Luminor

INTERIM REPORT FOR Q4 2018

Luminor Bank AS consolidated and Bank's interim Condensed Financial Statements for twelve months ended 31 December 2018

LUMINOR BANK AS, Latvia

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MANAGEMENT REPORT

Overview

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

Luminor is the third-largest financial services provider in the Baltics, with 1.1 million clients, ca 3,000 employees, ca 16% market share in deposits and ca 22% market share in lending. Total shareholder equity of Luminor amounts to 1.8 billion euros and is capitalised at CET1 18%. Luminor's vision is to become the best financial ecosystem for its customers.

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

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

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

At the end of Q4 2018 Luminor Latvia employed ca 1,000 full-time employees and served ca 266,000 clients in the private and business segments, with a market share of ca 26% in lending and approximately 18% in deposits, making Luminor the second- largest financial services provider on the Latvian market.

Macroeconomic overview

While the Latvian economy has been expected to slow down from the beginning of 2018, the downturn keeps being postponed. In Q3 the economy roughly maintained the pace, with annual growth (n.s.a) declining from 5.3% in Q2 to 4.7%, but seasonally adjusted rate improving from 4.6% to 5.5%. Similar outcome is expected in Q4 and for the year as a whole, with annual growth in 2018 expected to pick up marginally to 4.7% from 4.6% a year before. In 2019 a slowdown looks highly probable, but a moderate one, by roughly a percentage point — Luminor forecast for 2019 currently stands at 3.6%.

Investment will make the biggest difference in 2019. While it will remain strong, growth of fixed investment will roughly halve from the impressive ca 14% expansion in 2018. Building permit data looks encouraging, but growth impulse from EU fund spending on infrastructure will gradually fade. Export markets will be slightly less favourable, but the performance of Latvian exports will be supported by capacity additions and not much change is expected in the growth rate. Namely, some dynamic service export categories, such as the ICT, business services and tourism exports have been expanding very rapidly (ca 16% y/y in Jan-Sep 18), supporting overall export performance. Consumption growth reached 4.5% y/y in 2018 reflecting an increase in consumer's purchasing power. Faster consumption growth in 2019 is a potential upside as employment went up by nearly 2% in 2018 and wage growth roughly matched the 9% forecast. Furthermore, inflation has been quite stable, fluctuating around 2.5% mark for the last two years. Tax increases will probably push the average rate slightly above this point in 2019, but moderating commodity prices will help to keep price growth in check.

Activities

The main milestone and achievement during Q4 2018 have been the cross-border merger of Luminor. Starting from 2 January 2019, Luminor continues its operations in all Baltic countries through the Estonian registered bank and its branches in Latvia and Lithuania. The new simplified structure and governance model enables the bank faster decision making, provides excellent cross-border collaboration opportunities and improves efficiency.

HOUSEHOLD SEGMENT

During Q4 2018 Luminor Household segment focused on improving customer service quality and relevant product sales. After the launch of Luminor new self-service concept, promoting usage of digital channels, customer activity in remote channels has grown by 26% and decreased – in physical branch network by half. Also, after introducing the new digital authentication solution Smart ID, the number of unique users during a month and half has grown to around 27 thousand users. General customer satisfaction according to 'secret shopper' reached 88%, which is an increase compared to the previous quarters.

In the products sales, focus has been on promoting long-term deposits, new mortgage sales and consultations about the mortgage products. In addition, continuous work continued on improving credit portfolio quality.

PRIVATE BANKING SEGMENT

During Q4 2018 the Luminor Private Banking segment in Latvia continued to improve Private Banking portfolio quality. The Investment account solution was implemented for Private Banking customers. Total income figures were the highest in comparison with previous quarters of 2018. Deposit proportions in total Private Banking savings has grown by 4%. Work has continued towards new products to implement competitive daily banking offering. Private Banking customer satisfaction has reached high level of 72% as average during 2018.

BUSINESS AND CORPORATE CLIENT SEGMENTS

During Q4 in business customer segment focused on increasing deposits and sales of unsecured loans in close partnership with the Development Finance Institution ALTUM. That resulted in increased total deposit amount, reaching 407 million euros at the end of Q4 2018. Unsecured loans new sales has doubled comparing to previous quarter and reached 1 million euros in Q4 2018. Additional marketing and sales activities took place to promote and position Luminor in the small and medium business segment.

In the large Corporate Client segment, during Q4 2018, volume of deposits continued to grow. Total income and operating profit slightly decreased, however overall yearly figures exceeded the budget. Other income went up by 27% in Q4 2018 comparing to Q3 2018, whereas the new lending sales volumes remained stable. In Q4 2018, Corporate focused on continuing delivering high customer service that resulted with some exceptionally successful deals at the end of the year.

LEASING

In Q4 2018 Luminor Leasing continued leasing new sales right-sizing and profitability improvement activities. Main focus was on repricing of the Vendor Sales business including the white label partnerships with car and equipment manufacturers and vendors.

Luminor leasing new sales grow slower than the market. New leasing sales at the end of Q4 reached EUR 186 million, whereas the portfolio volumes reached EUR 487 million. Total income amounted to EUR 12.8 million. Sales were supported by the campaigns via vehicle and equipment vendor partners.

In Q4 2018 Luminor Leasing retained its leading position as a leasing financier with 26% market share in car leasing and 34% market share in agriculture and construction machinery leasing.

PENSIONS

The pension assets of more than 132,000 Luminor customers amounted to 525 million euros at the end of Q4 compared to 528 million euros in Q3 2018. During the final quarter all pension funds suffered from bearish market trends and thus delivered negative investment return. Total assets recorded a minor drop despite strong money inflows into pension funds. A net number of pension 2nd pillar fund customers increased by 663 while the pension 3rd pillar customer base grew by 626 new customers.

At the end of Q4 Luminor pension 2nd pillar fund offering was successfully harmonised by merging two pension funds with the conservative investment strategy as well as two pension funds with the equity 50% strategy. The competitive pension fund offering will facilitate growth of customer pension savings and increase Luminor footprint in the customer wealth management area.

CORPORATE SOCIAL RESPONSIBILITY IN LUMINOR

We are creating a new-generation financial services provider because we are determined to build a better tomorrow – for families and businesses and for the communities and countries in which we live and operate. We believe in contributing to the development of the local communities in which we operate.

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

Luminor has a responsibility to make an effort to ensure that the banking industry delivers ethical products and services. We take responsibility for who our products and services are offered to and how.

ANTI-MONEY LAUNDERING MATTERS

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

Our Compliance and Anti-Money Laundering (AML) functions operate at the pan-Baltic level, with competence centres and highly experienced professionals in the following areas: data protection, AML/ Certified Fraud Examiners (CFT), FATCA, IT compliance and digital channels, Business Integrity, Bank Products & New Product Development. Luminor's AML, Compliance and Anti- Financial Crime units employ over 100 professionals, maintaining a robust compliance framework and processes throughout the organization.

SIGNIFICANT EVENTS AFTER 31 DECEMBER 2018

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

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

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

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

The new governance structure of Luminor Bank AS:

Supervisory Council of Luminor Bank AS

- Nils Melngailis, Chairman of the Supervisory Council
- Bjørn Erik Naess, Member of the Supervisory Council
- Jörgen Christian Andersen, Member of the Supervisory Council
- Michael Jackson, Member of the Supervisory Council
- Trygve Young, Member of the Supervisory Council

On 23 January 2019 two additional council members, were appointed to Luminor Bank AS—Ari Kaperi and Nadine Faruque.

Management Board of Luminor Bank AS

- Erkki Raasuke, Chairman of the Management Board
- Christian Wallentin, Member of the Management Board, CFO, Head of Financial division
- Kristina Siimar, Member of the Management Board, Head of Products and Offerings
- Kerli Gabrilovica, Member of the Management Board, Head of Luminor Bank AS Latvian branch
- Andrius Načajus, Member of the Management Board, Head of Luminor Bank AS Lithuanian branch
- Hannu Saksala, Member of the Management Board, Head of Risk division

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

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

During 2019 Luminor will be simplifying its operating model and reducing its staff numbers from the current ca 3000 employees, at all levels (including management), comprising around 130 employees in Estonia, 250 employees in Latvia and 420 employees in Lithuania.

Financial results

The merger of the Baltic businesses of DNB and Nordea in October 2017 has had a significant impact both on the financial result and operational focus. The consolidated financial information prior to the merger represents consolidated results of DNB's respective entities, whereas starting from 1 October 2017, such financial information also reflects the effects of the acquisition of assets and liabilities of Nordea. As a result, comparability of consolidated financial information between January-December 2017 and January-December 2018 is limited in light of the effects of the merger.

