in all Baltic countries through the Estonian registered bank and its branches in Latvia and Lithuania. After the completion of the merger, all assets, rights and liabilities of Luminor Latvia and Luminor Lithuania were transferred to Luminor Bank AS in Estonia. The bank will continue the same activities in Latvia and Lithuania through its locally established branches.
In the current annual report, "Bank" (or Luminor Bank AS) refers to Luminor Bank AS (Latvia). "Group" refers to the Luminor Bank AS (Latvia) and its subsidiaries.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Reporting currency

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

b) Basis of presentation

The financial statements of the Bank and consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter – IFRS). The consolidated financial statements are prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and equipment, investment properties and financial instruments categorized at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI").

The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Group.

c) Consolidation

Subsidiaries

Subsidiaries are all investees over which the Bank has:
- Power (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power to affect its returns.

The existence and effect of potential voting rights are considered when assessing whether the Bank controls another entity. Investment into subsidiaries is initially recognised at cost in the Bank's separate financial statements, subsequently investments into subsidiaries are carried at cost less impairment (if any). Subsidiaries are fully consolidated from the date on which the control is transferred to the Bank. They are de-consolidated from the date that the control ceases.

Accounting policies of subsidiaries are consistent with the policies adopted by the Bank. Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated upon consolidation.

At least once a year the Bank assesses whether an impairment indicators exist for investments in subsidiaries. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there are measurable changes in the estimated future cash flows, business growth and risk cost of subsidiaries.

Future events may occur that will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

Investment in associates

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

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

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

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

Significant accounting judgment regarding investment funds and pension funds management

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

d) 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.

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Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit adjusted.
Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortised cost net of the expected credit loss (ECL) provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit adjusted effective interest rate is applied to the amortised cost.

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 to acquire financial instruments 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) Fee and commission income
Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's and the Bank's performance. Such income includes fees for loan, lease or other credit enhancement contracts administration. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.
f) Dividend income
Dividends are recognised in the income statement when the entity's right to receive payments is established.

g) Foreign currency translation

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

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

Reporting date	USD
As at 31 December 2018	1.14500
As at 31 December 2017	1.19930

h) Use of judgements and estimates

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

Except for IFRS 9 related estimates, further described in Note 3, the significant judgements made by management in applying the Group's and the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated and separate financial statements as at and for the year ended 31 December 2017 and are described on Note 2 (x) of these financial statements.

i) Taxation

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

On July 28, 2017, a new Corporate Income Tax Law was adopted, which stipulates that from January 1, 2018, the corporate income tax is levied on profit that arose after 2017 if it is distributed or conditionally distributed profit arise. When the law came into force, there were no longer any reason for the existence of a deferred tax asset or liability and in 2017, and the Bank and the Group eliminated previously recognized deferred tax asset from the balance sheet, including a reduction in that asset in the profit and loss account for the year 2017. Transitional provisions of the law provide that taxpayers will be able to utilise the unused tax losses accumulated by 31 December 2017 during next 5 taxation years for reducing the tax payable on distributed profits by no more than 50% each year, as well as to use provisions created by 31 December 2017 that resulted in the increase of taxable income during the respective tax periods, for reduction of taxable profits, in the amount of their reduction.

From taxation year 2018, corporate income tax will be calculated on the basis of distributed profit (20/80 of the net amount payable to shareholders). Corporate tax on distributed profit will be recognized when the shareholders of the Bank and the Group make a decision about profit distribution.

The Bank and the Group calculates and pays corporate income tax also for the conditionally distributed profit (20/80 of calculated taxable base), which includes taxable objects in accordance with the Corporate Income Tax law, such as the expenditure not related to economic activity, the doubtful debts of debtors and the loans to the related parties, if they meet criteria provided in the Corporate Income Tax law, as well other expenses exceeding statutory limits for deduction. Corporate income tax for the conditionally distributed profit is recognized in the profit or loss statement in the year for which it is assessed. Corporate income tax for the distributed profit and corporate income tax for the conditionally distributed profit is included in the profit and loss statement line item “Corporate income tax for the reporting year” and disclosed by the components in the notes to the financial statements.

Taxes other than on income are recorded within operating expenses.

j) 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.

k) Classification and measurement

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

Subsequent measurement of financial assets depends on the classification performed by the Group at initial recognition.

At initial recognition, **financial assets** can be classified into one of the following categories:
- Financial assets measured at fair value through profit or loss,
- Financial assets measured at fair value through other comprehensive income (OCI),
- Financial assets at amortised cost.

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

Bank has made irrevocable choice to value equity investments at FVOCI.

On initial recognition, **financial liabilities** are classified into one of the following categories:
- Financial liabilities measured at amortised cost,
- Financial liabilities measured at fair value through profit or loss.

Financial liability is classified as measured at fair value through profit or loss if:
- It meets the definition of held for trading and
- It is designated upon initial recognition to fair value through profit or loss measurement option.

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

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities measured at fair value through profit or loss

Trading securities

Trading securities are securities that were acquired either for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists.
Trading securities are classified as financial assets measured at fair value through profit or loss.
Trading securities are initially recognised at fair value, which is based on quoted bid prices. All related realised and unrealised gains and losses are included in net trading income or expenses. Dividends received are included in dividend income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at settlement date, which is the date that an asset is delivered to or by the Group and the Bank**.**

Securities for liquidity management

Securities which were acquired for liquidity management purposes and are within held to collect and sell business model are initially recognised at fair value, which is based on quoted bid prices. All related realised and unrealised gains and losses are included in net gain (loss) on transactions with securities. Dividends received are included in dividend income
FVTPL option was elected for those securities because it leads to significant reduction or elimination of accounting mismatch.

Derivative financial instruments

Derivative financial instruments including foreign exchange forwards, swaps, options (both written and purchased) and other derivative financial instruments are initially recognised at fair value and subsequently remeasured at fair value. Fair values are determined according to the model, based on market observable inputs. All derivatives are carried as financial assets when fair value is positive and as financial liabilities when fair value is negative. Changes in the fair value of derivatives are included in net trading income.

Financial assets measured at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include financial assets that are invested in equity shares. Those assets are intended to be held for an indefinite period of time and are initially recognised at fair value based on quoted bid prices or amounts derived from discounted cash flow models. Unrealised gains and losses arising from changes in the fair value of financial assets classified are recognised in other comprehensive income (OCI). When the financial asset is derecognised the cumulative gain or loss previously recognised in OCI is not reclasified to profit or loss.

Financial assets measured at amortised cost

Loans and advances

Loans and advances are classified as financial assets measured at amortised cost, provided that the following criteria are met:

- they are held within the business model, which aim is achieved by collecting contractual cash flows ("Held to collect" business model);
- their contractual cash flows represent solely payments of principal and interest on outstanding principal
- the Group does not designate them on initial recognition to fair value through profit or loss measurement option

Loans and advances meeting the aforementioned criteria are measured at amortised cost and are subject to IFRS 9 impairment model.

Loans and advances are recognised at their settlement date, when cash is advanced to borrowers. From the date of signing a contractual agreement till the settlement date they are accounted for as off-balance sheet items.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities measured at amortised cost

Loans and deposits

All financial liabilities (loans, deposits,) are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs. After the initial recognition, the interest-bearing loans, deposits are recognised at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as net interest income in the statement of profit and loss.

Impairment of financial instruments

The following financial instruments are subject to IFRS 9 impairment requirements:

- financial assets measured at amortised cost,
- lease receivables,
- contract assets,
- loan commitments and financial guarantee contracts.

For financial instruments, which are in scope of impairment model, loss allowances for expected credit losses are calculated in the following way:

- Financial instruments with no significant increase in credit risk since the initial recognition (or financial instruments which are considered to have low credit risk) – loss allowances for expected credit losses are calculated at an amount equal to 12-month expected credit losses,
- Non credit-impaired financial instruments with significant increase in credit risk since the initial recognition -– loss allowances for expected credit losses are calculated at an amount equal to lifetime expected credit losses,
- Credit-impaired financial instruments – loss allowances for expected credit losses are calculated at an amount equal to lifetime expected credit losses,
- Purchased or originated credit-impaired assets (POCI) – loss allowances for expected credit losses are calculated at an amount equal to lifetime expected credit losses regardless of the changes in credit risk during the lifetime of financial assets.

Credit loss is the difference between all contractual cash flows that are due in accordance with the contract and all the cash flows that the Group and the Bank expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The Group and the Bank estimates cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. The cash flows that are considered includes cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-months expected credit losses are the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Group and the Bank assesses at each reporting date whether the credit risk on a financial instrument has increased significantly since initial recognition by analysing the change in the risk of a default occurring over the expected life of the financial instrument. To make that assessment, the Group and the Bank compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

For a financial asset that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial asset, the Group and the Bank measures the expected credit losses as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Any adjustment is recognised in profit or loss as an impairment gain or loss.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

It may not be possible to identify a single discrete event — instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Financial guarantees and loan commitments are also within the scope of expected credit loss model. For loan commitments, the Group and the Bank considers changes in credit risk of the loan to which a loan commitment relates. For financial guarantee contracts, the Group and the Bank considers the changes in the risk that the specified debtor will default on the contract.

Fair value of financial instruments
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 principal or the most advantageous market must be accessible to the Group and the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group and the Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. When the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is used in establishing fair values.

The fair value of interest-bearing financial instruments is estimated based on discounted cash flows using the interest rates for items with similar terms and risk characteristics. In the case of inactive markets, the establishment of valuation techniques for measuring the fair value is provided.

Derecognition of financial assets and liabilities

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

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

When the Group and the Bank has transferred the rights to receive cash flows from an asset or has entered into a pass-through arrangement and have 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 Group’s and the Bank’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 Group and the Bank 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 Group’s and the Bank’s continuing involvement is the amount of the transferred asset that the Group and the Bank 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 Group’s and the Bank’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When the contractual cash flows of a financial assets are substantially modified, such a modification is treated as a derecognition of the original assets and the recognition of a new financial asset, and the difference in respective carrying amounts is recognised in the income statement. In the case of financial asset modification, which does not lead to derecognition, the Group and the Bank recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or when 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.

Restructured loans

Where possible, 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. 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 recognized.

Collateral repossessed

The Group's and the Bank's policy is to avoid takeover of assets and use this option only in exceptional cases. In case of repossessed assets it has to be firstly determined whether it is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold within 12 months, are immediately transferred to assets held for sale at lower of its carrying amount and fair value less cost to sell at the repossession date.

l) Leases – when the Group is a lessor

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 asset and the arrangement conveys a right to use the asset.

Finance leases

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

Operating leases

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 recognized as revenue in the period in which they are earned. Rental income is recognized on a straight-line basis over the lease term.

m) Leases – when the Group is a lessee

Operational leasing

Lease payments are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the Group's use of the asset.

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.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 valuers. 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 de-recognition.

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.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Provisions

Provisions are recognized when the Group and the Bank has 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. The assessment of provisions requires the application of management's judgment 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.

The provisions for employee vacation pay are calculated for the Group's and the Bank's personnel based on each employees' total number of vacation days earned but not used and average salary including social security expense.

q) Off-balance sheet items (financial guarantees and credit-related commitments)

In the ordinary course of business, the Group and the Bank has 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 balance sheet when they are funded or related fees are incurred or received.

The Group and the Bank measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This fee amount is then amortised on a straight-line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortized balance of the amount at initial recognition and (ii) Expected credit loss.

Documentary and commercial letters of credit represent written undertakings by the Bank and the Group on behalf of a customer authorising a third party to draw drafts on the Bank and the Group up to a stipulated amount under specific terms and conditions.

r) Related parties

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

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

Parent companies are considered to be Luminor Group AB and ultimate owners DNB Bank ASA and Nordea Bank AB.

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.

The Group and the Bank has defined that a person or a close member of that person's family is related to a reporting entity if that person:

- has control or joint control of the reporting entity;
- has significant influence over the reporting entity; or
- is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

For more information about related parties please see Note 35.

s) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) 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.

u) 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(x) and Note 36.

v) 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.

w) 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.

x) Critical accounting estimates and judgements

The Group and the Bank 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 of financial instruments
  IFRS 9 fundamentally changed the credit loss recognition methodology. The standard replaced IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Group is required to recognize an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts.

  The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:
    - evaluating the criteria for assessment of significant increase in credit risk and allocation of loans to stage 1, 2 or 3;
    - assessing accounting interpretations and modelling assumptions used to build the models that calculate ECL, including the various formulas and the choice of inputs;
    - the modelling and calculation of key parameters of ECL model, including probability of default (PD), loss given default (LGD) and exposure at default (EAD);
    - determining the macro-economic indicators and incorporating forward-looking information into the ECL model;
    - estimating the above mentioned indicators for reliable future period and for three different scenarios (baseline, optimistic and pessimistic) and assigning probabilities to those scenarios; and
    - estimating ECL under base case and risk case scenarios for Stage 3 individual assessments and assigning probabilities to those scenarios

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- 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 36.

  In the fair value measurement of the Series C Preferred Stock in Visa Inc. as at 31 December 2018 the following assumptions have been used:
  - Average class C share price for Visa Inc. in 2018: 132.33 USD
  - Conversion rate 13.886 for Class C Common Stock (31 December 2017: 13.893)
  - Liquidity discount of 70%.

  The fair value estimated as at year end is USD 3.9 million (31 December 2017: USD 2.8 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. Impairment assessment for subsidiaries involved in sale of foreclosed real estate is further described in 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 36.

y) Going concern

The Bank’s and the 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 42 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.

z) Events after the balance sheet date

If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, the Group and the Bank shall disclose for each material category of non-adjusting event after the reporting period the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

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

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

IFRS 9 Financial Instruments

The Group and the Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group and the Bank did not early adopt any of IFRS 9 provision in previous periods.

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

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

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

Impairment of financial assets

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

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

One important driver for size of allowances under IFRS 9 is the trigger for transferring an asset from Stage 1 to Stage 2. Luminor has decided to use a mix of absolute and relative changes (0.6 p.p. and 2.5 times) in 12 month point-in-time Probability of Default (PD) to determine whether there has been a significant increase in credit risk. In addition, customers with risk grade 9 or 10, with forbearance measures, included in the watch list and and contracts with payments more than thirty days past due are also transferred to Stage 2.

The agreed IFRS 9 impairment methodology is documented in internal procedures, applied in daily life. In general, IFRS 9 impairment model results in earlier recognition of credit losses for the respective items and increases the amount of loss allowances recognised for these items. Moreover, the impairment calculations under IFRS 9 are more volatile and pro-cyclical than under IAS 39, mainly due to the significant subjectivity applied in the forward looking scenarios. IFRS 9 impairment requirements are applied retrospectively, with transition impact recognized in retained earnings.

Capital management

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

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

Notes to the Financial Statements *(continued)*

3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (continued)

Impact of the adoption of IFRS 9

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

Classification and measurement of financial instruments

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

Group

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

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

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

Bank

Financial assets	Original measurement category under IAS 39	New measurement category under IFRS 9	IAS 39 carrying amount 31 December 2017 EUR'000	New carrying amount under IFRS9 1 January 2018 EUR'000
Cash and balances with central banks	Loans and receivables	Amortised cost	1 067 214	1 067 214
Due from Banks and other credit institutions	Loans and receivables	Amortised cost	104 688	104 637
Financial assets designated at fair value through profit or loss	Financial assets at FVTPL (under fair value option)	Financial assets at FVTPL (under fair value option)	76 308	76 308
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss	17 223	17 223
Available for sale equity instruments	Available for sale	Fair value through other comprehensive income	2 547	2 547
Loans and advances to customers	Loans and receivables	Amortised cost	3 384 498	3 371 761

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

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

3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (continued)

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

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

Group

Financial assets	IAS 39 carrying amount 31 December 2017	Reclassifi-cations	Remeasure-ments	IFRS 9 carrying amount 1 January 2018
Amortised cost				
Cash and balances with central banks				
Opening balance under IAS 39 and closing balance under IFRS 9	**1 067 214**	**-**	**-**	**1 067 214**
Due from banks and other credit institutions				
Opening balance under IAS 39	**105 457**	**-**	**-**	**-**
Remeasurement (ECL allowances)	**-**	**-**	**(51)**	**-**
Closing balance under IFRS 9	**-**	**-**	**-**	**105 406**
Loans and advances to customers				
Opening balance under IAS 39	**2 850 906**	**-**	**-**	**-**
Remeasurement (ECL allowances)	**-**	**-**	**(13 475)**	**-**
Closing balance under IFRS 9	**-**	**-**	**-**	**2 837 431**
Finance lease receivables				
Opening balance under IAS 39	**521 542**	**-**	**-**	**-**
Remeasurement (ECL allowances)	**-**	**-**	**(820)**	**-**
Closing balance under IFRS 9	**-**	**-**	**-**	**520 722**
Financial assets measured at amortised cost – total	**4 545 119**	**-**	**(14 346)**	**4 530 773**
Financial assets designated at fair value through profit or loss				
Opening balance under IAS 39 and closing balance under IFRS 9	**76 308**	**-**	**-**	**76 308**
Derivative financial instruments				
Opening balance under IAS 39 and closing balance under IFRS 9	**17 223**	**-**	**-**	**17 223**
Financial assets at fair value through profit or loss – total	**93 531**	**-**	**-**	**93 531**
Fair value through other comprehensive income				
Equity instruments				
Opening balance under IAS 39 and closing balance under IFRS 9	**2 547**	**-**	**-**	**2 547**
Assets at fair value through other comprehensive income – total	**2 547**	**-**	**-**	**2 547**

Notes to the Financial Statements *(continued)*

3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (continued)

Bank

BankFinancial assets	IAS 39 carrying amount 31 December 2017	Reclassifi-cations	Remeasure-ments	IFRS 9 carrying amount 1 January 2018
Amortised cost				
Cash and balances with central banks				
Opening balance under IAS 39 and closing balance under IFRS 9	**1 067 214**	**-**	**-**	**1 067 214**
Due from banks and other credit institutions				
Opening balance under IAS 39	**104 688**	**-**	**-**	**-**
Remeasurement (ECL allowances)	**-**	**-**	**(51)**	**-**
Closing balance under IFRS 9	**-**	**-**	**-**	**104 637**
Loans and advances to customers				
Opening balance under IAS 39	**3 384 498**	**-**	**-**	**-**
Remeasurement (ECL allowances)	**-**	**-**	**(12 737)**	**-**
Closing balance under IFRS 9	**-**	**-**	**-**	**3 371 761**
Financial assets measured at amortised cost – total	**4 557 169**	**-**	**(12 788)**	**4 544 381**
Financial assets designated at fair value through profit or loss				
Opening balance under IAS 39 and closing balance under IFRS 9	**76 308**	**-**	**-**	**76 308**
Derivative financial instruments				
Opening balance under IAS 39 and closing balance under IFRS 9	**17 223**	**-**	**-**	**17 223**
Financial assets at fair value through profit or loss – total	**93 531**	**-**	**-**	**93 531**
Fair value through other comprehensive income				
Equity instruments				
Opening balance under IAS 39 and closing balance under IFRS 9	**2 547**	**-**	**-**	**2 547**
Assets at fair value through other comprehensive income – total	**2 547**	**-**	**-**	**2 547**

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

3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (continued)

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

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

Group

Financial assets	Loss allowance under IAS 39	Reclassifications	Remeasurements	Credit loss allowance under IFRS 9
Amortised cost				
Cash and balances with central banks	-	-	-	-
Due from banks and other credit institutions	-	-	(51)	(51)
Loans and advances to customers	(151 377)	-	(465)	(151 842)
Finance lease receivables	(3 439)	-	(813)	(4 252)
Total	**(154 816)**	**-**	**(1 329)**	**(156 145)**
Contingent liabilities	-	-	(564)	(564)
Commitments	-	-	(1 302)	(1 302)
Total	**-**	**-**	**(1 866)**	**(1 866)**

Bank

Financial assets	Loss allowance under IAS 39/	Reclassifications	Remeasurements	Credit loss allowance under IFRS 9
Amortised cost				
Cash and balances with central banks	-	-	-	-
Due from banks and other credit institutions	-	-	(51)	(51)
Loans and advances to customers	(157 477)	-	486	(156 991)
Finance Lease receivables	-	-	-	-
Total	**(157 477)**	**-**	**435**	**(157 042)**
Contingent liabilities	-	-	(564)	(564)
Commitments	-	-	(1 302)	(1 302)
Total	**-**	**-**	**(1 866)**	**(1 866)**

Reconcilation of changes in initial application of IFRS 9

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

Group

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

Bank

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

3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (continued)

IFRS 15 Revenue from Contracts with Customers

The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. . Management has assessed that the application of the standard did not have effect on the Bank and the Group financial statements.

