FINANCIAL STATEMENTS 2017

LUMINOR BANK AB GROUP

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

CONTENTS

UAB „Ernst & Young Baltic“
Subačiaus g. 7
LT-01302 Vilnius
Lietuva
Tel.: (8 5) 274 2200
Faks.: (8 5) 274 2333
Vilnius@lt.ey.com
www.ey.com

Juridinio asmens kodas 110878442
PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

Ernst & Young Baltic UAB
Subačiaus St. 7
LT-01302 Vilnius
Lithuania
Tel.: +370 5 274 2200
Fax: +370 5 274 2333
Vilnius@lt.ey.com
www.ey.com

Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

INDEPENDENT AUDITOR'S REPORT

To the shareholder of Luminor Bank AB

Report on the audit of the Bank's separate and consolidated financial statements

Opinion

We have audited the accompanying separate financial statements of Luminor Bank AB, a public limited liability Bank registered in the Republic of Lithuania (hereinafter the Bank), and the consolidated financial statements of Luminor Bank AB and its subsidiaries (hereinafter the Group), which comprise the statements of financial position as of 31 December 2017, the income statements, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying Bank's separate and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at 31 December 2017 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (regulation (EU) No 537/2014 of the European Parliament and of the Council). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the requirements of the Law on the Audit of financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on the Audit of financial statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Key audit matter

How the matter was addressed in the audit

Impairment of loans and advances to customers and finance lease receivables

Impairment of loans and advances to customers and finance lease receivables (loans and receivables) is a subjective area due to the level of judgement applied by the management in determining the extent of credit losses, which is dependent on the credit risk and other factors related to such loans and receivables. The judgements applied by management in determining the level of impairment for loans and receivables include the identification of events that could possibly result in an impairment, an appropriate valuation of the related collateral, the assessment of customers that are likely to default, and the future expected cash flows relating to loans and receivables.

As at 31 December 2017, the gross loans and receivables of the Group and the Bank amounted to EUR 5,085 million and EUR 5,037 million, respectively, and related impairment provision of the Group and the Bank amounted to EUR 108 million and EUR 105 million, respectively, as at 31 December 2017.

Due to the material nature of loans and receivables and the related estimation uncertainties involved this is considered a key audit matter. The basis of the Group's and the Bank's impairment accounting policy is presented in the accounting policies section in the *Impairment losses on loans, finance lease receivables and other assets* note to the financial statements. Also, attention is drawn to the use of judgements and estimates in this area in the preparation of financial statements disclosures of *Impairment losses on loans and lease receivables*, set out in the accounting policies section notes, and Notes 17 and 19 of the financial statements.

Our audit procedures among others included the testing of controls over the granting, accounting and monitoring processes of loans and receivables, and the specific and collective impairment provisioning process. As part of the control testing procedures, we assessed whether the key controls in the above processes were designed, implemented and operated effectively.

In addition to testing the key controls, we selected samples of loans and receivables outstanding as at the reporting date and assessed the criteria for determining whether an impairment event had occurred that would require an impairment provision. For the samples selected, we also reviewed whether all impairment events as identified by us had also been identified by the management. Our selected sample also included non-performing loans and receivables where we assessed management's forecast of recoverable cash flows, the valuation of collaterals, estimation of recovery on default and other sources of repayment. For the performing loans and receivables, we assessed whether the borrowers exhibited possible default risk that may affect meeting their scheduled repayment obligations.

For collective and incurred but not reported (IBNR) impairment provisions, we obtained an understanding of the methodology used to determine the collective and IBNR provision, assessed the underlying assumptions and sufficiency and accuracy of the data used by management.

We also assessed the adequacy of the related financial statements disclosures according to IFRS requirements.

Merger with Nordea

As further described in Note 41 to the financial statements, Nordea Bank AB and DNB Bank ASA have combined their Baltic business into a jointly owned bank, Luminor. Nordea Bank AB Lithuania branch (Nordea branch) assets and liabilities, including shares of leasing and distressed assets companies in Lithuania were transferred to Luminor Bank AB as a business transfer.

Acquisition of Nordea Bank AB Lithuania branch assets and liabilities together with leasing and distressed assets companies has resulted in material increase in the Group's and Bank's total assets and liabilities as disclosed in Note 41 of the financial statements.

Moreover, the management of Luminor Bank AB having performed an analysis of IFRS requirements and merger related agreements, has elected to apply the pooling of interest method for accounting for the combination with the Nordea Bank AB Lithuanian branch together with leasing and distressed assets companies. Significant judgments applied by management are disclosed in section *Accounting for merger with Nordea* of the accounting policies section note of the financial statements.

Due to the material nature of balances acquired as well as significant judgments and estimates applied by the management for accounting for the merged operations this is considered a key audit matter.

Our audit procedures were related to the audit of existence and valuation of Nordea branch and other acquired companies' assets and liabilities transferred to Luminor Bank AB and included, among others:

- identification and understanding of significant classes of transactions of Nordea branch,
- evaluating relevant internal control environment, testing of relevant key controls (including IT general controls) related to the significant classes of transactions and functioning of internal control environment,
- reconciliation of the acquired assets and liabilities with detailed lists,
- confirmation of selected balances with third parties and / or related agreements, accounts extracts, internal cash count documents for existence;
- performing tests on interest accrual for key assets and liabilities accounted for at amortized cost;
- selecting samples of loans and receivables outstanding as at the merger date and assessing the criteria for determining whether an impairment event had occurred that would require an impairment provision and assessing management's forecast of recoverable cash flows, the valuation of collaterals, estimation of recovery on default and other sources of repayment for non-performing loans and receivables;
- obtaining an understanding of methodology used by the Bank to determine the collective and IBNR impairment provisions, assessing the underlying assumptions and sufficiency and accuracy of the data used by management;
- reviewing transit assets and liabilities accounts as well as purchases transactions recorded after the merger date to assess whether transactions were recorded and classified in the correct period;
- review of differences of accounting policies applied and management assessment of their impact for Luminor Bank AB financial statements.

We have also reviewed the merger related documents and management assessment of compliance with IFRS requirements for the choice and application of the pooling of interest method for accounting of the merger with Nordea branch and other companies.

We also assessed the adequacy of the related financial statements disclosures according to IFRS requirements.

Other information

Other information consists of the information included in the Group's Consolidated Annual Report for the year 2017, including the Social responsibility section (corporate social responsibility report), other than the financial statements and our auditor's report thereon. Management is responsible for the other information presentation.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as indicated below.

