# FINANCIAL STATEMENTS 2017

**LUMINOR GROUP AB**
**CONSOLIDATED ADMINISTRATION REPORT,**
**SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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# LUMINOR GROUP AB CONSOLIDATED ADMINISTRATION REPORT FOR THE YEAR 2017

**Introduction**

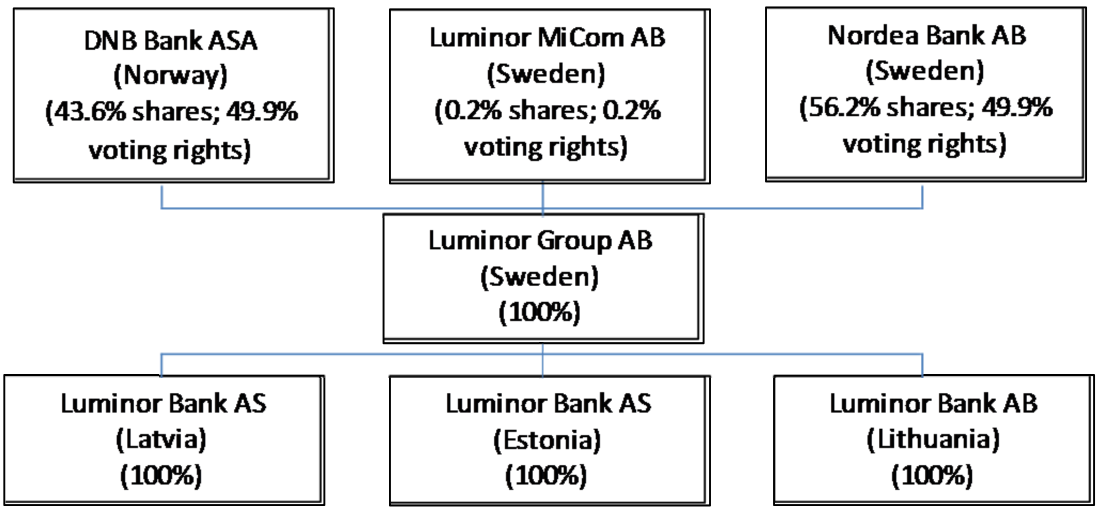
The board of directors and chief executive offices of Luminor Group AB, organisational number 559072-8316 headquarted in Stockholm, hereby submit the Annual report and principles of consolidation for the 2017 financial year.

**Operations-main activities**

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

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

***Group overview-structure***




Nordea Bank AB and DNB Bank ASA are ultimate owners of holding company Luminor Group AB (or “Luminor Group”), which is registered in Sweden, registration No 559072-8316. Luminor group was created by merging Nordea’s and DNB’s Baltic operations to form a new stand-alone Baltic bank with arm’s-length governance from both parent banks. Nordea Bank AB and DNB Bank ASA have equal voting rights in Luminor Group. Nordea Bank AB owns 56,2% and DNB Bank ASA owns 43,6% of proprietary rights, which reflects the proportional contribution of each bank made at the closure of the Luminor Group transaction on 1 October 2017.

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

Nordea group is the largest financial services group in the Nordic markets (Denmark, Finland, Norway and Sweden) measured by total income, with additional operations in Russia and Luxembourg, and branches in a number of other international locations. Nordea Group offers a comprehensive range of banking and financial products and services to household and corporate customers, including financial institutions. Nordea Bank AB (Swedish commercial register number 516406-0120) has a credit rating (Fitch AA-, Moody's Aa3).

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

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

**Significant events during the year**

DNB Bank ASA and Nordea Bank AB incorporated Luminor Group AB. Luminor Group AB became the holding company of the combined banks upon closing the transaction on October 1, 2017. The transaction included the transfer of the assets and liabilities of Nordea Bank AB Lithuania branch, Nordea Bank AB Latvia and Nordea Bank AB Estonia branch, including the shares of the leasing and pension companies and companies dealing with problematic assets located in the Baltic States, to Luminor Bank AB in Lithuania (formerly AB DNB bankas), Luminor Bank AS in Latvia (formerly DNB banka AS) and Luminor Bank AS in Estonia (formerly Aktsiaselts DNB Pank) respectively.

**INFORMATION ON PERFORMANCE RESULTS**

Luminor Group started banking operations in Baltics in October 2017 after combining DNB and Nordea Baltic businesses. Accordingly, 2017 result consists of three months consolidated result of Luminor Bank AS (Estonia), Luminor Bank AS (Latvia), Luminor Bank AB (Lithuania) and full year holding company Luminor Group AB (Sweden) result.

After the merger, Luminor Group has sufficient scale to compete with the largest players in the market focusing on the strategic priorities, which are as follows:

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

During the first operating quarter, Luminor Group was focussing on continuing delivering high customer service, initiating integration of operations, building efficiencies across the Baltics and starting the major change programmes. During the period Luminor Group operating income reached EUR 92.3 million including EUR 67.9 million net interest income and EUR 21.4 million net fees and commission income. Result for the period was affected by one-time costs related to the transaction and integration, net result for 2017 is a loss of EUR 5.7 million.

At the end of 2017 total Luminor Group assets amounted to EUR 15.1 billion. The majority of this amount comprises loans to the public of EUR 11.6 billion representing 77% from total assets and cash and balances with central banks of EUR 2.6 billion representing 17% from total assets.

Total liabilities at the end of 2017 stood at EUR 13.4 billion of which 8.4 billion comprise deposits and borrowings from the public and EUR 4.8 billion comprise due to credit institutions (including EUR 4.3 billion parent deposits), total equity was EUR 1.7 billion.

All the regulatory ratios are observed with healthy buffers. Capital adequacy ratio at the end of the financial year stood at 17.87% and liquidity coverage ratio (LCR) was 157.26%.

## PROPOSED DISTRIBUTION OF PROFITS

The following funds are at the disposal of the Annual General Meeting (EUR):

| | |
|---|---|
| Other non-restricted reserves | 1 645 099 039 |
| Profit (loss) for the year | (9 664 375) |
| Total | 1 635 434 664 |

The Board of Directors and Chief Executive Officer propose that the earnings be distributed as follows (EUR):

| | |
|---|---|
| To be carried forward | 1 635 434 664 |
| Total | 1 635 434 664 |

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

## CONSOLIDATED INCOME STATEMENT

| KEUR | Note | 2017 10 01-2017 12 31 |
|---|---|---|
| Interest income | | 77 905 |
| Interest expenses | | (10 007) |
| **Net interest income** | G8 | **67 898** |
| Commission income | | 28 141 |
| Commission expenses | | (6 713) |
| **Net commission** | G9 | **21 428** |
| Net result of financial transactions | G10 | 15 063 |
| Dividend income | | 11 |
| Other operating income | | 1 282 |
| Other operating expences | | (13 363) |
| **Total operating income** | | **92 319** |
| General administration expenses | G11 | (64 419) |
| Depreciation, amortization and impairments | G12 | (2 134) |
| Provisions | G13 | (450) |
| **Total expenses before credit losses** | | **(67 003)** |
| **Share of profit of an associate, profit non current assets held for sale** | G14 | 964 |
| **Profit before credit losses** | | **26 280** |
| Credit losses, net | G15 | (19 043) |
| **Operating profit** | | **7 237** |
| Tax on profit for the year | G16 | (12 907) |
| **Profit (loss) for the year** | | **(5 670)** |

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | 2017 |
|---|---|---|
| **Profit (loss) for the year** | | **(5 670)** |
| **Items that will be reclassified to the income statement** | | |
| Changes in value of available-for-sale assets | | 1 680 |
| **Total items that will be reclassified to the income statement** | | **1 680** |
| **Items that will not be reclassified to the income statement** | | - |
| **Total Items that will not be reclassifed to the income statement** | | - |
| **Changes in comprehensive income after tax** | | - |
| **Comprehensive income after tax** | | **(3 990)** |

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

## CONSOLIDATED BALANCE SHEET

| | Note | 2017 |
|---|---|---|
| **Assets** | | |
| Cash and balances with central banks | G17 | 2 620 838 |
| Interest-bearing securities eligible as collateral with central banks | G20 | 164 202 |
| Loans to credit institutions | G18 | 409 506 |
| Loans to the public | G19 | 11 646 540 |
| Bonds and other interest-bearing securities | G20 | 34 357 |
| Equity instruments | G21 | 10 356 |
| Investments in associates | G22 | 6 110 |
| Derivative instruments | G23 | 27 753 |
| Intangible assets | G24 | 9 257 |
| Tangible assets | G25 | 40 482 |
| Investment properties | G26 | 51 283 |
| Current tax assets | G16 | 90 |
| Deferred tax assets | G16 | 1 350 |
| Other assets | G27 | 59 545 |
| Prepaid expense and accrued income | G28 | 12 358 |
| **Total assets** | | **15 094 027** |
| | | |
| **Liabilities** | | |
| Due to credit institutions | G29 | 4 761 243 |
| Deposits and borrowing from the public | G30 | 8 429 796 |
| Debt securities issued | | 65 007 |
| Derivative instruments | G23 | 33 173 |
| Current tax liabilities | G16 | 3 288 |
| Provisions | G31 | 2 146 |
| Other liabilities | G32 | 53 035 |
| Accrued expences and deferred income | G33 | 32 097 |
| **Total liabilities** | | **13 379 785** |
| | | |
| **Equity** | | |
| Share capital | | 10 000 |
| Share premium reserve | | 1 645 099 |
| Reserves | G34 | 16 412 |
| Retained earnings | | 48 401 |
| Profit (loss) for the year | | (5 670) |
| **Total equity** | | **1 714 241** |
| **Total liabilities and equity** | | **15 094 027** |

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

## CONSOLIDATED CHANGES IN SHAREHOLDERS' EQUITY

| | Share capital | Share premium reserve | Other reserves | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Equity brought forward January 1, 2017** | **-** | **-** | **-** | **-** | **-** |
| Profit (loss) for the year | - | - | - | (5 670) | (5 670) |
| Other comprehensive income | - | - | 1 680 | - | 1 680 |
| **Total comprehensive income for the year** | **-** | **-** | **1 680** | **(5 670)** | **(3 990)** |
| **Transactions with the owners:** | | | | | |
| Share capital | 6 | - | - | - | 6 |
| Shareholder contribution | 9 994 | 10 000 | - | - | 19 994 |
| New capital share issue | - | 1 635 099 | - | - | 1 635 099 |
| Other increases/decreases in equity | - | - | 14 732 | 48 400 | 63 132 |
| **Total** | **10 000** | **1 645 099** | **-** | **48 400** | **1 718 231** |
| **Equity carried forward December 31, 2017** | **10 000** | **1 645 099** | **16 412** | **42 730** | **1 714 241** |

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

# CONSOLIDATED CASH FLOW STATEMENT

Indirect method

| | 2017 |
|---|---|
| **Operations activities** | |
| Operating profit | 7 237 |
| Adjustment for non-cash items in profit/loss | |
| *-Loan losses* | 19 043 |
| *-Depreciation, amortisation and impairment* | 2 134 |
| Paid income tax | (771) |
| **Cash flow before from current operations before changes in working capital** | **29 185** |
| **Cash flow from changes in working capital** | |
| Increase (-) / decrease (+) of lending to the public | (11 822 875) |
| Increase (-) / decrease (+) of other assets | (73 343) |
| Increase (-) / decrease (+) of deposits and borrowing from the public | 13 191 039 |
| Increase (-) / decrease (+) of liabilities | 78 232 |
| **Cash flow form current operations** | **1 372 603** |
| **Investing activities** | |
| Acquisitions of property and equipment | (91 765) |
| Acquisitions of intangible assets | (9 257) |
| Investments in securities | (208 915) |
| **Cash flow from investing activities** | **(309 937)** |
| **Financing activities** | |
| Capital increase | 1 709 905 |
| Debt securities issued | 65 007 |
| Investments in subsidaries, joint ventures and associates | (6 110) |
| **Cash flow from financing activities** | **1 768 802** |
| **Cash flow for the year** | |
| Exchange rate differences in cash and cash equivalents | (7 094) |
| **Cash and cash equivalents at year-end** | **2 854 009** |
| **Cash and cash equivalents include:** | **2 854 009** |
| Cash and balances in Central Banks | 2 620 838 |
| Loans to credit institutions | 233 171 |
| Interest received | 77 905 |
| Interest paid | 10 007 |
| Dividend received | 975 |

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

# PARENT COMPANY'S INCOME STATEMENT

| | Note | 2016 08 16 – 2017 12 31 |
|---|---|---|
| Net revenue | P2 | 1 328 |
| **Total operating income** | | **1 328** |
| | | |
| Other external expenses | | (10 292) |
| Personnel expenses | P4 | (679) |
| **Total operating expenses** | P3 | **( 10 971)** |
| **Operating profit** | | **(9 643)** |
| | | |
| **Result from financial investments:** | | |
| Interest expenses and similar expense items | | ( 21) |
| **Profit (loss) from financial assets** | | **(21)** |
| | | |
| **Profit (loss) after financial items** | | **(9 664)** |
| | | |
| Tax on profit for the year | P5 | - |
| **Profit (loss) for the year / Comprehensive income after tax** | | **(9 664)** |