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

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

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

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

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

IFRS 15: Revenue from Contracts with Customers (Clarifications)

The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. As described above, management has assessed that the application of the standard did not have effect on the Bank and the Group financial statements.

Classification and Measurement of Share-based Payment Transactions –Amendments to IFRS 2 (effective for annual periods beginning on or after 1 January 2018).

The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety. Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. Management has assessed that this standard has no impact on the Bank and the Group financial statements.

Notes to the Financial Statements *(continued)*

3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (continued)

Annual Improvements to IFRSs 2014–2016 Cycle (effective for annual periods beginning on or after 1 January 2018 (changes to IFRS 1 and IAS 28).

IFRS 1 was amended to delete some of the short-term exemptions from IFRSs after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that venture capital organisations or similar entities have an investment-by- investment choice for measuring investees at fair value. Additionally, the amendment clarifies that if an investor that is not an investment entity has an associate or joint venture that is an investment entity, the investor can choose on an investment-by-investment basis to retain or reverse the fair value measurements used by that investment entity associate or joint venture when applying the equity method. Management has assessed that this standard has no impact on the Bank and the Group financial statements.

Transfers of Investment Property – Amendments to IAS 40 (effective for annual periods beginning on or after 1 January 2018).

The amendment clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence; a change in intention, in isolation, is not enough to support a transfer. Management has assessed that this standard has no impact on the Bank and the Group financial statements.

IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018).

The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The interpretation clarifies that the date of transaction, i.e. the date when the exchange rate is determined, is the date on which the entity initially recognises the non-monetary asset or liability from advance consideration. However, the entity needs to apply judgement in determining whether the prepayment is monetary or non-monetary asset or liability based on guidance in IAS 21, IAS 32 and the Conceptual Framework. Management has assessed that this standard has no impact on the Bank and the Group financial statements.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2018 that would be expected to have a material impact to the Group.

Standards issued but not yet effective

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

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

The main impact the Group’s and the Bank’s financial statements will come from the accounting of property leases. Such leasing contract will be accounted for on the balance sheet to a larger extent than today.
The bank recognized the right-of-use asset in the amount of 14 445 thousand EUR and lease liability in the amount of 14 536 thousand EUR, the Group recognized the right -of-use asset in the amount of 1 342 thousand EUR and lease liability in the amount of 1 352 thousand EUR.

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:

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.

Notes to the Financial Statements *(continued)*

3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (continued)

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 and the Bank has not yet evaluated the impact of the implementation of this standard.

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 and the Bank 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 and the Bank has not yet evaluated the impact of the implementation of these amendments.

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 and the Bank 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 and the Bank.

- ***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.

Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan—an amendment, curtailment or settlement—takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. Management has not yet evaluated the impact of this standard.

3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (continued)

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. Management has not yet evaluated the impact of this standard.

Definition of a business – Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). Management has not yet evaluated the impact of this standard.

Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Management has not yet evaluated the impact of these standards.

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

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT

The aim of risk management activity at Luminor Group is to maintain a risk profile that delivers predictable income and loss volatility. While implementing a sound risk management policy the Group and the Bank focuses not only on minimising the potential risk but also on improving pricing and achieving efficient capital allocation.

The risk management function of the Group and the Bank is organised in such a way that ensures efficient risk management and fulfilment of the principles stipulated in the Risk Policy and Strategy.

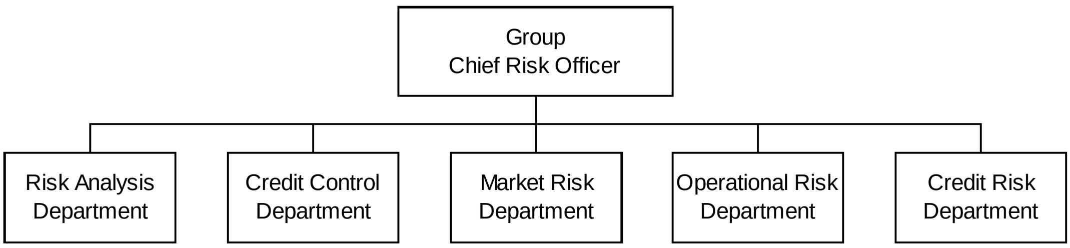
The risk management principles are the following:
- Risk Accountability: every area in the Bank is accountable for the risks arising from their activities.
- Risk Governance: risk needs to be considered as part of the governance around any and every business decision.
- Risk Identification, Assessment, Management and Reporting: all material exposures must be identified, assessed, managed and reported in a timely and accurate manner.
- Internal Control system: a comprehensive internal control system must be in place to ensure that risk management and controls are executed in accordance with the guiding principles, minimum standards, risk appetite, limits and mandates.

The Group and the Bank maintains the Recovery Plan following the Bank Recovery and Resolution Directive adopted by the European Parliament. The plan serves as one of the risk management prevention tools and should ensure restoration of the Group’s and the Bank’s solvency following situations of severe stress without any involvement by or support from the authorities or tax payers.

The Group and the Bank analyses, evaluates, accepts and manages the risks or combinations of risks it is exposed to. The most important types of risk the Group and the Bank is exposed to are credit risk, market risk, liquidity risk, operational risk and other risk (business risk, reputational risk). Concentration risk is assessed as part of credit risk, other types of concentration were assessed to be less material for the Group and the Bank. Compliance risk is treated as part of operational risk. Market risk includes foreign exchange risk and interest rate risk.

The risk management in the Group and the Bank is organized in such a way that any possible conflicts of interest would be avoided. The function of all-type risk control is segregated from risk taking, i.e. from the front-office units.

<u>Risk division organisational structure:</u>



The control function for the major material risk – credit risk – is under the responsibility of the Credit Risk Department, Credit Control Department and Risk Analysis Department. The control over operational risk management within the Group and information security lies under the responsibility of Operational Risk Department. The functions of Market Risk Department embrace market risk and liquidity risk control. All organizational units within Risk division represent the second line of defense and report directly to the Group Chief Risk Officer (CRO). The Chief Credit Officer for Latvia from the Credit Risk Department acts as local CRO, who is as well the member of the Management Board.

Risk management processes and effectiveness of internal control are assessed by the Internal Audit Department (third line of defense).

The internal control – as a system of organizational measures, actions and internal procedures – ensures the effective and efficient operations and prudent conduct of business, the compliance with laws and regulations, the adequate assessment and control of risk, as well as the reliability of financial and non-financial information and submission thereof in a timely manner. The Management Board is responsible for creation and maintenance of effective internal control system in the Group and the Bank.

The Management Board approves the procedures having significant impact on risk management and risk mitigation measures associated with the risk management. In certain cases when it is not prohibited by legal or regulatory requirements responsibility for approval is delegated to the Chief Risk Officer.

Non-structural unit of the Bank – Risk Committee – advises the Management Board and the Supervisory Council on the overall actual and future risk appetite and strategy, on the optimal capital structure. Also it aims to optimize the Bank’s asset and liability structure with regard to acceptable risk and return. The Risk Committee considers and makes proposals on the

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

4 RISK MANAGEMENT (continued)

main risk-related processes. Risk reports covering analysis of all the risks are presented to the Risk Committee on a regular basis.

The Credit Committee is a decision making body regarding individual credit cases and contributes to development of a sound and uniform credit culture in the Group. The Credit Committee provides recommendations regarding important credit regulations and setting goals for the desired portfolio quality.

4.1. Credit risk

Credit risk means the risk for the Group and the Bank to incur losses due to the customers' failure to fulfil their financial obligations towards the Group and the Bank. Credit exposures arise principally in lending activities and it is the most significant risk in the Group's and the Bank's business. The credit risk arises also from investment activities (e.g. deb securities) as well as from the off-balance sheet financial instruments, such as loan commitments, guarantees and letters of credit.

The key elements of credit risk management are the Group Credit Policy, Credit Strategy for business customers and Credit Strategy for private individuals. Practical aspects of the application of the principles set out in these documents' and decision-making processes are regulated by the Credit Manual for business customers and Credit Manual for private individuals.

The Group's and the Bank's principal objective for lending is that the loan portfolio should have a quality and a composition which ensure profitability in the short and long term. The target is that the loan portfolio should maintain the credit risk profile varying from low to moderate. The assessment of creditworthiness should be based on customer's ability to perform on its financial obligations. Cash flows from customers' activities dedicated for loan payments should be clearly understandable and sustainable.

Credit decisions are made by Credit Committees and by authorised individuals according to defined powers to act which are risk adjusted. The decision of the Credit Committee to grant a loan shall be unanimous. Powers to act for individuals are personal and based on the competence level. Four-eyes principle is followed. Final approval of credits above a certain level is done together with the independent credit officers. In cases of small credit card limits/consumer credits one pair of eyes may be replaced by rating.

The regular reports are designed to be provided to the Group's management bodies to follow the level and developments of the assumed credit risk.

4.1.1. Credit risk measurement

(a) Loans and advances (including lease receivables)

The credit risk is managed by carrying out a thorough analysis of the customer before issuing credits and by monitoring thereof after credit disbursement.

Risk models are essential elements of the credit process and tools for management of the Group's and the Bank's credit risk. The Group and the Bank measures credit risk by means of rating models yielding probability of default (PD) and risk grade as well as by loss given default (LGD) and exposure at default (EAD) parameters. These risk models are constantly improved based on the results of analysing the historical credit-risk-related data and tested for reliability (validated).

Rating models, which yield probability of default (PD) and risk grade, are used to estimate default risk of counterparty, to determine compliance of customers and exposures with the Credit Strategy, to determine correct decision-making level and to set requirements for the frequency of follow up within the regular monitoring process. The assessment is made by using the customer / product segment specific rating models, which are used for homogeneous groups of customers:

- large corporates,
- corporates,
- small and medium-sized enterprises (SMEs),
- microbusiness (e.g., small single ownership companies),
- real estate projects of legal entities,
- individual customers.

All credits granted to customers are classified by risk using these rating models every time a commitment is renewed or, unless otherwise decided, at least once a year.

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

4 RISK MANAGEMENT (continued)

Loans to private individuals are assessed based on application scorings when decision is made. After the loans are granted, they are monitored by periodical evaluation of the customer's status using the behavioral scorings.

In addition to credit decision making, the outputs of internal risk models are applied in credit pricing, loan portfolio quality monitoring and risk reporting as well as economic capital (risk-adjusted capital, hereinafter referred to as RAC) calculation. RAC is used for decision making with respect to strategic capital allocation, i.e. for determining the strategic segments in lending activity, as well as capital planning for the Group.

Whenever large business customers are provided with loans, in addition a risk-adjusted profitability for the Group is assessed at both an individual loan and customer level, i.e. a risk-adjusted return on risk-adjusted capital (RAROC) is measured. The same principles of RAC-based pricing as well as RAROC-based profitability assessment are also extended to the other segments of the loan portfolio through the standardized pricing tools or rules. The risk-based credit pricing tools for all customer / product segments are monitored regularly and updated, if needed.

In 2018 the considerable amount of efforts were continued to be aimed towards implementation of a uniform landscape of rating models and risk parameters (which is mainly based on the rating models and risk parameters developed internally by former DNB subsidiaries in the Baltics) in the Group after combination of operations of DNB and Nordea in the Baltics by 1st October 2017. As well, the Group and the Bank focused on further improvement of its impairment quantification approach under IFRS 9, which heavily relies on outputs from internal risk models adjusted to fit IFRS 9 purposes.

In 2018 the Group and the Bank reviewed and updated its internal approach towards allocation of RAC for individual loans and customers taking into account its regulatory capital requirements and internally targeted capitalisation levels. As a result, principles and tools for RAC-based pricing decisions were reviewed and amended too.

The Group and the Bank considers building of competence of its employees as a prerequisite for creating a sound credit culture within the organization. Therefore it puts a special emphasis on internal training of its employees involved in credit activities on credit analysis, usage of rating models, understanding of risk parameters, which make an integral part of decision making, and risk-based pricing principles.

In 2018, high attention was dedicated to training of employees involved in credit activities on rating models and risk parameters, risk-based pricing principles, RAROC-based profitability measurement and relationship between them, risk data quality assurance issues as well as to ensure the common understanding of these issues through the whole Group. This was supported by review of the Group's internal documentation regulating credit risk management area (including as well newly prepared Rating Guidelines) with aim to provide more detailed guidance, what facilitates alignment of understanding of the employees from the different parts of organization in this transitional period following the combination of operations of DNB and Nordea in the Baltics.

The Group's internal rating scale for performing customers and mapping of external ratings are provided below:

Rating grade	PD range	Sandard & Poor's	Moody's	Risk level
1	0.01 – 0.10 %	AAA - A-	Aaa - A3	Low risk
2	0.10 – 0.25 %	BBB+ - BBB	Baa1 - Baa2	
3	0.25 – 0.50 %	BBB-	Baa3	
4	0.50 – 0.75 %	BB+	Ba1	
5	0.75 – 1.25 %	BB	Ba2	Moderate risk
6	1.25 – 2.00 %			
7	2.00 – 3.00 %	BB-	Ba3	
8	3.00 – 5.00 %	B+	B1	High risk
9	5.00 – 8.00 %	B	B2	
10	8.00 – 40.00 %	B- and lower	B3 and lower	

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

4 RISK MANAGEMENT (continued)

(b) Debt securities

Debt securities exposure of the Group and the Bank at the end of year 2018 is 56.2 million euro. The credit risk arising from them is considered as being immaterial. More than a half of all debt securities are issued by the government of Latvia. The remaining part of bonds consist of international bonds guaranteed by France, Belgium and Luxembourg governments which are treated as level 1 assets in (Liquidity Coverage Ratio) LCR calculation. Average weighted duration of the portfolio is about 1.0 year. Debt securities investments are performed in accordance with the limits set by the Luminor Management Board and Supervisory Council. Limit utilization is monitored on weekly basis.

4.1.2. Risk limit control and mitigation policies

(a) Concentration risk

The Group and the Bank manages, limits and controls concentration of credit risk – in particular, to individual counterparties and groups of the associated counterparties as well as to economic sectors.

The Group's and the Bank's portfolio of the products bearing credit risk derived from lending to the groups of the connected borrowers and a single borrower is well diversified.

Concentration risk of lending to the economic sectors is regarded as being material and is closely monitored and controlled. Complimentary to the regulatory requirements to limit the large exposures to a single borrower or the group of related borrowers, the Group and the Bank implements limits to economic sectors, i.e. a possible concentration in certain economic sectors at the Group level is restricted by the internal percentage lending limits. At the end of the year 2018, the loan portfolio of the Group and the Bank was well diversified by economic sectors and none of the set limits was breached.

The geographical concentration risk is not considered as being material in the Group's and the Bank's business since the principle of focusing on domestic customers is followed.

The Group's and the Bank's activity regarding risk concentrations is defined in the Credit Strategy.

Some other specific risk control and mitigation measures are outlined further on.

(b) Collateral

The Group and the Bank prefers the customer's ability to repay the loan in the lending process, giving less importance to the pledged collateral measure.

The Group and the Bank mitigates credit risk through taking of collaterals for funds advanced. Types of collateral considered by the Group as the most acceptable for securing loans and advances are the following:
- Property rights over financial instruments (debt securities, equities, cash);
- Guarantees;
- Real estate mortgage (mainly residential properties, commercial real estate);
- Business assets (equipment, inventory, transport vehicles).

When deciding on the type of collateral the maturity of the loans is taken into account. Long-term loans preferably should be covered by long-term property, mainly residential properties. More information on collaterals, value assessments of collaterals, periodical review of collateral values is provided in 4.1.5.b).

Long-term financing and lending to business customers are generally secured. Revolving facilities and consumer loans to private individuals are usually unsecured. Debt securities, treasury and other eligible bills are generally unsecured. In order to minimise the credit loss the Group and the Bank may seek for additional collateral from the counterparty as the impairment indicators for certain individual loans and advances are noticed.

For finance lease receivables the lessor remains the owner of the leased object. Therefore, in case of customer default the lessor is able to gain control on the risk mitigation measures and realise them in a rather short period.

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

4 RISK MANAGEMENT (continued)

(c) Derivative financial instruments

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

Margining agreements are established with the clients. Credit lines are usually granted to manage credit risk of these financial instruments. Cash or securities are less frequent option to be used as a collateral. Derivatives are used to hedge market risk positions arising from ordinary banking operations and from derivative transactions with clients.

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. The Group and the Bank assess counterparties in order to control the level of credit risk taken. The counterparty credit risk is managed primarily through limitation of exposures to each counterparty, regular valuation of exposures and collateralization of exposures.

(d) Credit-related commitments

Other credit-related commitments assumed by the Group and the Bank include guarantees, letters of documentary credit, commitments to grant a credit which expose the Group and the Bank to the same credit risk as the loans do. The key aim of these instruments is to ensure that funds are available to a customer as required. The aforementioned commitments are collateralised either by the funds in the Bank's account, by material assets (real estate being the preference) or other collaterals such as third party guarantees. With respect to credit risk arising from commitments to extend credit, the Group is exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customer's ability to repay the loans already granted.

4.1.3. Impairment policies

Starting from 1st January 2018 the Group and the Bank implemented and followed the requirements of IFRS 9 for loss allowance assessment for expected credit losses.

(a) General ECL assessment principles

With the adoption of IFRS 9 three stages model was introduced:
Stage 1 – part of the portfolio for which no significant deterioration in credit quality has occurred since initial recognition (or the exposure is of low credit risk) and the financial instrument is not considered credit-impaired;
Stage 2 – part of the portfolio for which significant deterioration in credit quality has occurred since initial recognition, evidenced by the SICR – significant increase in credit risk - indicator, and the financial instrument is not considered credit-impaired;
Stage 3 – credit-impaired part of the portfolio. The Group equates default and credit-impairment definitions so that all defaulted exposures are treated as credit-impaired and all credit-impaired exposures are treated as defaulted. This approach is based on the fact that the default definition used by The Group covers all events indicated by IFRS 9 as possible evidence that financial instrument is credit-impaired and all of these events are considered by The Group as having a detrimental impact on the estimated future cash flows from the instrument.

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

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

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

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

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

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

For Purchased or Originated Credit Impaired (POCI) financial assets ECL is estimated in the lifetime horizon till the maturity. The loss expected at initial recognition is referred to as Initial impairment. At subsequent periods only the cumulative changes in the lifetime expected credit losses, since initial recognition, are recognised in profit or loss.

b) Default definition

The Group identifies default when either or both of the following default indicators have taken place:
1. The customer is past due more than 90 days on any material obligation to the Group;
2. The customer is considered unlikely to pay its credit obligations to the Group.

For exposure to banks the default is recognized when payments are due more than 7 days.
For the purpose of unlikeliness to pay identification, elements taken as indications of unlikeliness to pay include the following:

- Distressed restructuring of credit obligation (forbearance triggering non-performing status in accordance with FINREP instruction requirements);
- Major financial problems of the customer (present or expected), i.e. significant financial difficulties;
- Recognition of specific credit risk adjustment resulting from a significant decline in credit quality of the exposure;
- Bankruptcy of the customer or similar protection;
- Disappearance of an active market for a financial asset because of financial difficulties of the customer;
- Sell of credit obligation at material credit-related economic loss;
- Purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- Credit fraud;
- External rating indicating default.

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

(c) Significant increase in credit risk

Generally the financial asset is treated as facing significant increase in credit risk if at least one of the following SICR indicators is identified after initial recognition of the financial instrument and was not present as of its origination:

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

All of the SICR indicators are recognized at financial instrument level in order to track changes in credit risk since initial recognition date for particular financial instrument, even though some of them refer to the customer's characteristics.
The Group does not apply probation period for backward stage transfer of Stage 2 assets.

(d) 12-month and lifetime expected credit losses

Collective assessment of impairment is performed for all financial instruments that are not defaulted as of the reporting date, i.e. are classified to either Stage 1 or Stage 2 or are non-defaulted POCI asset.