In connection to our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

We also have to evaluate, if the financial information included in the Group's Consolidated Annual Report for the year 2017 corresponds to the financial statements for the same financial year and if the Group's Consolidated Annual Report for the year 2017 was prepared in accordance with the relevant legal requirements. In our opinion, based on the work performed in the course of the audit of financial statements, in all material respects:

- The financial information included in the Group's Consolidated Annual Report for the year 2017 corresponds to the financial information included in the financial statements for the same year; and
- The Group's Consolidated Annual Report for the year 2017 was prepared in accordance with the requirements of the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania and the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

We also need to check that the corporate social responsibility report has been provided. If we identify that the corporate social responsibility report has not been provided, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and/or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and/or the Group to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Bank and the Group taken as a whole. The financial information of the Financial group in Note 40 *Additional information required to be disclosed by laws* is presented for the purposes of additional analysis and is not a required part of the financial statements mentioned above. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is properly prepared in all material respects in relation to the financial statements taken as whole.

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Appointment and approval of the auditor

In accordance with the decision made by the shareholder we have been chosen to carry out the audit of Bank's financial statements and Group's consolidated financial statements the first time in 2008. Our appointment to carry out the audit of Bank's financial statements and Group's consolidated financial statements in accordance with the decision made by the shareholder has been renewed annually and the period of total uninterrupted engagement is 10 years.

Consistency with the audit report submitted to the audit committee

We confirm that our opinion in the section 'Opinion' is consistent with the additional Audit report, which we have submitted to the Bank, the Group and the Audit and Compliance Committee.

Non audit services

We confirm that to the best of our knowledge and belief, except for a minor breach that was reported to the Audit and Compliance committee, services provided to the Bank and the Group comply with applicable laws and regulations and prohibited non-audit services referred to in article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council were not provided. The audit firm remained independent of the Bank and the Group in conducting the audit.

We have not provided any non-audit services that were not disclosed or the Group's Consolidated Annual Report and the Consolidated financial statements.

The partner in charge of the audit resulting in this independent auditor's report is Jonas Akelis.

UAB ERNST & YOUNG BALTIC
Audit firm's licence No. 001335

Jonas Akelis
Auditor's licence
No. 000003

14 March 2018

LUMINOR BANK AB GROUP CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2017

1. REPORTING PERIOD COVERED BY THIS REPORT

Luminor Bank AB Group annual consolidated report covers the period from 1 January 2017 till 31 December 2017.

2. CONTACT DETAILS

Name of the Bank	Luminor Bank AB
Legal status	Limited liability company
Date and place of registration	Registered with the Bank of Lithuania on 13 September 1993, registration No. 10
Company code	112029270
Office address	Konstitucijos av. 21A, 03601 Vilnius, Republic of Lithuania
Telephone number	(8 5) 239 34 44
E-mail	info@luminor.lt
Website	www.luminor.lt

3. MAIN ACTIVITIES

Luminor Bank AB (the "Bank") is a credit institution holding a license for and is engaged in acceptance of deposits and other repayable funds from unprofessional market players and lending, as well as provision of other financial services, and assumes the risks and liabilities related thereto.

The Bank provides the following financial services:

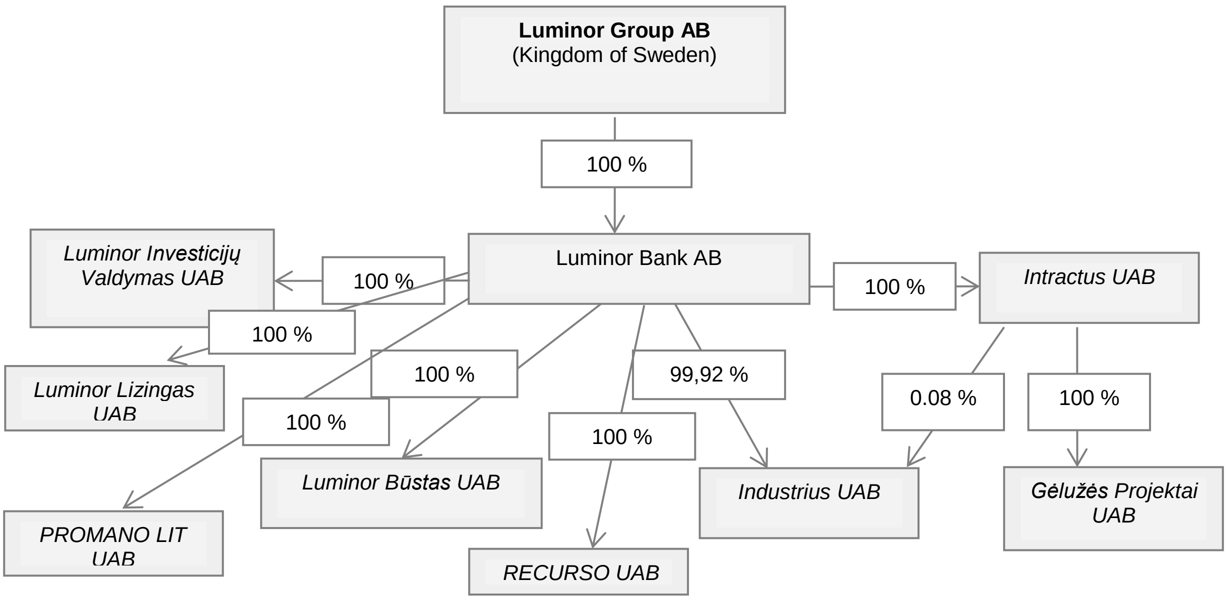
- taking of deposits and other repayable funds;
- lending (including mortgage loans);
- money transfers;
- issuing of payment cards and other payment vehicles and/or execution of transactions with them;
- financial lease (leasing);
- issuing of financial indemnities and guarantees;
- trading, on its own account or on account of customers, in money market instruments (cheques, bills, certificates of deposits, etc.), foreign exchange, financial futures and options, foreign exchange and interest rate instruments, public trading securities, precious metals;
- investment services;
- financial brokerage (agent activities);
- cash handling;
- informing and consulting on credits and payments;
- rent of safe deposit lockers;
- currency exchange (cash);
- safekeeping and administration of monetary funds;
- advice to undertakings on the capital structure, manufacturing strategy and the issues related thereto as well as advice and services related to the reorganization, restructuring and acquisition of undertakings;
- provision of services related to issuance of securities;
- issuance and maintenance of electronic money;
- settlements between credit institutions (clearing);
- administration of investment funds or investment companies with a variable capital.

4. GROUP ORGANIZATIONAL STRUCTURE

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

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

At the end of the reporting period, Luminor Bank AB Group (the "Group") in Lithuania was composed of Luminor Bank AB, its subsidiaries: Luminor Lizingas UAB, Luminor Investicijų Valdymas UAB, Luminor Būstas UAB, RECURSO UAB, PROMANO LIT UAB, Industrius UAB, Intractus UAB and its subsidiary Gėlužės Projektai UAB. The information about the Group's subsidiaries and their business is provided in Section 6 "Subsidiaries" of this consolidated annual report.



Luminor Bank AB provided financial services to its customers in 45 branches across Lithuania as of 31 December 2017.