Operating income in Q4 2018 was 30 million euros, which was 1 million euros more than Q3 2018, which was offset by year end cost accruals, one offs resulting from operations with investment property and impairment loss and additionally driven by higher IT investments resulting in a -0.7 million euro net loss. Net interest margin was 1.2%. Net fees and commission income have slightly increased in Q4 2018 compared to Q3 2018 due to lower commission costs.

KEY FIGURES*

T EUR	Jan-Dec 2018	Q4 2018
Net profit	45 014	-738
Average equity	539 474	544 907
Return on equity (ROE), %	8.3%	-0.5%
Average assets	4 709 973	4 559 408
Return on assets (ROA), %	1.0%	-0.1%
Net interest income	80 521	13 578
Average interest earning assets	4 608 829	4 464 068
Net interest margin (NIM), %	1.7%	1.2%
Cost / Income ratio (C/I), %	63.6%	80.7%

*Quarterly ratios (ROE, ROA, NIM, C/I) have been expressed on an annualized basis

Explanations:

Average equity (belonging to owners of company) = (equity at end of reporting period + equity at end of previous period) / 2

Return on equity (ROE) = Net profit / Average equity * 100%

Average assets = (assets at end of reporting period + assets at end of previous period) / 2

Return on assets (ROA) = Net profit / Assets, average * 100

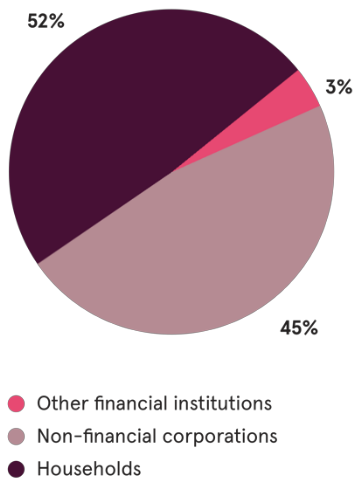
Average interest earning assets = (interest-earning assets at end of reporting period + interest-earning assets at end of previous period) / 2

Net interest margin (NIM) = Net interest income / Interest earning assets, average * 100

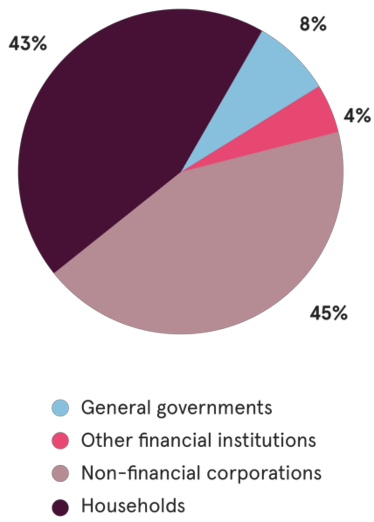
Cost / Income ratio = Total operating expenses / Total net income * 100

Loans to customers totalled 3.4 billion euros at 31 December 2018, decreasing by 2% compared to 30 September 2018. Loans to non- financial corporate customers comprised 45% and loans to households 52% of the credit portfolio of Luminor. The market share of Luminor's loans in Latvia was approximately 26%.

Lending



Deposits



Deposits from customers (excluding deposits from credit institutions) totalled 2.8 billion euros at 31 December 2018, increasing 4% over the previous quarter. Deposits from non- financial corporate clients comprised 45% and deposits from households 43% of the customer deposit portfolio of Luminor. The market share of Luminor's deposits in Latvia was approximately 18% end of November 2018. The loan-to-deposit ratio decreased in Q4 2018 to 119% from 128% in Q3.

ASSET QUALITY FOR Q4

As at the end of Q4 2018 the quality of Luminor Latvia's loan portfolio has slightly improved. Allowances for on-balance sheet exposures amounted to 92 million euros or 2.65% of total loan portfolio. The share of impaired loans in total loan portfolio amounts to 7.4%. Decrease in the volume and share of non-performing loans in Q4 2018 is related to individually large exposures (including both repayments and write-offs).

T EUR	Household	Non-financial corporations	Other financial corporations	General governments	Total*
Gross Loans	1 808 517	1 567 204	83 677	5 358	3 464 756
Allowances	-56 325	-36 659	1 052	0	-91 932
Net Loans	1 752 192	1 530 545	84 729	5 358	3 372 824
Gross Impaired Loans	108 481	147 727	8	0	256 216
Impairment ratio %	3.11%	2.34%	1.26%	0.00%	2.65%
Gross impaired Loans vs Gross Loans (NPL ratio) %	6.00%	9 43%	0.01%	0.00%	7.39%
Allowances vs Gross impaired Loans %	51 .92%	24.82%	0.00%	0.00%	35.88%

*excluding loans to Credit Institutions

Explanations:

Impairment ratio % = Allowances / Gross Loans

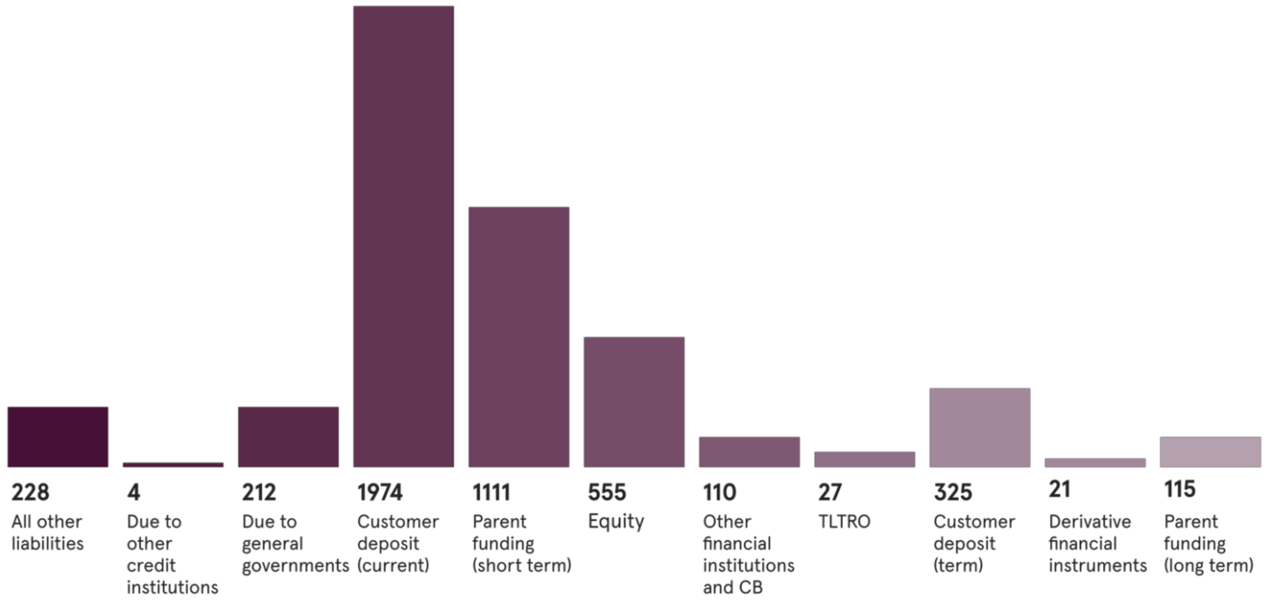
Gross impaired loans vs Gross Loans (NPL ratio) % = Gross impaired Loans / Gross Loans

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

FUNDING

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

At the end of Q4 2018 Luminor Latvia had utilised 1.23 billion euros in funding from the parent banks.



Utilized parent funding amounts to 3.71 billion euros at the Luminor group level and is provided by the two parent banks in the form of a syndicate, where each parent bank provides 50%. Long-term funding was committed for 6 years (4+2), beginning from the 1 October 2017 when Luminor was established and short-term funding in the form of revolving credit of 364 days. In addition to the current outstanding utilized funding, there is also a committed credit line of 0.9 billion euros in place (not utilized at present). When Luminor attracts wholesale long-term (longer than one year) funding externally, the intent is to amortize an equal amount of parent funding.

Rating

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

Moody's has assigned ratings to Luminor Bank AS (Estonia), including a local currency long-term senior unsecured debt rating of Baa2. As of 2 January 2019 Luminor Bank AS (Latvia) and Luminor Bank AB (Lithuania) are branches of Luminor Bank AS (Estonia).

LIQUIDITY

The LCR (liquidity coverage ratio) for Luminor Latvia was 179.9% at the end of Q4 2018, according to the Delegated Act's LCR definition. The liquidity buffer is composed of highly liquid central bank eligible securities and cash.