The expected loss is calculated as probability weighted average of losses expected in different macroeconomic scenarios. Expected loss in concrete macroeconomic scenario is calculated as the multiple of point-in-time probability of default (PIT PD), point-in-time loss given default (PIT LGD), exposure at default (EAD) and cumulative prepayment rate and is discounted using a discount rate:

- Macroeconomic scenario based PIT PD is probability that the performing exposure defaults during particular time period provided that it has survived until the beginning of this period. PIT PD approach is applicable for all financial instruments for which the internal rating models are available.
- Macroeconomic scenario based PIT LGD is the expected percentage share of an exposure that would be irretrievably lost if the default event occurs. For the evaluation of PIT LGD curves PD-dependent model is used, in which the LGD estimates are dependent on projected point-in-time PDs.

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

4 RISK MANAGEMENT (continued)

- EAD is the exposure at default parameter which represents total exposure under a specific facility upon default. For instalment products (i.e. products with contractual repayment schedules), the EAD term structure is shaped by contractual amortization. For revolving products (e.g. credit lines, credit cards or overdrafts), limit utilization approach is used for the purpose of EAD term structure estimation. For standard off-balance exposures (guarantees and letters of credit) the credit conversion factors are determined to account for expected off-balance exposure withdrawals applicable for the default date.
- Cumulative prepayment rate describes the cumulative likelihood that the exposure would be fully prepaid (i.e. closed before its contractual maturity) in the periods up to the end of analyzed period. The application of cumulative prepayment rate is limited in scope to these portfolios for which the prepayments are not captured by the PD model.
- The rules for discount rate assignment depends on the type of financial instrument and availability of the contractual repayment schedule. For facilities for which contractual repayment schedules are available, the effective interest rate (EIR) or its approximation (i.e. nominal rate) is applied as a discount rate. In case of exposures without the contractual repayment schedules, which contain both the financial asset and off-balance sheet item (e.g. credit lines, credit cards), best possible proxy of the EIR is applied. In case of exposures without the contractual repayment schedules, representing the off-balance products (guarantees, letters of credit), contractual rate associated with the exposure is applied or, if it is not available, the relevant market rate.

PIT PD curves, PIT LGD curves and EAD curves are estimated for all months until the maturity date of the facility. If the facility is classified to Stage 1, expected losses are estimated over the period of up to 12 months. If the facility is classified to Stage 2 then the expected loss is estimated over the period up to maturity date of the facility.

Estimation of PD and LGD curves take into account forward looking macroeconomic information. Methodology of estimation of these risk parameters includes modelling of the relationship between risk parameters and macroeconomic variables. Forecasts of macroeconomic variables under different scenarios for 3 upcoming years together with scenario probabilities are prepared by Luminor Latvia macroeconomists. Three macroeconomic scenarios are considered: baseline/realistic, positive, and pessimistic scenario (with the highest probability weight for the baseline/realistic scenario). Macroeconomic scenarios that are prepared for the estimation of expected losses are consistent with scenarios which are used in credit risk stress testing process.

Three macroeconomic variables - annual change in real GDP, unemployment rate and annual change of residential real estate price - are included in the modelling for the Private individuals segment and two of them – annual change in real GDP together with unemployment rate – are used for modelling in the case of the Legal entities segment. The following table shows the parameters that were used for macroeconomic modelling on the 31 December 2018. Starting from the fourth year it is assumed that risk parameters (PD and LGD) converge to their long term average levels.

Macroeconomic variables	Optimistic scenario			Baseline scenario (realistic)			Pessimistic scenario		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Probability for scenario, %	**30%**			**60%**			**10%**		
Annual change in real GDP, %	4.8	4.2	4.2	3.6	3.2	3.0	(0.8)	(0.9)	2.1
Unemployment rate, %	6.3	5.8	5.5	6.7	6.3	6.1	8.4	9.8	10.0
Annual change of residential real estate price, %	8.0	8.0	7.0	6.0	5.0	5.0	(7.0)	(0.4)	1.0

Regular follow up is ensured for all material exposures. Regularity and deepness of the assessment is based on the risk level and size of the exposure. The aim of the follow up is 1) to identify worsening of the situation and start early actions to improve Bank's position and 2) identify occurrence of Unlikely to Pay criteria. Credit-impaired large exposures that are above materiality thresholds and with loss event are reviewed every quarter or more frequently when individual circumstances require. Valuation is updated when there are significant changes in cash flows otherwise it is performed at least once a year.

For Stage 3 exposures (or defaulted POCI assets), which are classified as material, the Group evaluates the impairment amount on individual basis (individual assessment) under discounted cash flows (DCF) method, where both future cash flows from borrower's operations and cash flows from collateral are taken into account. Two scenarios – base case and risk case – with certain probability weights are used. For exceptional cases usage of one scenario can be sufficient. The circumstances when only one scenario might be acceptable could be the deep workout case or the case when total exposure of defaulted borrower falls below the materiality threshold.

For Stage 3 exposures (or defaulted POCI assets), which are classified as immaterial, the Group evaluates the impairment amount on collective basis (collective assessment). Impairment is calculated applying the pool rate for unsecured part. Different pool rates are applied for three homogeneous pools distinguished by the Group:
- mortgage loans and private credits to private individuals,
- consumer loans and other loans to private individuals (including leasing),
- SMEs (all financial instruments to legal entities).

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

(e) Sensitivity analysis

The following table shows the impact on the 31 December 2018 ECL allowance of changing the PD thresholds for SICR. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognized.

Group

				ECL impact of (TEUR)	
Actual absolute threshold applied	**Actual relative threshold applied**	**Change in absolute threshold**	**Change in relative threshold**	**Lower thresholds**	**Higher thresholds**
2.5	0.006	-/+ 20%	-/+ 12bps	329	-154

The following table shows the impact on the 31 December 2018 ECL allowance of changing the pessimistic and optimistic scenario probabilities. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognized.

Bank

				ECL impact of (TEUR)	
Pessimistic scenario probability applied	**Optimistic scenario probability applied**	**Change in pessimistic scenario probability**	**Change in relative threshold**	**Lower pessimistic scenario probability**	**Higher pessimistic scenario probability**
0.1	0.2	-/+ 200bps	+/- 200bps	-37	35

(f) Risk assessment on modified financial assets

As a rule, each time the modification of a financial instrument takes place due to financial problems of the debtor the new rating/scoring should be obtained and new PD assigned, the loan should be marked as forborne if the FINREP instruction reporting definition is met. Therefore, as a result of modification the loan would be classified as Stage 2 if forborne performing status is assigned (or Stage 3 if forborne non-performing status is assigned) and/or the loan would be classified as Stage 2 if the change in PD is considered significant. In case of substantial modification resulting in derecognition of the

asset and the origination of the new one, the newly recognized asset is classified as either POCI asset (if credit-impaired) or Stage 1 (if not credit-impaired).

(g) Write-off policy

The Group and the Bank writes off financial assets, in whole or in part, which are considered as being non collectible. Generally the indication that financial assets are non collectble is the situation when all collaterals (except guarantees of private individuals) are sold. However the write-off fact does not limit the Group's and the Bank's recovery measures towards particular customer. The outstanding contractual amount on financial assets that were written off during the year ended 31 December 2018 and are still subject to enforcement activity was EUR10,271 thousand.

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

4.1.4. Maximum exposure to credit risk before collateral held or other credit enhancements

	Group		Bank	
	2018	2017	2018	2017
Credit risk exposures relating to on-balance sheet assets are as follows:				
Cash and balances with central banks	1 078 401	1 067 214	1 078 401	1 067 214
Due from banks and other credit institutions	51 717	105 457	51 717	104 688
Loans and advances to customers:	3 372 824	3 372 448	3 360 738	3 384 498
Loans and advances to financial institutions	90 087	18 340	566 668	536 684
Loans to individuals (retail):	1 752 192	1 829 767	1 635 874	1 719 904
- Mortgage loans	1 571 635	1 641 187	1 571 635	1 641 187
- Consumer and card loans	51 222	49 963	51 222	49 962
- Other (reverse repurchase agreements, other loans backed by securities, other)	13 016	28 755	13 017	28 755
- Leasing	116 319	109 862	-	-
Loans to business customers:	1 530 545	1 524 341	1 158 196	1 127 910
- Loans	1 120 246	1 072 894	1 158 196	1 127 910
- Factoring	49 637	42 276	-	-
- Leasing	360 662	409 171	-	-
Trading assets:				
- Debt securities				
Securities designated at fair value through profit or loss	56 210	76 308	56 210	76 308
- Debt securities	56 210	76 308	56 210	76 308
- Equity securities				
Derivative financial instruments	33 713	17 223	33 713	17 223
Credit risk exposures relating to off – balance sheet items are as follows:	171 084	225 363	171 084	225 363
- Financial guarantees	155 151	198 785	155 151	198 785
- Loan commitments and other credit related liabilities	525 897	524 511	667 367	562 069
December 31	5 273 913	5 361 946	5 403 297	5 410 785

The table above represents credit risk exposure at 31 December 2018 and 2017, without taking into account any credit risk mitigation techniques. On-balance sheet assets are reported above based on the net carrying amount as they appear in the statement of financial position.

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

4.1.5. Loans and advances

Gross amount and credit loss allowance amount for loans and advances at 31 December 2018 and 31 December 2017 are disclosed in the tables below:

Group	**31 December 2018**			
	Gross	***Of which initial impairment on POCI loans***	**Allowance for impairment**	**Net**
Due from banks and other credit institutions	11 422	-	(14)	**11 408**
Financial institutions	83 658	*(2 252)*	1 052	**84 710**
Business customers	**1 572 581**	**(10 586)**	**(36 659)**	**1 535 922**
-Loans	1 157 455	*(9 975)*	(32 794)	1 124 661
-Factoring	50 614	*(608)*	(977)	49 637
-Leasing	364 512	*(3)*	(2 888)	361 624
Individual customers	**1 808 517**	**(550)**	**(56 325)**	**1 752 192**
-Mortgage loans	1 622 361	*(493)*	(50 726)	1 571 635
-Consumer and card loans	52 561	*(13)*	(1 338)	51 223
-Other loans	16 733	*(42)*	(3 717)	13 016
-Leasing	116 862	*(2)*	(544)	116 318
Loans to customers	**3 464 756**	**(13 388)**	**(91 932)**	**3 372 824**
Total	**3 476 178**	**(13 388)**	**(91 946)**	**3 384 232**

Bank	**31 December 2018**			
	Gross	***Of which initial impairment***	**Allowance for impairment**	**Net**
Due from banks and other credit institutions	**11 422**	**-**	**(14)**	**11 408**
Financial institutions	**561 223**	***(2 249)***	**1 030**	**562 253**
Business customers	**1 195 806**	***(9 975)***	**(33 195)**	**1 162 611**
-Loans	1 195 806	*(9 975)*	(33 195)	**1 162 611**
-Factoring	-	-	-	**-**
-Leasing	-	-	-	**-**
Individual customers	**1 691 655**	**(548)**	**(55 781)**	**1 635 874**
-Mortgage loans	1 622 361	(493)	(50 726)	**1 571 635**
-Consumer and card loans	52 560	(13)	(1 338)	**51 222**
-Other loans	16 734	(42)	(3 717)	**13 017**
-Leasing	-	-	-	-
Loans to customers	**3 448 684**	**(12 772)**	**(87 946)**	**3 360 738**
Total	**3 460 106**	**(12 772)**	**(87 960)**	**3 372 146**

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

4.1.5. Loans and advances (continued)

Group	**31 December 2017**		
	Gross	**Allowance for impairment**	**Net**
Due from banks and other credit institutions	70 823	-	**70 823**
Financial institutions	3 344	(915)	**2 429**
Business customers	**1 641 334**	**(101 084)**	**1 540 250**
-Loans	1 186 082	(98 882)	1 087 200
-Factoring	42 294	(18)	42 276
-Leasing	412 958	(2 184)	410 774
Individual customers	**1 882 585**	**(52 818)**	**1 829 767**
-Mortgage loans	1 674 357	(33 170)	**1 641 187**
-Consumer and card loans	51 281	(1 318)	**49 963**
-Other loans	45 833	(17 078)	**28 755**
-Leasing	111 114	(1 252)	109 862
Loans to customers	**3 527 263**	**(154 817)**	**3 372 446**
Total	**3 598 086**	**(154 817)**	**3 443 269**

Bank	**31 December 2017**		
	Gross	**Allowance for impairment**	**Net**
Due from banks and other credit institutions	70 823	-	**70 823**
Financial institutions	523 392	(911)	**522 481**
Business customers	**1 247 112**	**(105 000)**	**1 142 112**
-Loans	1 247 112	(105 000)	**1 142 112**
-Factoring	-	-	**-**
-Leasing	-	-	**-**
Individual customers	**1 771 471**	**(51 566)**	**1 719 905**
-Mortgage loans	1 674 357	(33 170)	**1 641 187**
-Consumer and card loans	51 281	(1 318)	**49 963**
-Other loans	45 833	(17 078)	**28 755**
-Leasing	-	-	-
	3 541 975	**(157 477)**	**3 384 498**
Total	**3 612 798**	**(157 477)**	**3 455 321**

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

4 RISK MANAGEMENT (continued)

4.1.5. Loans and advances (continued)

Loans and advances at **31 December 2017** are summarized as follows:

Group	**Loans and advances to customers**	**Due from banks and other credit institutions**
Neither past due nor impaired	3 018 821	70 823
Past due but not impaired	220 963	-
Impaired	287 480	-
Gross	**3 527 264**	**70 823**
Less: allowance for impairment	(154 816)	-
Net	**3 372 448**	**70 823**

Bank	**Loans and advances to customers**	**Due from banks and other credit institutions**
Neither past due nor impaired	3 047 698	70 823
Past due but not impaired	192 791	-
Impaired	301 486	-
Gross	**3 541 975**	**70 823**
Less: allowance for impairment	(157 477)	-
Net	**3 384 498**	**70 823**

Past due but not impaired loans and advances mean loans and advances that are past due but have no allowances for impairment and default status at the same time.

Impaired loans and advances mean defaulted loans and advances that have non-zero impairment.

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

4.1.5. Loans and advances (continued)

Loans and advances to customers neither past due nor impaired

31 December 2017

	Group loans to customers		
	Business customers	**Individual customers**	**Total**
Low risk	204 294	1 216 263	1 420 557
Moderate risk	948 726	379 620	1 328 346
High risk	191 080	78 838	269 918
Total	**1 344 100**	**1 674 721**	**3 018 821**

31 December 2017

	Bank loans to customers		
	Business customers	**Individual customers**	**Total**
Low risk	724 894	1 189 562	1 914 456
Moderate risk	643 472	303 661	947 133
High risk	110 288	75 821	186 109
Total	**1 478 654**	**1 569 044**	**3 047 698**

31 December 2018

	Group loans to customers		
	Business customers	**Individual customers**	**Total**
Low risk	536 133	1 184 767	1 720 900
Moderate risk	795 162	346 458	1 141 620
High risk	115 942	62 336	178 278
Total	**1 447 237**	**1 593 561**	**3 040 798**

31 December 2018

	Bank loans to customers		
	Business customers	**Individual customers**	**Total**
Low risk	995 776	1 166 514	2 162 290
Moderate risk	506 595	255 412	762 007
High risk	71 025	59 918	130 943
Total	**1 573 396**	**1 481 844**	**3 055 240**

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

4.1.5. Loans and advances (continued)

Loans and advances to customers past due but not impaired

31 December 2017

	Group loans to customers		
	Business customers	**Individual customers**	**Total**
Past due up to 30 days	62 178	103 626	165 804
Past due 31-60 days	24 425	19 186	43 611
Past due 61-90 days	3 136	6 328	9 464
Past due more than 90 days	1 222	862	2 084
Total	**90 961**	**130 002**	**220 963**
Value of risk mitigation measures	26 624	106 560	133 184

31 December 2017

	Bank loans to customers		
	Business customers	**Individual customers**	**Total**
Past due up to 30 days	41 682	99 865	141 547
Past due 31-60 days	21 996	18 786	40 782
Past due 61-90 days	3 014	6 233	9 247
Past due more than 90 days	463	752	1 215
Total	**67 155**	**125 636**	**192 791**
Value of risk mitigation measures	23 993	106 560	130 553

31 December 2018

	Group loans to customers		
	Business customers	**Individual customers**	**Total**
Past due up to 30 days	52 329	92 614	144 943
Past due 31-60 days	8 241	10 983	19 224
Past due 61-90 days	692	2 871	3 563
Past due more than 90 days	4	7	11
Total	**61 266**	**106 475**	**167 741**
Value of risk mitigation measures	41 120	84 020	125 140

31 December 2018

	Bank loans to customers		
	Business customers	**Individual customers**	**Total**
Past due up to 30 days	34 832	88 789	123 621
Past due 31-60 days	6 178	10 649	16 827
Past due 61-90 days	620	2 849	3 469
Past due more than 90 days	-	1	1
Total	**41 630**	**102 288**	**143 918**
Value of risk mitigation measures	41 120	84 020	125 140

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

4.1.5. Loans and advances (continued)

Impaired loans and advances to customers

	Group loans		
	Business customers	**Individual customers**	**Total**
31 December 2017			
All impaired loans	209 619	77 861	287 480
Fair value of collateral	79 188	24 324	103 512

	Bank loans		
	Business customers	**Individual customers**	**Total**
31 December 2017			
All impaired loans	224 695	76 791	301 486
Fair value of collateral	79 188	24 324	103 512

	Group loans		
	Business customers	**Individual customers**	**Total**
31 December 2018			
All impaired loans	147 736	108 481	256 217
Fair value of collateral	103 345	65 111	168 456

	Bank loans		
	Business customers	**Individual customers**	**Total**
31 December 2018			
All impaired loans	142 002	107 524	249 526
Fair value of collateral	103 345	65 111	168 456

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

4.1.5. Loans and advances (continued)

Group

Due from banks and other credit institutions

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	-	-	-	-	-
Moderate risk	11 422	-	-	-	11 422
High risk	-	-	-	-	-
Default	-	-	-	-	-
Gross	**11 422**	**-**	**-**	**-**	**11 422**
Of which initial impairment					
Less: allowance for impairment	(14)	-	-	-	(14)
Net	**11 408**	**-**	**-**	**-**	**11 408**

Loans and advances to financial institutions

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	80 010	-	-	-	80 010
Moderate risk	778	31	-	-	809
High risk	345	2 505	-	-	2 850
Default	-	-	-	(11)	(11)
Gross	**81 133**	**2 536**	**-**	**(11)**	**83 658**
Of which initial impairment	-	-	-	*(2 252)*	*(2 252)*
(Less)/plus: allowance for impairment	(5)	(35)	-	1 092	1 052
Net	**81 128**	**2 501**	**-**	**1 081**	**84 710**

Loans to business customers

Loans	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	427 340	-	-	-	427 340
Moderate risk	465 296	48 813	-	26	514 135
High risk	19 108	58 018	-	-	77 126
Default	-	-	133 240	5 613	138 853
Gross	**911 744**	**106 831**	**133 240**	**5 639**	**1 157 454**
Of which initial impairment	-			*(9 975)*	*(9 975)*
(Less)/plus: allowance for impairment	(806)	(1 093)	(32 834)	1 939	(32 794)
Net	**910 938**	**105 738**	**100 406**	**7 578**	**1 124 660**

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

4.1.5. Loans and advances (continued)

Factoring	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit-impaired)**	**POCI**	**Total**
Low risk	24 953	-	-	-	24 953
Moderate risk	21 104	171	-	-	21 275
High risk	2 877	18	-	-	2 895
Default	-	-	1 166	326	1 492
Gross	**48 934**	**189**	**1 166**	**326**	**50 615**
Of which initial impairment	-	-	-	*(608)*	*(608)*
(Less)/plus: allowance for impairment	(38)	(1)	(950)	12	(977)
Net	**48 896**	**188**	**216**	**338**	**49 638**

Leasing	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit-impaired)**	**POCI**	**Total**
Low risk	31 839	20	-	23	31 882
Moderate risk	263 327	12 566	-	-	275 893
High risk	19 995	29 218	-	124	49 337
Default	-	-	7 300	102	7 402
Gross	**315 161**	**41 804**	**7 300**	**249**	**364 514**
Of which initial impairment	-			*(3)*	*(3)*
Less: allowance for impairment	(506)	(411)	(1 915)	(57)	(2 889)
Net	**314 655**	**41 393**	**5 385**	**192**	**361 625**