5. INFORMATION ON PERFORMANCE RESULTS

On October 1st, 2017 DNB Bank ASA (Org. No. 984 851 006) and Nordea Bank AB (Swedish company registration No 516406-0120), after all regulatory approvals and competition clearance were received, have combined their Baltic business into a jointly owned bank, Luminor. Nordea Bank Group assets and liabilities in Lithuania were transferred to Luminor Bank AB (prev. AB DNB bankas).

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

Largely due to the merger Luminor Group's consolidated net loan (including financial leases) portfolio reached EUR 5.1 billion at the end of 2017 compared to EUR 2.9 billion at the end of 2016. Loans to individuals stood at EUR 2.5 billion at the end of 2017 (EUR 1.4 billion 2016), meanwhile loans to business (excl. public sector) stood at EUR 2.4 billion (EUR 1.2 billion 2016) and deposit portfolio reached EUR 3.9 billion (EUR 2.5 billion 2016). The Group's assets were EUR 6.9 billion as of 31 December 2017.

In 2017, the net income (net interest income, net fees and commission, net profit (loss) from operations with securities and derivatives and other income) of the Group amounted to EUR 133.9 million. The largest relative weight – 56.5 % – of the net income comprised net interest income.

Operating and other expenses of the Group increased in 2017 and amounted to EUR 86.3 million.

The Group's 2017 consolidated result before taxes was a loss of EUR 5.3 million and net result after taxes was a loss of EUR 10.7 million. Loss was mainly caused by EUR 52.9 million impairment losses and provisions.

The historical return on equity (ROE) and its cost/income ratio (CIR) development is presented below.

Year	2014		2015		2016		2017	
	Group	Bank	Group	Bank	Group	Bank	Group	Bank
Return on equity (%)	3.9	1.5	4.3	4.5	4.9	4.9	-1.9	-2.3
Cost/income (%)	77.9	78.7	68.4	67.3	58.9	56.7	64.5	64.9

For a number of years the Bank continues to make every effort aimed at increasing the number of customers who choose the Bank as their home bank and are active users of different services, with prime focus not only on individual customer service quality and culture, implementation of a customer segment approach but also on a customer centric business model and service accessibility via digital or remote channels.

In 2017, the branch network restructuring was implemented with 15 branches that operate as cashless branches. These branches focus on consulting and providing highly qualified services to the customers. The mentioned developments relate to the changing customer behaviour and declining volume of cash operations at the physical branches. In this context, the ATM network optimization was also implemented to provide the possibility for the customers to reach ATM services conveniently.

In the autumn of 2016, the Bank changed the pricing to introduce daily banking packages for a fixed price with three options to choose from that meet the needs of different customer segments. At the end of 2017, more than half of the customers chose the banking package that best suits their needs. Due to pricing changes the number of online transfers increased 10% compare with previous year.

Retail banking

Pension and investment funds

In 2017, Luminor Bank AB continued to focus on improvement of the existing processes and functions in the field of pension accumulation and investment funds. In September, Luminor Bank AB was the first in the market to introduce possibility to overview account of pension funds and manage contributions though mobile devices.

A new second pillar pension fund "Luminor Pensija 4" with equity up to 100 % was introduced to the market. The fund attracted the assets amounting to more than EUR 500 thousand in less than 6 months.

In 2017, reacting to new law amendments regarding PIT allowance restriction bank reoriented its activities towards attraction of new customers to participate in the third pillar pension funds. Therefore the number of new agreements grew by 46 %. Successful sales and marketing campaigns for pension funds in the second and fourth quarters of 2017 contributed to this success as well.

Due to improvement of the skills of the employees holding finance broker's licenses and proactive sales for higher-income bank customers, the amount of investments in the investment funds doubled in 2017.

Insurance products

Luminor Bank AB continued collaboration with ERGO Life Insurance SE and the Lithuanian insurance company “Lietuvos draudimas” in order to provide customers with a range of different financial services. With the help of the insurance partners, the Bank offers its customers property insurance and life and causalities insurance as well.

Reacting to the customers’ needs, such insurance products as Life Insurance for Mortgage Borrowers and Personal Insurance were upgraded during 2017. Life Insurance for Mortgage Borrowers has become more simple, flexible and understandable to the customers due to renounced obligatory investment amount. While the insurance base in Personal Insurance service was expanded to family members. The Bank remained loyal to its principles – be simple, understandable and flexible in developing insurance services and therefore offered the possibility to acquire insurance services in remote.

Credit products

In 2017, the Bank simplified consumer lending service, when the loan by customer could be acquired in remote.

The Bank has launched a new mortgage lending program “The Way to a New Home” - and assisted its customers in finding a home according to their needs and offering extra benefits provided by our partners. The customer application management system has been implemented, which enabled every application to be tracked until an agreement is signed.

Corporate banking

During 2017 Luminor Bank AB remained committed to its goal to become the main bank for the largest Lithuanian companies and targeted new corporate customers as well. The short-term goal was set to improve in cross-selling of banking services.

The largest lending receivers were sectors of wholesale and retail trade, manufacturing, real estate and agriculture.

During 2017 one of the main goals of Luminor Bank AB was counseling small size enterprises and offering the solutions that would foster their development. In 2017, the Bank further developed entrepreneurship support program “Kuriu versla” ("I'm starting my own business"). Program covers all key stages in company establishing and developing: starting from the business idea, process planning, company setting up and establishment of the business start-up in the market. To facilitate the start of their business during the first year, business start-ups were offered package of basic daily banking services free of charge. In the reporting year more than 2 500 newly set companies have used this solution. Due to efforts as well as the option to open a cumulative banking account on-line, more than 24 % of newly registered young businesses in Lithuania chose Luminor Bank AB as their financial partner in 2017.

The agriculture and food processing sectors remained among key strategic business lines for Luminor Bank AB over the reporting period. The Bank granted financing to farmers and agricultural companies for working capital and investments and continued cooperation with the state agricultural credit fund UAB Žemės ūkio paskolų garantijos fondas, and extended credits backed by the guarantees of this institution. In response to farmers' needs, Luminor Bank AB extended credits to plant-growing, breeding, dairy and other types of farms to finance their working capital. As a result, in 2017 farmers could use collateral-free credit fast and easy to purchase fuel, feed or for other farming purposes. The Bank also continued cooperation with third party trading partners by offering much better financing conditions to farmers, agricultural companies and enterprises. Through these programs farmers are guaranteed to have exceptional financing conditions for their business development.

The Bank continued cooperation with UAB Investicijų ir verslo garantijos and extended loans backed by guarantees of this state institution.

Investment services

Luminor bank AB group’s investment service activities include trading securities, brokerage services in capital markets instruments and trading derivative products. In 2017 investment services income was 17,33 million EUR.

6. SUBSIDIARIES

On 31 December 2017 Luminor Bank AB owned the following subsidiaries: Luminor Investicijų Valdymas UAB, Luminor Būstas UAB, Luminor Lizingas UAB, Industrius UAB, RECURSO UAB, PROMANO LIT UAB and Intractus UAB with its subsidiary Gėlužės Projektai UAB.