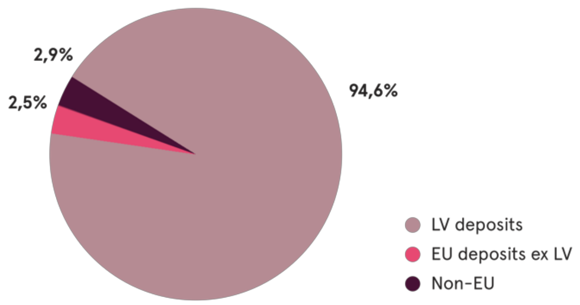
At the end of Q4 2018, Luminor Latvia's NSFR (net stable funding ratio) was 113.4% using an RSF (required stable funding) factor of 85% for qualifying collateralised mortgages.

Ratio	31 Dec 2018	30 Sep 2018	30 Jun 2018	30 Mar 2018	31 Dec 2017
LCR	179,9%	124,9%	130,0%	150,0%	169,0%
NSFR**	113.4%	106,4%	106,3%	109,0%	118,0%

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

Deposit structure

Deposits from customers are mainly from residents of Latvia. In total, 97.1% of all deposits from household and non-financial corporates are from EU residents.



CAPITAL

Luminor Latvia's capital adequacy was 18.02% as of 31 December 2018 (31 December 2017: 18.49%), which is well above the internal target of 17.0%. Compared to the previous quarter capital adequacy of Luminor Latvia has increased due to the decrease in lending portfolio. Capital adequacy of Luminor Latvia is fully covered by CET1 capital.

Capital ratios

Position	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Capital adequacy	18.02%	17.64%	17.82%	18.13%	18.49%
Leverage Ratio	10.27%	10.76%	10.75%	10.38%	10.28%
CET 1 Ratio	18.02%	17.64%	17.82%	18.13%	18.49%
T1 Capital Ratio	18.02%	17.64%	17.82%	18.13%	18.49%
Total Capital Ratio	18.02%	17.64%	17.82%	18.13%	18.49%

Statement of the Management Board

The interim report of Luminor Bank AS for Q4 2018 consists of the following parts and reports:

- Management Report;
- Interim Condensed Financial Statements

The data and additional information presented in the interim report of Luminor Bank AS for Q4 2018 is true and complete. The Financial Statements present a fair and true view of the financial status and economic performance of the bank and the Consolidated group.

The Interim Condensed Financial Statements have been prepared according to the principles of the International Accounting Standard IAS 34 “Interim Financial Reporting”.

Luminor Bank AS and the bank’s subsidiaries are going concerns.

Erkki Raasuke
Chairman of the Board

Tina Kukka
Interim CFO

Tallinn, 28 February 2019

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2018

T EUR	2018 Group	Q4 2018 Group	2017 Group	Q4 2017 Group	2018 Bank	Q4 2018 Bank	2017 Bank	Q4 2017 Bank
Interest income	95 681	17 311	55 949	21 562	83 054	14 120	49 203	18 389
Interest expense	(15 160)	(3 733)	(8 944)	(4 155)	(15 166)	(3 748)	(8 505)	(4 143)
Net interest income	**80 521**	**13 578**	**47 005**	**17 407**	**67 888**	**10 372**	**40 698**	**14 206**
Fees and commission income	34 530	8 825	23 558	9 641	30 032	7 705	19 772	7 273
Fees and commission expenses	(8 977)	(2 115)	(6 827)	(2 429)	(9 163)	(2 431)	(6 436)	(2 303)
Net fees and commissions	**25 553**	**6 710**	**16 731**	**7 212**	**20 869**	**5 274**	**13 336**	**5 020**
Net result from operations with foreign currency, trading securities and derivative financial instruments	15 956	10 738	8 390	7 168	15 963	10 741	8 378	7 168
Net result from operations with investment property	(3 171)	(2 767)	(10 514)	(9 522)	(115)	(3)	(791)	(95)
Other operating income	4 337	1 628	4 185	1 410	5 412	2 154	5 488	1 880
Dividend income	40	12	26	-	7 940	7 912	2 070	-
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	(473)	283	-	-	234	283	-	-
Share of profit of investment in associates	332	123	300	300	-	-	-	-
Operating income	**123 095**	**30 305**	**66 123**	**23 975**	**118 191**	**36 739**	**69 179**	**28 179**
Personnel expenses	(34 365)	(8 867)	(22 211)	(9 063)	(31 830)	(8 159)	(21 497)	(8 494)
Other administrative expenses	(33 324)	(11 268)	(18 498)	(7 986)	(32 854)	(11 626)	(18 160)	(7 632)
Depreciation	(3 989)	(1 715)	(3 132)	(840)	(3 036)	(1 408)	(2 283)	(625)
Other operating expenses	(6 728)	(2 286)	(3 908)	(2 519)	(6 628)	(2 321)	(3 688)	(2427)
Net allowances for impairment loss	33	(7 469)	(4 942)	(9 639)	(560)	(8 399)	(13 742)	(18 484)
Profit before income tax	**44 722**	**(1 300)**	**13 432**	**(6 072)**	**43 283**	**4 826**	**9 809**	**(9 483)**
Corporate income tax	292	562	(11 410)	(10 954)	860	565	(10 398)	(10 143)
Profit/(loss) for the period from continuing operations	**45 014**	**(738)**	**2 022**	**(17 026)**	**44 143**	**5 391**	**(589)**	**(19 626)**
Other comprehensive income								
Items that will not be reclassified to profit or loss in the future								
Changes in revaluation reserves of financial assets available for sale	-	-	511	183	-	-	511	183
Items that may not be reclassified to profit or loss in the future								
Changes in revaluation reserve of financial assets at fair value through other comprehensive income	968	206	-	-	968	206	-	-
Other comprehensive income total	**968**	**206**	**511**	**183**	**968**	**206**	**511**	**183**
Total comprehensive income	**45 982**	**535**	**2 533**	**(16 843)**	**45 111**	**5 597**	**(78)**	**(19 443)**
Profit/(loss) attributable to: Equity holders of the Bank	45 014	(738)	2 022	(17 026)	44 143	5 391	(589)	(19 626)
Total comprehensive income attributable to: Equity holders of the Bank	45 982	535	2 533	(16 843)	45 111	5 597	(78)	(19 443)

The financial statements on pages 12 to 51 have been approved by the Management Board of the Bank and signed on their behalf by:

Tallinn, 28 February 2019

Erkki Raasuke
Chairman of the Board

Tina Kukka
Interim CFO

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

Assets T EUR	Notes	2018 Group	2017 Group	2018 Bank	2017 Bank
Cash and balances with central banks		1 078 401	1 067 214	1 078 401	1 067 214
Due from other credit institutions (on demand)	4	40 309	34 634	40 309	33 865
Derivatives	10	33 713	17 223	33 713	17 223
Financial assets designated at fair value through profit or loss:	6	56 210	76 308	56 210	76 308
Debt securities and other fixed income securities		*56 210*	*76 308*	*56 210*	*76 308*
Financial assets designated at fair value through other comprehensive income	7	3 661	2 547	3 661	2 547
Loans and advances:		3 384 232	3 443 271	3 372 146	3 455 321
Due from other credit institutions (term)	4	*11 408*	*70 823*	*11 408*	*70 823*
Loans to customers	5	*3 372 824*	*3 372 448*	*3 360 738*	*3 384 498*
Accrued income and deferred expenses		3 151	3 726	2 802	2 145
Investment property		18 103	34 136	459	1 021
Property, plant and equipment		4 154	27 583	3 758	4 174
Intangible assets		1 558	1 681	1 080	1 297
Investments in subsidiaries	8	-	-	60 579	60 507
Investments in associates	8	3 013	2 987	2 617	2 687
Current income tax assets		886	90	560	-
Non-current assets and disposal groups classified as held for sale		22 714	2 656	-	519
Other assets	9	30 900	24 884	35 697	20 635
Total assets		**4 681 005**	**4 738 940**	**4 691 992**	**4 745 463**

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Tallinn, 28 February 2019

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Chairman of the Board

Tina Kukka
Interim CFO

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STATEMENT OF FINANCIAL POSITION (CONTINUED)