Loans to individual customers

Mortgage loans	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit-impaired)**	**POCI**	**Total**
Low risk	1 160 386	10 218	-	821	1 171 425
Moderate risk	209 161	39 023	-	713	248 897
High risk	13 570	86 408	-	90	100 068
Default	-	-	100 876	1 095	101 971
Gross	**1 383 117**	**135 649**	**100 876**	**2 719**	**1 622 361**
Of which initial impairment	-	-	-	*(493)*	*(493)*
Less: allowance for impairment	(1 743)	(11 789)	(37 010)	(184)	(50 726)
Net	**1 381 374**	**123 860**	**63 866**	**2 535**	**1 571 635**

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

4.1.5. Loans and advances (continued)

Consumer and card loans	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit-impaired)**	**POCI**	**Total**
Low risk	-	-	-	-	-
Moderate risk	29 671	612	-	3	30 286
High risk	20 764	155	-	-	20 919
Default	-	-	1 352	3	1 355
Gross	**50 435**	**767**	**1 352**	**6**	**52 560**
Of which initial impairment	-	-	-	*(13)*	*(13)*
Less: allowance for impairment	(356)	(8)	(972)	(1)	(1 337)
Net	**50 079**	**759**	**380**	**5**	**51 223**

Other loans	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit-impaired)**	**POCI**	**Total**
Low risk	5 434	6	-	-	5 440
Moderate risk	5 509	423	-	-	5 932
High risk	549	615	-	-	1 164
Default	-	-	4 197	-	4 197
Gross	**11 492**	**1 044**	**4 197**	**-**	**16 733**
Of which initial impairment	-	-	-	*(42)*	*(42)*
Less: allowance for impairment	(25)	(85)	(3 607)	-	(3 717)
Net	**11 467**	**959**	**590**	**-**	**13 016**

Leasing	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit-impaired)**	**POCI**	**Total**
Low risk	19 275	86	-	-	19 361
Moderate risk	93 380	506	-	29	93 915
High risk	2 233	392	-	3	2 628
Default	-	-	849	109	958
Gross	**114 888**	**984**	**849**	**141**	**116 862**
Of which initial impairment	-	-	-	*(2)*	*(2)*
Less: allowance for impairment	(270)	(9)	(236)	(29)	(544)
Net	**114 618**	**975**	**613**	**112**	**116 318**

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

4.1.5. Loans and advances (continued)

Bank

Due from banks and other credit institutions

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	-	-	-	-	-
Moderate risk	11 422	-	-	-	11 422
High risk	-	-	-	-	-
Default	-	-	-	-	-
Gross	**11 422**	**-**	**-**	**-**	**11 422**
Of which initial impairment	-	-	-	-	-
Less: allowance for impairment	(14)	-	-	-	(14)
Net	**11 408**	**-**	**-**	**-**	**11 408**

Loans and advances to financial institutions

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	558 463	-	-	-	558 463
Moderate risk	436	-	-	-	436
High risk	-	2 343	-	-	2 343
Default	-	-	-	(19)	(19)
Gross	**558 899**	**2 343**	**-**	**(19)**	**561 223**
Of which initial impairment	-	-	-	*(2 249)*	*561 223*
(Less)/plus: allowance for impairment	(32)	(35)	-	1 097	1 030
Net	**558 867**	**2 308**	**-**	**1 078**	**562 253**

Loans to business customers

Loans	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	462 523	-	-	-	462 523
Moderate risk	465 296	48 813	-	26	514 135
High risk	19 108	58 018	-	-	77 126
Default	-	-	136 408	5 613	142 021
Gross	**946 927**	**106 831**	**136 408**	**5 639**	**1 195 805**
Of which initial impairment	-	-	-	*(9 975)*	*(33 194)*
(Less)/plus: allowance for impairment	(807)	(1 093)	(33 233)	1 939	(33 194)
Net	**946 120**	**105 738**	**103 175**	**7 578**	**1 162 611**

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

4.1.5. Loans and advances (continued)

Loans to individual customers

Mortgage loans	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit-impaired)**	**POCI**	**Total**
Low risk	1 160 386	10 218	-	821	1 171 425
Moderate risk	209 161	39 023	-	713	248 897
High risk	13 570	86 408	-	90	100 068
Default	-	-	100 876	1 095	101 971
Gross	**1 383 117**	**135 649**	**100 876**	**2 719**	**1 622 361**
Of which initial impairment	-	-	-	*(493)*	*(493)*
Less: allowance for impairment	(1 743)	(11 789)	(37 010)	(184)	(50 726)
Net	**1 381 374**	**123 860**	**63 866**	**2 535**	**1 571 635**

Consumer and card loans	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit-impaired)**	**POCI**	**Total**
Low risk	-	-	-	-	-
Moderate risk	29 671	612	-	3	30 286
High risk	20 764	155	-	-	20 919
Default	-	-	1 352	3	1 355
Gross	**50 435**	**767**	**1 352**	**6**	**52 560**
Of which initial impairment	-	-	-	*(13)*	*(13)*
Less: allowance for impairment	(356)	(7)	(974)	(1)	(1 338)
Net	**50 079**	**760**	**378**	**5**	**51 222**

Other loans	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit-impaired)**	**POCI**	**Total**
Low risk	5 434	6	-	-	5 440
Moderate risk	5 509	423	-	-	5 932
High risk	549	615	-	-	1 164
Default	-	-	4 197	-	4 197
Gross	**11 492**	**1 044**	**4 197**	**-**	**16 733**
Of which initial impairment	-	-	-	*(42)*	*(42)*
Less: allowance for impairment	(25)	(85)	(3 607)	-	(3 717)
Net	**11 467**	**959**	**590**	**-**	**13 016**

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

a) Information about credit loss allowances

The following tables disclose the changes in the credit loss allowance for loans and advances between the beginning and the end of the reporting period.

Group

Due from banks and other credit institutions

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Opening balance at 1 January 2018	**51**	**-**	**-**	**-**	**51**
Transfers due to change in credit risk:					
-to lifetime (from Stage 1 to Stage 2)	-	-	-	-	-
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-	-
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-
-remaining credit risk changes	(37)	-	-	-	(37)
New originated or purchased	-	-	-	-	-
Derecognised	-	-	-	-	
Write-offs	-	-	-	-	-
Other movements	-	-	-	-	
Closing balance at 31 December 2018	**14**	**-**	**-**	**-**	**14**

Loans and advances to financial institutions

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Opening balance at 1 January 2018	**-**	**27**	**-**	**(1 480)**	**(1 453)**
Transfers due to change in credit risk:					
-to lifetime (from Stage 1 to Stage 2)	-	-	-	-	-
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	(2)	-	-	(2)
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	3	-	-	-	3
- remaining credit risk changes	2	10	-	388	400
New originated or purchased	-	-	-	-	-
Derecognised	-	-	-	-	-
Write-offs	-	-	-	-	-
Other movements	-	-	-	-	
Closing balance at 31 December 2018	**5**	**35**	**-**	**(1 092)**	**(1 052)**

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

Loans to business customers

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Opening balance at 1 January 2018	**751**	**1 447**	**88 252**	**(3 824)**	**86 626**
Transfers due to change in credit risk:					
-to lifetime (from Stage 1 to Stage 2)	-	(306)	-	-	(306)
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-	-
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	1 749	-	(314)	-	1 435
-remaining credit risk changes	12	(30)	(6 578)	1 885	(4 711)
New originated or purchased	74	1	520	-	595
Derecognised	(9)	(10)	(454)	-	(473)
Write-offs	(1 773)	(9)	(48 594)	-	(50 376)
Other movements	2	-	2	-	4
Closing balance at 31 December 2018	**806**	**1 093**	**32 834**	**(1 939)**	**32 794**

Factoring

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Opening balance at 1 January 2018	**59**	**18**	**367**	**-**	**444**
Transfers due to change in credit risk:					
-to lifetime (from Stage 1 to Stage 2)	-	240	-	-	240
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	844	-	844
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	2	-	-	-	2
-remaining credit risk changes	(20)	(244)	(280)	(12)	(556)
New originated or purchased	-	-	-	-	-
Derecognised	-	-	-	-	-
Write-offs	-	-	-	-	-
Other movements	-	-	2	-	2
Closing balance at 31 December 2018	**41**	**14**	**933**	**(12)**	**976**

Leasing	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Opening balance at 1 January 2018	**404**	**1 331**	**1 680**	**137**	**3 552**
Transfers due to change in credit risk:					
-to lifetime (from Stage 1 to Stage 2)	-	(679)	-	-	(679)
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	1 442	-	1 442
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	67	-	-	-	67
-remaining credit risk changes	(20)	(245)	(313)	22	(556)
New originated or purchased	89	6	3	-	98
Derecognised	(1)	-	(12)	-	(13)
Write-offs	(33)	(2)	(892)	(102)	(1 029)
Other movements	-	-	7	-	7
Closing balance at 31 December 2018	**506**	**411**	**1 915**	**57**	**2 889**

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

Loans to individual customers

Mortgage loans	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit-impaired)**	**POCI**	**Total**
Opening balance at 1 January 2018	**2 264**	**14 375**	**31 727**	**298**	**48 664**
Transfers due to change in credit risk:					
-to lifetime (from Stage 1 to Stage 2)	-	(832)	-	(5)	(837)
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	8 208	46	8 254
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(130)	-	-	(4)	(134)
-remaining credit risk changes	(605)	(1 797)	(3 281)	(151)	(5 834)
New originated or purchased	212	25	217	-	454
Derecognised	-	-	-	-	-
Write-offs	-	-	(1)	-	(1)
Other movements	2	18	140	0	160
Closing balance at 31 December 2018	**1 743**	**11 789**	**37 010**	**184**	**50 726**

Consumer and card loans	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit-impaired)**	**POCI**	**Total**
Opening balance at 1 January 2018	**336**	**10**	**1 106**		**1 452**
Transfers due to change in credit risk:					
-to lifetime (from Stage 1 to Stage 2)	-	31	-	-	31
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	606	9	615
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	2	-	-	-	2
-remaining credit risk changes	7	(9)	24	(5)	17
New originated or purchased	49	-	28	-	77
Derecognised	(15)	(1)	(86)	-	(102)
Write-offs	(23)	(23)	(706)	(3)	(755)
Other movements	-	-	-	-	-
Closing balance at 31 December 2018	**356**	**8**	**972**	**1**	**1 337**

Other loans	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit-impaired)**	**POCI**	**Total**
Opening balance at 1 January 2018	**107**	**1 035**	**14 398**	**38**	**15 578**
Transfers due to change in credit risk:					
-to lifetime (from Stage 1 to Stage 2)		(268)			(268)
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)			1 368		1 368
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(6)				(6)
-remaining credit risk changes	(17)	(83)	(1 689)	(10)	(1 799)
New originated or purchased	36	4	114		154
Derecognised	(81)	(595)	(682)		(1 358)
Write-offs	(13)	(9)	(9 924)	(28)	(9 974)
Other movements	(1)	1	22		22
Closing balance at 31 December 2018	**25**	**85**	**3 607**	**0**	**3 717**

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

Leasing	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Opening balance at 1 January 2018	**194**	**38**	**911**	**87**	**1 230**
Transfers due to change in credit risk:					
-to lifetime (from Stage 1 to Stage 2)	-	(6)	-	2	(4)
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	64	-	-	(8)	56
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	(53)	-	(53)
-remaining credit risk changes	(24)	(24)	92	1	45
New originated or purchased	58	-	-	-	58
Derecognised	-	-	(1)	(5)	(6)
Write-offs	(22)	-	(713)	(48)	(783)
Other movements	-	-	-	1	1
Closing balance at 31 December 2018	**270**	**8**	**236**	**30**	**544**

<u>**Bank**</u>

Due from banks and other credit institutions

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Opening balance at 1 January 2018	**51**	**-**	**-**	**-**	**51**
Transfers due to change in credit risk:					
-to lifetime (from Stage 1 to Stage 2)	-	-	-	-	-
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-	-
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-
-remaining credit risk changes	(37)	-	-	-	(37)
New originated or purchased	-	-	-	-	-
Derecognised	-	-	-	-	-
Write-offs	-	-	-	-	-
Other movements	-	-	-	-	
Closing balance at 31 December 2018	**14**	**-**	**-**	**-**	**14**

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

4 RISK MANAGEMENT (continued)

Loans and advances to financial institutions

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Opening balance at 1 January 2018	**7**	**24**	**0**	**(1 480)**	**(1 449)**
Transfers due to change in credit risk:					
-to lifetime (from Stage 1 to Stage 2)	-	-	-	-	-
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-	-
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-
-remaining credit risk changes	25	11	-	383	419
New originated or purchased	-	-	-	-	-
Derecognised	-	-	-	-	-
Write-offs	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance at 31 December 2018	**32**	**35**	**-**	**(1 097)**	**(1 030)**

Loans to business customers

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Opening balance at 1 January 2018	**6 870**	**1 447**	**88 252**	**(3 824)**	**92 745**
Transfers due to change in credit risk:					
-to lifetime (from Stage 1 to Stage 2)	-	-	-	-	-
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	3 861	-	3 861
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-
-remaining credit risk changes	(4 361)	(330)	(10 350)	1 885	(13 156)
New originated or purchased	88	1	519	-	608
Derecognised	(19)	(11)	(453)	-	(483)
Write-offs	(1 773)	(14)	(48 597)	-	(50 384)
Other movements	2	-	1	-	3
Closing balance at 31 December 2018	**807**	**1 093**	**33 233**	**(1 939)**	**33 194**

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

Loans to individual customers

Mortgage loans	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit-impaired)**	**POCI**	**Total**
Opening balance at 1 January 2018	**2 264**	**14 375**	**31 727**	**298**	**48 664**
Transfers due to change in credit risk:					
-to lifetime (from Stage 1 to Stage 2)	-	(832)	-	(4)	(836)
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	8 056	46	8 102
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(130)	-	-	(4)	(134)
-remaining credit risk changes	(605)	(1 797)	(3 130)	(151)	(5 683)
New originated or purchased	212	25	217	-	454
Derecognised	-	-	-	-	-
Write-offs	-	-	(1)	-	(1)
Other movements	2	18	141	(1)	160
Closing balance at 31 December 2018	**1 743**	**11 789**	**37 010**	**184**	**50 726**

Consumer and card loans	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit-impaired)**	**POCI**	**Total**
Opening balance at 1 January 2018	**335**	**10**	**1 071**	**0**	**1 416**
Transfers due to change in credit risk:					
-to lifetime (from Stage 1 to Stage 2)	-	29	-	-	29
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	604	-	604
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	2	-	-	-	2
-remaining credit risk changes	8	(12)	30	1	27
New originated or purchased	49	-	28	-	77
Derecognised	(15)	(1)	(86)	-	(102)
Write-offs	(23)	(19)	(673)	-	(715)
Other movements	-	-	-	-	-
Closing balance at 31 December 2018	**356**	**7**	**974**	**1**	**1 338**

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

4 RISK MANAGEMENT (continued)

Other loans	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit-impaired)**	**POCI**	**Total**
Opening balance at 1 January 2018	**108**	**1 035**	**14 433**	**38**	**15 614**
Transfers due to change in credit risk:	-	-	-	-	
-to lifetime (from Stage 1 to Stage 2)	-	(413)	-	-	(413)
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	318	-	318
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	55	-	-	-	55
-remaining credit risk changes	(72)	64	(643)	(38)	(689)
New originated or purchased	17	1	114	-	132
Derecognised	(72)	(595)	(682)	-	(1 349)
Write-offs	(10)	(8)	(9 956)	-	(9 974)
Other movements	(1)	1	23	-	23
Closing balance at 31 December 2018	**25**	**85**	**3 607**	**0**	**3 717**

The most significant changes in the loss allowances and the changes in the gross carrying amount by the same amount were due to the write-offs, the most impacted financial instruments were business customers loans (Group decrease by 53 964 thousand EUR and Bank decrease by 59 550 thousand EUR) and individual customers mortgage loans (Group and Bank decrease by 2 062 tEUR) and other loans (Group decrease by 11 861 thousand EUR and Bank decrease by 11 861 thousand EUR). Newly originated financial assets consequently came with the increase in the loss allowances with the biggest impact on business customers loans (Group change in allowances – 617 thousand EUR, gross amount 327 787 thousand EUR at 31 December 2018, Bank change in allowances – 195 thousand EUR, gross amount 211 795 thousand EUR at 31 December 2018) and individual customers mortgage loans (Group and Bank change in allowances – 405 thousand EUR gross amount 97 006 thousand EUR at 31 December 2018).

b) Information about collaterals of loans

Upon initial recognition of loans and advances, the fair value of collateral is based on the valuation techniques commonly used for the corresponding types of collateral. Market values (or purchase price, whichever is lower) are used for real estate and movable assets serving as collateral. The value of collateral should be reconsidered periodically. The frequency and conditions mostly depend on performing/non-performing status and exposure size. The value of residential real estate is recalculated periodically by applying the indices.

The Bank takes into account guarantees issued by the State, other parties issuing guarantees which are equivalent to the State guarantees municipalities, banks in disclosing information on guarantees serving as collateral. Guarantees and warranties issued by other parties (private individuals, legal entities), although they mitigate the risk, are considered to be immaterial and are not disclosed here.

If exposure is secured by several different types of collateral, priority in recognition of a collateral is based on its liquidity. Securities, cash and guarantees are treated as the types of collateral with highest liquidity followed by residential real estate and then other real estate. Movable assets like transport vehicles, equipment and other assets are treated as having lowest liquidity.

The most commonly used type of collateral is residential real estate comprising 56 % of the secured part of the Group’s loan portfolio (2017: 50 %).

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

4 RISK MANAGEMENT (continued)

31 December 2018

	Group loans and advances to customers					
	Business customers	%	**Individual customers**	%	**Total**	%
Unsecured loans	312 629	19%	144 051	8%	456 680	13%
Loans collateralized by:	1 343 610	81%	1 664 466	92%	3 008 076	87%
- residential real estate	68 741	4%	1 538 607	85%	1 607 349	46%
- other real estate	399 546	24%	10 556	1%	410 102	12%
- securities	-	-	-	-	-	-
- guarantees	170 403	10%	4 942	0%	175 346	5%
- other assets	704 920	43%	110 360	6%	815 280	24%
Total	1 656 239	100%	1 808 517	100%	3 464 756	100%

31 December 2017

	Group loans and advances to customers					
	Business customers	%	**Individual customers**	%	**Total**	%
Unsecured loans	472 763	29%	191 435	10%	664 198	19%
Loans collateralized by:	1 171 917	71%	1 691 150	90%	2 863 066	81%
- residential real estate	83 701	5%	1 561 615	83%	1 645 316	47%
- other real estate	445 831	27%	13 247	1%	459 078	13%
- securities	-	-	-	-	-	-
- guarantees	54 350	3%	10 048	1%	64 398	2%
- other assets	588 035	36%	106 239	6%	694 274	20%
Total	1 644 679	100%	1 882 585	100%	3 527 264	100%

31 December 2018

	Bank loans and advances to customers					
	Business customers	%	**Individual customers**	%	**Total**	%
Unsecured loans	762 207	43%	136 616	8%	898 824	26%
Loans collateralized by:	994 822	57%	1 555 039	92%	2 549 860	74%
- residential real estate	68 741	4%	1 538 607	91%	1 607 349	47%
- other real estate	424 104	24%	10 556	1%	434 661	13%
- securities	-	-	-	-	-	-
- guarantees	170 403	10%	4 942	0%	175 346	5%
- other assets	331 573	19%	933	0%	332 505	10%
Total	1 757 029	100%	1 691 655	100%	3 448 684	100%

31 December 2017

	Bank loans and advances to customers					
	Business customers	%	**Individual customers**	%	**Total**	%
Unsecured loans	983 722	56%	185 391	10%	1 169 113	33%
Loans collateralized by:	786 782	44%	1 586 080	90%	2 372 861	67%
- residential real estate	83 701	5%	1 561 615	88%	1 645 316	46%
- other real estate	470 781	27%	13 247	1%	484 029	14%
- securities	-	-	-	-	-	-
- guarantees	54 350	3%	10 048	1%	64 398	2%
- other assets	177 950	10%	1 169	0%	179 119	5%
Total	1 770 504	100%	1 771 471	100%	3 541 975	100%

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

Fair value of collateral is calculated excluding guarantees of private individuals and legal entities, collateral for leasing and factoring agreements is included. State guarantees and guarantees equivalent to state guarantees are included. Collateral values are capped to gross amount of the exposure.