Luminor Investicijų Valdymas UAB

Name	Luminor Investicijų Valdymas UAB
Legal status	Limited company
Date and place of registration	Registered with the State nterprise Centre of Registers on 19 August 2003
Company code	226299280
Registered and actual office address	Konstitucijos av. 21A, 03601 Vilnius, Republic of Lithuania
Telephone numbers	1806
E-mail	investicija@luminor.lt
Website	www.luminor.lt
Number of the permission to be engaged in the activities of a management company	VĮK –003

Luminor Bank AB 100 per cent owned subsidiary Luminor investicijų valdymas UAB is engaged in management of pension funds.

As of the end of 2017 Luminor investicijų Valdymas UAB managed 4 second-pillar pension funds and 5 third-pillar pension funds.

At the end of 2017, assets under management of Luminor Investicijų Valdymas UAB made EUR 360.96 million (316.9 million in 2016). The company provided its services to 172.7 thousand customers.

Results of funds under management as at the end of 2017:

Title of the fund	Basics of investment strategy	Unit value change YTD	Benchmark change YTD
Second pillar pension funds			
Luminor pensija 1	Government debt securities, equity 0%	-0.33%	0.09%
Luminor pensija 2	Equity up to 25%	1.17%	2.32%
Luminor pensija 3	Equity up to 50%	3.36%	4.56%
Luminor pensija 4*	Equity up to 100%	5.38%	4.45%
Third pillar pension funds			
Luminor pensija 1 plius	Government debt securities, equity 0%	-0.54%	0.09%
Luminor pensija 2 plius	Equity up to 50%	3.26%	4.56%
Luminor pensija 3 plius	Equity up to 100%	10.06%	11.36%
Luminor pensija darbuotojui 1 plius	Equity up to 25%	1.53%	2.32%
Luminor pensija darbuotojui 2 plius	Equity up to 50%	3.59%	4.56%

*Luminor pensija 4 was launched 2017 06 06, the results are shown from this date.

Luminor Būstas UAB

Name	Luminor Būstas UAB
Legal status	Limited liability company
Date and place of registration	Registered with the State Enterprise Centre of Registers on 10 January 2007
Company code	300631876
Registered and actual office address	Konstitucijos av. 21A, 03601 Vilnius, Republic of Lithuania
Telephone number	+370 698 21703
E-mail	info@luminorbustas.lt
Website	www.luminorbustas.lt

Luminor Būstas UAB is a subsidiary of Luminor Bank AB that provides real estate brokerage services in the country's real estate market. On 31 December 2017, Luminor Bank AB owned 100 % of Luminor Būstas UAB registered authorized capital of EUR 399,096.36.

In 2017, Luminor Būstas UAB carried out its activities in Vilnius, Kaunas, Klaipėda and the surrounding regions. At the end of the reporting period one real estate brokerage company and 50 individual brokers were providing real estate brokerage services under franchise agreements with Luminor Būstas UAB. During the reporting period Luminor Būstas UAB retained its position and was among the largest real estate brokerage companies in terms of sales and number of listings.

In 2017, Luminor Būstas UAB earned a EUR 209 thousand net profit. Luminor Būstas UAB brokers intermediated in real estate assets sales worth EUR 74 million during the reporting period.

The Company generated 885 mortgage referrals to the Bank in 2017.

Luminor Lizingas UAB

Name	Luminor Lizingas UAB
Legal status	Limited liability company
Date and place of registration	Registered with the State Enterprise Centre of Registers on 22 April 1999
Company code	111667277
Registered and actual office address	Lvovo str. 25, 09320 Vilnius, Republic of Lithuania
Telephone number	+370 5 2361380
E-mail	lizingas@luminor.lt
Website	www.luminor.lt

Luminor Lizingas UAB ("the Company") is a subsidiary of Luminor Bank AB which holds 100 % of shares of Luminor Lizingas UAB. The Company provides financing for property purchase, finance lease, operating lease, hire purchase ("leasing") and factoring services. Luminor Lizingas UAB has two registered offices: Kaunas representative office of Luminor Lizingas UAB and Klaipėda representative office of Luminor Lizingas UAB.

Overview of the Company's performance

The Company's portfolio of financial services increased compared to the previous financial year and amounted to EUR 676 million at the end of 2017 (excluding other amounts receivable). Factoring services represented a 28 % share in the Company's total portfolio of financial services, motor vehicle leasing accounted for 25 %, car leasing – 26 %, industrial equipment and machinery leasing – 18 % and leasing for other categories of assets – 3 %. At the end of 2017, finance lease and operating lease comprised 89 % and 11 %, respectively, of the Company's leasing portfolio.

In 2017, new special provisions established for the leasing and factoring portfolio amounted to EUR 2,121 thousand and the reversal of special provisions from the previous periods was equal to EUR 1,178 thousand.

Decisions on the granting of financing were made in accordance with the Luminor Group's credit policy and instructions.

The Company's financial result before tax for 2017 was a profit of EUR 8,141,686.

As at 31 December 2017, the authorized share capital amounted to EUR 1,352,407 and assets totaled EUR 692,301,516.

Financing

Luminor Bank AB granted financing necessary for the provision of leasing and factoring services by Luminor Lizingas UAB.

Personnel

At the end of 2017, the Company had 37 full-time employees and their number did not change significant compared to the end of 2016.

Shares of other entities held by the Company

In 2006, the Company acquired 51 shares of ALD Automotive UAB. The nominal value of the shares is equal to EUR 1,477 representing 25 % of the latter company's authorised share capital.

The Company neither acquired nor disposed of own shares during the reporting period.

Intractus UAB

Name	Intractus UAB
Legal status	Limited liability company
Date and place of registration	Registered with the State Enterprise Centre of Registers on 6 August 2009
Company code	302424698
Registered and actual office address	Konstitucijos av. 21A, 03601 Vilnius, Republic of Lithuania
E-mail	intractus@intractus.lt

The Bank's subsidiary Intractus UAB is a limited liability company set up for efficient management of foreclosed real estate assets. The company is entitled to effect operations related to the efficient management of real estate, such as buying, selling, and renting of real estate. On 31 December 2017, Luminor Bank AB was the sole shareholder of Intractus UAB with a registered authorized share capital of EUR 42,703,286.72.

The real estate assets on Intractus UAB consolidated statement of the financial position were EUR 14,181,669.95 as of 31 December 2017, including land plots, buildings and premises.

Intractus UAB fully owned a limited liability company Gėlužės Projektai UAB (company code 301135524) with an authorized capital of EUR 7,946,000 as at the end of the reporting period. Gėlužės Projektai UAB developed one project and at the reporting date all real estate assets were sold.

On 31 December 2017, Intractus UAB owned 0.08 % of Industrius UAB (company code 302593805) registered shares.