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

## PARENT COMPANY'S BALANCE SHEET

| | Note | 2017 |
|---|---|---|
| **Assets** | | |
| **Fixed assets** | | |
| **Financial fixed assets** | | |
| Shares in Group companies | P6 | 1 645 093 |
| **Current assets** | | |
| Other receivables | P7 | 636 |
| Prepaid expenses and accrued income | P8 | 300 |
| Cash and cash equivalents | | 854 |
| **Current assets, total** | | **1 790** |
| **Total assets** | | **1 646 883** |
| **Equity** | | |
| **Restricted equity** | | |
| Share capital | | 10 000 |
| **Non-restricted equity** | | |
| Share premium reserve | | 1 645 099 |
| Profit (loss) for the year | | (9 664) |
| **Equity, total** | | **1 645 435** |
| **Liabilities** | | |
| **Current liabilities** | | |
| Liabilities to Group companies | | 2 |
| Other liabilities | P9 | 456 |
| Accrued expenses and deferred income | P10 | 990 |
| **Total liabilities** | | **1 448** |
| **Total equity and liabilities** | | **1 646 883** |

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

## PARENT COMPANY'S CHANGES IN SHAREHOLDERS' EQUITY

| | Share capital | Other non-restricted reserves | Retained earnings | Profit for the year | Total equity |
|---|---|---|---|---|---|
| **Equity brought forward January 1, 2017** | **-** | **-** | **-** | **-** | **-** |
| Profit (loss) for the year | - | - | - | (9 664) | (9 664) |
| **Total comprehensive income for the year** | | | | **(9 664)** | **(9 664)** |
| **Transactions with the owners:** | | | | | |
| Share capital | 6 | - | - | - | 6 |
| Shareholder contribution | 9 994 | 10 000 | - | - | 19 994 |
| New capital share issue | - | 1 635 099 | - | - | 1 635 099 |
| **Total** | **10 000** | **1 645 099** | **-** | **-** | **1 655 099** |
| **Equity carried forward December 31, 2017** | **10 000** | **1 645 099** | **-** | **(9 664)** | **1 645 435** |

As at 31 December 2017, the authorized capital of the Parent company is EUR 10 000, which is divided into 200000000 ordinary registered shares with EUR 0,05 par value each.

Luminor

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

# PARENT COMPANY'S CASH FLOW STATEMENT

Indirect method

| | Note | 2017 |
|---|---|---|
| **Operations activities** | | |
| Operating profit | | (9 643) |
| Interest received | | (21) |
| **Cash flow before from current operations before changes in working capital** | | **(9 664)** |
| **Cash flow from changes in working capital** | | |
| Decrease (+) / increase (-) of other receivables | | (936) |
| Increase (+) / decrease (-) of liabilities | | 1 448 |
| **Cash flow form current operations** | | **(9 152)** |
| **Investing activities** | | |
| Investments of subsidiaries | | (808 463) |
| **Cash flow from investing activities** | | (808 463) |
| **Financing activities** | | |
| Sharecapital | | 6 |
| Shareholders Contribution | | 10 000 |
| New share issue | | 808 463 |
| **Cash flow from financing activities** | | **818 469** |
| **Cash flow for the year** | | 854 |
| **Cash and cash equivalents at year-end** | | **854** |
| **Cash and cash equivalents refers to the company's bank accounts** | | **854** |

## NOTES TO FINANCIAL STATEMENTS

## ACCOUNTING PRINCIPLES

The consolidated accounts for Luminor Group AB (Parent Company) for the financial year ending 31 December 2017 have been approved by the Board of Directors and CEO for publication on 28 05 2018 and will be presented for adoption by the Annual General Meeting on 28 05  2018.

The registered office of the Parent Company Luminor Group is c/o Nordea Bank AB, smålandsgatan 17, 105 71 Stockholm.

### G1. Basis for compilation of accounts

**Statement of compliance with applied regulations**
The consolidated financial statements are compiled in accordance with International Financial Reporting Standards (IFRS). As the Parent Company is based in the EU, only EU approved IFRS are applied. The consolidated accounts have been compiled in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL 1995:1559) as Luminor Group AB is regarded as a financial holding company, meaning that the Group also has to apply this law's provisions on compilation of consolidated accounts. The consolidated accounts have also been compiled in accordance with the Swedish Financial Supervisory Authority's regulations and general recommendations regarding annual accounts for credit institutions and security companies (FFFS 2008:25), including all applicable amended regulations, the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary accounting rules for the Group and the Recommendation of the Swedish Financial Reporting Board. The Parent Company's annual report is prepared in accordance with the Swedish Annual Accounts Act (1995:1554) and with application of the Swedish Financial Reporting Boards RFR 2 Accounting for legal entities. This means that IFRS valuation and information rules are applied with the exceptions and supplements specified in the section concerning the Parent Company's accounting principles.

Financial assets and liabilities are recognized at amortized cost, with the exception of certain financial assets and liabilities that are recognized at fair value. Assets and liabilities recognized at fair value include derivative instruments, financial instruments classified as financial assets or liabilities valued at fair value in the income statement or as financial assets available for sale. In addition, liabilities in the insurance operations are recognized at fair value.  Other assets and liabilities are recognized at their historical cost.

The company's functional currency and reporting currency is EUR and, unless otherwise stated, all amounts are reported in thousands of Euro (KEUR).

**Basis for consolidation**
The consolidated accounts include the Parent Company and its subsidiaries as of 31 December each year. The financial reports of the Parent Company and subsidiaries included in the consolidated accounts relate to the same period and have been compiled in accordance with the accounting principles applicable to the Group.

All balances within the Group, income, expenses, profits or losses arising in transactions between companies covered by the consolidated accounts are eliminated in their entirety.  A subsidiary is included in the consolidated accounts from the time of acquisition, which is the date on which the Parent Company takes on controlling influence and is included in the consolidated accounts until the date on which the controlling interest ceases.

Controlling influence exists when the Parent Company directly, or indirectly through subsidiaries, holds over half of the voting rights in a company. Assets and liabilities in the consolidated balance sheet are essentially dealt with in a liquidity arrangement as this classification is more relevant on the basis of the operations run by the Group.

### G2. Amended accounting principles

**2017**
None of the revisions and interpretations of existing standards that shall be applied as of the financial year beginning on 1 January 2016 have any material impact on the Group or Parent
Company financial statements.

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

## ACCOUNTING PRINCIPLES (continued)

### G3. 2018 and forward
### IFRS 9 Financial Instruments

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

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

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

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

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

**Impairment of financial assets**
IFRS 9 will also fundamentally change the credit loss recognition methodology. The standard will replace IAS 39’s incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank will be required to recognize an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset. Loss allowances based on lifetime expected credit losses will be calculated also for purchased or originated credit-impaired assets (POCI) regardless of the changes in credit risk during the lifetime of an instrument. The 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 will be divided into three groups depending on the stage of credit deterioration. Stage 1 includes assets where there has been no significant increase in credit risk or which are classified as low risk (rating categorised as “Investment grade” or higher), stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes defaulted assets. Significant assets in stage 3 are tested for impairment on an individual basis, while for insignificant assets a collective assessment is performed. In stage 1, the allowances should equal the 12 month expected credit loss. In stage 2 and 3, the allowances should equal the lifetime expected credit losses.

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

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

## ACCOUNTING PRINCIPLES (continued)

Integration of the IFRS 9 impairment methodology into business processes (related to SPPI checks and accounting for modifications) is not finalized in the Bank. Also, development of some internal documentation (mostly related to end of month procedures and those with no material impact for example off-balance amounts inclusion into Stage 3 impairment calculations) was postponed and is intended to be finalized during the year 2018. None of the mentioned activities relate to IFRS 9 impact calculation. Validation of the model will be done in March 2018. . In general, IFRS 9 impairment model will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowances recognised for these items. Moreover, it is expected that the impairment calculations under IFRS 9 will be more volatile and pro-cyclical than under IAS 39, mainly due to the significant subjectivity applied in the forward looking scenarios. IFRS 9 impairment requirements are applied retrospectively, with transition impact recognized in retained earnings. Based on assessment performed to date, the transition impact on the opening balance of the Group's retained earnings as at 1 January 2018 is estimated to fall within the range of EUR 38-48 million.

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

**Capital management**

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

**IFRS 15 Revenue from Contracts with Customers**

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

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

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

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

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

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

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

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

## ACCOUNTING PRINCIPLES (continued)

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

**IAS 1 Presentation of financial statements (amendments)**
With the amendment interest revenue and impairment on financial istruments will be presented separately in the income statement from 1 January 2018.

**IAS 40 Investment property (amendments)**
With the amendment it is clarified when properties should be reclassified to be, or not be, investment property. The amendment are effective from 1 January 2018. Preliminary assessment is that this will not have an impact on the Group

**IAS 28 Investments in Associates and Joint Ventures**
The amendments clarify the exemption from using the equity method and instead on an investment-by-investment basis measure its investments at fair value through profit or loss. The amendments should be applied retrospectively and are effective from 1 January 2018. Preliminary assessment is that this will not have an impact on the Group

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

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

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

### G4. Significant accounting judgments

<u>Accounting for merger</u>
During the Merger with Nordea (G41) an assessment was done on the accounting principle to be used for the transaction.

*Control according to IFRS 10*
An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. (IFRS 10.6). Thus, an investor controls an investee if and only if the investor has all the following:

a) power over the investee;
b) exposure, or rights, to variable returns from its involvement with the investee; and
c) the ability to use its power over the investee to affect the amount of the investor's returns. (IFRS 10.7)

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

**ACCOUNTING PRINCIPLES (continued)**

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

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

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

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

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

More details on the Merger can be found in Note G41.

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

*Combination of entities under common control and usage of the pooling of interest method (Note G 41)*
A combination of entities under common control is a transaction when the controlling parties before and after a business combination are the same and the control is not transitory. IFRS 3, ‘Business combinations’ is not applied to business combinations between entities under common control, therefore such business combinations are accounted for using the pooling of interest method of accounting.

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

**G5. Critical accounting estimates and assumptions**
Certain assumptions about the future and certain estimates and assessments as of the balance sheet date are particularly significant to measurement of assets and liabilities in the balance sheet. Below is a discussion of the areas where the risk of value change over the following year is greatest because the assumptions or estimates may need amending.

**Credit losses**
The Group review their loan and finance lease receivable portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolios of loans and finance lease receivables before the decrease can be identified with an individual loan in those portfolios.

## ACCOUNTING PRINCIPLES (continued)

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when assessing its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. For impairment losses refer to G15.

### G6. Accounting principles applied

**Joint arrangements**

Based on management judgement in accordance with IAS 8 at the formation of the joint arrangement all asset and liabilities are recorded at book value at the formation date.

**Exchange rate effects in each Group company**

Transactions in foreign currencies are reported after translation using the exchange rate on the transaction date. Monetary assets and liabilities in foreign currency are converted into functional currency at the exchange rate on the balance sheet date. All exchange rate differences are reported via the income statement. Non-monetary items in foreign currency that are valued at their historical cost are valued in the functional currency, using the exchange rate at the time of the original transaction.

**Financial assets and financial liabilities**

Financial assets reported in the balance sheet include – on the asset side – balances with central banks, interest-bearing securities eligible as collateral with central banks, loans to credit institutions, loans to the public, bonds and other interest-bearing securities, shares, other assets and cash and cash equivalents. Due to credit institutes, deposits and borrowings from the public and other liabilities are reported on the liability side. Derivatives are reported as either assets or liabilities, depending on whether the fair value is positive or negative. A financial asset is de-recognized from the balance sheet once the obligations in the contract have been realized, have matured or if the company has lost control of it. The same applies to parts of financial assets.

The Group’s financial assets are classified either as financial assets valued at fair value through profit or loss, loans and receivables, or financial assets available for sale or financial assets held to maturity. When a financial asset is first recognized, it is valued at fair value plus – for financial assets that do not belong to the category of financial assets valued at fair value through profit or loss – transaction expenses directly attributable to the acquisition or issue of the financial asset. When a financial asset is valued after its initial recognition, the financial asset is reported in accordance with one of the four categories below, according to the classification of the financial asset at the time of acquisition.
Acquisitions and divestments of financial assets are reported on the transaction date, which represents the day on which the company undertakes to acquire or dispose of the asset.

The fair value of a financial asset listed on an active market is established as the purchase price at closure on the balance sheet date. In the few instances in which there is no active market, fair value is established on the basis of recently completed transactions between knowledgeable parties who are independent of each other.

Financial assets and financial liabilities are offset and recognized at a net amount in the balance sheet where there is a legal right to offset the amounts reported at the same time as there is an intention to adjust the items with a net amount or realize the asset and adjust the liability at the same time.

**Financial liabilities valued at fair value through profit or loss**

Financial assets valued at fair value via the income statement are divided into two subcategories.

The assets in the first subcategory, financial assets classified as held for trading, are reported as financial assets valued at fair value via the income statement. A financial asset is classified as held for trading if it was acquired or originated for the primary purpose of being sold or bought back in the short term, or if it is included in a portfolio of identified financial instruments that are managed together and for which there is a recent, demonstrated, actual pattern of short-term realizations of profit, or if the financial asset is a derivative. Profits and losses on assets held for trading are reported via the income statement.

The second subcategory is financial assets that, on initial recognition, are identified as items valued at fair value via the income statement. Financial assets in this subcategory are managed by the company and its performance is evaluated based on fair value, this category also includes insurance assets where the policyholders bear the investment risk.