T EUR	Notes	2018 Group	2017 Group	2018 Bank	2017 Bank
Liabilities					
Liabilities to central banks	12	26 445	60 500	26 445	60 500
Liabilities to credit institutions (on demand)	13	2 864	5 576	2 864	5 576
Derivatives	10	30 370	21 269	30 370	21 269
Financial liabilities at amortised cost:		4 046 898	4 108 051	4 068 094	4 126 470
Due to credit institutions (term)	13	*1 226 423*	*1 165 227*	*1 226 423*	*1 165 227*
Deposits from customers and other financial liabilities	14	*2 820 475*	*2 942 824*	*2 841 671*	*2 961 243*
Accrued expenses and deferred income		12 007	11 777	11 509	11 312
Current income tax liabilities		52	1 283	-	1 233
Other liabilities	15	6 999	5 634	4 500	2 513
Provisions		1 012	261	921	228
Total liabilities		**4 126 647**	**4 214 351**	**4 144 703**	**4 229 101**
Shareholders' equity					
Share capital		191 178	191 178	191 178	191 178
Share premium		69 713	69 713	69 713	69 713
Reserve capital		464 690	464 690	464 690	464 690
Revaluation reserve		1 634	666	1 634	666
Accumulated result		(172 857)	(201 658)	(179 926)	(209 885)
Total shareholders' equity attributable to the shareholders of the Bank		**554 358**	**524 589**	**547 289**	**516 362**
Total shareholders' equity		**554 358**	**524 589**	**547 289**	**516 362**
Total liabilities and shareholders' equity		**4 681 005**	**4 738 940**	**4 691 992**	**4 745 463**

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Interim CFO

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2018 AND 31 DECEMBER 2017

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

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

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2018 AND 31 DECEMBER 2017

T EUR	2018 Group	2017 Group	2018 Bank	2017 Bank
Cash flow from operating activities				
Profit before income tax and dividends	44 722	13 432	43 283	9 809
Depreciation and amortization of intangible assets and property and equipment	3 989	3 132	3 037	2 283
Increase/(Decrease) in allowances for impairment losses and provisions for off-balance sheet liabilities	(16 245)	4 942	(13 624)	4 686
(Profit)/Loss from revaluation of securities, derivatives and loans	(381)	1 233	(381)	1 233
Profit from revaluation of investment property	2 593	9 996	94	578
Profit from revaluation of investment in subsidiaries	-	-	7 928	9 056
Share of (profit)/loss from associates	(26)		-	
(Profit)/Loss from sale of fixed and intangible assets	(540)	26	(518)	26
Dividends received	(40)	(26)	(7 940)	(2 070)
Loss from foreign currency revaluation	(3 508)	(855)	(3 511)	(844)
Cash flow from operating activities before changes in assets and liabilities	**31 644**	**31 880**	**29 404**	**24 757**
(Increase)/Decrease in loans and advances to customers	(200)	58 397	24 392	(58 955)
(Increase)/Decrease in due from credit institutions	3 255	(14 663)	3 255	(14 663)
Increase in financial assets designated at fair value through profit and loss	19 979	8 513	19 979	8 513
Increase in due to credit institutions	27 140	17 468	27 140	167 782
(Increase)/Decrease in accrued income and deferred expenses	575	1 101	(656)	1 304
(Increase)/Decrease in other assets and taxes	(8 135)	11 913	(16 808)	2 621
(Increase)/(Decrease) in clients deposits	(122 349)	(1 296)	(119 572)	2 641
(Increase)/(Decrease) in derivatives	(6 889)	10 927	(6 889)	10 927
Increase in accrued expenses and deferred income	229	2 778	97	2 654
(Increase)/(Decrease) in other liabilities	1 559	(10 393)	1 554	(16 112)
Increase/(Decrease) in cash and cash equivalents as a result of operating activities	**(53 192)**	**116 625**	**(38 104)**	**131 469**
Cash flow from investing activities				
(Acquisition) of property and equipment and intangible assets	(4 263)	(695)	(3 643)	(666)
Sale of property and equipment and intangible assets	1 371	46	1 421	47
(Acquisition) of participation in share capital of subsidiary and associates	-	(460)	(8 000)	(45 995)
Sale of participation in share capital of subsidiary	-	-	70	285
(Acquisition) of investment property	(146)	(10 665)	(3)	(14)
Sale of investment property, net	16 096	31 118	991	2 646
Changes related to merger with Nordea	-	299 157	-	345 152
Increase/(Decrease) in cash and cash equivalents as a result of investment activities	**13 058**	**318 501**	**(9 164)**	**301 455**
Cash flow from financing activities				
Dividends received	40	26	7 940	2 070

Dividends paid	–	(30 174)	–	(30 174)
Increase in reserve capital	–	240 572	–	240 572
Increase in cash and cash equivalents as a result of financing activities	**40**	**210 424**	**7 940**	**212 468**
Net increase/ (decrease) in cash and cash equivalents	**(40 094)**	**645 550**	**(39 328)**	**645 392**
Cash and cash equivalents at the beginning of the year	1 152 432	506 027	1 151 663	505 428
Profit/(Loss) of foreign currency revaluation on cash and cash equivalents	3 508	855	3 511	843
Cash and cash equivalents at the end of the year	**1 115 846**	**1 152 432**	**1 115 846**	**1 151 663**
Cash flow from interest received	105 260	61 126	92 626	54 315
Cash flow from interest paid	15 231	9 227	15 240	8 864

The accompanying notes are an integral part of these financial statements.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

NOTE 1: INCORPORATION AND PRINCIPAL ACTIVITIES

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

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

As a part of the transaction:

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

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

In 2018 an internal corporate restructuring of Luminor Group has been taken place with an aim to concentrate the entire Baltic businesses of Luminor Group in Luminor Bank AS, a credit institution in Estonia; where Luminor Bank AS in Estonia remains as the acquiring entity while Luminor Bank AB in Lithuania and Luminor Bank AS in Latvia are merged into Luminor Bank AS in Estonia and cease to exist as separate legal entities. A cross border merger is pursued under Directive (EU) 2017/1132 of the European Parliament and of the Council of 14 June 2017 relating to certain aspects of company law as implemented in Lithuania, Latvia and Estonia respectively. All assets and liabilities of the respective banks are, in accordance with the relevant laws, transferred into the Luminor Bank AS in Estonia as a matter of universal succession, and each bank ceased to exist as a legal entity upon registration of the cross-border merger.

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

NOTE 2: ACCOUNTING PRINCIPLES

BASIS OF PREPARATION

The condensed interim financial information of Luminor Bank AS (the Bank or the Group) was prepared in accordance with IAS 34 Interim Financial reporting as adopted by the European Union. The condensed interim financial information does not contain all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

The accounting policies adopted in the preparation of the condensed interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017, except for the accounting policy of Hedge Accounting and the new accounting standards which came into force from 1 January 2018 and are described below.

CHANGES IN ACCOUNTING POLICIES

Hedge Accounting

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The Group applies fair value hedge. Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment.

The change in the fair value of a hedging instrument is recognized in the statement of profit or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the statement of profit or loss.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the effective interest (EIR) method. The EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss. When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss.

IFRS 9 Financial Instruments

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

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

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

Classification and measurement

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

Subsequent measurement of the financial assets depends on the classification performed by the Group at initial recognition. At initial recognition, financial assets can be classified into one of the following categories:

- Financial assets measured at fair value through profit or loss,
- Financial assets measured at fair value through other comprehensive income (OCI),
- Financial assets measured at amortised cost.

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

On initial recognition, financial liabilities are classified into one of the following categories:

- Financial liabilities measured at amortised cost,
- Financial liabilities measured at fair value through profit or loss.

A financial liability is classified as measured at fair value through profit or loss if:

- It meets the definition of "held for trading" and
- It is designated upon initial recognition to fair value through the profit or loss measurement option.

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

Impairment of financial assets

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

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

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

The agreed IFRS 9 impairment methodology is documented in internal procedures and applied in daily life. Integration into front office business processes follows and is intended to be finalized during the year 2018, but this does not impact impairment calculation. In general, IFRS 9 impairment model results in earlier recognition of credit losses for the respective items and increases the amount of loss allowances recognised for these items. Moreover, the impairment calculations under IFRS 9 are more volatile and pro-cyclical than under IAS 39, mainly due to the significant subjectivity applied in the forward-looking scenarios. IFRS 9 impairment requirements are applied retrospectively, with transition impact recognized in retained earnings at 1 January 2018.