Industrius UAB

Name	Industrius UAB
Legal status	Limited liability company
Date and place of registration	Registered with the State Enterprise Centre of Registers on 15 February 2011
Company code	302593805
Registered and actual office address	Konstitucijos av. 21A, 03601 Vilnius, Republic of Lithuania

The Bank's subsidiary Industrius UAB is a limited liability company set up for efficient management of foreclosed real estate assets. On 31 December 2017, Industrius UAB authorized capital was EUR 13,782,264. Luminor Bank AB owned 99.92 % of Industrius UAB ordinary registered shares and 0.08 % of the company's shares were owned by the Bank's subsidiary Intractus UAB.

At the reporting date Industrius UAB real estate assets on the balance sheet were EUR 1,078,428.16, including real estate like land plots, buildings and premises.

RECURSO UAB

Name	RECURSO UAB
Legal status	Limited liability company
Date and place of registration	Registered with the State Enterprise Centre of Registers on 18 May 2012
Company code	302784511
Registered and actual office address	Šeimyniskių str. 21B, LT-09236 Vilnius, Republic of Lithuania

The Bank's subsidiary RECURSO UAB is a limited liability company set up for efficient management of foreclosed real estate assets. On 31 December 2017, Luminor Bank AB was the sole shareholder of RECURSO UAB with a registered authorized share capital of EUR 4,344,300.

At the reporting date RECURSO UAB real estate assets on the balance sheet were EUR 465,695, including real estate like land plots.

PROMANO LIT UAB

Name	PROMANO LIT UAB
Legal status	Limited liability company
Date and place of registration	Registered with the State Enterprise Centre of Registers on 31 July 2009
Company code	302423219
Registered and actual office address	Seimyniškių str. 21B, LT-09236 Vilnius, Republic of Lithuania

The Bank's subsidiary PROMANO LIT UAB is a limited liability company set up for efficient management of foreclosed real estate assets. On 31 December 2017, Luminor Bank AB was the sole shareholder of PROMANO LIT UAB with a registered authorized share capital of EUR 9,999,999.36.

At the reporting date PROMANO LIT UAB real estate assets on the balance sheet were EUR 1,650,500, including real estate like buildings and premises.

7. RISK MANAGEMENT AND INTERNAL CONTROL

The permanently functioning internal control system and risk management framework are implemented in the Group. The internal control – as a system of organizational measures, actions and internal procedures – ensures the effective and efficient operations and prudent conduct of business, the compliance with laws and regulations, the adequate assessment and control of risks, as well as the reliability of financial and non-financial information and submission thereof in a timely manner.

The Group identifies, evaluates, accepts and manages the risks or combinations of risks it is exposed to. In uncertain cases the Group follows the principles of precaution, conservatism and prudence. The aim of risk management in the Group is assuring an acceptable profitability and return on equity pursuing the adequate policy of risk management. While implementing a sound risk management policy the Group focuses not only on minimizing potential risk but also on improving pricing and achieving efficient capital allocation. The risk-related activity of the Bank and the Group is guided by Credit Strategy and Risk Appetite Framework.

The risk management function of the Group is organized in such a way that ensures efficient risk management and facilitates the realization of the tasks stipulated in the Risk management strategy. The risk management is based on the best practice and is organized in such a way that any possible conflicts of interest would be avoided. The function of all-type risk control is segregated from risk taking, i.e. from the front-office units.

The Bank assesses and manages credit, liquidity, market, operational, compliance and other (business, reputational) risks it is exposed to in its activities. The credit risk is the dominant in the Bank's risk structure. The detailed information about financial risk assessment and management is provided in the Section "Risk Management" of this report. The strict risk management principles were kept during the reporting period. The risk management processes are continuously being improved and aligned taking into account the gained knowledge from the ultimate owners DNB Bank ASA and Nordea Bank AB and the best practice applied by the whole financial system.

The duly established and regulated control function is operating in the Group. The control function includes the risk control, compliance and internal audit functions.

The risk control function in the Bank is performed by the Operational Risk, Credit Control, Risk Analysis and Market Risk Departments. The compliance function is performed by the Compliance Department and the internal audit function – by the Internal Audit Department. Each control function periodically submits reports to the management of the Bank.

By joining the Euro area, Lithuania became the part of the European banking union and joined the Single Supervisory Mechanism. The direct supervision of AB DNB Bankas – as the systemically important institution and one of the largest 3 banks in Lithuania – has been taken over by the European Central Bank, which closely cooperates with the Bank of Lithuania. The treatment of the systemically important institution now applies to Luminor Bank AB.

In order to meet the supervisory requirements the Risk Committee is established in the Bank. The Risk Committee advises the management body on a common present and future risk appetite of the institution and assists the management body in overseeing how the risk strategy is implemented (see Section 13: Information on the activities of the committees).

As of the end of 2017 the Group met prudential Liquidity and Capital adequacy requirements, but exceeded Group Large exposure to one borrower requirement. Actual exposure was 28.71 per cent (maximum exposure limit is 25 per cent). Management of the Group took actions to decrease the exposure and the Group meets all prudential requirements at the end of February 2018. The Group immediately informed Supervisory authorities about the breach and are in constant contact on the matter. Management of the Group is of the opinion, that the breach will not have significant adverse impact on the operations of the Group as this was one-time event caused by the merger.

Information about the compliance with the prudential requirements as of 31 December 2017 (%):

Ratio	Bank	Group
Liquidity (LCR ratio)	147.43	157.82
Capital adequacy	16.98	17.13
Large exposure to one borrower (≤ 25 % or ≤ EUR 150 million)	14.42	28.71