## ACCOUNTING PRINCIPLES (continued)

**Loans and accounts receivable**

Loans and accounts receivable are financial assets that are not derivatives, have established or determinable payments and are not listed on an active market. The valuation is made at amortized cost less write-downs and specific reservations for credit losses. Profits and losses are reported via the income statement when the financial asset is de-recognized from the balance sheet or written down, and also via period allocation. Accounts receivable are recognized in the balance sheet once an invoice has been sent. Accounts receivable are expected to have short maturity, and so the value is recognized at a nominal amount without discounting. If objective evidence indicates that a need has arisen to recognize an impairment in a financial asset in the loans and accounts receivable category, the impairment is calculated as the difference between the recognized value of the asset and the current value of estimated future cash flows (excluding future credit losses that have not occurred), discounted to the financial assets original effective interest rate. The amount of the impairment is recognized in the income statement. Credit losses are reported partly as credit losses confirmed over the year and partly as provisions relating to probable credit losses. All or part of a receivable that is not deemed to be recoverable or that cannot be obtained on realization of the security is reported as an actual loss. Actual losses are written down where there are no realistic chances of recovery.

Provision for probable loan losses is made if the claim is impaired, i.e.:

- if it is likely, based on events and circumstances that have occurred by the balance sheet date, that the payments will not be made in accordance with the contract terms, and
- there is no security that will cover, by a safe margin, both loan amounts and interest, including compensation for any delay.

When determining reservations relating to probable credit losses, the loan receivables are valued individually and in groups for homogeneous groups of loan receivables of limited value and of a similar credit risk.

Restructured loan receivables, for example in the form of a reduction in interest due to a borrowers financial problems, are not considered to be uncertain, if it is deemed likely that payments will be made in accordance with the contractual terms following the restructuring.

Recovered credit losses are reported as a reduction in the year’s net expense relating to credit losses.

**Financial assets held to maturity**

Financial assets held to maturity are financial assets, which are not derivatives, and have set or determinable payments and a set duration with the intent and ability to be held until maturity. Financial assets classed as belonging to the category of financial assets held to maturity are initially recognized in the balance sheet at the acquisition value including transaction costs. After initial recognition, instruments in this category are measured at amortized cost. Upon measurement at amortized cost, the difference between the acquisition value and the redemption value over the remaining duration is recognized in profit or loss using the effective interest method.

At every reporting date, an assessment is done of whether or not there is any objective evidence indicating an impairment requirement. If such evidence exists, an impairment loss is recognized. The impairment is calculated as the difference between the carrying amount and the present value of anticipated future cash flows, and is recognized in profit or loss as “Impairment of securities held as financial assets”.

**Financial assets available for sale**

Available-for-sale financial assets are assets that are not derivatives and where the assets are identified as being available for sale, and are also not kept to maturity and which are not classified in any of the three categories mentioned above. The valuation is made at fair value. The value change is recognized in other comprehensive income, except for impairments and currency profits and currency losses – until the financial asset is de-recognized from the balance sheet, at which time the accumulated profit or loss previously recognized in comprehensive income is reported in the income statement.

If there is objective evidence (see description under “Loans and accounts receivable”), indicating need for impairment of interest-bearing securities, the amount of the accumulated loss reclassified through other comprehensive income in the income statement consists of the difference between the acquisition cost (less repayments of capital amounts and amounts distributed on a straight line basis) and the current fair value, less any impairment of the financial asset previously reported in the income statement. Impairments are recognized in the net result of financial transactions. Impairments of interest-bearing securities are reversed through the income statement where fair value increases and the increase can be objectively attributed to an event occurring after the impairment was recognized.

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

## ACCOUNTING PRINCIPLES (continued)

If there is objective evidence to indicate impairment of unlisted shares valued at cost because fair value cannot be reliably estimated, the amount of the impairment is calculated as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market return for similar financial assets. Impairment of shares valued at cost is never reversed.

**Cash and cash equivalents**
Cash and cash equivalents in the balance sheet consist of loans to credit institutions and treasury bills eligible as collateral with a maturity of less than 90 days from the time of acquisition. Cash and cash equivalents can easily be converted into cash funds of a known amount and are not subject to any significant risk of value fluctuations.

Cash and cash equivalents as specified above are defined in the cash flow statement.

**Financial liabilities**
The Group's financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. When a financial liability is reported for the first time, it is valued at fair value plus – as regards a financial liability not belonging to the category of financial assets valued at fair value via the income statement – transaction expenses directly attributable to the incurrence or issue of the financial liability. When a financial liability is valued after its initial recognition, the financial liability is reported in accordance with one of the two categories below, according to the classification of the financial asset at the time of acquisition.

Liabilities are included in the balance sheet when the counterparty has fulfilled its obligations and there is a contractual obligation to pay, even if an invoice has not yet been received. Accounts payable are recognized in the balance sheet when the invoice is received.

Trade payables have a short expected maturity and are accordingly measured at nominal value and not discounted.

A financial liability is de-recognized from the balance sheet once the obligation in the contract has been fulfilled or otherwise extinguished. The same applies for part of a financial liability.

Financial liabilities at fair value through profit or loss. See the above description of asset categories regarding which categories exist and how holdings in this category are reported. The second subcategory, financial liabilities, which are on initial recognition identified as items at fair value through the income statement, includes financial liabilities in the insurance business where customers bear the investment risk. These holdings have been classified in this category to eliminate or significantly reduce inconsistencies in measurement and reporting.

**Other financial liabilities**
Loans and other financial liabilities are included in this category. Following initial recognition, these are valued at amortized cost, using the effective interest method.  Subordinated loans are reported among other financial liabilities. The interest expense is amortized over the term of the loan applying the effective interest method.

**Buy-back agreement and reverse buy-back agreement**
Securities provided according to a buy-back agreement are not removed from the balance sheet. Securities provided according to a buy-back agreement are also recognized under the item "Assets pledged for own liabilities". Cash and cash equivalents received under a buy-back agreement are recognized in the balance sheet as "Liabilities to credit institutions".

**Tangible assets**
Property, plant and equipment are recognized as assets in the balance sheet if the company is likely to derive future economic benefits from them and the acquisition value of the assets can be reliably estimated.

Property, plant and equipment are recognized at acquisition value, less accumulated depreciation and any accumulated write-down. Depreciation is made on a straight-line basis over the useful life of the asset, down to an estimated residual value. If there is an indication of impairment, impairment testing is carried out and a recoverable amount is estimated. If this is less than the recognized value, an impairment loss is recognized. The recognized value of an item of property, plant and equipment is de-recognized from the balance sheet upon scrapping or disposal, or when no future economic benefits are expected to remain. Profits and losses arising when property, plant or equipment is de-recognized from the balance sheet are determined as the difference between any net income, upon disposal, and the recognized value of the asset.

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

## ACCOUNTING PRINCIPLES (continued)

The depreciation method of the tangible assets is reviewed at the end of every financial year as a minimum, and the depreciation period is adjusted if required.

Fixtures and fittings, computers and other hardware are normally written off after 3 -10 years.
Improvement charges for third-party property are depreciated on a straight-line basis over the remaining term of the rental contract or the useful life of the improvements, whichever is shorter.

**Investment properties**
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 income statement in the period in which they arise.
Investment properties are derecognized 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 recognized in the income statement in the period of derecognition.

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

**Intangible assets**
Intangible assets are recognized as assets in the balance sheet if the company is likely to derive future economic benefits from them and the acquisition value of the asset can be reliably estimated.

An intangible asset is valued at its acquisition value when it is initially recognized in the balance sheet. After its initial recognition, an intangible asset is included in the balance sheet at its acquisition value less any accumulated depreciation and accumulated impairment losses. Amortization is made on a straight-line basis over the useful life of the asset, down to an estimated residual value, and amortization commences only when the asset is available for use.

Amortization normally occurs over 3 - 5 years. The residual value and useful life of intangible assets are reviewed – irrespective of whether there is any indication of impairment – at the end of every financial year as a minimum, at which point the amortization period is adjusted and/or an impairment loss recognized. If there is an indication of impairment, impairment testing is carried out and a recoverable amount is estimated. If this is less than the recognized value, an impairment loss is recognized. Also intangible assets, which are not yet available for use, are tested for impairment on an annual basis, even if there is no indication of an impairment loss.

**Goodwill**
The goodwill arising from a business combination as an asset valued at acquisition value, which corresponds to the part of the acquisition value that exceeds the net fair value for the acquired percentage of the identifiable assets, liabilities and contingent liabilities of the acquired entity, is recognized at the time of acquisition.

After the initial recognition, any goodwill that has arisen is valued at the acquisition value less any accumulated impairment losses. Goodwill is tested for impairment at least once a year. Impairment testing is carried out more frequently if events or circumstances indicate the possibility of impairment losses. When the value of goodwill is tested for impairment, the value is distributed over each and every one of the Group’s cash generating units, or groups of cash-generating units, that are expected to benefit from the synergies created in the acquisition, regardless of whether other assets or liabilities in the acquired company are assigned to these units or groups of units. Every unit or group of units over which goodwill is to be distributed must:

- correspond to the lowest level in the company at which goodwill is monitored in the company’s internal governance, and
- not be larger than one segment, based on IFRS 8 Operating Segments.

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

## ACCOUNTING PRINCIPLES (continued)

Impairment of goodwill is recognized for a cash-generating unit (group of units) when the recoverable amount of the goodwill is lower than the recognized value of the goodwill for the unit (group of units). Impairment in goodwill is recognized primarily when there is need to recognize impairment in a cash generating unit.

**Capitalized expenditure for development work**
Capitalized expenditure for development work partly consists of services purchased externally, and partly of capitalized personnel costs. Capitalized expenditure relates to software development that will give the Group financial benefits in the long term, either through increased income or cost savings. Charges are recognized as assets as they occur. Capitalized development expenses are entered in the balance sheet at acquisition value, less amortization and impairment losses. Capitalized development expenses are amortized once the asset has been completed and over an assessed useful life.

Capitalized expenditure for development work is amortized over 4 - 5 years, depending on the assessed useful life.

**Impairment of assets (excluding goodwill)**
On each balance sheet date, the company assesses whether there is any indication that the value of an asset is impaired.

If this is the case, an estimate is made of the assets recoverable amount. The recoverable amount of an asset is the fair value minus sales expenses for an asset or cash-generating unit and its value in use, whichever is greater. If the recognized value is lower than the recoverable amount, it shall be written down to the recoverable amount. When calculating the recoverable amount, future cash flows are estimated and discounted at present value with a discount rate before tax, taking into account current market assessments of the time value of money and the risks associated in particular with the asset for which the estimates of the future cash flows have not been adjusted. Impairments are recognized in the income statement over the period under the specific income items to which the impairment of the asset belongs.

On each balance sheet date, the Group also establishes whether there are any indications that an earlier impairment of an asset, apart from goodwill, is no longer justified, wholly or in part. If there are any such indications, the recoverable amount of the asset is calculated. An impairment loss recognized in prior periods for an asset other than goodwill is only reversed if there has been a change in the assumptions used to determine the assets recoverable amount when the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. This increase is recognized in the income statement as a reversal of an impairment loss. An increase in the carrying amount of an asset other than goodwill attributable to a reversal of an earlier impairment loss must not lead to a carrying amount exceeding what the Group ought to have reported if no impairment loss been recognized for the asset. The reversal of impairment on an asset other than goodwill is recognized immediately in the income statement. Once an impairment loss has been reversed, future depreciation is adjusted to allocate the assets revised carrying amount, less any residual value, over its remaining useful life.

**Leasing**
The classification of leases is based on the extent to which financial risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. A lease is classified as a finance lease if the financial rewards and risks associated with ownership of the object are materially transferred from the lessor to the lessee. A lease is classified as an operating lease if those rewards and risks are not materially transferred from the lessor to the lessee.

*The group is the lessee*
Objects held under an operating lease are not entered in the balance sheet. The leasing charges in an operating lease are reported in the income statement over the term, starting from utilization. The Group has operational leasing contracts only.

*The group is lessor*
Operating lease
Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar owned assets. Rental income is recognised on a straight-line basis over the lease term.

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

## ACCOUNTING PRINCIPLES (continued)

Financial lease
A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. 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 (before tax), which reflects a constant periodic rate of return. Initial direct costs are included in the initial measurement of the lease receivables

**Employee remuneration**
*Short-term benefits*
Short-term benefits including salaries, social security contributions, paid short-term leave, performance-related pay and certain types of non-monetary benefits are recognized in the income statement in the period in which the employee performed the service for the Group.

A provision for performance-related pay is reported when the Group has a legal or informal obligation to make such payments as a consequence of the services in question having been received from the employees and the provision amount can be calculated reliably. Costs for social security contributions relating to the approved share incentive programme are distributed over the scheme's vesting period of three years.
*Post-employment benefits*
Post-employment benefits include pensions.

The Group has only defined contribution pension plans, which are recognized in the income statement in the period in which the employee performed the service for the Group. A defined contribution pension plan means that a set charge, based on a certain percentage of the salary, is paid into the employees' pension account (opened by the Group) held with an insurance company.

The size of the pension for the individual employee depends on the amount of money paid in and the size of the returns on the funds, unlike defined benefit pension plans, where the employee is guaranteed a specific, predetermined pension by the employer.

*Termination benefits*
Compensation for termination of employment where the staff member is suspended is recognized immediately as an expense as there are no future financial benefits for the Group.