The amount of credit-impaired loans is reported together with the value of related collateral held as security in the tables below. Credit-impaired loans are most often secured by real estate and movable assets. Value for such collateral is equal to its market value (not liquidation value), which is updated shortly after identification of default.

Group **31 December 2018**

Credit-impaired loans	**Gross**	***Of which initial impairment***	**Allowance for impairment**	**Net**	**Fair value of collateral**
Business customers	147 736	*(12 837)*	(32 712)	115 024	*128 597*
Individual customers	108 481	*(474)*	(42 062)	66 419	88 590
Total	**256 217**	**(13 311)**	**(74 774)**	**181 443**	**217 187**

Bank **31 December 2018**

Credit-impaired loans	**Gross**	***Of which initial impairment***	**Allowance for impairment**	**Net**	**Fair value of collateral**
Business customers	142 002	*(12 224)*	(30 198)	111 804	122 144
Individual customers	107 524	*(472)*	(41 799)	65 725	87 903
Total	**249 526**	***(12 696)***	**(71 997)**	**177 529**	**210 047**

4.1.7. Exposures rated by External Credit Assessment Institutions

Table below presents analysis of debt securities of the Group and the Bank by rating agency designation at 31 December 2018 based on Fitch's ratings or their equivalent.

31 December 2018

Rating	**Securities designated at fair value through profit or loss**	**Total**
Aaa	-	**-**
From Aa3 to Aa1	23 076	**23 076**
From A3 to A1	33 134	**33 134**
From Baa1 to Ba3	-	**-**
From B1 to B3	-	**-**
No rating	-	**-**
Total	**56 210**	**56 210**

31 December 2017

Rating	**Securities designated at fair value through profit or loss**	**Total**
Aaa	-	**-**
From Aa3 to Aa1	30 197	**30 197**
From A3 to A1	46 111	**46 111**
From Baa1 to Ba3	-	**-**
From B1 to B3	-	**-**
No rating	-	**-**
Total	**76 308**	**76 308**

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

Table below presents analysis of debt securities of the Group and the Bank by rating agency designation at 31 December 2018 based on Fitch's ratings or their equivalent.

31 December 2018

Rating	**Due from credit institutions**	**Total**
Aaa	-	**-**
From Aa3 to Aa1	-	**-**
From A3 to A1	40 180	**40 180**
From Baa1 to Ba3	11 472	**11 472**
From B1 to B3	-	**-**
No rating	65	**65**
Total	**51 717**	**51 717**

31 December 2017

Rating	**Due from credit institutions**	**Total**
Aaa	-	**-**
From Aa3 to Aa1	-	**-**
From A3 to A1	88 516	**88 516**
From Baa1 to Ba3	1	**1**
From B1 to B3	-	**-**
No rating	16 940-	**16 940**
Total	**105 457**	**105 457**

4.1.8. Repossessed assets

The Group and the Bank obtained assets by taking possession of collateral held as security, as follows:

	Gross amount			
	Group		**Bank**	
Nature of assets at gross values	**2018**	**2017**	**2018**	**2017**
Repossessed assets (investment properties, Note 24)	18 103	34 136	459	1 021
Repossessed assets (non-current assets held for sale	147	2 656	-	519
Total	**18 250**	**36 792**	**459**	**1 540**

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

4 RISK MANAGEMENT (continued)

4.1.9. Concentration of risks of financial assets with credit risk exposure

Economic sectors

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

Group

	2018		2017	
	Amount	**%**	**Amount**	**%**
Financial intermediation	121 465	3.6%	29 080	0.9%
Agriculture, hunting, forestry, fishing	195 045	5.8%	192 957	5.7%
Manufacturing	192 493	5.7%	168 775	5.0%
Electricity, gas, water supply	116 467	3.5%	109 576	3.2%
Construction	49 402	1.5%	59 412	1.8%
Wholesale and retail trade	283 967	8.4%	281 173	8.3%
Transport, storage, communication	125 869	3.7%	160 952	4.8%
Real estate activities*	375 620	11.1%	352 065	10.4%
Public sector	5 358	0.2%	10 751	0.3%
Other industries	154 806	4.6%	177 940	5.3%
Private individuals	1 752 332	52.0%	1 829 767	54.3%
Total	**3 372 824**	**100.0%**	**3 372 448**	**100.0%**

Bank

	2018		2017	
	Amount	**%**	**Amount**	**%**
Financial intermediation	240 741	7.2%	207 472	6.1%
Agriculture, hunting, forestry, fishing	129 383	3.8%	121 842	3.6%
Manufacturing	126 910	3.8%	110 842	3.3%
Electricity, gas, water supply	113 975	3.4%	106 864	3.2%
Construction	26 132	0.8%	33 183	1.0%
Wholesale and retail trade	213 896	6.4%	210 291	6.2%
Transport, storage, communication	53 089	1.6%	63 197	1.9%
Real estate activities	408 706	12.2%	401 056	11.8%
Public sector	174	0.0%	9 146	0.3%
Other industries	411 859	12.3%	400 699	11.8%
Private individuals	1 635 873	48.7%	1 719 906	50.8%
Total	**3 360 738**	**100.0%**	**3 384 498**	**100.0%**

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

4 RISK MANAGEMENT (continued)

2. Market risk

The Group and the Bank takes on low exposure to market risk, which can be treated as the risk of losses in on- and off-balance sheet positions arising from adverse movements in market parameters such as currency exchange rates (currency risk), interest rates (interest rate risk), equity prices (equity risk) or commodity prices (commodity risk). The most significant part of market risk for the Group and the Bank is interest rate risk while significance of other risks is lower.

Interest rate risk is assessed using the basis point value (BPV) method, which measures the impact on the value of net cash flows given a one basis point (0.01%) parallel shift in market interest rates. An exchange rate risk is evaluated by calculation of open foreign exchange positions. The BPV calculations are performed on a regular basis and submitted to the Group's Management, as well as Group's Markets and Treasury & ALM departments. Interest rate and foreign exchange risks are restricted by the limits determined by the Luminor Management Board and Supervisory Council, and monitored on regular basis by the Market Risk department.

2.1 Market risk measurement approaches

The Group and the Bank is mainly focused on foreign exchange and interest rate risk management.

Interest rate risk is assessed as an impact of yield curve's parallel shift on a present value of the gap between total liabilities and total assets. In general assets have longer maturities than liabilities, which creates risk due to open interest rate position. Therefore, interbank funding is attracted to decrease the discrepancy between long and short terms. In addition to this, interest rate swaps are used to achieve and maintain an acceptable level of interest rate risk.

Foreign exchange (hereinafter referred to as FX) risk is assessed as an open position between assets and liabilities in a respective currency. Open positions for all currencies in the Group and the Bank are restricted by the limits set by the Luminor Management Board and Supervisory Council, and monitored on a daily basis.

2.2. FX risk

The Group's and the Bank's main exposure is towards euro currency (EUR), while positions of other currencies are not significant. Conservative approach to FX risk is followed within the Group. It is measured as the nominal value of the open FX positions converted to EUR using European Central Bank (ECB) rates. The Group and the Bank is responsible for staying within the given limits – both intraday and overnight. Some technical deviations from limits are allowed only for short term when servicing customers. The Group and the Bank has approved limits for USD, Sum of other currencies, Max of other currencies and Total currencies.

The Group's exposure to FX expressed in thousands EUR

Currency	31 December 2018 EUR'000	31 December 2017 EUR'000
USD	271	617
Max of other currencies	220	33
Sum of other currencies	525	130
Total	**689**	**721**

Sensitivity of FX risk

FX risk is limited by amounts of open FX positions. For sensitivity calculation of FX risk, all exposures shall be converted into possible loss amounts, i.e. open FX position is multiplied by possible FX rate change. This parameter for the Group is 5.4% for all currencies and is developed using VaR approach based on 99 per cent confidence level and 10 days holding period. Horizon of data analysed includes the latest financial crisis in 2008-2009 and is at least 5 years of historical developments of FX rates.

Calculation of sensitivity of FX risk shows immaterial impact for the Group in 2018.

2.3. Interest rate risk

The main source of interest rate risk in the Group is repricing risk – risk related to the timing mismatch in the maturity and repricing of assets and liabilities of on- and off-balance sheet positions. Pursuant to Luminor Market Risk policy interest rate risk is limited in terms of BPV, i.e. the change in net cash flows (gaps) given a one basis point (0.01%) parallel shift in market interest rates. Separate limits for Banking and Trading activities are approved by the Luminor Management Board and Supervisory Council, as well as limits for different currencies: EUR, USD, NOK and all other currencies. When calculating the total exposure the sums of BPV in each currency are aggregated irrespective if the total exposure in each individual currency is a short or long position, i.e. netting of positions between currencies is not allowed. The main part of the interest rate risk arises from the positions that are denominated in euro currency.

4 RISK MANAGEMENT (continued)

Changes in interest rates do not have to be the same for all time buckets. To limit risk exposure resulting from different time buckets, so-called gapping limits are determined for each of them. Limit established for each time bucket is defined as a percentage of the total BPV limit allocated to the relevant currency. All time buckets till one year period are limited to 100% of total BPV, 1-2 years gap is limited to 120% of total BPV, and all time buckets above 2 years has the limit of 150% of total BPV.

The Group's BPV exposure by currencies for both trading and banking activities in EUR:

Currency	31 December 2018 EUR'000	31 December 2017 EUR'000
EUR	(3 222)	(3 799)
USD	223	307
NOK	46	24
Other currencies	(530)	(111)

Sensitivity of interest rate risk

Interest rate risk exposure cannot exceed BPV limits approved by the Luminor Management Board and Supervisory Council. Assuming a 200 basis points parallel shift of the yield curve, sensitivity of interest rate risk shall be calculated multiplying total BPV exposure by interest rate change. The above mentioned shift of the yield curve creates the following impact on the Group's equity and profit / loss in thousands EUR:

	31 December 2018 EUR'000	31 December 2017 EUR'000
Equity	697	523
Profit / Loss	1 693	3 081

2.4 Equity and commodity risk

The Group and the Bank does not have any open positions in commodity or equity instruments and is not exposed to changes in commodity or equity prices. The Group does not engage in proprietary stock trading.

3. Liquidity risk

Liquidity risk means the risk that the Group and the Bank is unable to meet its financial obligations in time, the risk to incur losses due to the sudden decrease in financial resources (e.g. a financial crisis situation may result in delay of incoming payments) or an increase in price of the new resources designed for refinancing. The consequence of liquidity risk occurrence may be the failure to meet obligations to repay depositors and fulfil loan commitments. The Group and the Bank uses a range of liquidity metrics for measuring, monitoring and controlling liquidity risk including Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), internal liquidity limits.

Liquidity risk is managed in a manner to ensure a constant ability to settle contractual obligations. The Group has developed a set of early warning indicators for a timely identification of liquidity crises, and business and funding contingency funding plans to manage the Group's and the Bank's liquidity during the market disruption. Liquidity risk management strategy is reviewed at least annually or after any significant change in the internal or external environment the Group operates in.

3.1 Liquidity risk management process

Liquidity risk is managed across three Lines of Defence:

- The First Line of Defence comprises the Group's Treasury & ALM (TALM) and the Business Areas. TALM is responsible for the daily liquidity management and Funds Transfer Pricing (FTP). To ensure funding in situations where Luminor is in urgent need of cash and the normal funding sources do not suffice, Luminor holds a liquidity buffer that consists of central bank cash and high quality securities that can be readily sold or used as collateral in funding operations.
- Market Risk department acts as the Second Line of Defence and is responsible for providing independent oversight of liquidity risk.
- The Third Line of Defence includes the Group's Internal Audit, which is responsible for providing independent oversight of the First and Second Lines of Defence.

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

Liquidity risk management is divided into long-term (1 year), short-term (1 week to 3 months) risk management and intraday liquidity management. The aim of short-term liquidity management is to meet the daily need for funds to ensure the compliance with the reserve and liquidity requirements set by the ECB, as well as the compliance with internal liquidity limits. Short-term liquidity is maintained through daily monitoring of the liquidity status, day-to-day funding and trading the appropriate financial instruments for liquidity purposes. Long-term liquidity risk management is supported by analysing the estimated future cash flows taking into account the deposit and loan portfolio growth as well as possible refinancing sources.

For the purpose of liquidity risk assessment the liquidity gap is analysed taking into account the maturity of cash flows. The liquidity risk is restricted by imposing the internal limits on liquidity gap. Utilization of this limit is subject to regular monitoring and reporting to various management bodies in the Group.

Liquidity gap is calculated by analysing the Group's net refinancing situation within one week, one month and three months applying"a "business as us"al" approach. Liquid assets and short term liabilities are included in liquidity gap calculation for respective terms (1 week to 3 months).

Liquidity Coverage Ratio is calculated as the ratio of a credit institution's liquidity buffer to its net liquidity outflows over a 30 calendar day stress period and shall be expressed as a percentage. Since Lithuania, Latvia and Estonia are all members of the EU, LCR is applicable to the Group as a Europe wide requirement. Minimum limit of LCR is set at 100%, however the Group has substantial buffer and maintains a higher ratio. LCR is intended to promote short-term resilience of the Group's liquidity risk profile and requires to hold risk-free assets that may be easily liquidated on markets in order to meet required payments for outflows net of inflows during a thirty-day crisis period without the support from the central bank. At the end of 2018, the LCR ratio of the Group was 180%.

The analysis of the Group and Bank balance sheet items by remaining maturity is seen in Note 38.

The Net Stable Funding Ratio (NSFR) is defined as the amount of available stable funding relative to the amount of required stable funding over the one year time horizon. Minimum requirement for NSFR is 100%, however the Group has a substantial buffer and maintains a higher ratio.

Liquidity metrics of the Group:

Liquidity metric	**31 December 2018**	**31 December 2017**
1W liquidity gapping	EUR 1 046 million	EUR 1 113 million
1M liquidity gapping	EUR 982 million	EUR 1 044 million
3M liquidity gapping	EUR 844 million	EUR 781 million
LCR	180%	169%
NSFR	113%	118%
Loan to deposit ratio	119%	116%

3.2. Off-balance sheet items

The analysis of nominal off-balance sheet items of the Bank by remaining maturity is seen in Note 38.

3.3. Liquidity buffer and collateral management

The Group has a contractual agreement for funding in place with shareholders DNB Bank ASA and Nordea Bank Abp. This strongly mitigates the likelihood of funding liquidity risk which may be caused by deposit run off, wholesale funding risk (roll over and new issuance), unexpected outflows from off-balance sheet obligations and legal risks (e.g. not being able to do issuance due to legal restrictions). As the Group is going towards more reliance on self-funding rather than on support from shareholders, other funding sources are being established or are already in place for diversifying the funding base. For example, the Group is taking part in the ECB's Eurosystem open market operations. In particular, the Group is a user of the ECB Targeted Long Term Refinancing Operations (TLTRO).

The main liquidity buffer is the Group's Target subaccount with the central bank, where the Group held EUR 1.0 billion at the end of year 2018. This buffer can be utilized at any time when the need arises. The Group has established a liquidity portfolio with intention to accumulate high quality liquid debt securities. The portfolio is accounted at fair value. Currently the size of the portfolio is set at the level of EUR 85 million with relatively short portfolio average duration and maximum duration of the debt securities is set at 5 years. The portfolio is targeting to ensure the continuity of the Group's operations and provides the stabilisation effect for all liquidity risk metrics including LCR. The securities held in the portfolio are by definition unencumbered and available for instant raise of funds in unexpected or stressed situations. At the end of year 2018 part of this portfolio has been pledged as a collateral in order to get TLTRO low cost funding through Eurosystem's open market operations. Pledged debt securities are accounted separately from the liquidity portfolio and are not included into liquid assets, for instance in LCR calculations.

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

4 RISK MANAGEMENT (continued)

4. Operational risk

Within one year following the merge Luminor continued to pursue strategic initiatives and goals by changing ownership, governance structure and corporate mindset. Responding to increased focus in the area of money-laundering prevention and compliance within Baltic banking industry in 2018, the top priority for Luminor was building strong internal controls and sound risk culture.

Luminor Group Operational Risk is an independent internal control function within second line of defense and covers operational risk management, information security, physical security and personal data protection.

Operational risk management in Luminor is governed by Operational Risk Policy and underlying tools, the main principle of which is that operational risk should be low and risk management should ensure that risk of unexpected losses is reduced. Each manager and process owner is responsible for management of risks inherent to the activities and processes of their area and to foster sound risk management culture in their respective reporting lines.

Operational risk incidents in Luminor are reported, registered in operational risk incident database and continuously followed. Operational risk incident database represents valuable information source for Management Reporting, Business Impact Assessment, annual Risk Control Self-Assessment and internal Stress Testing, which are important elements in operational risk management framework in Luminor.

Information Security is an integral part of risk management as Luminor is striving to provide the best digital offering in the market and be the first to launch innovative solutions. This requires wide usage of Information and Communication Technology (ICT) systems to empower and automate business processes. Information Security processes in Luminor are designed to protect information against accidental or malicious disclosure, modification, or destruction and to meet regulatory, legislative and contractual requirements concerning information security. To comply with General Data Protection Regulation (GDPR) Luminor has established Data Protection Officers function and renewed required internal regulations, technical and organizational measures. All employees at all levels are constantly trained in information security and data protection areas to maintain awareness of the associated risks and necessary measures.

Luminor management is kept updated on the status of operational risk through the periodic and on-demand risk reports, results of annual Risk Control Self-Assessment and Stress Testing exercises. Management reports include presentation of key group-wide operational risks, relevant improvement measures and detailed qualitative assessment. Annual operational risk stress test analysis helps management to understand the nature and extent of vulnerabilities to which Luminor is exposed in order to consider them in the strategic planning.

Luminor insurance coverage is an additional element in operational risk management. Insurance contracts limit the financial consequences of undesirable incidents, which occur in spite of established security routines and risk-mitigating measures. The insurance program additionally covers legal liabilities related to Luminor operations.

5. Stress tests

Besides the regular assessment of the risks and the capital requirement calculation, the Group and the Bank also performs stress tests for the credit, liquidity, market (interest rate and foreign exchange), operational risks and the stress testing of the financial plan (business risk). The purpose of the stress-testing is to evaluate whether the Group’s and the Bank’s capital is sufficient to cover those extraordinary losses that might occur in the case where the testing scenario is realised as well as to prepare the contingency plan for the Group and the Bank. In order to evaluate the losses caused by the aforesaid risks the realisations of the baseline, adverse, severe adverse and fail or likely to fail (FOLTF) scenarios are assumed. Liquidity risk is tested under the following scenarios: an Idiosyncratic scenario, a market wide scenario and a combination of the two (i.e. combined).