8. STRATEGY AND PLANS

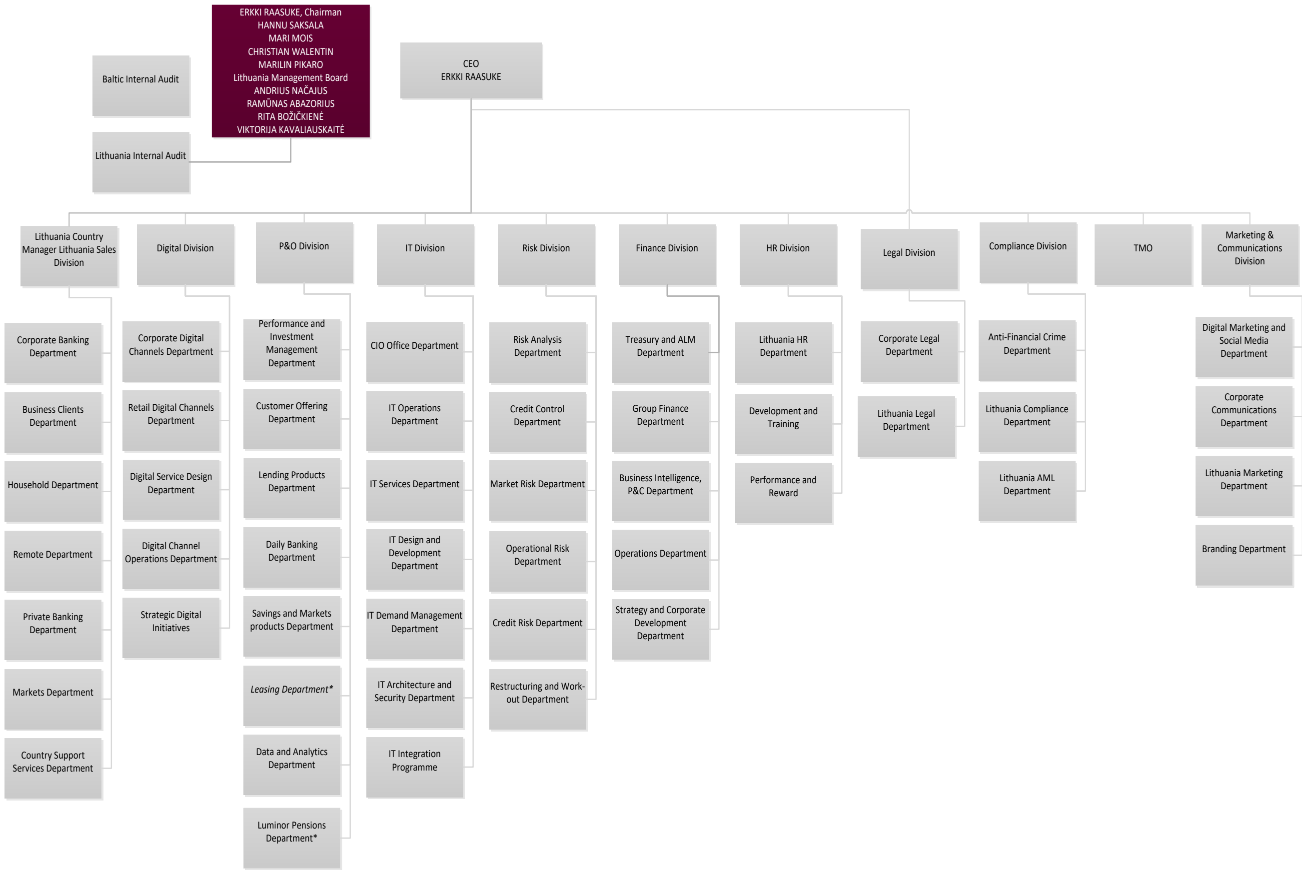
Luminor is created by merging Nordea's and DNB's Baltic operations to form a new stand-alone Baltic bank with arm's-length governance from both ultimate owners. The organization is proud of its Nordic roots and culture and is built with strong Nordic banking traditions. This entails long term view to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

After the merger Luminor in Lithuania has sufficient scale to compete with the largest players but is limited by technological standing and merger affected organisations. This starting point impacts many of our strategic choices and short to medium-term activities but we are determined to execute on our key strategic priorities:

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

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

9. BANK'S ORGANIZATIONAL STRUCTURE



10. MANAGEMENT

The Bylaws provide that the bodies of the Bank are the following: General Meeting of Shareholders, Supervisory Council, Management Board and Head of Administration (Chief Executive Officer).

The management bodies of the Bank are following: Management Board and Head of Administration (Chief Executive Officer).

The competence of the General Meeting of Shareholders of the Bank is described in the Bylaws of Luminor Bank AB and the laws of the Republic of Lithuania.

The Supervisory Council of the Bank is a collegial supervisory body supervising the operation of the Bank. The General Meeting elects 5 Members of the Supervisory Council. The Supervisory Council is elected for the period of 4 years.

The Supervisory Council supervises the activity of the Management Board and the Chief Executive Officer, ensures the existence of the effective internal control system in the Bank and takes other rights and obligations, described in the Bylaws of Luminor Bank AB and the laws of the Republic of Lithuania.

The Management Board of the Bank is a collegial management body consisting of 5 Members. The Management Board is elected by the Supervisory Council for 4 years. The Management Board manages the Bank and its affairs, represents it and bears the liability for the performance of financial services according to the law.

The Management Board appoints and dismisses the Chief Executive Officer and the deputy to the Chief Executive Officer and takes other rights and obligations, described in the Bylaws of Luminor Bank AB and the laws of the Republic of Lithuania.

The Chief Executive Officer is a single person management body of the Bank. The Chief Executive Officer organizes the daily operation of the Bank and takes other rights and obligations, described in the Bylaws of Luminor Bank AB and the laws of the Republic of Lithuania.

11. SUPERVISORY COUNCIL

According to the Bylaws the Supervisory Council of Luminor Bank AB consists of five members.

On 1 October 2017, the Supervisory Council was recalled *in corpore*, and Erkki Raasuke, Karl Christian Wallentin, Mari Mois, Marilin Pikaro and Hannu Kalevi Saksala were elected as members of the Supervisory Council by the decision of the sole shareholder.

On 1 October 2017, at the meeting of the Supervisory Council Erkki Raasuke was elected as the chairman of the Supervisory Council.

Thirteen meetings of the Supervisory Council of Luminor Bank AB were held during the reporting period. None of the members of the Supervisory Council missed more than half of the Supervisory Council meetings.

Information about position, office term, education, professional qualification and management competence of the members of the Supervisory Council:

Name	Position	Information on start and end of holding the office		Education	Information about management competence and experience
		Start	End		
Erkki Raasuke	Chairman of the Supervisory Council	01 10 2017	01 10 2021	Tallinn Technical University, Degree in Economics	Hansabank AS Head of Interest Rate Products (1994-1998), Hansabank AS Member of the Management Board, Chief Financial Officer (1998-2001), Hansabank AS Vice Chairman of the Management Board, Managing Director of Corporate Banking in Estonia (2001-2003), Hansabank Estonia Managing Director (2003-2005), Hansabank AS CEO and Chairman of the Management Board, Swedbank AB Member of the Group Executive Management (2005-2009), Swedbank AB Chief Financial Officer (2009-2011), Counsellor to the Minister of Economic Affairs and Communications Estonia (2012-2013). LHV Group, Managing Director (2013-2017)
Karl Christian Wallentin	Member of the Supervisory Council	01 10 2017	01 10 2021	Stockholm School of Economics, Master of Science in Economics and Business Administration	Goldman Sachs International, Investment Banking Associate (2004-2006), Permira Advisers KB Investment Professional (2006-2010), Nordea bank AB Head of Group Corporate Development (2010-2017)
Mari Mois	Member of the Supervisory Council	01 10 2017	01 10 2021	University of Tartu, Master in Law	AS SEB Pank, Lawyer (2001-2003), SEB Leasing and Factoring, Senior Legal counsel (2003-2007), Law office Sorainen, Senior Associate (2007-2008), Estonian Business School, Lecturer of Banking Law (2007-2009), AS SEB Pank, Senior Legal Counsel, Deputy Head of Legal Department (2008-2011), Tallinn Technical University,