**Provisions**
A provision is recognized in the balance sheet when a formal or informal obligation exists as a consequence of an event and it is likely that an outflow of resources will be required to settle that obligation and the amount can be reliably estimated. A provision for restructuring is reported only when a detailed restructuring plan has been established and restructuring has either commenced or otherwise been announced to the affected parties.

**Contingent liabilities**
Contingent liabilities are reported when there is a potential obligation stemming from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or where there is an obligation stemming from past events but which is not recognized because it is not probable that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

**Income recognition**
Income is recognized at the fair value of what has been received or will be received. The time for entry of income occurs when the financial outcome can be calculated in a reliable manner, the significant risks are transferred to the purchaser and it is likely that the financial benefits associated with the transaction will fall to the Group. The most significant income for the Group is explained below.

**Interest income**
Interest income relating to loans to credit institutions and loans to the public are recognized as income when it is earned, which means that interest income is recognized on an accrual basis for the period to which it relates in accordance with the effective interest method.

The effective interest method is a way of calculating the accrued acquisition value of a financial asset and the distribution of interest income over time.

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

## ACCOUNTING PRINCIPLES (continued)

**Interest expenses**
Interest expenses on deposits from credit institutions and the general public are recognized as an expense when processed, which means that interest expenses are distributed over the period to which they relate. Interest expenses also relate to subordinated loans entered on the same principle.

**Commission income**
Income and expense of fees and commissions are generally recognised on an accrual basis when the service has been provided.

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

**Commission expenses**
Other expenses are recognised on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred. The amount of expenses is usually accounted for as the amount paid or due.

**Net profit from financial transactions**
Realized and unrealized value changes attributable to financial transactions classified as financial assets valued at fair value are recognized in this item. The income also relates to dividends received, currency exchange fees and currency profits and currency losses.

**Other operating income**
Other operating income relates to income from – among other things – custodial services, information services, software and service and support fees from partners. The income is recognized as income in the period in which the service is performed and provided to the customer.

**Borrowing costs**
Borrowing costs are charged to income in the period to which they refer. Borrowing costs referring to larger investments are capitalized during the investment phase and are depreciated over the same period as the rest of the investment.

**Tax**
*Income taxes*
The Group's tax consists of current and deferred tax. Income tax is recognized in the income statement unless it relates to items recognized in other comprehensive income or directly in equity.

Current tax is that paid or received pertaining to the current year, calculated applying tax rates that have been established (or to all intents and purposes established) on the balance sheet date. Any adjustment of current tax attributable to previous periods also belongs here.

Deferred tax is calculated based on temporary differences between the reported tax bases of assets and liabilities. Temporary differences are not taken into account in consolidated goodwill, or for differences arising on the initial recognition of assets and liabilities that are not business combinations that, at the time of the transaction, affect neither accounting nor taxable profit. Nor are temporary differences taken into account that relate to participations in subsidiaries, associates and affiliates and that are not expected to be reversed in the foreseeable future. The valuation of deferred tax provided is based on how carrying amounts of assets or liabilities are expected to be realized or settled. Deferred tax is calculated by applying the tax rates and tax rules that have been set or essentially are set as of the balance sheet date.

Deferred tax assets for deductible temporary differences and loss carryforwards are recognized to the extent that it is probable that the amounts can be utilized against future taxable income.

The carrying amount for deferred tax assets is reviewed on each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available. The reduction is reversed to the extent it is deemed likely that sufficient taxable profits will later be available.

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

## ACCOUNTING PRINCIPLES (continued)

Current tax assets and current tax liabilities are offset when there is a legally enforceable right to offset. This entails items relating to taxes levied by the same taxation authority on either the same taxable entity or a different taxable entity, where there is an intention either to settle these tax items net or to reclaim the tax asset at the same time as the tax liability is settled. Deferred tax assets and deferred tax liabilities are generally offset to the extent that this is permitted for current tax assets and current tax liabilities.

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

## G7. RISK MANAGEMENT

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

The Group determines, analyses, evaluates, accepts and manages the risks or combinations of risks it is exposed to. Risk management at Luminor Group aims at ensuring an acceptable profitability and return on equity following the adequate risk management policy. While implementing a sound risk management policy the Group focuses not only on minimising the potential risk but also on improving pricing and achieving efficient capital allocation.

Risk is an integral part of the management and monitoring of business areas to the extent possible, including taken into account during strategic and planning processes, lending process, product development and other daily business activities.

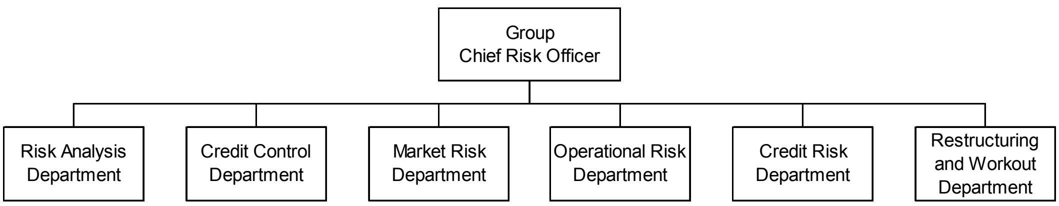
All executives are responsible for risk within their own area of responsibility and must consequently be fully updated on the risk situation at all times. Internal reports play an important role in control of outcomes, that allows for timely evaluation of occurrence, dimension of risks and implementation of appropriate measures for avoiding the risk or mitigating it in the future. Continuous supervision and control should ensure that assumed risks are in line with the Group risk level and structure. Risk related ratios levels are monitored on a regular basis. Processes and compliance with quality requirements are monitored for non-quantifiable risks.

Following "the Recovery and Resolution Directive" approved by the European parliament the Group prepares the Recovery plan as of the end of 2017 based on former DNB Recovery plan framework. The plan serves as one of the risk management prevention tools and should ensure restoration of the Group's solvency following situations of severe stress without any involvement by or support from the authorities or tax payers.

The most important types of risk the Group is exposed to are credit risk, market risk, liquidity risk, operational risk, compliance risk.

The Group aims to design an organisational structure which would ensure effective and reliable governance as well as efficient risk management. The management of separate risks of the Group is under responsibility of structural units within their competence limits. Risk management functions and the development of risk management tools are undertaken by units that are independent of operations in the individual business areas. The function of all-type risk control is segregated from risk taking, i.e. from the front-office units.

Risk division organisational structure:




The control function for the major material risk – credit risk – is under the responsibility of the Credit Control Department and Risk Analysis Department. The control over operational risk management within the Group and information security lies under responsibility of Operational Risk Department. The functions of Market Risk Department embrace market risk and liquidity risk control. All four aforementioned organizational units responsible for the control of financial risks – Credit Control Department, Risk Analysis Department, Operational Risk Department and Market Risk Department – report directly to the Group Chief Risk Officer (CRO) and represent the second line of defence. Credit Risk Department and Restructuring and Workout Department represent the first line of defence.

In Luminor Group separate Compliance division is established covering Compliance and AML Departments in each country and one Anti-Financial Crime Department for the Baltics.

The internal control system aims to avoid mistakes, losses and various violations in the Group. The Management is responsible for creation and maintenance of effective internal control system in the Group.

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

**RISK MANAGEMENT (continued)**

Risk management processes and effectiveness of internal control are assessed by the Internal Audit representing the third line of defence.

In order to develop and implement good governance practices and decisions, the Board of Directors of Luminor Group has set up the Risk Committee, consisting of the Board of Directors members. The main responsibilities of Risk Committee are:

- Advise and support the Luminor Management Bodies regarding the monitoring of Banks' overall current and future risk appetite and strategy;
- Assist the Board of Directors in overseeing implementation of risk strategy by management;
- Analyse asset and liability structure of the Banks;
- Monitor main risk related processes and risk reports;
- Make proposals on the optimal capital structures of the Banks, methods of decreasing and increasing the capital and its utilization efficiency;
- Assist in the setting up sound remuneration policies and practices;
- Assess the recommendations of internal or external auditors and follow up on the appropriate implementation of measures taken;
- Review a number of possible scenarios to assess how the Bank's risk profile would react to external and internal events.

In each Luminor Bank in Estonia, Latvia and Lithuania the Credit Committee is founded for the improvement of overall credit risk management quality based on regular risk reporting. The main responsibilities of the Credit Committee are to ensure that credit activity is of an acceptable quality and play an active role in the further development of sound and uniform credit culture in Luminor. As well the Credit Committee is a decision making body regarding the Management Board Level individual credit cases involving credit risk. The Credit Committee provides recommendations regarding approval of impairment losses calculated by business units and verified by Credit Control.

## 1. CREDIT RISK

Credit risk means the risk for the Group to incur losses due to the customers' failure to fulfil their financial obligations towards the Group. Credit exposures arise principally in lending activities and it is the most significant risk in the Group's business.

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

The credit activity principal objective is that the loan portfolio should have a quality and a composition which ensure profitability in the short and long term. The Group puts efforts on selecting suitable customers or segments of customers. The target is that loan portfolio should maintain the credit risk profile varying from low to moderate. The assessment of creditworthiness should be based on customer's true willingness and ability to perform on its financial obligations, collateral is considered only as a risk mitigation. As well as cash flows from customers' activities dedicated for loan payments should be clearly understandable and sustainable.

Credit risk arises as well from investment activities (e.g., debt securities), the Group's assets as well as from the off-balance sheet financial instruments.

Credit risk management is an independent function from the front-office. Final approval of credits above a certain level is made in Credit Committees. Credit committees' members represent various areas of the Group, including Credit Officers. The Group has defined a list of criteria when credit decisions must be lifted one level up than ordinary decision making level or delegated to specially authorized persons. In all cases the four-eye principle must be followed which means that one person makes the recommendation (credit proposal) and another one approves it, in cases of smaller loans/ credit facilities one pair of eyes may be replaced by rating if the risk model is approved by Group CRO. Any changes to a credit facility are approved at the appropriate decision making level.

In 2017 the Group emphasized on the initiatives in order to harmonize credit processes within Luminor Group.

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

**RISK MANAGEMENT (continued)**

The regular reports are designed to be provided to Group's management bodies to follow the level and developments of the assumed credit risk. Credit risk is monitored by following developments in risk parameters, migration and distribution over the various risk classes.

### 1.1. Credit risk measurement

The credit risk is managed by carrying out a thorough analysis of the customer before issuing the credits and by monitoring thereof after the credit disbursement. All credits granted to customers are classified by risk using the rating models every time a commitment is renewed or, unless otherwise decided, at least once a year.

The credit risk is assessed by using the customer / product segment specific rating models, which are used for homogeneous groups of customers. These instruments are constantly improved based on the results of analysing the historical data on credit risk related losses and tested for reliability (validated).

In 2017 the considerable amount of efforts were aimed towards implementation of uniform landscape of rating models and risk parameters in the Group after combination of operations of DNB and Nordea in the Baltics, which is mainly based on the rating models and risk parameters developed internally by DNB Baltics side.

The internal rating models are applied in decision making, pricing, monitoring and risk reporting as well as economic capital.
The risk-based credit pricing tools for all customer / product segments are monitored regularly and updated, if needed.

### 1.2. Credit risk mitigation

Credit risk mitigation is an integral part of credit risk management process in the Group. It is based on proper processes and collateral held as a security.

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

The Group mitigates credit risk through taking of security for funds advances. 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 (mainly residential properties, commercial real estate);
- Business assets (equipment, inventory, transport vehicles).

The terms of the loans are taken into account when considering the type of collateral, a priority is given for long-term loans being covered by the long-term property, mainly residential properties.

In order to minimise the credit loss the Group may seek for additional collateral from the counterparty as the impairment indicators for certain individual loans and advances are noticed.

### 1.3. Risk limit control

The Group manages, limits and controls concentration of credit risk. The Group aims to keep its loan portfolio diversified and balanced from concentration point of view, in particular related to individual counterparties and groups of the associated counterparties as well as to economic sectors.
The Group seeks to avoid large risk concentrations related to a single customer/ group or clusters in higher risk categories and specific business sectors whereby significant changes in one or a few risk drivers may substantially affect the Group's profitability.

Concentration risk of lending to the economic sectors is regarded as being material and is closely monitored and controlled. The Group implements internal limits to industry sectors and reviews them at least annually.

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

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

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

**RISK MANAGEMENT (continued)**

### 1.4. Impairment policies

Upon assessing impairment losses on loans, available for sale assets and other financial assets as of reporting period the Group followed the requirements of IAS 39 Financial instruments: recognition and measurement. Impairment losses are recognised for financial reporting purposes only for those losses that have been incurred due to loss events that have taken place before the statement of financial position date based on objective evidence of impairment. By contrast, the Group employs expected loss concept for credit risk measurement in decision making, pricing, monitoring of credit risk related exposures and capital management.

Currently all material exposures without loss events are reviewed every quarter to see whether loss event should be recognised. Impaired large exposures that are above materiality thresholds and with loss event are reviewed every quarter or more frequently when individual circumstances require. The impairment losses for impaired large exposures are made based on individual valuation under the discounted cash flow method, where both future cash flows from borrower's operations and cash flows from collateral are taken into account. The amount of the impairment losses is the difference between the carrying amount and the recoverable amount, which is the present value of expected discounted cash flows, taking into account the costs incurred by the Group for the realisation of collateral. In more complicated cases two scenarios with certain probability weights are used and impairment losses are the result of calculations based on weighted future cash flows.