Impact of the adoption of IFRS 9

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

Classification and measurement of financial instruments

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

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

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

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

Bank financial assets T EUR	Original measurement category under IAS 39	New measurement category under IFRS 9	IAS 39 carrying amount 31 Dec 2017	New carrying amount under IFRS9 1 Jan 2018
Cash and balances with central banks	Loans and receivables	Amortised cost	1 067 214	1 067 214
Due from Banks and other credit institutions	Loans and receivables	Amortised cost	104 688	104 637
Financial assets designated at fair value through profit or loss	Financial assets at FVTPL (under fair value option)	Financial assets at FVTPL (under fair value option)	76 308	76 308
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss	17 223	17 223
Available for sale financial instruments	Available for sale	Fair value through other comprehensive income	2 547	2 547
Loans and advances to	Loans and receivables	Amortised cost	2 850 906	2 837 431

customers				
Finance lease receivables	Loans and receivables	Amortised cost	521 542	520 722

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

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

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

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

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

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

IFRS 15 Revenue from Contracts with Customers (Clarifications)

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

IFRS 16 Leases

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group decided that it will apply the standard using the modified retrospective method. The Bank recognised a right of use asset of 14 445 thousand Euro against a corresponding lease liability of 14 536 thousand Euro on 1 January 2019, the impact to the equity as of 1st of January 2019 amounts to 90 thousand Euro.

NOTE 3: RISK MANAGEMENT

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

There have been no major changes in the risk management or in any risk management policies since the year end.

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

With the adoption of IFRS 9 three stages model was introduced:

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

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

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

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

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

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

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

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

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

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

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

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

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

The default is recognised on customer level.

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

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

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

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

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

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

Different pool rates are applied for these pools distinguished by Luminor:

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

NOTE 4: DUE FROM CREDIT INSTITUTIONS

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

NOTE 5: LOANS AND ADVANCES TO CUSTOMERS

ANALYSIS OF LOANS BY PRODUCTS

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

THE FOLLOWING TABLE PROVIDES THE DIVISION OF LOANS AND ADVANCES TO CUSTOMERS BY QUALITY:

T EUR	2018 Group	2017 Group	2018 Bank	2017 Bank
Neither past due nor impaired	3 040 798	3 018 821	3 055 240	3 047 698
Past due but not impaired	167 741	220 963	143 918	192 791
Impaired	256 217	287 480	249 526	301 486
Total gross loans and advances to customers	**3 464 756**	**3 527 264**	**3 448 684**	**3 541 975**
Less allowances for individual loan impairment	(35 765)	(139 103)	(34 492)	(142 717)
Less allowances for homogenous groups of loans		(15 713)		(14 760)
Less allowances for collective loan impairment	(56 167)		(53 454)	
Total net loans and advances to customers	**3 372 824**	**3 372 448**	**3 360 738**	**3 384 498**

THE FOLLOWING TABLE PROVIDES THE DIVISION OF LOANS AND ADVANCES TO CUSTOMERS PAST DUE BUT NOT IMPAIRED:

T EUR	2018 Group	2017 Group	2018 Bank	2017 Bank
Total				
Past due up to 30 days	144 947	165 805	123 622	141 546
Past due 31-60 days	19 220	43 611	16 827	40 782
Past due 61-90 days	3 563	9 463	3 468	9 247
Past due over 90 days	11	2 084	1	1 216
Total	**167 741**	**220 963**	**143 918**	**192 791**

NOTE 6: FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

		2018		2017	
	Moody's equivalent grades	T EUR	%	T EUR	%
High grade					
Risk rating class 1	**Aaa**	–	–	–	–
Risk rating class 2	**Aa1-A3**	56 210*	100	76 308*	100
Risk rating class 3	**Baa1-Baa2**	–	–	–	–
Risk rating class 4	**Baa3**	–	–	–	–
Not rated		–	–	–	–
Total		**56 210**	**–**	**76 308**	**100**

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

NOTE 7: FINANCIAL ASSETS AVAILABLE-FOR-SALE

T EUR	2018 Group	2017 Group	2018 Bank	2017 Bank
Equity instruments				
VISA Inc. shares	3 582	2 526	3 582	2 526
S.W.I.F.T. SCRL shares	79	21	79	21
Total	**3 661**	**2 547**	**3 661**	**2 547**

NOTE 8: INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

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

T EUR	Share capital	Bank's share %	Investment value 2018	Impairment 2018	Net investment value 2018	Investment value 2017	Impairment 2017	Net investment value 2017
SIA Luminor Līzings Latvija	4 838	100	4 838	-	4 838	4 838	-	4 838
SIA Skanstes 12	1 181	100	1 181	-	1 181	1 181	-	1 181
SIA Salvus*	13 567	100	13 566	12 868	698	9 467	9 467	-
SIA Salvus 2*	3 031	100	3 031	695	2 336	3 031	695	2 336
SIA Salvus 3*	4 007	100	4 007	4 007	-	1 307	1 307	-
SIA Salvus 4*	1 935	100	1 935	1 851	84	735	735	-
SIA Salvus 6*	300	100	300	-	300	300	-	300
SIA Luminor Līzings	4 410	100	39 083	-	39 083	39 083	-	39 083
AS Luminor Latvijas atklātais pensiju fonds	400	100	200	-	200	200	-	200
IPAS Luminor Asset Management	5 000	100	4 382	-	4 382	948	-	948
IPAS Luminor Pensions Latvia						3 434	-	3 434
SIA Promano Lat*	29 999	100	7 054	6 425	629	7 054	5 725	1 329
SIA Baltik Īpašums*	3	100	440		440	440	-	440
SIA Luminor Finance*	1 088	100	630	10	620	630	-	630
SIA Trioleta*	3 965	100	3 573	1 227	2 346	3 573	1 227	2 346
SIA Realm*	10 002	100	6 332	2 890	3 442	6 332	2 890	3 442
	83 726		**90 552**	**29 973**	**60 579**	**82 553**	**22 046**	**60 507**

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

NOTE 9: OTHER ASSETS

T EUR	2018 Group	2017 Group	2018 Bank	2017 Bank
Guarantee deposits for auctions and prepayments for investment property	10	122	4 780	6
Prepayments and overpaid taxes	6	963	-	14
Credit card claims and other payment services	8 197	5 690	13 054	6,360
Short term debts	10 056	11 276	8 787	11 276
Other	13 264	7 256	14 297	3 349
Total	**31 533**	**25 307**	**36 138**	**21 005**
Less provisions for debtors	(633)	(423)	(441)	(370)
Total	**30 900**	**24 884**	**35 697**	**20 635**

NOTE 10: DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

* Including cross-currency interest rate swaps

NOTE 11: PROVISIONS FOR IMPAIRMENT OF LOANS AND OTHER ASSETS

Group T EUR	Loans	Other financial corporations	Non-financial corporations	Households	Collective provisions	Other assets	Off-balance sheet liabilities	Total
31 December 2016	**76 964**	**884**	**24 867**	**42 848**	**8 365**	**1 005**	**–**	**77 969**
Fully provided for and written off	**(25 308)**	–	(7 233)	(18 075)	–	(422)	–	**(25 730)**
Charge to comprehensive income statement	**7 396**	77	11 775	(1 782)	(2 674)	299	–	**7 695**
Interest income due to shortening of discounting period	**(1 804)**	(49)	(1 473)	(262)	(20)			**(1 804)**
Acquired through banks' merger	**97 568**	–	69 554	17 972	10 042			**97 568**
Other changes	**–**		(536)	536		(18)		**(18)**
31 December 2017	**154 816**	**912**	**96 954**	**41 237**	**15 713**	**864**	**-**	**155 680**
Changes in Provisions due to IFRS9	**1 277**	**(2 387)**	**(6 309)**	**25 686**	**(15 713)**		**1 598**	**2 875**
Open Provisions Balance 01.01.2018	**156 093**	**(1 475)**	**90 645**	**66 923**	**-**	**864**	**1 598**	**158 555**
Fully provided for and written off	**(62 892)**	–	(51 406)	(11 486)				**(62 892)**
Charge to comprehensive income statement	**1 797**	442	516	839		780	(557)	**2 020**
Interest income due to shortening of discounting period	**(3 196)**	(42)	(3 070)	(84)				**(3 196)**
Other changes	**130**	23	(27)	134		143	(175)	**98**
31 December 2018	**91 932**	**(1 052)**	**36 658**	**56 326**	**-**	**1 787**	**866**	**94 585**