Notes to the Financial Statements *(continued)*

5 INTEREST INCOME

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Interest income:				
Interest on financial assets measured at amortised cost:	95 632	55 873	83 005	49 127
- interest on loans and receivables to customers	80 478	47 053	82 205	47 704
-interest on finance lease	14 702	7 397	-	-
- interest on balances due from credit institutions and central banks	91	149	439	149
- negative interest on liabilities	361	1 274	361	1 274
Interest on financial assets designated at fair value through profit or loss	49	76	49	76
Total interest income	**95 681**	**55 949**	**83 054**	**49 203**

6 INTEREST EXPENSE

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Interest expense:				
- interest on deposits from customers	(4 518)	(1 841)	(4 444)	(1 848)
- interest on balances due to credit institutions	(2 254)	(1 476)	(2 334)	(1 030)
- negative interest on interest bearing assets	(3 226)	(2 203)	(3 226)	(2 203)
- financial stability fee costs	(2 289)	(1 465)	(2 289)	(1 465)
- payments to Deposit Guarantee Fund	(2 145)	(1 404)	(2 145)	(1 404)
- Single Resolution Fund expense	(728)	(555)	(728)	(555)
Total interest expense	**(15 160)**	**(8 944)**	**(15 166)**	**(8 505)**
Net interest income	**80 521**	**47 005**	**67 888**	**40 698**

7 FEES AND COMMISSION INCOME

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Money transfers	4 448	3 102	4 451	3 103
Credit card service	12 538	8 959	12 536	8 959
Assets management	2 913	3 927	-	-
Client service	3 646	2 205	3 649	2 204
Brokerage services from insurance companies	2 007	1 087	1 188	1 087
Commissions on loans monitoring and service	2 423	668	2 201	616
Investment instruments	1 125	1 034	1 125	1 044
Guarantees	2 832	1 062	2 802	1 136
Cash operations	229	193	229	193
Trade finance	621	323	739	323
Other	1 748	998	1 112	1 107
Total fees and commission income	**34 530**	**23 558**	**30 032**	**19 772**

Notes to the Financial Statements *(continued)*

8 FEES AND COMMISSION EXPENSES

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Credit card service	(7 280)	(4 739)	(7 665)	(4 739)
Cash operations	(26)	(488)	(26)	(488)
Money transfers	(768)	(584)	(768)	(582)
Client Service	(474)	(350)	(298)	(350)
Securities	(237)	(126)	(216)	(127)
Guarantees	(26)	(25)	(26)	(25)
Other	(166)	(515)	(164)	(125)
Total fee and commission expenses	**(8 977)**	**(6 827)**	**(9 163)**	**(6 436)**
Net fees and commissions	**25 553**	**16 731**	**20 869**	**13 336**

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

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Gain from operations with foreign currencies	3 228	2 437	3 232	2 437
Gain/ (Loss) from revaluation of financial assets at fair value through profit or loss	(120)	55	(120)	55
Gain / (Loss) from foreign currency revaluation	3 508	855	3 511	843
Gain from derivatives	9 340	5 043	9 340	5 043
	15 956	**8 390**	**15 963**	**8 378**

10 NET RESULT FROM OPERATIONS WITH INVESTMENT PROPERTY

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Net rental expenses/income				
Rent of investment property	231	1 263	-	34
Investment property related expenses	(1 512)	(1 936)	(52)	(248)
Net rental expenses	**(1 281)**	**(673)**	**(52)**	**(214)**
Net profit / loss from revaluation and sale				
Net (loss) from revaluation and sale of investment property	**(1 890)**	**(9 841)**	**(63)**	**(577)**
Net result from operations with investment property	**(3 171)**	**(10 514)**	**(115)**	**(791)**

The Group strategy is to dispose all investment properties rather than hold them to earn rentals, therefore rental income is significantly below expenses related to investment properties.

Notes to the Financial Statements *(continued)*

11 OTHER OPERATING INCOME

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Income related to Loan recovery	312	531	312	531
Penalty income	18	5	18	1
Income from services to group companies	3 010	1 923	4 793	4 612
Rent income	404	660	-	5
Other operating income	593	1 066	289	339
Total	**4 337**	**4 185**	**5 412**	**5 488**

12 ADMINISTRATIVE EXPENSES

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Salary to Management Board	1 090	531	1 090	531
Salary to employees	26 875	17 454	24 865	16 874
Social insurance contributions	6 400	4 226	5 875	4 092
Insurance to personnel	412	323	412	320
Other personal costs	1 030	1 147	998	1 146
Personnel expenses	**35 807**	**23 681**	**33 240**	**22 963**
IT costs	18 733	7 351	18 280	7 182
Advertising and representation	1 617	1 484	1 557	1 389
Maintenance costs of building	2 460	1 583	2 237	1 172
Rent	2 034	1 145	3 148	2 162
Payments for management services to Group	71	886	57	882
Communications	341	544	267	498
Professional services	2 304	744	2 125	657
Training	357	114	348	113
Insurance	323	140	234	100
Business travel	687	226	646	207
Other	2 955	2 811	2 545	2 332
Other administrative expenses	**31 882**	**17 028**	**31 444**	**16 694**
Total administrative expenses	**67 689**	**40 709**	**64 684**	**39 657**

Audit and other fees paid to the independent auditor company which has audited these financial statements are presented within professional services expenses. These fees by the type of service provided may be specified as follows:

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Annual and interim audit fee	300	266	202	200
Other audit and similar fees	1	2	1	2
Other services	-	6	-	6
Total	**301**	**274**	**203**	**208**

The number of full-time staff employed:

	2018 Group	2017 Group	2018 Bank	2017 Bank
Number of employees, end of period	1 035	1 013	974	942
Number of employees, average of period	1 019	726	956	707

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

13 OTHER OPERATING EXPENSES

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Loss from write off and sale of fixed assets	250	26	240	26
Loan collection expenses	319	895	231	783
Regulatory and association fees	1 784	884	1 733	854
Luminor group service costs	3 723	1 436	3 840	1 436
Other operating expenses	888	667	814	589
Total	**6 964**	**3 908**	**6 858**	**3 688**

14 CORPORATE INCOME TAX

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Current corporate income tax charge for the reporting year	(292)	2 029	(860)	1 253
Deferred corporate income tax due to changes in temporary differences	-	(508)	-	(508)
Reversal of deferred tax	-	9 889	-	9 653
Corporate income tax charged to the statement of comprehensive income:	**(292)**	**11 410**	**(860)**	**10 398**

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.

15 CASH AND CASH EQUIVALENTS

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Cash	46 041	44 966	46 041	44 966
Balances with the central banks	1 032 360	1 022 248	1 032 360	1 022 248
Cash and balances with central banks	**1 078 401**	**1 067 214**	**1 078 401**	**1 067 214**
Balances due from other credit institutions with the original maturity less than 3 months	40 309	90 794	40 309	90 025
Balances on demand due to other credit institutions	(2 864)	(5 576)	(2 864)	(5 576)
Total cash and cash equivalents	**1 115 846**	**1 152 432**	**1 115 846**	**1 151 663**

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.

Notes to the Financial Statements *(continued)*

16 DUE FROM CREDIT INSTITUTIONS

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Demand deposits				
Republic of Latvia credit institutions	-	784	-	15
OECD credit institutions*	40 277	32 464	40 277	32 464
Non-OECD credit institutions	32	1 386	32	1 386
Total demand deposits	**40 309**	**34 634**	**40 309**	**33 865**
Term deposits				
OECD credit institutions**	11 408	70 823	11 408	70 823
Total term deposits	**11 408**	**70 823**	**11 408**	**70 823**
Total	**51 717**	**105 457**	**51 717**	**104 688**

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

* Including DNB Bank ASA EUR 22 276 thousand and Nordea Bank Abp EUR 2 300 thousand (2017: DNB Bank ASA 15 438 thousand and Nordea Bank Abp EUR 2 300 thousand)
** Including DNB Bank ASA EUR 0 thousand (2017: EUR 56 170 thousand).

17 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans by original maturity

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Less than a year	14 418	24 064	5 306	10 758
More than a year	3 450 338	3 503 200	3 443 378	3 531 217
	3 464 756	**3 527 264**	**3 448 684**	**3 541 975**
Less allowances for loan impairment	(91 932)	(154 816)	(87 946)	(157 477)
Total	**3 372 824**	**3 372 448**	**3 360 738**	**3 384 498**

The average interest rate on loans as at 31 December 2018 was 2.24% (2017: 2.2%).

(b) Analysis of loans by client type

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Central banks	-	104	-	-
General governments	5 358	10 756	4 396	9 150
Other financial corporations	83 658	3 344	561 223	523 392
Non-financial corporations	1 567 223	1 630 824	1 191 410	1 237 962
Households	1 808 517	1 882 236	1 691 655	1 771 471
	3 464 756	**3 527 264**	**3 448 684**	**3 541 975**
Less allowances for loan impairment	(91 932)	(154 816)	(87 946)	(157 477)
Total	**3 372 824**	**3 372 448**	**3 360 738**	**3 384 498**

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

(c) Analysis of loans by products

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Mortgage loans	2 101 081	2 262 338	2 125 639	2 287 288
Commercial loans	815 405	648 359	1 257 032	1 163 094
Leasing	482 262	524 981	-	-
Card loans	18 665	19 645	18 666	19 652
Credit for consumption	34 387	32 285	34 391	32 285
Other	12 956	39 656	12 956	39 656
	3 464 756	**3 527 264**	**3 448 684**	**3 541 975**
Less allowances for loan impairment	(91 932)	(154 816)	(87 946)	(157 477)
Total	**3 372 824**	**3 372 448**	**3 360 738**	**3 384 498**

(d) Analysis of loans by industry

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Households	1 775 211	1 846 949	919 144	1 736 096
Management of real estate	331 569	381 172	367 796	436 225
Manufacturing	172 385	162 594	123 202	115 311
Trade	239 590	230 571	168 274	160 735
Transport	129 356	162 992	55 747	64 911
Agriculture	175 794	164 569	112 039	94 703
Construction	50 565	65 695	26 414	39 235
Accommodation and food service activities	25 718	30 560	24 286	28 994
Electricity, gas, steam and air conditioning supply	117 805	112 930	115 290	110 207
Other	161 662	214 587	1 268 483	613 540
Total loans to residents	**3 179 655**	**3 372 619**	**3 180 675**	**3 399 957**
Loans issued to non-residents	285 101	154 645	268 009	142 018
	3 464 756	**3 527 264**	**3 448 684**	**3 541 975**
Less allowances for loan impairment	(91 932)	(154 816)	(87 946)	(157 477)
Total	**3 372 824**	**3 372 448**	**3 360 738**	**3 384 498**

(e) Analysis of loans by countries

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Latvia	3 179 655	3 372 619	3 180 675	3 399 957
Other countries	285 101	154 645	268 009	142 018
Total	**3 464 756**	**3 527 264**	**3 448 684**	**3 541 975**
Less allowances for loan impairment	(91 932)	(154 816)	(87 946)	(157 477)
Total	**3 372 824**	**3 372 448**	**3 360 738**	**3 384 498**

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(f) Gross investment in finance lease

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Not later than 1 year	169 211	185 847	-	-
1 – 5 years	330 613	352 454	-	-
More than 5 years	1 880	5 762	-	-
Total gross finance lease receivables	**501 704**	**544 063**	**-**	**-**

Unearned future interest income from investments in finance lease

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Not later than 1 year	8 958	10 147	-	-
1 – 5 years	10 460	12 282	-	-
More than 5 years	24	80	-	-
Total unearned future interest income	**19 442**	**22 509**	**-**	**-**

Net investment in finance lease

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Not later than 1 year	160 253	175 699	-	-
1 – 5 years	320 153	343 600	-	-
More than 5 years	1 856	5 682	-	-
Total investment in finance lease	**482 262**	**524 981**	**-**	**-**
Less allowances for individual loan impairment	(3 439)	(3 427)	-	-
Total net investment in finance lease	**478 823**	**521 554**	**-**	**-**

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

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Mortgage loans	1 793 073	1 958 674	1 817 631	1 983 624
Commercial loans	740 751	506 505	1 185 509	1 008 401
Leasing	454 875	497 976	-	-
Card loans	13 302	13 875	13 303	13 882
Credit for consumption	31 334	30 681	31 334	30 681
Other	7 463	11 110	7 463	11 110
Total	**3 040 798**	**3 018 821**	**3 055 240**	**3 047 698**

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Mortgage loans				
Past due up to 30 days	86 782	98 214	86 782	98 214
Past due 31-60 days	12 961	18 243	12 961	18 243
Past due 61-90 days	3 193	6 216	3 193	6 216
Past due over 90 days	-	615	-	615
Total	**102 936**	**123 288**	**102 936**	**123 288**
Commercial loans				
Past due up to 30 days	33 726	41 641	28 919	36 379
Past due 31-60 days	3 430	21 705	3 430	21 705
Past due 61-90 days	183	2 845	183	2 845
Past due over 90 days	-	372		372
Total	**37 339**	**66 563**	**32 532**	**61 301**
Leasing				
Past due up to 30 days	16 518	18 997	-	-
Past due 31-60 days	2 397	2 829	-	-
Past due 61-90 days	95	216	-	-
Past due over 90 days	10	868	-	-
Total	**19 020**	**22 910**	**-**	**-**
Card loans				
Past due up to 30 days	4 180	4 637	4 180	4 637
Past due 31-60 days	157	223	157	223
Past due 61-90 days	54	76	54	76
Past due over 90 days	1	80	1	80
Total	**4 392**	**5 016**	**4 392**	**5 016**
Credit for consumption				
Past due up to 30 days	2 461	1 067	2 461	1 067
Past due 31-60 days	85	95	89	95
Past due 61-90 days	38	65	38	65
Past due over 90 days	-	15	-	15
Total	**2 584**	**1 242**	**2 588**	**1 242**
Other loans				
Past due up to 30 days	1 280	1 249	1 280	1 249
Past due 31-60 days	190	516	190	516
Past due 61-90 days	-	45	-	45
Past due over 90 days	-	134	-	134
Total	**1 470**	**1 944**	**1 470**	**1 944**
Total				
Past due up to 30 days	144 947	165 805	123 622	141 546
Past due 31-60 days	19 220	43 611	16 827	40 782
Past due 61-90 days	3 563	9 463	3 468	9 247
Past due over 90 days	11	2 084	1	1 216
Total	**167 741**	**220 963**	**143 918**	**192 791**
Total gross loans and advances to customers past due but not impaired	167 741	220 963	143 918	192 791
Fair value of collateral	**125 140**	**133 184**	**125 140**	**130 553**

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

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	2018 Group EUR'000	**2017 Group EUR'000**	**2018 Bank EUR'000**	**2017 Bank EUR'000**
Mortgage loans	205 074	180 376	205 074	180 376
Commercial loans	37 315	75 290	38 991	93 392
Leasing	8 367	4 096	-	-
Card loans	971	754	971	754
Credit for consumption	468	362	468	362
Other	4 022	26 602	4 022	26 602
Total	**256 217**	**287 480**	**249 526**	**301 486**

(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 2018				
Total gross loans	2 101 081	815 405	548 270	**3 464 756**
Fair value of collateral*	1 968 218	542 057	7 263	**2 517 538**
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**

(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 2018				
Total gross loans	2 125 639	1 257 032	66 013	**3 448 684**
Fair value of collateral*	1 992 776	542 057	7 263	**2 542 096**
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**

*Collateral amount is presented in accordance with the requirements of FINREP.

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(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)

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Mortgage loans	61 127	91 836	61 127	91 836
Commercial loans	4 944	8 347	4 944	8 347
Leasing	2 629	2 014	-	-
Credit for consumption	19	51	19	51
Other	546	3 088	546	3 088
Total	**69 265**	**105 336**	**66 636**	**103 322**

The following table provides the division of Group's restructured loans and advances to customers as at 31 December 2018:

	Neither past due nor impaired EUR'000	Past due but not impaired EUR'000	Impaired EUR'000	Total EUR'000
Mortgage loans	6 263	3 524	51 340	**61 127**
Commercial loans	-	350	4 594	**4 944**
Leasing	1 848	26	755	**2 629**
Credit for consumption	10	9	-	**19**
Other	74	21	451	**546**
Total	**8 195**	**3 930**	**57 140**	**69 265**

The following table provides the division of Bank's restructured loans and advances to customers as at 31 December 2018:

	Neither past due nor impaired EUR'000	Past due but not impaired EUR'000	Impaired EUR'000	Total EUR'000
Mortgage loans	6 263	3 524	51 340	**61 127**
Commercial loans	-	350	4 594	**4 944**
Credit for consumption	10	9	-	**19**
Other	74	21	451	**546**
Total	**6 347**	**3 904**	**56 385**	**66 636**

Notes to the Financial Statements *(continued)*

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 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**
Total	**42 641**	**12 248**	**48 433**	**103 322**

18 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets designated at fair value through profit or loss

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Debt securities				
Latvian government securities	33 134	46 111	33 134	46 111
OECD financial institutions securities	23 076	30 197	23 076	30 197
Total debt securities	**56 210**	**76 308**	**56 210**	**76 308**
Total	**56 210**	**76 308**	**56 210**	**76 308**

Notes to the Financial Statements *(continued)*

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

Moody's equivalent grades	2018 EUR'000	2018 %	2017 EUR'000	2017 %
Aaa	-	-	-	-
Aa1-A3	56 210*	100	76 308*	100
Baa1-Baa2	-	-	-	-
Baa3	-	-	-	-
	-	-	-	-
Total	**56 210**	**100**	**76 308**	**100**

* Latvian government securities are classified according to credit rating of Latvia; OECD financial institutions securities are classified according to credit rating of covered securities.

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

19 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Equity instruments				
VISA Inc. shares	3 582	2 526	3 582	2 526
S.W.I.F.T. SCRL shares	79	21	79	21
Total	**3 661**	**2 547**	**3 661**	**2 547**

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 2018 EUR'000	Impairment 2018 EUR'000	Net investment Value 2018 EUR'000	Investment value 2017 EUR'000	Impairment 2017 EUR'000	Net investment Value 2017 EUR'000
SIA Luminor Līzings Latvija	4 838	100	4 838	-	4 838	4 838	-	4 838
SIA Skanstes 12	1 181	100	1 181	-	1 181	1 181	-	1 181
SIA Salvus*	13 567	100	13 566	12 868	698	9 467	9 467	-
SIA Salvus 2*	3 031	100	3 031	695	2 336	3 031	695	2 336
SIA Salvus 3*	4 007	100	4 007	4 007	-	1 307	1 307	-
SIA Salvus 4*	1 935	100	1 935	1 851	84	735	735	-
SIA Salvus 6*	300	100	300	-	300	300	-	300
SIA Luminor Līzings	4 410	100	39 083	-	39 083	39 083	-	39 083
AS Luminor Latvijas atklātais pensiju fonds	400	100	200	-	200	200	-	200
IPAS Luminor Asset Management	5 000	100	4 382	-	4 382	948	-	948
IPAS Luminor Pensions Latvia						3 434	-	3 434
SIA Promano Lat*	29 999	100	7 054	6 425	629	7 054	5 725	1 329
SIA Baltik Īpašums*	3	100	440	-	440	440	-	440
SIA Luminor Finance*	1 088	100	630	10	620	630	-	630
SIA Trioleta*	3 965	100	3 573	1 227	2 346	3 573	1 227	2 346
SIA Realm*	10 002	100	6 332	2 890	3 442	6 332	2 890	3 442
	83 726		**90 552**	**29 973**	**60 579**	**82 553**	**22 046**	**60 507**

* 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. Impairment for those subsidiaries is calculated as a difference between net investment value in bank's balance sheet and subsidiary's net asset value when net investment value is higher than net assets of subsidiary.

Notes to the Financial Statements (continued)

20 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (continued)

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

	Share capital 2018 EUR'000	Equity 2018 EUR'000	Bank's share 2018 %	Book value 2018 EUR'000	Share capital 2017 EUR'000	Equity 2017 EUR'000	Bank's share 2017 %	Book value 2017 EUR'000
SIA Kredītinformācijas Birojs	950	12 754	25.0	2 923	2 653	853	22.6	160
SIA ALD Automotive	2 653	438	22.6	90	950	11 369	25.0	2 827
				3 013				**2 987**

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

	Share capital 2018 EUR'000	Equity 2018 EUR'000	Bank's share 2018 %	Book value 2018 EUR'000	Share capital 2017 EUR'000	Equity 2017 EUR'000	Bank's share 2017 %	Book value 2017 EUR'000
SIA Kredītinformācijas Birojs	950	12 754	25.0	2 527	2 653	853	22.6	160
SIA ALD Automotive	2 653	438	22.6	90	950	11 369	25.0	2 527
				2 617				**2 687**

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.