The impairment allowances for impaired small exposures are made distinguishing homogenous pools. The impairment rates are based on the historical data on actual losses and expert judgment. These methodologies enable an assessment of the incurred losses of a high number of the impaired small exposures and at the same time provide a possibility to focus on the individual assessment of the Group's largest impaired borrowers under the discounted cash flow method. Allowances for immaterial loans are calculated at least quarterly, however full parameter reassessment / recalculation is performed at least annually.

The Group collectively assesses the remaining performing loans for which the impairment losses are not yet identified. The calculations are done separately at least for legal entities and private individuals, different parameters might be applied for immaterial and material exposures or different economic industry customers. The calculation approaches rely on historical data and trends in default rates / payments' delinquencies and loan impairment losses. Collective allowances are recalculated at least quarterly.

Valuation of finance lease receivables follows broadly the same concept as described above with special rules for assessment of terminated leasing agreements.

The loans and advances are written off when the Group does not expect any significant cash flows neither from the borrowers' activities nor from the realisation of the collateral.

### 1.5. Loans and advances and finance lease receivables

Loans and advances including finance lease receivables are summarized as follows (on-balance sheet assets):

| 31 December 2017 | Group |
|---|---|
| | **Loans and leases to customers** |
| Neither past due nor impaired | 10 792 401 |
| Past due but not impaired | 506 180 |
| Impaired | 654 304 |
| **Gross** | **11 952 885** |
| Less: allowance for impairment | (306 345) |
| **Net** | **11 646 540** |

Past due but not impaired loans and finance lease receivables mean loans and advances and finance lease receivables that are past due but have no individual allowances for impairment.

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

**RISK MANAGEMENT (continued)**

Impaired loans and finance lease receivables mean loans and advances and finance lease receivables that have individual allowances for impairment.

The Group's total impairment allowance for loans and leases accounts for 2.6% of the Group's respective portfolio. The Group's impaired loans and finance lease receivables to customers make 5.5% of the respective portfolio.

*a) Loans and finance lease receivables neither past due nor impaired*
Credit quality of loans to individual and business customers is disclosed in the table below according to the risk scale as set in Credit Manual.

Rating grades are linked with one year horizon probabilities of default, i.e. with probabilities that customer will become unable to perform on its financial obligations to the bank within one year after assignment of rating grade. Probability of default for low risk rating grades (1 to 4) is in the range from 0.00% to 0.75%, for moderate risk rating grades (5 to 7) it is from 0.75% to 3.00%, while it is more than 3.00% for high risk (from 8 to 12).

**31 December 2017**

| | Group loans and leases to customers | | |
|---|---|---|---|
| | **Business customers** | **Individual customers** | **Total** |
| Low risk | 1 438 690 | 4 007 021 | 5 445 711 |
| Moderate risk | 3 329 491 | 1 338 272 | 4 667 763 |
| High risk | 508 736 | 170 191 | 678 927 |
| **Total** | **5 276 917** | **5 515 484** | **10 792 401** |

*b) Loans and finance lease receivables past due but not impaired*
Gross amount of loans and finance lease receivables are reported in the table below.

**31 December 2017**

| | Group loans and leases to customers | | |
|---|---|---|---|
| | **Business customers** | **Individual customers** | **Total** |
| Past due up to 30 days | 153 645 | 206 446 | 360 091 |
| Past due 31-60 days | 36 852 | 52 272 | 89 124 |
| Past due 61-90 days | 5 886 | 21 999 | 27 885 |
| Past due more than 90 days | 8 674 | 20 406 | 29 080 |
| **Total** | **205 057** | **301 123** | **506 180** |

More than half (71.1%) of loans and finance lease receivables reported as past due but not impaired are past due up to one month, up to 30 days as at 31 December 2017.

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

**RISK MANAGEMENT (continued)**

*c) Impaired loans and finance lease receivables*
The gross amount of individually impaired loans and finance lease receivables by customer type is reported together with the value of related collateral held as security in the table below.

The loans and finance lease receivables which are not impaired individually are grouped and assessed for collective impairment. Loans and leases are grouped into private individuals and legal entities.

**31 December 2017**

| | Group loans and leases to customers | | |
|---|---|---|---|
| | **Business customers** | **Individual customers** | **Total** |
| Individually assessed impaired loans | 494 529 | 159 775 | 654 304 |
| Fair value of collateral | 244 208 | 92 927 | 337 135 |

**1.6. Concentration of risks of financial assets with credit risk exposure**

The following table breaks down the loans and finance lease receivables at their carrying amounts, as categorized by the economic sectors of our counterparties.

**31 December 2017**

| | Group |
|---|---|
| | **Loans and leases to customers** |
| Households | 5 828 553 |
| Management of real estate | 1 133 583 |
| Manufacturing | 866 714 |
| Trade | 1 229 255 |
| Transport | 474 611 |
| Agriculture | 631 757 |
| Construction | 257 015 |
| Accommodation and food service activities | 82 126 |
| Electricity, gas, steam and air conditioning supply | 238 672 |
| Other | 1 210 599 |
| **Gross** | **11 952 885** |
| Less: allowance for impairment | (306 345) |
| **Net** | **11 646 540** |

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

**RISK MANAGEMENT (continued)**

**1.7. Exposures rated by External Credit Assessment Institutions**

Table below presents analysis of debt securities and treasury bills by rating agency designation at 31 December 2017 based on Fitch's ratings or their equivalent.

**31 December 2017**

| Rating | Trading securities | | Securities designated at fair value through profit or loss | | Total |
|---|---|---|---|---|---|
| | Bonds | T-Bills | Bonds | T-Bills | |
| Aaa | - | - | - | - | **-** |
| From Aa3 to Aa1 | - | - | 30 197 | - | **30 197** |
| From A3 to A1 | 2 189 | - | 131 680 | - | **133 869** |
| From Baa1 to Ba3 | 136 | - | - | - | **136** |
| From B1 to B3 | - | - | - | - | **-** |
| NR | - | - | - | - | **-** |
| **Total** | **2 325** | **-** | **161 877** | **-** | **164 202** |

**2. Market risk**

The Group 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) or equity prices (equity risk). The most significant part of market risk for a Group is interest rate risk while significance of other risks are lower.

Interest rate risk is assessed using BPV (basis point value) technique, which measures an 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 departments. Interest rate and foreign exchange risks are restricted by the limits determined by the Luminor Executive Management and monitored daily by the Risk analysis department.

**2.1 Market risk measurement techniques**

There are several types of market risk calculated in the Group.

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, long term funding is attracted to decrease the discrepancy between long and short terms. 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 are restricted by the limits set by the Luminor Executive Management and monitored on a daily basis.

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

**RISK MANAGEMENT (continued)**

### 2.2. Foreign exchange risk

The Group has the main exposure to euro currency (EUR), exposures to other currencies are not significant. The Group follows a very conservative approach to foreign exchange risk which is measured as the nominal value of the open FX positions converted to euro using the current spot rate. The Group is responsible to stay within the given limits – both intraday and overnight.

**Sensitivity of foreign exchange risk**

Foreign exchange risk is limited by amounts of open FX positions. For calculation of sensitivity of FX risk, all exposures shall be converted into possible loss – i.e. open FX position is multiplied by possible FX rate change. FX risk parameters for the Group are provided in the table below:

| Currency | Reasonable shift |
|---|---|
| USD | 5.2% |
| Other currencies | 5.2% |

The presumable FX rate change creates acceptable impact on Group's annual profit as well as equity and makes EUR 38 thousand in 2017 impact on profit.

The Group's exposure to foreign currency exchange rate risk is summarised in Note G40.

### 2.3. Interest rate risk

Interest rate risk is measured as BPV, i.e. the change in market value of interest rate exposures equal to the financial result actually accounted for in euro resulting from a 0.01%-point rate change. Interest rate risk exposure inherited in all types of on- and off-balance sheet instruments is transformed to BPV. When calculating the total interest 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 Group's main exposure to interest rate risk is in EUR currency, while interest rate risk in other currencies is not significant. In case of EUR, funding from DNB Oslo and Nordea Helsinki is mainly covering exposure from assets. As the Group follows a conservative approach in interest rate risk, a set of limits for exposures in different currencies is set by the Luminor Executive Management. Interest rate risk from single currency position is calculated and monitored on a regular basis.

**The Group's exposure to interest rate risk as of 31 December 2017 (BPV in TEUR):**

| Currency | Bank | Luminor Asset Management | Luminor Leasing | Elimination effect | Consolidated |
|---|---|---|---|---|---|
| EUR | (13.6) | (0.3) | (16.5) | - | (30.4) |
| USD | 1.4 | - | - | - | 1.4 |
| NOK | 0.3 | - | - | - | 0.3 |
| Others | (0.1) | - | - | - | (0.1) |

**Sensitivity of interest rate risk**

Interest rate risk exposure cannot exceed BPV limits approved by Luminor Executive Management. Assuming a reasonable parallel shift of yield curve, sensitivity of interest rate risk shall be calculated multiplying BPV limit usage by interest rate change. Reasonable interest rate shift by currencies (in basis points) are provided in the table below:

| Year | EUR | USD |
|---|---|---|
| 2017 | 119 | 160 |

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

**RISK MANAGEMENT (continued)**

The shift of the yield curve according to the above mentioned parameters creates acceptable impact on the Group's Equity and P&L (see table below):

**Impact on Equity and P&L:**

| Year | Equity | P&L |
|---|---|---|
| 2017 | 3 904 | 6 587 |

### 2.4 Equity risk

The Group does not engage in proprietary stock trading. The shares of SWIFT and VISA are not considered as an investment into equities due to the fact that this is recognized as participation in these settlement systems rather than any kind of investment into shares.

## 3. Liquidity risk

Liquidity risk means the risk that the Group is unable to meet its financial obligations in time or the risk to incur losses due to the sudden decrease in financial resources (e.g. financial crisis situations may result in delay of incoming payments) as well as due to 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 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.

The Group's Management is constantly monitoring the liquidity situation on the financial markets. The Group is ready to act in case liquidity situation becomes worse, business and funding contingency plans are in place and up to date. 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 management is divided into the long-term (1 year) risk management, short-term (1 week to 3 months) risk management and intraday liquidity management. The aim of short-term liquidity 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 the 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 predicted future cash flows taking into account the deposit and loan portfolio growth as well as the possible refinancing sources.

For the purpose of the 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 daily monitoring and regular reporting to the management bodies of 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 usual" approach. Liquid assets and short term liabilities are included for liquidity gap calculation for respective terms (1 week to 3 months).

Liquidity Coverage Ratio (LCR) 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 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 higher ratio. LCR is intended to promote short-term resilience of a 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 central bank support. As of the end of 2017 LCR ratio of the Group was 157.26 %.

The analysis of the Group main balance sheet items by remaining maturity is as follows:

| | Up to 3 month | 3-12 months | Over 1 year | Total |
|---|---|---|---|---|
| Loans | 1 440 950 | 1 689 751 | 8 925 345 | **12 056 046** |
| Due to credit institutions and other customers | 8 143 494 | 3 055 916 | 1 991 629 | **13 191 039** |

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

**RISK MANAGEMENT (continued)**

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 substantial buffer and maintains higher ratio.

| 31 December 2017, million EUR | Luminor LT | Luminor LV | Luminor EE | Requirement |
|---|---|---|---|---|
| 1W liquidity gapping | EUR 1 382 million | EUR 1 113 million | EUR 404 million | >= EUR 0 million |
| 1M liquidity gapping | EUR 1 325 million | EUR 1 044 million | EUR 349 million | >= EUR 0 million |
| 3M liquidity gapping | EUR 1 303 million | EUR 781 million | EUR 202 million | >= EUR 0 million |
| LCR | 158% | 169% | 112% | >= 100% |
| NSFR | 133% | 118% | 102% | >= 100% |

### 3.2. Off - balance sheet items

The analysis of nominal off-balance sheet items by remaining maturity is as follows:

| | Up to one year | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Financial guarantees | 148 118 | 89 122 | 2 265 | 239 505 |
| Letters of credit | 81 984 | 250 | - | 82 234 |
| Commitments to grant loans | 1 190 215 | 233 596 | 25 230 | 1 449 041 |
| Commitments to grant finance leases | 35 571 | 11 450 | 2 815 | 49 836 |
| Capital commitments and other commitments to acquire assets | 977 | - | - | 977 |
| Other commitments | 369 219 | 41 442 | 11 540 | 422 201 |
| **Total** | **1 826 083** | **375 859** | **41 851** | **2 243 793** |

### 3.3. Funding approach

The Group has a possibility of attracting funding from ultimate shareholders (DNB Bank ASA and Nordea Bank AB) who provide funding in euro and foreign currencies according to the Liquidity Facility and the Long Term Revolving Facility. In addition, the Group has alternative high quality funding sources at attractive costs. The Group is taking part in ECB's Eurosystem open market operations. In particular the Group is a user of ECB Targeted Long Term Refinancing Operations. The significant part of funding is attracted through retail and corporate deposits. Moreover, the Group has already issued EUR 65 million of its own senior debt securities with term of 2 years and is considering to increase this amount in the future which would further diversify possibilities of attracting funding.