					Lecturer (2009-2014), AS DNB Pank Head of Legal Department (2011-2014), AS DNB Pank Member of the Management Board (2014-2017)
Marilin Pikaro	Member of the Supervisory Council	01 10 2017	01 10 2021	Tallinn University, Master in Social Sciences, University of Konstanz, Germany, Master level studies in Politics and Public Law	Central Criminal Police, Police and Border Guard Board, Investigator, Senior Investigator (2001-2007), Ernst&Young Baltic, Senior Consultant (2007-2013), Member of the Executive Team (2013-2017)
Hannu Kalevi Saksala	Member of the Supervisory Council	01 10 2017	01 10 2021	University of Helsinki Master of Science (Law)	Kansallis Bank (Nordea). Legal in House Counsel (1985-1986), Branch Manager (1986-1987), Senior Relationship Manager (1988-1990), Branch Manager (1990-1995), Svenska Handelsbanken, Senior Relationship Manager, Branch Banager (1995-1999), Head of Credit in Finland (2000-2002), Branch Manager (2002-2004), Helsinki OP Bank Senior Relationship Manager (2005-2006), Bank DnB NORD Head of Credit in Finland (2007-2009), DnB NOR Bank, Group Chief Credit Officer in Baltic/Poland (2009-2011), DNB Bank ASA Credit Officer, vice-chairman of the Advisory Credit Committee for Baltics/Poland (2011-2012), DNB Bank AS Chief Risk Officer in DNB Bank Estonia (2012-2017), Chief Risk Officer in Latvia (2016-2017)

12. MANAGEMENT BOARD

According to the Bylaws the Management Board of Luminor Bank AB consists of five members.

On 1 October 2017, the Supervisory Council recalled Tadas Sudnius from the office of the member of the Management Board.

On 1 October 2017, at the meeting of the Management Board Andrius Načajus was elected as the chairman of the Management Board and replaced Bjornar Lund in this position.

On 25 October 2017 the Supervisory Council recalled the Management Board *in corpore* and elected Andrius Načajus, Jonas Urbonas, Rita Božičkienė, Ramūnas Abazorius and Viktorija Kavaliauskaitė as members of the Management Board.

On 25 October 2017, at the meeting of the Management Board Andrius Načajus was re-elected as the chairman of the Management Board.

Information about position, office term, education, professional qualification and management competence of the members of the Management Board:

Name	Position	Information on start and end of holding the office		Education	Information about management competence and experience
		Beginning	End		
Andrius Načajus	Chairman of the Management Board, Chief Executive Officer	01 10 2017	01 10 2021	Stockholm School of Economics, Riga, Latvia, B.Sc. in Economics and Business Administration; Stockholm School of Economics, Sweden, M. Sc. International Business and Economics, with specialization in Finance	Trigon Capital, Tallinn, Senior Associate (1999-2002); AB Lietuvos Žemės Ūkio Bankas, Advisor to the Member of the Management Board (2002); AB Lietuvos Žemės Ūkio Bankas/AB NORD/LB Bankas, Head of Investment Banking (Markets since 25 08 2010) (2002-2010); AB DNB Bankas, Head of Markets for Baltics (2010- 2014), Member of the Management Board (since 2014)
Ramūnas Abazorius	Vice-chairman of the Management Board, Deputy Chief Executive Officer	01 10 2017	01 10 2021	Vilnius University, Master in Finance	AB Lietuvos Žemės Ūkio Bankas, Manager of the Asset and Liability Management Team (1999-2001); AB Lietuvos Žemės Ūkio Bankas, Manager of the Asset and Liability Management Unit of the Financial Risk Department (2001-2003); NORD/LB, Manager of the Credit Risk Unit of the Financial Risk Department (2003-2004); DnB NORD Bankas, Manager of the Controlling Department (2004-2010), Member of the Management Board (since 2010)
Jonas Urbonas	Member of the Management Board, Deputy Chief Executive Officer	01 10 2017	01 10 2021	Vilnius University, Master in Finance	VB Lizingas, Project Manager (1998-2001), SEB lizingas, Head of Transport Leasing Division (2001-2004), Head of Sales, Member of the Board (2004-2009), SEB bankas, Retail Branch Manager/ Head of Corporates (2009-2010), Nordea Bank, Head of Large Corporate Customer Desk (2010-2013), Deputy Head of Banking Lithuania, Head of Corporate Banking Department (2013-2017)

Rita Božičkienė	Member of the Management Board, Deputy Chief Executive Officer	01 10 2017	01 10 2021	Vilnius University, Diploma in Economics	Agricultural Bank of Lithuania, Economist, Credit Officer, Expert of Corporate Loans (1989-2000), Nordea Bank, Deputy General Manager, Head of Credit Department (2000-2017)
Viktorija Kavaliauskaitė	Member of the Management Board, Deputy Chief Executive Officer	01 10 2017	01 10 2021	Vilnius Gediminas Technical University, Master in Business Administration and Management	UAB Blue Bridge, CRM Solutions Consultant, Project Management Solutions Consultant, IT Service Management Consultant (2007-2009), Barclays Technology Centre, Project Manager (2009-2011), AB DNB Bankas, Project Manager, Head of Department (2012-2017)

The members of the Supervisory Council and the Management Board have no shares of the Bank.

The members of the Supervisory Council, the Management Board and the administrative bodies are not connected by any family relationship between any of them.

The members of the Supervisory council, the Management Board and the administrative bodies of the Bank have not been convicted for any crimes of forgery. They have not been publicly officially incriminated or imposed any sanctions by any regulatory authority over the period of past five years. They have not been disqualified by a court from holding office as the member of the bank's administrative, management or supervisory body acting in the management or conduct of the affairs of any Bank.

The members of the Supervisory Council, the Management Board and the administrative bodies of the Bank have no interests of conflict between any duties to the Bank and their private interests and/or other duties. The Bank has not entered into any deal with the above mentioned persons outside his/her principal activities.

Additional information about the Chairman of the Management Board and the CEO and Chief Financial Officer:

Andrius Načajus (Chairman of the Management Board and the CEO of the Bank): holds Master Degree in Business and Economics from Stockholm School of Economics. Work record: Trigon Capital, Tallinn, Senior Associate; AB Lietuvos Žemės Ūkio Bankas (later AB NORD/LB bankas, DnB NORD, AB DNB Bankas), advisor to the Member of the Management Board, Head of Investment Banking (Markets since 25 08 2010), Head of Markets for Baltics, Member of the Management Board (since 2014).

Andrius Načajus has no shares of the Bank.