Notes to the Financial Statements *(continued)*

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):

	2018			2017		
		Fair value			Fair value	
	Contract notional amount EUR'000	Assets EUR'000	Liabilities EUR'000	Contract notional amount EUR'000	Assets EUR'000	Liabilities EUR'000
Derivatives held for trading:						
- currency swaps*	764 660	29 648	27 400	1 080 877	15 673	20 131
- interest rate swaps	535 441	1 791	1 136	347 901	708	517
- forwards	35 097	276	155	48 078	364	282
- options	105 883	192	127	71 831	354	221
- commodity	33 675	1 806	1 552	1 203	124	118
Total		**33 713**	**30 370**		**17 223**	**21 269**

* Including cross-currency interest rate swaps

22 INTANGIBLE ASSETS

Movement table of intangible assets of the Group and the Bank for 2018 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 2017	**10 136**	**351**	**10 487**	**9 541**	**9 541**
Additions	1 266	-	1 266	1 164	**1 164**
Disposals and write-offs	(184)	-	(184)	(182)	**(182)**
31 December 2018	**11 218**	**351**	**11 569**	**10 523**	**10 523**
Amortisation					
31 December 2017	**8 806**	-	**8 806**	**8 244**	**8 244**
Amortisation for the period	1 403	-	**1 403**	1 395	**1 395**
Disposals and write-offs	(198)	-	**(198)**	(129)	**(129)**
31 December 2018	**10 011**	**-**	**10 011**	**9 443**	**9 443**
Net book value					
31 December 2017	**1 330**	**351**	**1 681**	**1 297**	**1 297**
31 December 2018	**1 207**	**351**	**1 558**	**1 080**	**1 080**

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

22 INTANGIBLE ASSETS (continued)

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**

23 PROPERTY, PLANT AND EQUIPMENT

Movement table of property, plant and equipment of the Group for 2018 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 2017	**28 922**	**15 708**	**2 639**	**-**	**47 269**
Additions	439	2 449	109	-	**2 997**
Disposals and write-offs	-	(3 875)	(1 476)	-	**(5 351)**
Reclasification to held for sales assets	(28 448)	-	-	-	**(28 448)**
31 December 2018	**913**	**14 282**	**1 272**	**-**	**16 467**
Depreciation					
31 December 2017	**5 340**	**12 779**	**1,567**	**-**	**19 686**
Depreciation for the year	725	1 406	455	-	**2 586**
Disposals and write-offs	-	(2 771)	(1 307)	-	**(4 078)**
Reclasification to held for sales assets	(5 881)	-	-	-	**(5 881)**
31 December 2018	**184**	**11 414**	**715**	**-**	**12 313**
Net book value					
31 December 2017	**23 582**	**2 929**	**1 072**	**-**	**27 583**
31 December 2018	**729**	**2 868**	**557**	**-**	**4 154**

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

23 PROPERTY, PLANT AND EQUIPMENT (continued)

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**

Movement table of property, plant and equipment of the Bank for 2018 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 2017	**912**	**15 380**	**1 838**	**18 130**
Additions	-	2 447	32	2 479
Disposals and write-offs	-	(3 734)	(1 396)	(5 130)
31 December 2018	**912**	**14 093**	**474**	**15 479**
Depreciation				
31 December 2017	**174**	**12 608**	**1 174**	**13 956**
Depreciation for the year	9	1 314	318	1 641
Disposals and write-offs	-	(2 629)	(1 247)	(3 876)
31 December 2018	**183**	**11 293**	**245**	**11 721**
Net book value				
31 December 2017	**738**	**2 772**	**664**	**4 174**
31 December 2018	**729**	**2 800**	**229**	**3 758**

Notes to the Financial Statements *(continued)*

23 PROPERTY, PLANT AND EQUIPMENT (continued)

Movement table of property, plant and equipment of the Bank for 2017 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 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**

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:

	2018 Group	2017 Group
Apartments, parking places	29%	37%
Empty land plots	38%	26%
Private house	20%	21%
Objects for commercial use	13%	16%

The structure of investment property by geographic location:

	2018 Group	2017 Group
Riga and Riga region (incl. Jurmala)	96%	97%
Other regions	4%	3%

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

24 INVESTMENT PROPERTY (continued)

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

	Group EUR'000	Bank EUR'000
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**
Additions, purchases of new properties	146	3
Net (loss) resulting from adjustment to fair value of projects	(2 593)	(94)
Disposals	(13 586)	(471)
Investment property book value as at 31 December 2018	**18 103**	**459**

Detailed information regarding fair value measurement of investment properties is described in Note 36.

25 OTHER ASSETS

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Guarantee deposits for auctions and prepayments for investment property	10	122	-	6
Prepayments and overpaid taxes	6	963	-	14
Credit card claims and other payment services	8 197	5 690	13 054	6 360
Short term debts	10 056	11 276	8 787	11 276
Other	13 264	7 256	14 297	3 349
Total	**31 533**	**25 307**	**36 138**	**21 005**
Less provisions for debtors	(633)	(423)	(441)	(370)
Total	**30 900**	**24 884**	**35 697**	**20 635**

26 NON-CURRENT ASSETS AND DISCPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

In 2018 land and building owned by Skanste 12 are reclassified from fixed assets to non-current assets classified as held for sale. There is no gain/loss from reclassification as it is done based on book value as on 31 December 2018. Recognition criteria are met to classify sale as highly probable.

27 LIABILITIES TO CENTRAL BANKS

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Central Bank	26 455	60 500	26 455	60 500
Accrued interest	-	-	-	-
Terms deposits	**26 455**	**60 500**	**26 455**	**60 500**

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

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

28 DUE TO OTHER CREDIT INSTITUTIONS

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Demand deposits				
Republic of Latvia credit institutions	1 442	1 684	1 442	1 684
OECD credit institutions	1 422	3 648	1 422	3 648
Non-OECD credit institutions	-	244	-	244
Total demand deposits	**2 864**	**5 576**	**2 864**	**5 576**
Term deposits				
Republic of Latvia credit institutions	263	14 806	263	14 806
OECD credit institutions*	1 226 000	1 150 000	1 226 000	1 150 000
	1 226 263	1 164 806	1 226 263	1 164 806
Accrued interest	160	421	160	421
Total term deposits	**1 226 423**	**1 165 227**	**1 226 423**	**1 165 227**
Total deposits	**1 229 287**	**1 170 803**	**1 229 287**	**1 170 803**

* Including DNB Bank ASA - EUR 613 000 thousand, Nordea Bank Abp- EUR 613 000 thousand (31 December 2017: DNB Bank ASA: EUR 575 000 thousand; Nordea Bank Abp: EUR 575 000 thousand).

29 DUE TO CUSTOMERS

Analysis of deposits by maturity and client type

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Demand deposits				
Private companies	1 130 505	1 131 626	1 146 160	1 145 826
Individuals	824 970	795 842	824 970	795 842
State institutions	197 650	236 196	197 650	236 196
Funds in transit	8 409	17 745	8 409	17 745
Non-residents OECD	52 916	34 399	52 916	34 399
Non-residents non-OECD	45 992	79 017	45 992	79 017
Total demand deposits	**2 260 442**	**2 294 825**	**2 276 097**	**2 309 025**
Term deposit accounts				
Private companies	210 732	218 237	216 267	222 454
Individuals	293 396	228 975	293 397	228 975
State institutions	14 563	152 992	14 563	152 992
Non-residents OECD	5 721	1 910	5 721	1 910
Non-residents non- OECD	34 550	45 192	34 550	45 192
Accrued interest	1 071	693	1 075	695
Total term deposits	**560 033**	**647 999**	**565 574**	**652 218**
Total deposits and transit funds	**2 820 475**	**2 942 824**	**2 841 671**	**2 961 243**

Notes to the Financial Statements (continued)

30 ACCRUED EXPENSES AND DEFERRED INCOME

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Accrued expenses for unused annual leave and bonuses	4 991	2 611	4 713	2 419
Accrued expenses for payments to Deposit Guarantee Fund and FCMC	941	842	931	842
Other accrued expenses	6 075	8 324	5 865	8 051
Total	**12 007**	**11 777**	**11 509**	**11 312**

31 OTHER LIABILITIES

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Accrued liabilities	1 340	3 325	2 992	227
Accounts payable	644	1 759	109	1 463
Other short-term liabilities	5 015	550	1 399	823
Total	**6 999**	**5 634**	**4 500**	**2 513**

32 PROVISIONS

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Commitments and guarantees given	868	-	777	-
Other provisions	144	261	144	228
Total	**1 012**	**261**	**921**	**228**

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 31 December 2018 and 31 December 2017 100% of Luminor Bank AS were owned by Luminor Group AB.

Reserve capital

As of 31 December 2018 reserve capital in amount of EUR 464 690 thousand (2017: EUR 464 690 thousand) represents contributions made by the shareholder in current and previous years.

Notes to the Financial Statements (continued)

33 SHARE CAPITAL AND RESERVES (continued)

Revaluation reserve

Revaluation reserve represents the increase in the fair value of property, plant and equipment and equity investments designated at fair value through other comprehensive income

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
As at 1 January	**666**	**155**	**666**	**155**
Increase due to fair value adjustment of equity investments	968	511	968	511
(Decrease) due to sale of equity investments	-	-	-	-
As at 31 December	**1 634**	**666**	**1 634**	**666**

34 OFF-BALANCE SHEET ITEMS

(a) Guarantees, letters of credit and other commitments

	2018 Group EUR'000 Uncommited	2018 Group EUR'000 Commited	2018 Group EUR'000	2017 Group EUR'000 Uncommited	2017 Group EUR'000 Commited	2017 Group EUR'000
Memorandum items						
Contingent liabilities						
guarantee	-	155 151	**155 151**	-	198 785	**198 785**
Commitments						
loan issuing commitments	197 095	234 644	**431 739**	174 651	250 196	**424 847**
other liabilities	35 438	42 787	**78 225**	33 584	39 502	**73 086**
letters of credit	-	15 933	**15 933**	-	26 578	**26 578**
Total	**232 533**	**448 515**	**681 048**	**208 235**	**515 061**	**723 296**

	2018 Bank EUR'000 Uncommited	2018 Bank EUR'000 Commited	2018 Bank EUR'000	2017 Bank EUR'000 Uncommited	2017 Bank EUR'000 Commited	2017 Bank EUR'000
Memorandum items						
Contingent liabilities						
guarantee	-	155 151	**155 151**	-	198 785	**198 785**
Commitments						
loan issuing commitments	383 427	189 782	**573 209**	213 725	247 680	**461 405**
other liabilities	35 438	42 787	**78 225**	33 584	40 502	**74 086**
letters of credit	-	15 933	**15 933**	-	26 578	**26 578**
Total	**418 865**	**403 653**	**822 518**	**247 309**	**513 545**	**760 854**

Notes to the Financial Statements (continued)

34 OFF-BALANCE SHEET ITEMS (continued)

(b) Assets under management

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Luminor Balanced Investment Plan	120 937	112 061	-	-
Luminor Conservative Investment Plan*	121 529	113 642	-	-
Luminor Active Investment Plan*	250 505	237 510	-	-
Luminor Progressive Investment Plan	766	-	-	-
Luminor Progressive Pension Plan	11 331	9 840	-	-
Luminor Balanced Pension Plan	19 298	16 454	-	-
Total	**524 366**	**489 507**	**-**	**-**

* On 27 December 2018 investment plans Luminor (D) Conservative Investment Plan and Luminor (N) Conservative Investment Plan were merged into Luminor Conservative Investment Plan, and Luminor (D) Active Investment Plan and Luminor (N) Active Investment Plan into Luminor Active Investment Plan. As at 31 December 2018 and 31 December 2017 assets under management include both merged investment plans.

35 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	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Due from parent companies:				
of which: DNB group companies	39 409	84 550	39 409	84 550
of which: Nordea group companies	28 704	17 602	28 704	17 602
Subsidiaries	-	-	524 361	581 793
Other related parties (Luminor group)	91 489	15 160	91 489	15 160
Balances due from related parties	**159 602**	**117 312**	**683 963**	**699 105**

Due to related parties

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Parent and parent group companies:				
of which: DNB group companies	620 615	582 478	620 615	582 421
of which: Nordea group companies	617 196	583 588	617 196	583 588
Subsidiaries	-	-	21 262	18 435
Other related parties (Luminor group)	2	2 175	2	2 175
Balances due to related parties	**1 237 813**	**1 168 241**	**1 259 075**	**1 186 619**

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

35 RELATED PARTY TRANSACTIONS *(continued)*

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

	2018 Group EUR'000	**2017 Group EUR'000**	**2018 Bank EUR'000**	**2017 Bank EUR'000**
Interest received for money market deposits/ loans	**656**	**1 322**	**4 332**	**2 609**
Parent and parent group companies	82	1 181	82	1 181
of which: DNB group companies	82	1 176	82	1 176
of which: Nordea group companies	-	5	-	5
Subsidiaries	-	-	3 676	1 287
Other related parties (Luminor group)	574	141	574	141
Commission received	**312**	**544**	**394**	**926**
Parent and parent group companies	272	521	272	521
of which: DNB group companies	134	479	134	479
of which: Nordea group companies	138	42	138	42
Subsidiaries	-	-	82	382
Other related parties (Luminor group)	40	23	40	23
Dividends	**-**	**-**	**-**	**2 044**
Subsidiaries	-	-	-	2 044
Other income	**3 120**	**2 543**	**4 476**	**4 697**
Parent and parent group companies	359	1 616	61	1 081
of which: DNB group companies	326	1 554	28	1 019
of which: Nordea group companies	33	62	33	62
Subsidiaries	-	-	1 654	2 689
Other related parties (Luminor group)	2 761	927	2 761	927
Interest paid on money market deposits/loans	**(2 246)**	**(2 446)**	**(2 255)**	**(2 020)**
Parent and parent group companies	(2 245)	(2 446)	(2 245)	(2,018)
of which: DNB group companies	(1 264)	(2 119)	(1 264)	(1,691)
of which: Nordea group companies	(981)	(327)	(981)	(327)
Subsidiaries	-	-	(9)	(2)
Other related parties (Luminor group)	(1)	-	(1)	-
Income/Expenses from derivatives	**10 907**	**5 639**	**10 907**	**5 639**
Parent and parent group companies	10 907	5 639	10 907	5 639
of which: DNB group companies	2 553	5 578	2 553	5 578
of which: Nordea group companies	8 354	61	8 354	61
Derivative revaluation result	**1 164**	**(25 448)**	**1 164**	**(25 448)**
Parent and parent group companies	1 162	(25 448)	1 162	(25 448)
of which: DNB group companies	1 170	(25 448)	1 170	(25 448)
of which: Nordea group companies	(8)	-	(8)	-
Other related parties (Luminor group)	2	-	2	-

Notes to the Financial Statements *(continued)*

35 RELATED PARTY TRANSACTIONS (continued)

	2018 Group EUR'000	2017 Group EUR'000	2018 Bank EUR'000	2017 Bank EUR'000
Commission paid	**(624)**	**(296)**	**(624)**	**(296)**
Parent and parent group companies	(506)	(264)	(506)	(264)
of which: DNB group companies	(407)	(240)	(407)	(240)
of which: Nordea group companies	(99)	(24)	(99)	(24)
Other related parties (Luminor group)	(118)	(32)	(118)	(32)
Other expenses	**(7 199)**	**(3 329)**	**(8 938)**	**(4 600)**
Parent and parent group companies	(3 919)	(1 817)	(3 919)	(1 789)
of which: DNB group companies	(90)	(855)	(90)	(855)
of which: Nordea group companies	(3 829)	(962)	(3 829)	(934)
Subsidiaries	-	-	(1 739)	(1 299)
Other related parties (Luminor group)	(3 280)	(1 512)	(3 280)	(1 512)
	6 090	**(21 471)**	**9 456**	**(16 449)**

As at 31 December 2018 loans issued to key management personnel amounted to EUR 680 thousand (2017: EUR 560 thousand).

As at 31 December 2018 the provision for investment in subsidiaries were made in amount EUR 29 973 thousand (2017: EUR 22 046 thousand).

For information regarding salary to Management Board see Note 12.

36 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.

Notes to the Financial Statements *(continued)*

36 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 the statement of financial position

Group		**2018**			
	Level 1 EUR'000	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total fair value EUR'000**	**Statement of financial position EUR'000**
Recurring fair value					
Assets					
Derivatives	-	33 713	-	**33 713**	**33 713**
Financial assets designated at fair value through profit or loss	-	56 210	-	**56 210**	**56 210**
Financial assets designated at fair value through other comprehensive income	-	-	3 661	**3 661**	**3 661**
Investment properties	-	-	18 103	**18 103**	**18 103**
Fixed assets held for sale			23 297	**23 297**	**23 297**
Liabilities					
Derivatives	-	30 370	-	**30 370**	**30 370**

Notes to the Financial Statements *(continued)*

36 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

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

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					
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	-	-	34 136	**34 136**	**34 136**
Fixed assets – land and buildings	-	-	23 582	**23 582**	**23 582**
Liabilities					
Derivatives	-	21 269	-	**21 269**	**21 269**

Bank **2018**

	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair value EUR'000	Statement of financial position EUR'000
Recurring fair value					
Assets					
Derivatives	-	33 713	-	**33 713**	**33 713**
Financial assets designated at fair value through profit or loss	-	56 210	-	**56 210**	**56 210**
Financial assets designated at fair value through other comprehensive income	-	-	3 661	**3 661**	**3 661**
Investment properties	-	-	459	**459**	**459**
Fixed assets – land and buildings	-	-	729	**729**	**729**
Liabilities					
Derivatives	-	30 370	-	**30 370**	**30 370**

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**
Fixed assets – land and buildings	-	-	738	**738**	**738**
Liabilities					
Derivatives	-	21 269	-	**21 269**	**21 269**

* 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 2x).

Notes to the Financial Statements *(continued)*

36 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

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

Group	**2018**				
	Level 1 EUR'000	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total fair value EUR'000**	**Statement of financial position EUR'000**
Assets					
Due from credit institutions on demand	-	40 309	-	**40 309**	**40 309**
Loans	-	-	3 454 111	**3 454 111**	**3 384 232**
Liabilities					
Liabilities to credit institutions on demand	-	-	2 864	**2 864**	**2 864**
Financial liabilities at amortised cost	-	-	4 047 455	**4 047 455**	**4 046 898**

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**

Bank	**2018**				
	Level 1 EUR'000	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total fair value EUR'000**	**Statement of financial position EUR'000**
Assets					
Due from credit institutions on demand	-	40 309	-	**40 309**	**40 309**
Loans	-	-	3 442 025	**3 442 025**	**3 372 146**
Liabilities					
Liabilities to credit institutions on demand	-	-	2 864	**2 864**	**2 864**
Financial liabilities at amortised cost	-	-	4 068 651	**4 068 651**	**4 068 094**

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**

Notes to the Financial Statements *(continued)*

36 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 2018, EUR	Range* per sqm 2018, EUR
Residential					
Apartments	comparable method			1 080	23 – 2,667
Living house	comparable method			493	102 – 1,963
Land plots					
Residential	comparable method			7.38	1 – 105
Commercial	comparable method, DCF			47	1 – 11,358
Commercial					
Offices	DCF	rent rate	3 – 8.5 EUR/sqm		
		occupancy	70%-90%		
		discount rates	9%-12%		
		exit yield	8%-11%		
Industrial	DCF	rent rate	0.5 – 3 EUR/sqm		
		occupancy	70%-90%		
		discount rates	10%-15%		
		exit yield	9%-14%		

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.

Notes to the Financial Statements *(continued)*

36 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Reconciliation of balances of classes of investment property

Group

	Apartments EUR'000	Land plots EUR'000	Living houses EUR'000	Commercial objects EUR'000	Total EUR'000
Book value as at 31 December 2017	**12 281**	**8 990**	**7 287**	**5 578**	**34 136**
Additions, purchases of new properties	10	132	4	-	**146**
Net result from adjustment to fair value projects	(779)	(1 711)	(346)	243	**(2 593)**
Disposal	(6 957)	(1 683)	(4 624)	(322)	**(13 586)**
Movement between classes of investment property	686	496	1 124	(2 306)	**-**
Book value as at 31 December 2018	**5 241**	**6 224**	**3 445**	**3 193**	**18 103**

(c) Fair value: investment properties (continued)

Bank

	Apartments EUR'000	Land plots EUR'000	Living houses EUR'000	Commercial objects EUR'000	Total EUR'000
Book value as at 31 December 2017	**312**	**118**	**161**	**430**	**1 021**
Additions, purchases of new properties	-	-	3	-	**3**
Net result from adjustment to fair value projects	(10)	(19)	(20)	(45)	**(94)**
Disposal	(92)	(44)	(105)	(230)	**(471)**
Book value as at 31 December 2018	**210**	**55**	**39**	**155**	**459**

Notes to the Financial Statements *(continued)*

36 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

General approach

Process

Revaluation was conducted by virtue of the new guidelines:

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

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

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

	Book value above EUR 300 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.

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

36 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (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.

37 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 2018 the Group's capital adequacy ratio was 18.0% and the Bank's – 17.3% (2017: 18.5%; 17.6%). 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.

Notes to the Financial Statements *(continued)*

37 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.