### 4. Capital management

The capital of the Luminor is calculated and allocated for the risk coverage following the regulations in a Capital Requirements Directive (hereinafter - CRD IV), and Capital Requirements Regulation (hereinafter – CRR), of European Union and each country local FSAs legal acts.

The Luminor's objectives when managing the capital are:

- to comply with the capital requirements set by European Union as well as the higher target capital requirements set by major shareholder,
- to safeguard each country Luminor Bank's and the Group's ability to continue as a going concern so that it can provide returns for shareholders and benefits for other stakeholders,
- to support the development of the Luminor's business with the help of the strong capital base.
- Capital adequacy report is submitted to the supervising authorities quarterly in accordance with European Union and the each country local FSA regulations.

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

**RISK MANAGEMENT (continued)**

The risk-weighted assets are measured by means of risk weights classified according to the nature of each asset and counterparty, taking into account collaterals and guarantees eligible for risk mitigation. A similar treatment with some adjustments is adopted for the off-balance sheet exposures.

The regulatory capital requirement is calculated using Basel III Standardised Approach for the following risks – credit risk, credit valuation adjustment risk and market risk. Due to merged operations and changed risk profile, for the year 2017 the Basic Indicator Approach with budgeted forward looking data was used for the calculation of regulatory capital requirement for the operational risk in Latvia and Estonia. In Lithuania for the year 2017 the Operational Risk relied on Standardised Approach with budgeted forward looking data. The minimum regulatory capital requirement of 8 per cent is currently applied.

### 4.1. Combined buffer requirements

As of the end of 2017 the capital conservation buffer of 2.5 per cent and countercyclical buffer of 0 per cent is set for Luminor in Estonia, Latvia and Lithuania.

Regarding the Other systemically important institution buffer, slightly different situation is in each country:

- Bank of Lithuania recognised as of 30.11.2017 Luminor Bank as a systemically important financial institution in Lithuania (same as former AB DNB Bankas) and left unchanged Other systemically important institution (O-SII) buffer of 2.0 per cent (same as it was for AB DNB Bankas).
- The same as former AS DNB Banka, Luminor in Latvia is identified as other systemically significant institution. Starting from 31.12.2017 O-SII capital buffer in amount of 1.0 per cent of risk weighted assets will be applied, it will increase to 2.0 per cent of risk weighted assets as of 30.06.2018.
- In 2017, Eesti Pank has not assessed Luminor as systemically important institution. However, the systemic importance of credit institutions will be assessed again in 2018. The data available at the time the O-SIIs were defined in 2017 did not allow the assessment results this year to reflect the structural changes in the Estonian banking sector caused by the merger of the Estonian branch of Nordea bank AB and AS DNB Pank to create a credit institution with the name Luminor Bank AS. This change will be taken into account in the next assessment of O-SIIs and the buffer rates that apply to them.

In Estonia, Systemic risk buffer is set to be 1.0 per cent (for risk exposure located in Estonia) by local FSA for all banks and banking groups authorised in Estonia. In addition to the current capital buffers, the Group takes into consideration the upcoming capitalisation requirements according to the possible local regulator view and CRD IV / CRR when setting the required capital ratio in its Capitalisation Policy.

The table below summarizes the composition of regulatory capital and the ratios of the Group at the end of 2017:

| | **Group** |
|---|---|
| | **2017** |
| Tier 1/Common Equity Tier 1 (CET 1) capital | 1 685 857 |
| Tier 2 capital | 229 |
| **Total own funds** | **1 686 086** |
| **Total risk exposure amount** | **9 435 770** |
| Tier1/Common Equity Tier 1 (CET 1) capital ratio, % | 17,87% |
| **Capital ratio, %** | **17,87%** |

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

**RISK MANAGEMENT (continued)**

Breakdown of the exposures and eligible collaterals by exposure classes, which are used for the calculation of capital requirement for credit risk:

| | Group | | |
|---|---|---|---|
| | Exposure net of value adjustments and provisions | Total exposure value covered by eligible collaterals | Total exposure value covered by guarantees |
| Central governments or central banks | 2 625 990 | - | - |
| Regional governments or local authorities | 227 911 | - | - |
| Public sector entities | 47 011 | 91 | 34 611 |
| Institutions | 527 620 | 149 181 | 30 197 |
| Items associated with particularly high risk | 65 298 | - | - |
| Corporates | 5 488 589 | 7 160 | 10 787 |
| Retail | 2 649 841 | 3 502 | 29 815 |
| Secured by mortgage or immovable property | 4 545 471 | 4 545 471 | - |
| Exposures in default | 459 726 | 1 248 | 2 537 |
| Equity exposures | 11 922 | - | - |
| Other items | 463 482 | - | - |
| **Total** | **17 112 861** | **4 706 653** | **107 947** |

### 4.2. Internal Capital Adequacy Assessment Process

Luminor assesses the material risks it is exposed to and calculates the internal capital for the risks not covered or not fully covered by the Pillar I capital as part of the Internal Capital Adequacy Assessment Process (ICAAP). The principles of ICAAP are uniform in the whole Luminor Group and implemented in the individual banks taking into account their specifics.

### 5. Operational risk

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

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

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

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

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

**RISK MANAGEMENT (continued)**

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

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

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

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

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

## OTHER NOTES TO THE FINANCIAL STATEMENTS

### G8. NET INTEREST INCOME

| G8. NET INTEREST INCOME | 2017 |
|---|---|
| **Interest income** | |
| Loans to credit institutions | 1 099 |
| Loans to the public | 72 853 |
| Bonds and other interest-bearing securities | 876 |
| Derivative instruments | 2 749 |
| Other interest income | 328 |
| **Total interest income** | **77 905** |
| | |
| **Interest expenses** | |
| Interest expenses for liabilities to credit institutions | (3 650) |
| Interest expenses for deposits and loans to the public | (1 726) |
| Issued securities | (875) |
| Other interest expenses | (3 756) |
| **Total interest expenses** | **(10 007)** |
| | |
| **Net interest income** | **67 898** |
| | |
| Of which attributable to financial assets and liabilities valued at fair value through profit/loss | 164 |

### G9. NET COMMISSION

| G9. NET COMMISSION | 2017 |
|---|---|
| **Commission income** | |
| Securities commission | 2 238 |
| Payments | 16 086 |
| Loans and deposits | 1 128 |
| Guarantees | 1 115 |
| Other | 7 574 |
| **Total commission income** | **28 141** |
| | |
| **Commission expenses** | |
| Securities commission | (230) |
| Payments | (3 389) |
| Guarantees | (454) |
| Other | (2 640) |
| **Total commission expenses** | **(6 713)** |
| | |
| **Net commission** | **21 428** |

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

| G10. NET RESULT FROM FINANCIAL TRANSACTIONS | 2017 |
|---|---|
| Capital gains/losses on financial assets at fair value through profit/loss | (21) |
| Capital gains/losses on financial assets held for trading | 7 990 |
| FX-effect | 7 094 |
| **Total** | **15 063** |

| G11. GENERAL ADMINISTRATIVE EXPENSES | 2017 |
|---|---|
| Personnel expenses | (30 381) |
| Office equipment and maintenance expenses | (6 524) |
| Rent of premises and maintenance expenses | (3 056) |
| Cash collection, consultancy and other services expenses | (9 840) |
| Transportation, post and communications expenses | (786) |
| Advertising and marketing expenses | (1 494) |
| Training and business trip expenses | (272) |
| Other expenses | (12 066) |
| **Total** | **(64 419)** |

**Personnel expenses**

| Distribution of personnel expenses | 2017 |
|---|---|
| Salaries and other remuneration | (21 651) |
| Social insurance contribution | (6 470) |
| Other personnel expenses | (2 260) |
| **Total personnel expenses** | **(30 381)** |

| | |
|---|---|
| **Salaries and other remuneration to** Board members, Chief Executive Officer and corresponding officials | (580) |
| **Social security expenses to** Board members, Chief Executive Officer and corresponding officials | (99) |

The group had no pensions and other long term employee benefits as of 31.12.2017.

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

| Average number of employees covers the following geographical markets | 2017 |
|---|---|
| **Estonia** | |
| *- of whom women* | 474 |
| *- of whom men* | 150 |
| **Total** | 624 |
| | |
| **Latvia** | |
| *- of whom women* | 715 |
| *- of whom men* | 298 |
| **Total** | 1 013 |
| | |
| **Lithuania** | |
| *- of whom women* | 758 |
| *- of whom men* | 350 |
| **Total** | 1 108 |
| | |
| **Sweden** | |
| *- of whom women* | - |
| *- of whom men* | 1 |
| **Total** | |
| | |
| **Total** | |
| *- of whom women* | 1 947 |
| *- of whom men* | 799 |

**Remuneration to auditors and audit companies**

| *Ernst & Young* | **2017** |
|---|---|
| Audit services | 393 |
| Other services | 6 |
| **Total** | **399** |

| G12. AMORTIZATION AND DEPRECIATION OF TANGIBLE AND INTAGIBLE ASSETS | 2017 |
|---|---|
| Property, Plant and Equipment | (1 380) |
| Other intangible assets | (754) |
| **Total** | **(2 134)** |

| G13. PROVISIONS EXPENSES | 2017 |
|---|---|
| Comitments and guarantees given | (272) |
| **Other provisions** | **(178)** |
| **Total** | **(450)** |

| G14. Share of profit of an associate, profit non current assets held for sale | 2017 |
|---|---|
| Share of profit of an associate | 906 |
| Profit non current assets held for sale | 58 |
| **Total** | **964** |

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

| G15. CREDIT LOSSES | 2017 |
|---|---|
| **Specific provision for loans** | |
| The year's provision | (20 358) |
| Reversal of previous provisions | 1 315 |
| **Total** | **(19 043)** |

| G16. TAXES | |
|---|---|
| Total tax on profit for the year | 1 341 |
| Adjustment current tax for previous years | (1 714) |
| Deferred tax related to temporary differences | 3 392 |
| Revesal of deferred tax | 9 888 |
| Tax on distributed profit from previous periods | - |
| **Tax on net income for the year** | **12 907** |
| | |
| Profit before tax | 7 237 |
| Tax as per current tax rate for the Parent Company | 1 1 592 |
| Effect of non-deductible expenses/non-taxable income | 9 194 |
| Effect of non-deductible foreign tax | - |
| **Effective tax** | **178%** |

| Deferred tax recognised in the balance sheet | |
|---|---|
| Opening balance, deferred tax assets | 13 577 |
| Change due to reorganisation (transfer of business from Nordea) | 1 053 |
| Recognised in the income statement | (3 392) |
| Reversal of deferred tax | (9 888) |
| **Closing balance, deferred tax assets** | 1 350 |

| G17. CASH AND BALANCES WITH CENTRAL BANKS | 2017 |
|---|---|
| Cash | 178 147 |
| | |
| Balances in Central Banks in EUR | 2 442 691 |
| Balances in Central Banks in other currencies | - |
| **Total** | **2 442 691** |
| | |
| **Total cash and balances with central banks** | **2 620 838** |

| G18. LOANS TO CREDIT INSTITUITONS | 2017 |
|---|---|
| Loans in EUR | 251 085 |
| Loans in other currency | 158 421 |
| **Total** | **409 506** |

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

| G19. LOANS TO THE PUBLIC | 2017 |
|---|---|
| Households | 6 010 024 |
| *of which consumer loans* | 157 245 |
| *of which mortgage loans* | 5 152 624 |
| *of which financial leases* | 505 071 |
| Public authorities, governmental and municipal operations | 291 313 |
| Corporate customers | 5 564 779 |
| *of which large companies* | 2 695 770 |
| *of which financial leases* | 1 544 552 |
| *of which small and medium-sized companies* | 2 869 009 |
| Other financial corporations | 86 769 |
| *of which financial leases* | 6 546 |
| **Total** | **11 952 885** |
| | |
| Provision for probable loan losses | (306 345) |
| **Total loans to the public** | **11 646 540** |

| LEASES | Within one year | Between one and five years | Later than five years | Total |
|---|---|---|---|---|
| Gross investment | 460 932 | 1 686 543 | 44 988 | 2 192 463 |
| Present value of future minimum lease payments at balance sheet date | 30 985 | 52 140 | 28 900 | 112 025 |

| G20. INTEREST-BEARING SECURITIES | Nominal amount | 2017 Carrying amount |
|---|---|---|
| Interest-bearing securities eligible as collateral with central banks | 161 734 | 164 202 |
| Bonds and other interest-bearing securities | 34 339 | 34 357 |
| **Total** | **196 073** | **198 559** |

| G21. EQUITY INSTRUMENTS | 2017 |
|---|---|
| Listed | 2 526 |
| Unlisted | 7 830 |
| **Total** | **10 356** |

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

| G22. INVESTMENT IN ASOCIATES | 2017 |
|---|---|
| Carrying amount at beginning of year | |
| Share of profit for the year | 384 |
| Acquisitions | 5 566 |
| Reclasification | 160 |
| **Carrying amount at end of year** | **6 110** |

| 2017 | Domicile | No. of shares | % of share capital | % of voting power | Equity | Profit (loss) for the year | Book value |
|---|---|---|---|---|---|---|---|
| UAB ALD Automotive | LTL | 51 | 25 | 25 | 29 394 | 84 | 1 658 |
| ALD Automotive Eesti AS | EE | 25 606 | 25 | 25 | 4 524 | 723 | 1 465 |
| SIA ALD Automotive | LV | 950 | 25 | 25 | 11 369 | 1 946 | 2 827 |
| SIA Kredītinformācijas Birojs | LV | 2 653 | 22,6 | 22,6 | 853 | (532) | 160 |
| | | | | | | | **6 110** |

## G23. DERIVATIVE INSTRUMENTS

| | Nominal amount | Positive market values | Negative market values |
|---|---|---|---|
| | 2017 | 2017 | 2017 |
| **Derivatives held for trading** | | | |
| Interest rate-related contracts | 2 244 044 | 8 967 | 8 271 |
| Currency-related contracts | 1 391 815 | 16 809 | 22 990 |
| Commodity-related contracts | 28 070 | 1 977 | 1 912 |
| **Total** | **3 663 929** | **27 753** | **33 173** |

Derivative contracts are presented gross in the note. Amounts set off consist of the offset market value and the associated nominal amounts of contracts for which there is a legal right and intention to settle contractual cash flows net. These contracts are presented on a net basis on the balance sheet per counterparty and currency. For further information about offsetting of financial instruments see note G36.