Bank T EUR	Loans	Other financial corporations	Non-financial corporations	Households	Collective provisions	Other assets	Off-balance sheet liabilities	Total
31 December 2016	**68 499**	**884**	**19 070**	**40 714**	**7 831**	**13 919**	**7 572**	**89 990**
Fully provided for and written off	**(19 379)**	–	(2 548)	(16 831)	–	(383)	(1 121)	**(20 883)**
Charge to comprehensive income statement	**13 461**	75	17 820	(1 745)	(2 689)	9 319	(6 451)	**16 329**
Interest income due to shortening of discounting period	**(1 804)**	(49)	(1 472)	(262)	(21)	–		**(1 804)**
Acquired through banks' merger	**96 700**	–	69 179	17 882	9 639	–		**96 700**
Other changes	**–**		(528)	528				**–**
31 December 2017	**157 477**	**910**	**101 521**	**40 286**	**14 760**	**22 855**		**180 332**
Changes in Provisions due to IFRS9	**(487)**	**(2 359)**	**(8 776)**	**25 408**	**(14 760)**		**1 395**	**908**
Open Provisions Balance 01.01.2018	**156 990**	**(1 449)**	**92 745**	**65 694**	**–**	**22 855**	**1 395**	**181 240**
Fully provided for and written off	**(61 075)**	–	(50 376)	(10 699)				**(61 075)**
Charge to comprehensive income statement	**(4 821)**	461	(6 145)	863		8 000	(445)	**2 734**
Interest income due to shortening of discounting period	**(3 144)**	(42)	(3 031)	(71)				**(3 144)**
Other changes	**(4)**		2	(6)		3	(173)	**(174)**
31 December 2018	**87 946**	**(1 030)**	**33 195**	**55 781**	**–**	**30 858**	**777**	**119 581**

NOTE 12: LIABILITIES TO CENTRAL BANKS

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

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

NOTE 13: DUE TO OTHER CREDIT INSTITUTIONS

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

* Including DNB Bank ASA - EUR 613,000 thousand, Nordea Bank AB (Publ), Finnish Branch - EUR 613,000 thousand (Dec 31 2017: DNB Bank ASA: 575,000 thousand; Nordea Bank AB (Publ), Finnish Branch: 575,000).

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NOTE 14: DUE TO CUSTOMERS

ANALYSIS OF DEPOSITS BY MATURITY AND CLIENT TYPE

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

NOTE 15: OTHER LIABILITIES

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

NOTE 16: OFF-BALANCE SHEET ITEMS

GUARANTEES, LETTERS OF CREDIT AND OTHER COMMITMENTS

T EUR	2018 Group	2017 Group	2018 Bank	2017 Bank
Memorandum items				
Contingent liabilities				
Guarantees	155 151	198 785	155 151	198 785
Commitments				
Loan issuing commitments	431 739	424 847	573 209	461 405
Guarantee issue agreements	78 225	73 086	78 225	74 086
Letters of credit	15 933	26 578	15 933	26 578
Total	**681 048**	**723 296**	**822 518**	**760 854**

NOTE 17: RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

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

NOTE 18: FAIR VALUES OF ASSETS AND LIABILITIES

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, there are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

ASSETS

Fair value of securities has been estimated based on quoted price where available. To build the yield curve, debt securities of the same issuer with known average bid yields are used and connected into a curve using a linear interpolation. An average bid yield is used in case the market price is observable from more than one source. In assessing the fair value for other financial assets, the management has performed discounted cash flow analysis; up-to-date market information at assessment moment is being used assessing cash flows. For loans, where base interest rates are pegged to floating market interest rates, the Group has considered difference between average interest margin of issued loans and average interest margin for newly issued loans. Given that for part of the loan portfolio this margin has been changed (increased) since issuance, the Group has estimated that for such loans the carrying value is considered equal to fair value.

LIABILITIES

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

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

FAIR VALUE HIERARCHY: ASSETS AND LIABILITIES RECOGNISED AT FAIR VALUE IN THE STATEMENT OF FINANCIAL POSITION

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

Group 2017 T EUR	Level 1	Level 2	Level 3	Total fair value	Statement of financial position
Recurring fair value					
Assets					
Derivatives	-	17 223	-	**17 223**	**17 223**
Financial assets designated at fair value through profit or loss	-	76 308	-	**76 308**	**76 308**
Financial assets available-for-sale	-	-	2 547	**2 547**	**2 547**
Investment properties	-	-	34 136	**34 136**	**34 136**
Liabilities					
Derivatives	-	21 269	-	**21 269**	**21 269**
Non-recurring fair value					
Assets					
Fixed assets - land and buildings	-	-	23 582	**23 582**	**23 582**

Bank 2018 T EUR	Level 1	Level 2	Level 3	Total fair value	Statement of financial position
Recurring fair value					
Assets					
Derivatives	–	33 713	–	**33 713**	**33 713**
Financial assets designated at fair value through profit or loss	–	56 210	–	**56 210**	**56 210**
Financial assets designated at fair value through other comprehensive income	–	–	3 661	**3 661**	**3 661**
Investment properties	–	–	459	**459**	**459**
Liabilities					
Derivatives	–	30 370	–	**30 370**	**30 370**
Non-recurring fair value					
Assets					
Fixed assets – land and buildings	–	–	729	**729**	**729**

Bank 2017 T EUR	Level 1	Level 2	Level 3	Total fair value	Statement of financial position
Recurring fair value					
Assets					
Derivatives	–	17 223	–	**17 223**	**17 223**
Financial assets designated at fair value through profit or loss	–	76 308	–	**76 308**	**76 308**
Financial assets available-for-sale	–	–	2 547	**2 547**	**2 547**
Investment properties	–	–	1 021	**1 021**	**1 021**
Liabilities					
Derivatives	–	21 269	–	**21 269**	**21 269**
Non-recurring fair value					
Assets					
Fixed assets – land and buildings	–	–	738	**738**	**738**

FAIR VALUE HIERARCHY: ASSETS AND LIABILITIES RECOGNISED AT AMORTISED COST IN THE STATEMENT OF FINANCIAL POSITION

Group 2018 T EUR	Level 1	Level 2	Level 3	Total fair value	Statement of financial position
Assets					
Due from credit institutions on demand	-	40 309	-	**40 309**	**40 309**
Loans	-	-	3 454 111	**3 454 111**	**3 384 232**
Liabilities					
Liabilities to credit institutions on demand	-	-	2 864	**2 864**	**2864**
Financial liabilities at amortised cost	-	-	4 047 455	**4 047 455**	**4 046 898**

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

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

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

FAIR VALUE: INVESTMENT PROPERTIES AND FIXED ASSETS (BUILDINGS)

Classes of investment properties

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

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

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

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

Portfolio	Valuation technique	Inputs		Average per sqm 2018, EUR	Range* per sqm 2018, EUR
Residential					
Apartments	comparable method			1080	23 – 2 667
Living house	comparable method			493	102 – 1 963
Land plots					
Residential	comparable method			7.38	1 – 212
Commercial	comparable method, DCF			43	1 – 11,358
Commercial					
Offices	DCF	rent rate	3 – 8.5 EUR/sqm		
		occupancy	70%-90%		
		discount rates	9%-12%		
		exit yield	8%-11%		
Industrial	DCF	rent rate	0.5 – 3 EUR/sqm		
		occupancy	70%-90%		
		discount rates	10%-15%		
		exit yield	9%-14%		

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

Reconciliation of balances of classes of investment property

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

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

General approach

Process

Revaluation was conducted by virtue of the new guidelines:

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

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

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

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

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

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

Additional Value Decrease by 10%

All individual valuations can be considered as subjective, so there exists and can exist a difference between two valuators/valuations (i.e. market values) for one property. Luminor uses a number of valuation counterparties and also experiences that external evaluations among them differ. Latvian Association of Property Appraisers accepts difference up to +/- 15% depending on the complexity of the property. To avoid reflecting over-optimistic valuations in Luminor books additional downward adjustments by 10% are applied.

Note: Such additional adjustment was applied also previously by DNB for assets with value up to EUR 500 thousand and recent results show that such practice is reasonable (average transactions in Q3 2017 were with -1% margin to the balance values which included particular buffer).

Exception:

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

Sensitivity information

Fair value measurement inputs (i.e. rent rates and their growth, occupancy rates, discount rates, yield etc.) used in income method calculations (direct income capitalization method or discounted cash flow method) can significantly influence outcome of calculations. Higher rent rates and occupancy rates gives higher value and vice versa if the rates are lower. Higher discount rates and exit yields gives lower value and vice versa if the rates are lower.

However, all those inputs are connected and significant changes in one input trigger changes in other inputs; e.g. if an optimistic rent rates and long term occupancy rates are used then it affects discount rate and it should go up and this understanding is maintained through the whole valuation process.