	2018 Group EUR'000	**2017 Group EUR'000**	**2018 Bank EUR'000**	**2017 Bank EUR'000**
Total own funds for solvency purposes	**504 788**	**516 460**	**499 066**	**510 650**
Tier 1: Original own funds	504 788	516 460	499 066	510 650
--Paid up capital	191 178	191 178	191 178	191 178
--Share premium	69 713	69 713	69 713	69 713
Reserves	248 454	261 676	242 254	255 470
-Valuation differences to eligible as original own funds	(694)	(1 148)	(694)	(1 136)
Other deductions from Original Own Funds				
-- Intangible assets	(1 558)	(1 681)	(1 080)	(1 297)
-- Due to requirements, that are stricter than required by Regulation	(2 305)	(3 278)	(2 305)	(3 278)
Tier 2: Additional own funds	-	-	-	-
--Revaluation reserves	-	-	-	-
Total own funds for solvency purposes	**504 788**	**516 460**	**499 066**	**510 650**
Capital requirements	**224 043**	**223 502**	**230 921**	**232 810**
Capital requirements for credit risk , standardised approach (SA)	205 500	205 131	214 166	216 227
Capital requirements for operational risks (OpR)	17 752	17 752	15 964	15 964
Capital requirements for credit valuation adjustment risk	791	620	791	620
Surplus /(Deficit) of own funds, before other and transitional capital requirements	280 745	292 958	268 145	277 840
Solvency ratio (%)*	**18.0%**	**18.5%**	**17.3%**	**17.6%**
Internal assessment of capital	**504 788**	**516 460**	**499 066**	**510 650**

* 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.
The above is based on internal reports of the Group and the Bank, provided to key management of the Group and the Bank.

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.

Notes to the Financial Statements *(continued)*

37 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 2018 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.

Notes to the Financial Statements *(continued)*

38 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 2018 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	1 078 401	-	-	-	1 078 401
Due from other credit institutions (on demand)	40 309	-	-	-	40 309
Derivatives	5 353	1 063	3 026	24 271	33 713
Financial assets at fair value through profit or loss	56 210	-	-	-	56 210
Debt securities and other fixed income securities	56 210	-	-	-	56 210
Financial assets at fair value through other comprehensive income	-	-	-	3 661	3 661
Loans and advances to customers	238 305	142 625	529 972	2 473 330	3 384 232
Due from other credit institutions (term)	-	10	3 266	8 132	11 408
Loans to customers	238 305	142 615	526 706	2 465 198	3 372 824
Accrued income and deferred expenses	2 413	729	(2)	11	3 151
Investment property	-	-	-	18 103	18 103
Property, plant and equipment	-	-	-	4 154	4 154
Intangible assets	-	-	-	1 558	1 558
Investments in subsidiaries	-	-	-	-	-
Investments in associated companies	-	-	-	3 013	3 013
Current corporate income tax	886	-	-	-	886
Non-current assets and disposal groups classified as held for sale	-	-	22 714	-	22 714
Other assets	27 982	3 113	82	(277)	30 900
Total assets	**1 449 859**	**147 530**	**555 792**	**2 527 824**	**4 681 005**
Liabilities					
Liabilities to central banks	-	-	-	26 445	**26 445**
Liabilities on demand to credit institutions	2 864	-	-	-	**2 864**
Derivatives	4 552	484	2 148	23 186	**30 370**
Financial liabilities at amortised cost:	2 509 170	138 411	1 186 620	212 697	**4 046 898**
Due to credit institutions	1	-	1 031 303	195 119	**1 226 423**
*Deposits and other financial liabilities**	2 509 169	138 411	155 317	17 578	**2 820 475**
Accrued expenses and deferred income	125	523	11 359	-	**12 007**
Deferred tax liability	-	-	-	-	**-**
Income tax liabilities	52	-	-	-	**52**
Other liabilities	6 765	101	28	105	**6 999**
Provisions	472	34	213	293	**1 012**
Total liabilities	**2 524 000**	**139 553**	**1 200 368**	**262 726**	**4 126 647**
Sharehorders'equity	**-**	**-**	**-**	554 358	**554 358**
Total liabilities and shareholders'equity	**2 524 000**	**139 553**	**1 200 368**	**817 084**	**4 681 005**
Contingent liabilities	9 449	13 928	42 598	89 176	**155 151**
Commitments	236 194	4 112	14 050	39 008	**293 364**
Liquidity risk	**(1 319 784)**	**(10 063)**	**(701 224)**	**1 582 556**	**(448 515)**

* Including demand deposits from customers in amount of EUR 2 260 442 thousand.

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

Notes to the Financial Statements *(continued)*

38 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 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**
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**
Sharehorders'equity	**-**	**-**	**-**	524 589	**524 589**
Total liabilities and shareholders'equity	**2 553 756**	**269 878**	**1 038 292**	**877 014**	**4 738 940**
Contingent liabilities	15 855	13 764	64 509	104 657	**198 785**
Commitments	250 661	16 732	12 747	36 136	**316 276**
Liquidity risk	**(1 563 233)**	**(76 088)**	**(565 240)**	**1 689 500**	**(515 061)**

* Including demand deposits from customers in amount of EUR 2 294 824 thousand.

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

38 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 2018 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	1 078 401	-	-	-	1 078 401
Due from other credit institutions (on demand)	40 309	-	-	-	40 309
Derivatives	5 353	1 063	3 026	24 271	33 713
Financial assets at fair value through profit or loss	56 210	-	-	-	56 210
Debt securities and other fixed income securities	56 210	-	-	-	56 210
Financial assets at fair value through other comprehensive income	-	-	-	3 661	3 661
Loans and advances to customers	62 550	106 480	426 676	2 776 440	3 372 146
Due from other credit institutions (term)	-	10	3 266	8 132	11 408
Loans to customers	62 550	106 470	423 410	2 768 308	3 360 738
Accrued income and deferred expenses	2 276	515	-	11	2 802
Investment property	-	-	-	459	459
Property, plant and equipment	-	-	-	3 758	3 758
Intangible assets	-	-	-	1 080	1 080
Investments in subsidiaries	-	-	-	60 579	60 579
Investments in associated companies	-	-	-	2 617	2 617
Current corporate income tax	560	-	-	-	560
Non-current assets and disposal groups classified as held for sale	-	-	-	-	-
Other assets	32 502	3 113	82	-	35 697
Total assets	**1 278 161**	**111 171**	**429 784**	**2 872 876**	**4 691 992**
Liabilities					
Liabilities to central banks	-	-	-	26 445	**26 445**
Liabilities on demand to credit institutions	2 864	-	-	-	**2 864**
Derivatives	4 552	484	2 148	23 186	**30 370**
Financial liabilities at amortised cost:	2 528 542	138 852	1 188 003	212 697	**4 068 094**
Due to credit institutions	*1*	-	*1 031 303*	*195 119*	***1 226 423***
*Deposits and other financial liabilities**	*2 528 541*	*138 852*	156 700	*17 578*	***2 841 671***
Accrued expenses and deferred income	126	-	11 383	-	**11 509**
Deferred tax liability	-	-	-	-	**-**
Income tax liabilities	-	-	-	-	**-**
Other liabilities	4 338	101	-	61	**4 500**
Provisions	393	34	217	277	**921**
Total liabilities	**2 540 815**	**139 471**	**1 201 751**	**262 666**	**4 144 703**
Sharehorders'equity	-	-	-	547 289	**547 289**
Total liabilities and shareholders'equity	**2 540 815**	**139 471**	**1 201 751**	**809 955**	**4 691 992**
Contingent liabilities	9 449	13 928	42 598	89 176	**155 151**
Commitments	191 332	4 112	14 050	39 008	**248 502**
Liquidity risk	**(1 463 435)**	**(46 340)**	**(828 615)**	**1 934 737**	**(403 653)**

* Including demand deposits from customers in amount of EUR 2 276 097 thousand.

Notes to the Financial Statements *(continued)*

38 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**
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**
Sharehorders'equity	-	-	-	516 362	**516 362**
Total liabilities and shareholders'equity	**2 569 742**	**266 292**	**1 040 642**	**868 787**	**4 745 463**
Contingent liabilities	15 855	13 764	64 509	104 657	**198 785**
Commitments	249 055	16 732	13 747	35 226	**314 760**
Liquidity risk	**(1 604 547)**	**180 009**	**(451 955)**	**1 362 948**	**(513 545)**

* Including demand deposits from customers in amount of EUR 2 309 025 thousand.

Notes to the Financial Statements *(continued)*

38 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 2018:

	Up to 1 month EUR'000	**1-3 months EUR'000**	**3-12 months EUR'000**	**1-5 years EUR'000**	**More than 5 years EUR'000**	**Total EUR'000**
Short term funding	(2 758)	-	-	-	-	**(2 758)**
Long term funding	-	-	(1 031 570)	(222 460)	-	**(1 254 030)**
Demand deposits	(2 393 348)					**(2 393 348)**
Term deposits	(107 324)	(138 643)	(156 176)	(15 757)	(2 218)	**(420 118)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
Inflow	3 060	30 385	1 753	1 248	-	**36 446**
outflow	(1 180)	(30 157)	(846)	(269)	-	**(32 452)**
Foreign exchange derivatives						
inflow	112	11	79	117	-	**319**
outflow	(75)	(9)	(30)	(89)	-	**(203)**
Derivatives settled on a net basis	58	707	2 211	7 771	3	**10 750**
Total	**(2 501 455)**	**(137 706)**	**(1 184 579)**	**(229 439)**	**(2 215)**	**(4 055 394)**
Memorandum items*	**(448 515)**	-	-	-	-	**(448 515)**
Financial guarantees	*(155 151)*	-	-	-	-	*(155 151)*
Commitments	*(293 364)*	-	-	-	-	*(293 364)*
Total financial liabilities and memorandum items	**(2 949 970)**	**(137 706)**	**(1 184 579)**	**(229 439)**	**(2 215)**	**(4 503 909)**

The table below allocates the Bank's financial liabilities cash flows as at 31 December 2018:

	Up to 1 month EUR'000	**1-3 months EUR'000**	**3-12 months EUR'000**	**1-5 years EUR'000**	**More than 5 years EUR'000**	**Total EUR'000**
Short term funding	(2 758)	-				**(2 758)**
Long term funding	-	-	(1 031 570)	(222 460)		**(1 254 030)**
Demand deposits	(2 412 718)					**(2 412 718)**
Term deposits	(107 324)	(139 085)	(157 561)	(15 757)	(2 218)	**(421 945)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
inflow	3 060	30 385	1 753	1 248		**36 446**
outflow	(1 180)	(30 157)	(846)	(269)		**(32 452)**
Foreign exchange derivatives						
inflow	112	11	79	117		**319**
outflow	(75)	(9)	(30)	(89)		**(203)**
Derivatives settled on a net basis	58	707	2 211	7 771	3	**10 750**
Total	**(2 520 825)**	**(138 148)**	**(1 185 964)**	**(229 439)**	**(2 215)**	**(4 076 591)**
Memorandum items*	**(403 653)**	**-**	**-**	**-**	**-**	**(403 653)**
Financial guarantees	(155 151)	-	-	-	-	(155 151)
Commitments	(248 502)	-	-	-	-	(248 502)
Total financial liabilities and memorandum items	**(2 924 478)**	**(138 148)**	**(1 185 964)**	**(229 439)**	**(2 215)**	**(4 480 244)**

* Including financial guarantee contracts.

Notes to the Financial Statements *(continued)*

38 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

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

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

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	(2 439 270)	-	-	-	-	**(2 439 270)**
Term deposits	(69 722)	(260 570)	(140 966)	(16 252)	(1 975)	**(489 835)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
inflow	1 458	237	1 020	21 793	-	**24 508**
outflow	(2 578)	(1 719)	(1 589)	(21 407)	-	**(27 293)**
Foreign exchange derivatives						
inflow	-	28	90	225	-	**343**
outflow	(21)	(24)	(48)	(175)	-	**(268)**
Derivatives settled on a net basis	(5)	365	600	879	6	**1 845**
Total	**(2 543 538)**	**(264 290)**	**(1 028 043)**	**(343 081)**	**(1 969)**	**(4 180 921)**
Memorandum items*	(513 545)	-	-	-	-	**(513 545)**
Financial guarantees	(198 785)	-	-	-	-	**(198 785)**
Commitments	(314 760)	-	-	-	-	**(314 760)**
Total financial liabilities and memorandum items	**(3 057 083)**	**(264 290)**	**(1 028 043)**	**(343 081)**	**(1 969)**	**(4 694 466)**

* Including financial guarantee contracts

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

39 CURRENCY ANALYSIS

The currency analysis of assets and liabilities by currency profile of the Group as at 31 December 2018 was as follows:

	USD	EUR	Other currencies	Total EUR'000
Assets				
Cash and balances with the central banks	3 983	1 074 418	-	**1 078 401**
Due from other credit institutions (on demand)	16 535	3 652	20 122	**40 309**
Derivatives	2 331	31 382	-	**33 713**
Financial assets at fair value through profit or loss	-	56 210	-	**56 210**
Debt securities and other fixed income securities		56 210	-	**56 210**
Financial assets available-for-sale	3 581	80	-	**3 661**
Loans and advances	41 663	3 298 970	43 599	**3 384 232**
Due from other credit institutions (term)	-	11 408	-	**11 408**
Loans to customers	41 663	3 287 562	43 599	**3 372 824**
Accrued income and deferred expenses	-	3 149	2	**3 151**
Investment property	-	18 103	-	**18 103**
Property, plant and equipment	-	4 154	-	**4 154**
Intangible assets	-	1 558	-	**1 558**
Investments in subsidiaries	-	-	-	**-**
Investments in associated companies	-	3 013	-	**3 013**
Current corporate income tax	-	886	-	**886**
Non-current assets and disposal groups classified as held for sale	-	22 714	-	**22 714**
Other assets	1 155	29 675	70	**30 900**
Total assets	**69 248**	**4 547 964**	**63 793**	**4 681 005**
Liabilities				
Liabilities to central banks	-	26 445	-	**26 445**
Liabilities to credit institutions (on demand)	486	2 285	93	**2 864**
Derivatives	2 331	28 039	-	**30 370**
Financial liabilities at amortised cost:	322 104	3 655 343	69 451	**4 046 898**
Due to credit institutions (term)	264	1 226 159	-	**1 226 423**
Deposits from customers	321 840	2 429 184	69 451	**2 820 475**
Accrued expenses and deferred income	-	12 007	-	**12 007**
Deferred tax liability	-	-	-	**-**
Income tax liability	-	52	-	**52**
Other liabilities	1	6 988	10	**6 999**
Provisions	17	994	1	**1 012**
Total liabilities	**324 939**	**3 732 153**	**69 555**	**4 126 647**
Total shareholders' equity	**-**	554 358	-	**554 358**
Total liabilities and shareholders' equity	**324 939**	**4 286 511**	**69 555**	**4 681 005**
Net long / (short) balance sheet position	(255 691)	261 453	(5 762)	-
Off-balance sheet claims arising from foreign exchange				
Net long / (short) position on foreign exchange	*255 913*	*(258 340)*	*6 150*	*3 723*
Net long / (short) position	**222**	**3 113**	**388**	**3 723**

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

39 CURRENCY ANALYSIS (continued)

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**
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**
Total shareholders' equity	**-**	524 589	-	**524 589**
Total liabilities and shareholders' equity	**429 877**	**4 227 974**	**81 089**	**4 738 940**
Net long / (short) balance sheet position	(391 511)	405 824	(14 313)	-
Off-balance sheet claims arising from foreign exchange				
Net long / (short) position on foreign exchange	*391 921*	*(409 526)*	*14 281*	(3 324)
Net long / (short) position	**410**	**(3 702)**	**(32)**	**(3 324)**

Notes to the Financial Statements *(continued)*

39 CURRENCY ANALYSIS (continued)

The currency analysis of assets and liabilities by currency profile of the Bank as at 31 December 2018 was as follows:

	USD	**EUR**	**Other currencies**	**Total EUR'000**
Assets				
Cash and balances with the central banks	3 983	1 074 418	-	**1 078 401**
Due from other credit institutions (on demand)	16 535	3 652	20 122	**40 309**
Derivatives	2 331	31 382	-	**33 713**
Financial assets at fair value through profit or loss	-	56 210	-	**56 210**
Debt securities and other fixed income securities	-	56 210	-	**56 210**
Financial assets available-for-sale	3 581	80	-	**3 661**
Loans and advances	41 732	3 287 002	43 412	**3 372 146**
Due from other credit institutions (term)	-	11 408	-	**11 408**
Loans to customers	41 732	3 275 594	43 412	**3 360 738**
Accrued income and deferred expenses	-	2 800	2	**2 802**
Investment property	-	459	-	**459**
Property, plant and equipment	-	3 758	-	**3 758**
Intangible assets	-	1 080	-	**1 080**
Investments in subsidiaries	-	60 579	-	**60 579**
Investments in associated companies	-	2 617	-	**2 617**
Current corporate income tax	-	560	-	**560**
Non-current assets and disposal groups classified as held for sale	-	-	-	**-**
Other assets	1 155	34 472	70	**35 697**
Total assets	**69 317**	**4 559 069**	**63 606**	**4 691 992**
Liabilities				
Liabilities to central banks	-	26 445	-	**26 445**
Liabilities to credit institutions (on demand)	486	2 285	93	**2 864**
Derivatives	2 331	28 039	-	**30 370**
Financial liabilities at amortised cost:	322 153	3 676 490	69 451	**4 068 094**
Due to credit institutions (term)	264	1 226 159	-	**1 226 423**
Deposits from customers	321 889	2 450 331	69 451	**2 841 671**
Accrued expenses and deferred income	-	11 509	-	**11 509**
Deferred tax liability	-	-	-	**-**
Income tax liability	-	-	-	**-**
Other liabilities	1	4 489	10	**4 500**
Provisions	17	903	1	**921**
Total liabilities	**324 988**	**3 750 160**	**69 555**	**4 144 703**
Total shareholders' equity	**-**	**547 289**	-	547 289
Total liabilities and shareholders' equity	**324 988**	**4 297 449**	**69 555**	**4 691 992**
Net long / (short) balance sheet position	(255 671)	261 620	(5 949)	**-**
Off-balance sheet claims arising from foreign exchange				
Net long / (short) position on foreign exchange	*255 913*	*(258 340)*	*6 150*	***3 723***
Net long / (short) position	**242**	**3 280**	**201**	**3 723**

Notes to the Financial Statements *(continued)*

39 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**
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**
Total shareholders' equity	**-**	**516 362**	**-**	516 362
Total liabilities and shareholders' equity	**429 879**	**4 234 495**	**81 089**	**4 745 463**
Net long / (short) balance sheet position	(391 307)	405 779	(14 472)	**-**
Off-balance sheet claims arising from foreign exchange				
Net long / (short) position on foreign exchange	*391 921*	(409 526)	*14 281*	(3 324)
Net long / (short) position	**614**	**(3 747)**	**(191)**	**(3 324)**

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

40 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)

Notes to the Financial Statements *(continued)*

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 EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

On 2 January 2019 Luminor banks in Lithuania, Latvia and Estonia has completed cross-border merger and continues its operations in all Baltic countries through the Estonian registered bank and its branches in Latvia and Lithuania. After the completion of the merger, all assets, rights and liabilities of Luminor Latvia were transferred to Luminor Bank AS in Estonia. The bank will continue the same activities in Latvia and Lithuania through its locally established branches.

Starting from 2 January 2019, the deposits and financial instruments of the depositors and investment services clients of Luminor Bank AS Latvian branch will be guaranteed by the deposit guarantee and investor protection scheme established and operated by the Estonian Guarantee Fund.

The new simplified structure and governance model enables the bank faster decision making, provides excellent cross-border collaboration opportunities and improves efficiency.

As of 2 January 2019, after completion of the merger, Luminor Bank AS (Estonia) has a new organizational set up, a new governance structure and new members of management bodies. Erkki Raasuke will continue as Luminor 's CEO and Nils Melngailis will be chairing the supervisory board.

The permanent committees which were previously established for each Baltic country separately are going forward and operating as single committees on a group level, comprising Audit Committee, Risk Committee, Nomination Committee and Remuneration Committee.

After completing the cross-border merger, the bank has taken steps to re-organize its operative model. On 7 January 2019 Luminor Bank AS (Estonia) has decided to proceed with the next phase of transformation, including changing operating model. The bank aims to transform its operating model by simplifying its structure and decision process, unifying and executing IT consolidation, strengthening its controls, and becoming more efficient, more resilient and more resolvable