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

| G24. INTAGIBLE ASSETS | Goodwill | Capitalized expenditure on development work | Other intangible assets | Total |
|---|---|---|---|---|
| | 2017 | 2017 | 2017 | 2017 |
| **Accumulated costs** | | | | |
| Additions | 351 | - | 30 995 | 31 346 |
| Disposals | - | - | (1 032) | (1 032) |
| | **351** | **-** | **29 963** | **30 314** |
| **Accumulated amortization and impairments** | | | | |
| Accumulated amortization | - | - | (20 615) | (20 615) |
| Disposals | - | - | (442) | (442) |
| | **-** | **-** | **(21 057)** | **(21 057)** |
| **Carrying amount at the end of the year** | **351** | **-** | **8 906** | **9 257** |
| **Acquisition cost fully depreciated assets still in use** | - | | 4 387 | |

| G25. TANGIBLE FIXED ASSETS | Property 2017 | Equipment 2017 | Total 2017 |
|---|---|---|---|
| **Accumulated costs** | | | |
| Additions | 47 593 | 43 315 | 90 908 |
| Disposals | (4 232) | (3 884) | (8 116) |
| | **43 361** | **39 431** | **82 792** |
| **Accumulated amortization and impairments** | | | |
| Accumulated amortization | (15 030) | (31 085) | (46 115) |
| Impairment for the year | 362 | 2 306 | 2 668 |
| Disposals | 1 419 | (282) | 1 137 |
| | **(13 249)** | **(29 061)** | **(42 310)** |
| **Carrying amount at the end of the year** | **30 112** | **10 370** | **40 482** |
| **Acquisition cost fully depreciated assets still in use** | **1 588** | **29 727** | |

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

## G26. INVESTMENT PROPERTIES

The investment properties are stated at fair value. The Group's management determines the policies and procedures for fair value measurement. External valuators are involved for significant valuations. Involvement of external valuers is decided upon annually. The management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed in line with the Group's accounting policies at least once a year. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The management, in conjunction with the Group's internal and external valuators, also compares each of the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The valuation model for the Group's investment properties was formed based on the market comparable and income approach. Valuations of investment property were performed as at 31 December 2017. There were reclassifications of investment property made between levels during 2017 and 2016. All investment property that was revalued based on the comparable approach method with no significant adjustments to observable prices is clasified as Level 2, the rest of the investment property that was revalued using the comparable approach method with significant adjustments to observable prices and income approach is clasified as Level 3.

| | **2017** |
|---|---|
| Acquisitions | 110 041 |
| Assets classified as held for sale | (3 697) |
| Net result from adjustments of fair value | (16 933) |
| Reclassifications to and from real estate used in business operations | 1 283 |
| Other changes | (39 411) |
| **Carrying amount at the end of the year** | **51 283** |

| **Amounts recognized in profit or loss** | |
|---|---|
| Rental income | 1 532 |
| Direct operating expenses for investment properties that generated rental income during the period | (1 046) |
| Direct operating expensens for investment properties that did not generated rental income during the period | (1 118) |
| Changes in fair value | (9 841) |
| **Total** | **(10 473)** |

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

| G27. OTHER ASSETS | 2017 |
|---|---|
| Assets bought for leasing activities | 974 |
| Prepayments and receivables | 29 552 |
| Taxes owerpayment | 273 |
| VAT recoverable | 1 713 |
| Repossessed assets and prepaid expenses of leasing contracts | 2 294 |
| Non-current assets and disposal groups held for sale | 4 340 |
| Other | 20 399 |
| **Total** | **59 545** |

| G28. PREPAID EXPENSE AND ACCURED INCOME | 2017 |
|---|---|
| Paid advances/ prepayments | 3 003 |
| Accrued income for banking services | 2 090 |
| Deferred expenses: maintenance of software | 1 429 |
| Accrued commission and fee income | 537 |
| Other | 5 299 |
| **Total** | **12 358** |

| G29. DUE TO CREDIT INSTITUTIONS | 2017 |
|---|---|
| Due in EUR | 4 695 010 |
| Due in other currency | 66 233 |
| **Total** | **4 761 243** |

| G30. DEPOSITS AND BORROWING FROM THE PUBLIC | 2017 |
|---|---|
| Households | 3 394 716 |
| Public authorities, governmental and municipal operations | 1 049 587 |
| Corporate customers | 3 665 302 |
| Other financial corporations | 320 191 |
| **Total** | **8 429 796** |

| G31. PROVISIONS | Loan commitments and guarantee commitments 2017 | Legal disputes 2017 | Restructuring 2017 | Other 2017 | Total 2017 |
|---|---|---|---|---|---|
| Provisions during the year | 757 | 321 | 1 000 | 44 051* | 46 129 |
| Utilised | - | (198) | - | (43 412)** | (43 610) |
| Written back | - | - | - | (373) | (373) |
| **Total** | **757** | **123** | **1 000** | **266** | **2 146** |

*The major part comprise of provisions for onerous contracts related to IT systems.
** Netted with advance payment made according the updated IT licence agreement.

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

| G32. OTHER LIABILITIES | 2017 |
|---|---|
| Transit accounts | 21 971 |
| Payables | 8 750 |
| Advance payment | 4 345 |
| Prepayments from leasing customers | 8 418 |
| Invoices to be paid | 1 759 |
| Other liabilities | 7 792 |
| **Total** | **53 035** |

| G33. ACCRUED EXPENSES AND DEFERRED INCOME | 2017 |
|---|---|
| Accrued expenses for unused annual leave and bonuses | 13 523 |
| Operating costs | 2 699 |
| Accrued expenses - IT | 2 231 |
| Accrued expenses - other not received invoices | 1 568 |
| Accrued expenses for Stability fee payments | 1 469 |
| Accrued expenses -projects | 877 |
| Accrued expenses for payments to deposit guarantee fund and FCMC | 842 |
| Other accrued expenses and deferred income | 8 888 |
| **Total** | **32 097** |

| G34. RESERVES | 2017 |
|---|---|
| Mandatory reserve | 14 498 |
| Fair value changes of available for sale financial assets | 1 680 |
| Other reserves | 234 |
| **Total** | **16 412** |

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

## G35. PLEDGED ASSETS AND CONTINGENT LIABILITIES

| Pledged assets | 2017 |
|---|---|
| Loans granted to governmental institutions | 187 737 |
| Debt securities | 237 017 |
| **Total** | **424 754** |

| Contingent liabilities | |
|---|---|
| Loan commitments given | 1 498 877 |
| Financial guarantees given | 239 505 |
| Other Commitments given | 505 411 |
| **Total** | **2 243 793** |

As at 31 December 2017, Funds of Central Bank (EUR 396,606 thousand) contains proceeds from ECB under targeted longer-term refinancing operations (TLTROs). The carrying amount of pledged assets under this agreement amounted to EUR 424,754 thousand (EUR 187,737 thousand loans granted to governmental institutions, EUR 136,430 thousand acquired central government bonds and EUR 100,587 thousand bonds, acquired under REPO agreement with DNB Bank ASA).

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

## G36. OFFSETTING OF FINANCIAL INSTRUMENTS

| As at 31 December 2017 | Gross carrying amount | Amounts offset in the statement of financial position | Carrying amount | Collateralized by securities | Amounts after possible netting |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Derivative financial instruments[*] | 140 | 0 | 140 | - | 140 |
| **LIABILITIES** | | | | | |
| Derivative financial instruments[2] | 253 | 20 | 233 | - | 233 |

**Includes derivative financial instruments which are settled on a net basis.*

## G37. CLASSIFICATION OF FINANCIAL INSTRUMENTS

| | At fair value through profit/loss | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Trading | Other | Investments held to maturity | Loans and receivables | Financial assets available for sale | Financial liabilities measured at amortised cost | Non-financial assets and liabilities | Total carrying amount |
| **Assets** | | | | | | | | |
| Cash and balances with Central Banks | - | 178 147 | - | 2 442 691 | - | - | - | 2 620 838 |
| Interest-bearing securities eligible as collateral with Central Banks | 2 325 | 161 877 | - | - | - | - | - | 164 202 |
| Loans to credit institutions | | | | 409 506 | | | | 409 506 |
| Loans to public | - | - | - | 11 646 540 | - | - | - | 11 646 540 |
| Bonds and other interest-bearing securities | - | - | 1 513 | 32 844 | - | - | - | 34 357 |
| Equity instruments | | 10 654 | - | - | 5 812 | - | - | 16 466 |
| Derivative instruments | 27 753 | - | - | - | - | - | - | 27 753 |
| Investment properties | - | - | - | - | - | - | 51 283 | 51 283 |
| Other assets | - | - | - | - | - | - | 123 082 | 123 082 |
| **Total financial assets** | **30 078** | **350 678** | **1 513** | **14 531 581** | **5 812** | **-** | **174 365** | **15 094 027** |
| **Liabilities** | | | | | | | | |
| Due to credit institutions | - | - | - | - | - | 4 761 243 | - | 4 761 243 |
| Deposits and borrowing from the public | - | - | - | - | - | 8 429 796 | - | 8 429 796 |
| Debt securities issued | | | | | | 65 007 | | 65 007 |
| Derivative instruments | 33 173 | - | - | - | - | - | - | 33 173 |
| Current tax liabilities | - | - | - | - | - | - | 3 288 | 3 288 |
| Other liabilities | - | - | - | - | - | 31 421 | 55 857 | 87 278 |
| **Total financial liabilities** | **33 173** | **-** | **-** | **-** | **-** | **13 287 467** | **59 145** | **13 379 785** |

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

## G38. Fair value measurement of financial instruments

| 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets held for trading** | | | | |
| Derivative instruments | - | 27 753 | - | 27 753 |
| Debt securities | 2 325 | - | - | 2 325 |
| Loans and advances | - | - | - | - |
| **Total** | **2 325** | **27 753** | - | **30 078** |
| | | | | |
| **Financial assets designated at fair value through profit or loss** | | | | |
| Other equity instruments | - | 4 526 | 18 | 4 544 |
| Debt securities | 85 568 | 76 309 | - | 161 877 |
| Loans and advances | - | - | - | - |
| **Total** | **85 568** | **80 835** | **18** | **166 421** |
| | | | | |
| **Financial assets available for sale** | | | | |
| Shares | - | - | 5 812 | 5 812 |
| **Total** | **-** | **-** | **5 812** | **5 812** |

**Level 1**
Financial assets and financial liabilities, whose value is based solely on a quoted price from an active market for identical assets or liabilities. This category includes treasury bills, shareholdings and deposits.

**Level 2**
Financial assets and financial liabilities valued using valuation models principally based on observable market data. Instruments in this category are valued applying:
a) Quoted prices for similar assets or liabilities, or identical assets or liabilities from markets not deemed to be active; or
b) Valuation models based primarily on observable market data

**Level 3**
Financial assets and financial liabilities valued through the use of valuation models that are primarily based on non-observable data.