NOTE 19: MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below allocates the Group's assets and liabilities to maturity groupings based on the time remaining from the statement of financial position date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2018 was as follows:

T EUR	Up to 1 month	1 - 3 months	3 – 12 months	Over 12 months and undated	Total
Assets					
Cash and balances with the Central banks	1 078 401	-	-	-	1 078 401
Due from other credit institutions (on demand)	40 309	-	-	-	40 309
Derivatives	5 353	1 063	3 026	24 271	33 713
Financial assets at fair value through profit or loss	56 210	-	-	-	56 210
Debt securities and other fixed income securities	56 210	-	-	-	56 210
Financial assets at fair value through other comprehensive income	-	-	-	3 661	3 661
Loans and advances to customers	238 305	142 625	529 972	2 473 330	3 384 232
Due from other credit institutions (term)	-	10	3 266	8 132	11 408
Loans to customers	238 305	142 615	526 706	2 465 198	3 372 824
Accrued income and deferred expenses	2 413	729	(2)	11	3 151
Investment property	-	-	-	18 103	18 103
Property, plant and equipment	-	-	-	4 154	4 154
Intangible assets	-	-	-	1 558	1 558

Investments in subsidiaries	–	–	–	–	–
Investments in associated companies	–	–	–	3 013	3 013
Current corporate income tax	886	–	–	–	886
Non-current assets and disposal groups classified as held for sale	–	–	22 714	–	22 714
Other assets	27 982	3 113	82	(277)	30 900
Total assets	**1 449 859**	**147 530**	**555 792**	**2 527 824**	**4 681 005**
Liabilities					
Liabilities to central banks	–	–	–	26 445	**26 445**
Liabilities on demand to credit institutions	2 864	–	–	–	**2 864**
Derivatives	4 552	484	2 148	23 186	**30 370**
Financial liabilities at amortised cost:	2 509 170	138 411	1 186 620	212 697	**4 046 898**
Due to credit institutions	1	–	1 031 303	195 119	**1 226 423**
Deposits and other financial liabilities	2 509 169	138 411	155 317	17 578	**2 820 475**
Accrued expenses and deferred income	125	523	11 359	–	**12 007**
Deferred tax liability	–	–	–	–	**-**
Income tax liabilities	52	–	–	–	**52**
Other liabilities	6 765	101	28	105	**6 999**
Provisions	472	34	213	293	**1 012**
Total liabilities	**2 524 000**	**139 553**	**1 200 368**	**262 726**	**4 126 647**
Sharehorders' equity				554 359	**554 359**
Total liabilities and shareholders' equity	**2 524 000**	**139 553**	**1 200 368**	**817 085**	**4 681 006**
Contingent liabilities	9 449	13 928	42 598	89 177	**155 152**
Commitments	236 194	4 112	14 050	39 007	**293 363**
Liquidity risk	**(1 319 784)**	**(10 063)**	**(701 224)**	**1 582 555**	**(448 516)**

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

The table below allocates the Group's assets and liabilities to maturity groupings based on the time remaining from the statement of financial position date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2017 was as follows:

T EUR	Up to 1 month	1 – 3 months	3 – 12 months	Over 12 months and undated	Total
Assets					
Cash and balances with the Central banks	1 067 214	–	–	–	**1 067 214**
Due from other credit institutions (on demand)	34 634	–	–	–	**34 634**
Derivatives	5 052	299	574	11 298	**17 223**
Financial assets at fair value through profit or loss	76 308	–	–	–	**76 308**
Debt securities and other fixed income securities	*76 308*	–	–	–	***76 308***
Financial assets available-for-sale	–	–	–	2 547	**2 547**
Loans and advances to customers	52 361	216 834	549 699	2 624 377	**3 443 271**
Due from other credit institutions (term)	–	*56 160*	*3 272*	*11 391*	***70 823***
Loans to customers	*52 361*	*160 674*	*546 427*	*2 612 986*	***3 372 448***
Accrued income and deferred expenses	1 833	1 858	6	29	**3 726**
Investment property	–	–	–	34 136	**34 136**
Property, plant and equipment	–	–	–	27 583	**27 583**
Intangible assets	–	–	–	1 681	**1 681**
Investments in subsidiaries and associates	–	–	–	2 987	**2 987**
Current corporate income tax	90	–	–	–	**90**
Non-current assets and disposal groups classified as held for sale	–	–	–	2 656	**2 656**
Other assets	19 547	5 295	29	13	**24 884**
Total assets	**1 257 039**	**224 286**	**550 308**	**2 707 307**	**4 738 940**
Liabilities					
Liabilities to central banks	–	–	–	60 500	**60 500**
Liabilities on demand to credit institutions	5 576	–	–	–	**5 576**
Derivatives	6 349	2 180	2 370	10 370	**21 269**
Financial liabilities at amortised cost:	2 539 272	262 704	1 024 543	281 532	**4 108 051**
Due to credit institutions	*12 555*	*2 256*	*887 030*	*263 386*	**1 165 227**
Deposits and other financial liabilities	*2 526 717*	*260 448*	*137 513*	*18 146*	**2 942 824**
Accrued expenses and deferred income	580	1 045	10 152	–	**11 777**
Deferred tax liability	–	–	–	–	**-**
Income tax liabilities	204	–	1 079	–	**1 283**
Other liabilities	1 662	3 949	–	23	**5 634**
Provisions	113	–	148	–	**261**
Total liabilities	**2 553 756**	**269 878**	**1 038 292**	**352 425**	**4 214 351**
Contingent liabilities	15 855	13 764	64 509	104 657	**198 785**
Commitments	250 661	16 732	12 747	36 136	**316 276**
Liquidity risk	**(1 563 233)**	**(76 088)**	**(565 240)**	**2 214 089**	**9 528**

The table below allocates the Bank's assets and liabilities to maturity groupings based on the time remaining from the statement of financial position date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2018 was as follows:

T EUR	Up to 1 month	1 - 3 months	3 – 12 months	Over 12 months and undated	Total
Assets					
Cash and balances with the Central banks	1 078 401	–	–	–	**1 078 401**
Due from other credit institutions (on demand)	40 309	–	–	–	**40 309**
Derivatives	5 353	1 063	3 026	24 271	**33 713**
Financial assets at fair value through profit or loss	56 210	–	–	–	**56 210**
Debt securities and other fixed income securities	56 210	–	–	–	**56 210**
Financial assets at fair value through other comprehensive income	–	–	–	3 661	**3 661**
Loans and advances to customers	62 550	106 480	426 676	2 776 440	**3 372 146**
Due from other credit institutions (term)	–	10	3 266	8 132	**11 408**
Loans to customers	62 550	106 470	423 410	2 768 308	**3 360 738**
Accrued income and deferred expenses	2 276	515	–	11	**2 802**
Investment property	–	–	–	459	**459**
Property, plant and equipment	–	–	–	3 758	**3 758**
Intangible assets	–	–	–	1 080	**1 080**
Investments in subsidiaries	–	–	–	60 579	**60 579**
Investments in associated companies	–	–	–	2 617	**2 617**
Current corporate income tax	560	–	–	–	**560**
Non-current assets and disposal groups classified as held for sale	–	–	–	–	**-**
Other assets	32 502	3 113	82	–	**35 697**
Total assets	**1 278 161**	**111 171**	**429 784**	**2 872 876**	**4 691 992**
Liabilities					
Liabilities to central banks	–	–	–	26 445	**26 445**
Liabilities on demand to credit institutions	2 864	–	–	–	**2 864**
Derivatives	4 552	484	2 148	23 186	**30 370**
Financial liabilities at amortised cost:	2 528 542	138 852	1 188 003	212 697	**4 068 094**
Due to credit institutions	*1*	–	1 031 303	–	***11 509***
Deposits and other financial liabilities	*2 528 541*	*138 852*	156 700	*17 578*	***2 841 671***
Accrued expenses and deferred income	126	–	11 383	–	**11 509**
Deferred tax liability	–	–	–	–	**-**
Income tax liabilities	–	–	–	–	**-**
Other liabilities	4 338	101	–	61	**4 500**
Provisions	393	34	217	277	**921**
Total liabilities	**2 540 815**	**139 471**	**1 201 751**	**262 666**	**4 144 703**
Sharehorders' equity	–	–	–	547 288	**547 288**
Total liabilities and shareholders' equity	**2 540 815**	**139 471**	**1 201 751**	**809 954**	**4 691 991**
Contingent liabilities	9 449	13 928	42 598	89 177	**155 151**
Commitments	191 334	4 112	14 050	39 007	**248 503**
Liquidity risk	**(1 463 437)**	**(46 340)**	**(828 615)**	**1 934 738**	**(403 653)**

The table below allocates the Bank's assets and liabilities to maturity groupings based on the time remaining from the statement of financial position date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2017 was as follows:

T EUR	Up to 1 month	1 - 3 months	3 – 12 months	Over 12 months and undated	Total
Assets					
Cash and balances with the Central banks	1 067 214	–	–	–	**1 067 214**
Due from other credit institutions (demand)	33 865	–	–	–	**33 865**
Derivatives	5 052	299	574	11 298	**17 223**
Financial assets at fair value through profit or loss	76 308	–	–	–	**76 308**
Debt securities and other fixed income securities	*76 308*	–	–	–	***76 308***
Financial assets available-for-sale	–	–	–	2 547	**2 547**
Loans and advances to customers	26 645	474 870	666 280	2 287 526	**3 455 321**
Due from other credit institutions (term)	–	*56 160*	*3 272*	*11 391*	***70 823***
Loans to customers	*26 645*	*418 710*	*663 008*	*2 276 135*	***3 384 498***
Accrued income and deferred expenses	1 736	374	6	29	**2 145**
Investment property	–	–	–	1 021	**1 021**
Property, plant and equipment	–	–	–	4 174	**4 174**
Intangible assets	–	–	–	1 297	**1 297**
Investments in subsidiaries and associates	–	–	–	63 194	**63 194**
Current corporate income tax	–	–	–	–	**-**
Non-current assets and disposal groups classified as held for sale	–	–	–	519	**519**
Other assets	19 285	1 254	83	13	**20 635**
Total assets	**1 230 105**	**476 797**	**666 943**	**2 371 618**	**4 745 463**
Liabilities					
Liabilities to central banks	–	–	–	60 500	**60 500**
Liabilities on demand to credit institutions	5 576	–	–	–	**5 576**
Derivatives	6 349	2 180	2 370	10 370	**21 269**
Financial liabilities at amortised cost:	2 554 540	263 054	1 027 344	281 532	**4 126 470**
Due to credit institutions (term)	*12 555*	*2 256*	*887 030*	*263 386*	***1 165 227***
Deposits from customers	*2 541 985*	*260 798*	*140 314*	*18 146*	***2 961 243***
Accrued expenses and deferred income	580	1 031	9 701	–	**11 312**
Income tax liabilities	154	–	1 079	–	**1 233**
Other liabilities	2 463	27	–	23	**2 513**
Provisions	80	–	148	–	**228**
Total liabilities	**2 569 742**	**266 292**	**1 040 642**	**352 425**	**4 229 101**
Contingent liabilities	15 855	13 764	64 509	104 657	**198 785**
Commitments	249 055	16 732	13 747	35 226	**314 760**
Liquidity risk	**(1 604 547)**	**180 009**	**(451 955)**	**1 879 310**	**2 817**

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

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

T EUR	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
Short term funding	(2 758)	-	-	-	-	**(2 758)**
Long term funding	-	-	(1 031 570)	(222 460)	-	**(1 254 030)**
Demand deposits	(2 393 348)					**(2 393 348)**
Term deposits	(107 324)	(138 643)	(156 176)	(15 757)	(2 218)	**(420 118)**
Derivatives						
Derivatives settled on a gross basis						
Currency swaps						
Inflow	3 060	30 385	1 753	1 248	-	**36 446**
outflow	(1 180)	(30 157)	(846)	(269)	-	**(32 452)**
Foreign exchange derivatives						
inflow	112	11	79	117	-	**319**
outflow	(75)	(9)	(30)	(89)	-	**(203)**
Derivatives settled on a net basis	58	707	2 211	7 771	3	**10 750**
Total	**(2 501 455)**	**(137 706)**	**(1 184 579)**	**(229 439)**	**(2 215)**	**(4 055 394)**
Memorandum items	(448 515)	-	-	-	-	**(448 515)**
Financial guarantees	*(155 152)*	-	-	-	-	***(155 152)***
Commitments	*(293 363)*	-	-	-	-	***(293 363)***
Total financial liabilities and memorandum items	**(2 949 970)**	**(137 706)**	**(1 184 579)**	**(229 439)**	**(2 215)**	**(4 503 909)**

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

T EUR	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
Short term funding	(2 758)	-				**(2 758)**
Long term funding	-	-	(1 031 570)	(222 460)		**(1 254 030)**
Demand deposits	(2 412 718)					**(2 412 718)**
Term deposits	(107 324)	(139 085)	(157 561)	(15 757)	(2 218)	**(421 945)**
Derivatives						
Derivatives settled on a gross basis						
Currency swaps						
inflow	3 060	30 385	1 753	1 248		**36 446**
outflow	(1 180)	(30 157)	(846)	(269)		**(32 452)**
Foreign exchange derivatives						
inflow	112	11	79	117		**319**
outflow	(75)	(9)	(30)	(89)		**(203)**
Derivatives settled on a net basis	58	707	2 211	7 771	3	**10 750**
Total	**(2 520 825)**	**(138 148)**	**(1 185 964)**	**(229 439)**	**(2 215)**	**(4 076 591)**
Memorandum items*	(403 655)	-	-	-	-	**(403 655)**
Financial guarantees	(155 152)	-	-	-	-	**(155 152)**
Commitments	(248 503)	-	-	-	-	**(248 503)**
Total financial liabilities and memorandum items	**(2 924 480)**	**(138 148)**	**(1 185 964)**	**(229 439)**	**(2 215)**	**(4 480 246)**

* Including financial guarantee contracts

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

T EUR	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
Short term funding	(18 133)	(2 257)	-	-	-	**(20 390)**
Long term funding	-	-	(887 150)	(328 144)	-	**(1 215 294)**
Demand deposits	(2 439 270)	-	-	-	-	**(2 439 270)**
Term deposits	(69 722)	(260 570)	(138 164)	(16 252)	(1 975)	**(486 683)**
Derivatives						
Derivatives settled on a gross basis						
Currency swaps						
Inflow	1 458	237	1 020	21 793	-	**24 508**
outflow	(2 578)	(1 719)	(1 589)	(21 407)	-	**(27 293)**
Foreign exchange derivatives						
inflow	-	28	90	225	-	**343**
outflow	(21)	(24)	(48)	(175)	-	**(268)**
Derivatives settled on a net basis	(5)	365	600	879	6	**1 845**
Total	**(2 528 271)**	**(263 940)**	**(1 025 241)**	**(343 081)**	**(1 969)**	**(4 162 502)**
Memorandum items*	(515 061)	-	-	-	-	**(515 061)**
Financial guarantees	*(178 785)*	-	-	-	-	***(178 785)***
Commitments	*(316 276)*	-	-	-	-	***(316 276)***
Total financial liabilities and memorandum items	**(3 043 332)**	**(263 940)**	**(1 025241)**	**(343 081)**	**(1 969)**	**(4 677 563)**

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

T EUR	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
Short term funding	(18 133)	(2 257)	-	-	-	**(20 390)**
Long term funding	-	-	(887 150)	(328 144)	-	**(1 215 294)**
Demand deposits	(2 439 270)	-	-	-	-	**(2 439 270)**
Term deposits	(69 722)	(260 570)	(140 966)	(16 252)	(1 975)	**(489 835)**
Derivatives						
Derivatives settled on a gross basis						
Currency swaps						
inflow	1 458	237	1 020	21 793	-	**24 508**
outflow	(2 578)	(1 719)	(1 589)	(21 407)	-	**(27 293)**
Foreign exchange derivatives						
inflow	-	28	90	225	-	**343**
outflow	(21)	(24)	(48)	(175)	-	**(268)**
Derivatives settled on a net basis	(5)	365	600	879	6	**1 845**
Total	**(2 543 538)**	**(264 290)**	**(1 028 043)**	**(343 081)**	**(1 969)**	**(4 180 921)**
Memorandum items*	(513 545)	-	-	-	-	**(513 545)**
Financial guarantees	*(198 785)*	-	-	-	-	*(198 785)*
Commitments	*(314 760)*	-	-	-	-	*(314 760)*
Total financial liabilities and memorandum items	**(3 057 083)**	**(264 290)**	**(1 028 043)**	**(343 081)**	**(1 969)**	**(4 694 466)**

* Including financial guarantee contracts

NOTE 21: LITIGATION AND CLAIMS

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

NOTE 22: EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

On 2 January 2019 Luminor has completed its cross-border merger and continues its operations in all Baltic countries through the Estonian registered bank and its branches in Latvia and Lithuania. The bank will continue the same activities in Latvia and Lithuania through its locally established branches. After the completion of the merger, all assets and liabilities of three Banks have been consolidated as of 02 January 2019.

Luminor

CONTACT DETAILS

Luminor Bank AS

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Registered country	Republic of Latvia
Commercial Register code	40003024725
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Fax	+372 628 3201
Nordea SWIFT/BIC	NDEALV2X
DNB SWIFT/BIC	RIKOLV2X
Website	www.luminor.lv
E-mail	info@luminor.lv
Balance sheet date	31 December 2018
Reporting period	1.10.2018 - 31.12.2018
Reporting currency	Euro