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

**Change in financial instruments in level 3**

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

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

## G39. RELATED PARTY DISCLOSURES

| Claims and liabilities | Ultimate companies 2017 |
|---|---|
| Loans to credit institutions | 386 057 |
| Loans to the public | 12 |
| Derivative instruments | 16 094 |
| Other assets | 224 |
| **Total** | **402 387** |
| | |
| Due to credit institutions | 4 281 983 |
| Deposits and borrowing from the public | 2 658 |
| Derivative instruments | 15 144 |
| Other liabilities | 1 855 |
| **Total** | **4 301 640** |

| Income and expenses | |
|---|---|
| Interest income | 8 544 |
| Interest expenses | (5 380) |
| Net commision and fee income | (241) |
| Other income | 956 |
| Other expenses | (8 900) |
| **Total** | **(5 021)** |

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

## G40. ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

| 2017<br>Assets | USD | GBP | NOK | SEK | Other curren-cies | EUR | Total |
|---|---|---|---|---|---|---|---|
| Cash and balances with central banks | 5 199 | 1 605 | 1 254 | 4 418 | 627 | 2 607 736 | 2 620 838 |
| Interest-bearing securities eligible as collateral with central banks | - | - | - | - | - | 164 202 | 164 202 |
| Loans to credit institutions | 71 778 | 4 248 | 13 818 | 48 671 | 20 906 | 250 085 | 409 506 |
| Loans to the public | 125 957 | 4 614 | 1 097 | 26 393 | 63 219 | 11 425 260 | 11 646 540 |
| Bonds and other interest-bearing securities | 1 534 | - | - | - | - | 32 823 | 34 357 |
| Equity instruments | 2 527 | - | - | - | - | 7 829 | 10 356 |
| Investments in associates | - | - | - | - | - | 6 110 | 6 110 |
| Derivative instruments | 2 936 | | 1 144 | - | - | 23 673 | 27 753 |
| Intangible assets | - | - | - | - | - | 9 257 | 9 257 |
| Tangible assets | - | - | - | - | - | 40 482 | 40 482 |
| Investment properties | - | - | - | - | - | 51 283 | 51 283 |
| Current tax assets | - | - | - | - | - | 90 | 90 |
| Deferred tax assets | - | - | - | - | - | 1 350 | 1 350 |
| Other assets | 2 992 | 371 | 90 | 57 | 268 | 68 126 | 71 903 |
| **Total** | **212 923** | **10 837** | **17 403** | **79 539** | **85 020** | **14 688 306** | **15 094 027** |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Due to credit institutions | 16 901 | 3 184 | 579 | 38 985 | 6 583 | 4 695 010 | 4 761 243 |
| Deposits and borrowing from the public | 669 829 | 28 307 | 80 890 | 16 154 | 45 084 | 7 589 532 | 8 429 796 |
| Debt securities issued | - | - | - | - | - | 65 007 | 65 007 |
| Derivative instruments | 2 906 | | 1 113 | - | - | 29 153 | 33 173 |
| Current tax liabilities | - | - | - | - | - | 3 288 | 3 288 |
| Provisions | - | - | - | - | - | 2 146 | 2 146 |
| Other liabilities | 395 | - | 49 | 1 | 18 | 84 670 | 85 133 |
| Equity | - | - | - | - | - | 1 714 241 | 1 714 241 |
| **Total** | **690 031** | **31 491** | **82 632** | **55 140** | **51 685** | **14 183 047** | **15 094 027** |

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

## G41. MERGER

DNB Bank ASA and Nordea Bank AB incorporated Luminor Group AB. Luminor Group AB became the holding company of the combined banks upon closing the transaction on October 1, 2017. The transaction included the transfer of the assets and liabilities of Nordea Bank AB Lithuania branch, Nordea Bank AB Latvia and Nordea Bank AB Estonia branch, including the shares of the leasing and pension companies and companies dealing with problematic assets located in the Baltic States, to Luminor Bank AB in Lithuania (formerly AB DNB bankas), Luminor Bank AS in Latvia (formerly DNB banka AS) and Luminor Bank AS in Estonia (formerly Aktsiaselts DNB Pank) respectively.

The last statement of financial position of DnB banks and Nordea Bank branches is presented below:

| **Balance sheet** | | **DNB** | |
|---|---|---|---|
| KEUR | | | |
| | **LT** | **LV** | **EE** |
| **Assets** | | | |
| Cash and balances with central banks | 698 876 | 325 403 | 190 465 |
| Loans | 3 471 485 | 1 822 530 | 802 851 |
| Bonds and other interest-bearing securities | 87 142 | 80 891 | - |
| Equity instruments | 47 379 | 2 556 | 17 |
| Derivative instruments | 10 368 | 19 600 | - |
| Intangible assets | 3 655 | 1 810 | 1 252 |
| Tangible assets | 13 471 | 26 982 | 499 |
| Investment properties | 22 505 | 20 671 | - |
| Other assets | 26 257 | 76 079 | 123 475 |
| **Total assets** | **4 381 138** | **2 376 522** | **1 118 559** |
| **Liabilities** | | | |
| Deposits | 3 630 703 | 1 791 911 | 696 625 |
| Derivative instruments | 6 997 | 21 638 | - |
| Other liabilities | 33 314 | 30 722 | 2 814 |
| **Total liabilities** | **3 671 014** | **1 844 271** | **699 439** |
| **Equity** | | | |
| Share capital | 190 205 | 191 178 | 9 379 |
| Share premium reserve | 81 942 | 69 713 | 92 505 |
| Other equity | 437 977 | 271 360 | 317 236 |
| **Total equity** | **710 124** | **532 251** | **419 120** |
| **Total liabilities and equity** | **4 381 138** | **2 376 522** | **1 118 559** |

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

**G41. MERGER (continued)**

| KEUR | Nordea LT | Nordea LV | Nordea EE |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | 92 062 | 339 134 | 232 928 |
| Financial assets held for trading | 659 | 222 | 3 778 |
| Loans and advances to customers | 2 067 227 | 1 901 670 | 3 408 826 |
| Investments in subsidiaries | 14 490 | 17 278 | 11 809 |
| Tangible and Intangible assets | 142 | 1 183 | 519 |
| Deferred income tax asset | 371 | 444 | - |
| Other assets | 3 260 | 23 584 | 9 353 |
| **Total assets** | **2 178 211** | **2 283 515** | **3 667 213** |
| **LIABILITIES AND EQUITY** | | | |
| Financial liabilities held for trading | 650 | 222 | 3 778 |
| Financial liabilities measured at amortised cost | 2 158 614 | 2 260 614 | 3 508 798 |
| Tax liabilities | 89 | 705 | 6 283 |
| Other liabilities | 6 590 | 3 997 | 11 570 |
| **Total liabilities** | **2 165 943** | **2 265 538** | **3 530 429** |
| **Total equity** | **12 268** | **17 977** | **136 784** |
| **Total liabilities and equity** | **2 178 211** | **2 283 515** | **3 667 213** |

**G42. SUBSEQUENT EVENTS**

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

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

## Parent Company Notes

### P1. Applied accounting policies

The Parent Company's annual report is prepared in accordance with the Swedish Annual Accounts Act (1995:1554) and with application of the Swedish Financial Reporting Boards RFR 2 Accounting for legal entities. This means that the IFRS valuation and disclosure rules are applied, with certain exceptions and additions, depending on legal provisions, mainly in the Swedish Annual Accounts Act, and also on the link between accounting and taxation. The differences between the Group's and the Parent Company's accounting policies are show below.

**Classification**
Fixed assets, long-term liabilities and provisions principally consist of amounts that are expected to be realized (recovered) or paid more than 12 months after the balance sheet date. Current assets and current liabilities principally consist of amounts that are expected to be realized (recovered) or paid within 12 months of the balance sheet date.

**Shares in subsidiaries**
Shares in subsidiaries are recognized in the Parent Company according to the cost method, which means that transaction costs are included in the carrying amount.

**Shareholders' contribution**
Shareholder contributions are recognized directly against equity by the recipient and capitalized in shares and units.

**Current financial assets**
Current financial assets are valued according to the lower of cost or market principle.

**Untaxed reserves**
The tax legislation in Sweden permits provisions in individual companies for special reserves and funds. This means that within certain limits, companies may allocate and retain recognized profits in the operations without immediate taxation. These untaxed reserves are only subject to taxation when they are liquidated. However, in the consolidated financial statement untaxed reserves are divided into deferred tax liabilities and equity.

**Group contributions received and paid**
Group contributions received from subsidiaries are recognized as financial income. Group contributions paid by the Parent Company to a subsidiary are recognized as an increase in participations in Group companies.

Group contributions received by subsidiaries from the Parent Company are recognized in the subsidiary in equity. Group contributions paid by subsidiaries to the Parent Company are recognized in equity.

Group contributions received from associated companies are recognized in equity. Group contributions paid to associated companies are also recognized in equity in the subsidiary.

### P2. NET SALES

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

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

| P3. OTHER EXTERNAL EXPENSES | 2017 |
|---|---|
| Consultancy costs | (6 365) |
| Auditors fee | (111) |
| Management fee | (120) |
| Other | (3 696) |
| **Total** | **(10 292)** |

| Remuneration to auditors and audit companies | |
|---|---|
| *Ernst & Young* | |
| Audit services | (36) |
| Audit services outside the assignment | (33) |
| Other services | (42) |
| **Total audit services** | **(111)** |

| P4. PERSONNEL EXPENSES | 2017 |
|---|---|
| **Salaries and other remuneration** | |
| Board members, Chief Executive Officer and corresponding officials | (580) |
| Other employees | - |
| **Total salaries and other remuneration** | **(580)** |
| | |
| **Social security expenses** | |
| Board members, Chief Executive Officer and corresponding officials | (99) |
| Other employees | - |
| **Total social securities expenses** | **(99)** |
| | |
| **Total personnel expenses** | **(679)** |
| | |
| **Average number of employees** | **1** |
| **Total** | |
| of whom women | 1 |
| of whom men | - |

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

| P5. TAXES | | 2017 |
|---|---|---|
| Current tax expense (-) / tax income (+) | | - |
| Adjusted tax from previous year | | - |
| Deferred tax related temporary differences | | - |
| **Tax on profit for the year** | | **-** |
| | | |
| Profit (loss) before tax | | (9 664) |
| Tax as per current tax rate for the Parent company | 22% | 2 126 |
| **Effective tax** | | **(7 538)** |

| P6. PARTICIPATIONS IN GROUP COMPANIES | 2017 |
|---|---|
| On 1 January | |
| Acquisition | 1 645 093 |
| **Carrying amount** | **1 645 093** |

| 2017 | Domicile | No. of shares | % of share capital | % of voting power | Equity | Profit (loss) for the year | Book value |
|---|---|---|---|---|---|---|---|
| Luminor Bank AB | LT | 5 710 134 | 100 | 100 | 726 576 | (10 861) | 702 007 |
| Luminor Bank AS | LV | 191 178 337 | 100 | 100 | 534 308 | 11 742 | 526 625 |
| Luminor Pank AS | EE | 937 643 | 100 | 100 | 459 419 | 12 951 | 416 461 |
| | | | | | | | **1 645 093** |

| P7. OTHER RECEIVABLES | 2017 | 2017 |
|---|---|---|
| VAT reclaim | 630 | 630 |
| Other receivables | 6 | 6 |
| **Total** | **636** | **636** |

| P8. PREPAID EXPENSES AND ACCURED INCOME | 2017 | 2017 |
|---|---|---|
| Accrued income | 300 | 300 |
| **Total** | **300** | **300** |

| P9. OTHER LIABILITIES | 2017 | 2017 |
|---|---|---|
| Social security and employee tax | 13 | |
| Other liabilities | 443 | 443 |
| **Total** | **456** | **456** |

| P10. ACCRUED EXPENSES AND DEFERRED INCOME | 2017 | 2017 |
|---|---|---|
| Accrued expenses | 990 | 990 |
| **Total** | **990** | **990** |

**P11. DETAILS OF PURCHASES AND SALES BETWEEN GROUP COMPANIES**

Luminor Group AB has invoiced EUR 1 024 thousand to group companies and have made purchase from group companies amounting to EUR 201 thousand.

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

### P12. PROPOSED DISTRIBUTION OF PROFITS

The following funds are at the disposal of the Annual General Meeting (EUR):

| | |
|---|---|
| Other non-restricted reserves | 1 645 099 039 |
| Profit (loss) for the year | (9 664 375) |
| Total | 1 635 434 664 |

The Board of Directors and Chief Executive Officer propose that the earnings be distributed as follows (EUR):

| | |
|---|---|
| To be carried forward | 1 635 434 664 |
| Total | 1 635 434 664 |

The Board of Direcotors and the CEO provide their assurance that the annual accounts have been prepared in accordance with generally accepted accounting practises in Sweden and that the consolidated accounts have been prepared in accordance with the international accounting standards as stipulated by the European Parliament and Council's regulation (EC) No.1606/2002 of 19 July 2002 on the application of international accounting standards and give a fair account of the Parent Company and Group's position and earnings. Furthermore, assurance is given that the Board of Directors report for the Parent Company and Group, respectively, provides an accurate overview of the development of operations, position and earnings of the Parent Company and the Group, and that it also describes the principal risks and sources of uncertaunty faced by the Parent Company and the companies within the Group.

Stockholm 28 May 2018

Nils Melngailis
Chairman of the Board

Topi Manner
Board member

Bjorn Erik Naess
Board member

Trygve Young
Board member

Jorgen Christian
Andersen
Board member

Erkki Raasuke
CEO

Our auditor's report was submitted on 28 ~~May~~ June 2018.

Ernst & Young AB

Daniel Eriksson
Authorized Public Accountant

Building a better working world

# Auditor's report

To the general meeting of the shareholders of Luminor Group AB, corporate identity number 559072-8316

## Report on the annual accounts and consolidated accounts

### *Opinions*

We have audited the annual accounts for the period of 2016-08-16 - 2017-12-31 and consolidated accounts for the period of 2017-10-01 - 2017-12-31 of Luminor Group AB.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

### *Basis for Opinions*

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

### *Responsibilities of the Board of Directors and the Managing Director*

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

### *Auditor's responsibility*

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden 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 annual accounts and consolidated accounts.

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

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, 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 opinions. 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 the company's internal control relevant to our 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 company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and 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 annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. 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 a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

## Report on other legal and regulatory requirements

***Opinions***

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Luminor Group AB for the period of 2016-08-16 - 2017-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

***Basis for Opinions***

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

***Responsibilities of the Board of Directors and the Managing Director***

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

***Auditor's responsibility***

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Stockholm 28 June 2018
Ernst & Young AB

Daniel Eriksson
Authorized Public Accountant