Jurgita Šaučiūnienė (Chief Accountant, Head of Group Finance Development and Accounting Policy): Master's Degree in Business Management from Vilnius University. Start of holding the office as Manager of the Accounting Department at the Bank in 2004. Previous work record: Auditor Assistant, audit company TŪB "J. Kabašinskas ir partneriai" (1997 - 1998); Member of KŪB, J. Kabašinsko KŪB "JKP konsultacijos" (1998 - 1999); Agency NORD/LB Bank / NORD/LB Vilniaus Branch – Account, Chief Accountant (1999 - 2003); Head of the Accounting Policy and Accountability Unit, AB Bankas NORD/LB Lietuva (2003 - 2004).

Jurgita Šaučiūnienė has no shares of the Bank.

13. INFORMATION ON THE ACTIVITIES OF THE COMMITTEES

Audit Committee (operated till 30 September 2017)

AB DNB Bankas Audit Committee was established by the Supervisory Council of the Bank. Its functions were as follows:

- Supervising the functioning of the internal control system and risk management of the Bank,
- Ensuring the efficiency of internal audit functions,
- Approving the annual audit plan for the Internal Audit Department and supervising the audit process,
- With regard to the auditing procedure and accounting policy, observing the integrity of financial information,
- Reviewing the conclusions and recommendations of the external auditor, monitoring their independence and impartiality,
- Determining the risk areas of the Bank's operations to be audited by the Internal Audit Department and by the external auditor.

The composition of the Audit Committee consisted of three members:

Chairman	**Olaf Tronsgaard. Employer - DNB Bank ASA.**
Members	**Eline Skramstad. Employer - DNB Bank ASA.** **Leif Rene Hansen, the independent member.**

The Members of the Audit Committee had no shareholdings in AB DNB Bankas.

Till 30 September 2017 four meetings of the Audit Committee were held.

Audit and Compliance Committee (established and operating from 1 October 2017)

On 1 October 2017 Luminor Bank AB Audit and Compliance Committee was established by the Supervisory Council of the Bank. Its main functions are as follows:

- Monitoring and support effective functioning of risk management and internal control systems in the Bank, including monitoring the preparation process and the integrity of the consolidated financial reporting of the Bank;
- Monitoring and support effective external audit process, including monitoring the independence and objectivity of the external auditor and facilitating the external auditor's selection process in the Bank;
- Monitoring and support effective internal audit process;
- Monitoring and support effective Compliance, AML/CTF and Anti-Financial Crime monitoring processes.

The Audit and Compliance Committee consists of three members:

Chairman	**Marilin Pikaro, Group Chief Compliance Officer**
Members	**Mari Mois, Head of Group Legal Division** **Hannu Kalevi Saksala, Group Chief Risk Officer**

Peter Lunding was a member of the Audit and Compliance Committee from 1 October to 7 November.

The Members of the Audit and Compliance Committee have no shareholdings in Luminor Bank AB.

Since 1 October 2017 two meetings of the Audit and Compliance Committee were held.

Risk Committee

The Risk Committee is a non-structural unit of the Bank. The Risk Committee is established and controlled by the Supervisory Council.

The Risk Committee is responsible for ensuring the effective formation of optimal capital structure, risk management and control, optimization of the Bank's asset and liability structure with regard to acceptable risk and return.

The Risk Committee's functions:

- Advise the Supervisory Council on overall current and future risk appetite and strategy,
- Assist the Supervisory Council in overseeing the implementation of the risk strategy,
- Analyze asset and liability structure and related issues,
- Make proposals to the Supervisory Council on the optimal capital structure.

The composition of the Risk Committee was changed after AB DNB Bankas and Nordea Bank AB joined forces and Luminor Bank AB was founded.

The Risk Committee consists of four members:

Chairman	Hannu Kalevi Saksala, Group Chief Risk Officer
Members	Mari Mois, Head of Group Legal Division Marilin Pikaro, Group Chief Compliance Officer Erkki Raasuke, Group Chief Executive Officer

The Risk Committee held five meetings in 2017 (four before AB DNB Bankas and Nordea Bank AB joined forces and one after Luminor Bank AB was founded).

The Members of the Risk Committee have no shareholdings in Luminor Bank AB.

Credit Committee

Until 01 10 2017
The regulations of the Credit Committee of AB DNB Bankas and its composition were approved by the Management Board of the Bank. Its functions were as follows:

- Discussing the general situation of credit risk in the Bank;
- Discussing and counseling decisions related with risk of significant exposures;
- Approving thereports related to the credit risk.

The Credit Committee consisted of:

Chairman	Anne Birgitte Prestholdt, Chief Risk Officer
Members	Bjornar Lund, President of the Bank Andrius Načajus, Executive Vice-president of the Bank Representative from the Credit Management Department Representative from Loan Recovery and Asset Management Department Representative from Business Clients Department

NOTE. Participation in the meetings of the Credit Committee was required depending on the competence level of the considered case and the customer segment.

The Members of the Credit Committee have no shareholdings in AB DNB Bankas.

Since 01 10 2017

The regulations of Luminor Bank AB Credit Committee were approved by the Management Board of the Bank. The regulations describe the organization of local credit committees, responsibilities of members and credit decision-making principles. The Credit Committees operate in accordance with the strategic plans and the credit policy of Luminor Group.

The Credit Committee is the decision making body regarding individual credit and work-out cases, administrative credit issues, also contributes to developing a sound and uniform credit culture in the Bank.

The composition of the Credit Committee depends on a decision-making level. The Credit Committees are comprised of representatives from Credit Risk Management (pre-control function) & Business (decision-making function).

II level Management Board Credit Committee	Chairman: Chief Credit Officer CEO Authorized persons from Credit Risk Management and Business units
III level Corporate Credit Committee	Chairman: Corporate Credit Officer Authorized persons from Business units and Leasing
III level Business Credit Committee	Chairman: Local Business Credit Officer Authorized persons from Business units and Leasing
III level Household Credit Committee	Chairman: Household Credit Officer Authorized persons from Business units and Leasing

All Credit Committee decisions must be taken in quorum. Approvals must be unanimous.
Credit Committee meetings are held once or twice a week, depending on a decision making-level.
The Members of the Credit Committees have no shareholdings in Luminor Bank AB.

Remuneration Committee

The Remuneration Committee is established and controlled by the Supervisory Council. The regulations of AB DNB Bankas Remuneration Committee were approved on 29 September 2015. Meanwhile the regulations of Luminor Bank AB Remuneration Committee were approved on 1 October 2017.

The Remuneration Committee:

- Evaluates the policy and practices of the variable remuneration and ensures that the system of remuneration would take into account all types of risks, capital, liquidity and is compatible with sound and effective risk management and strategy, goals and long-term interests;
- Directly oversees the variable remuneration of employees heading the functions responsible for the risk management and compliance;
- Prepares the decisions to be taken by the Management Board regarding variable remuneration, including those decisions which have implications for the risks assumed and the risk management, taking into consideration the long-term interests of shareholders, investors and other stakeholders in the institution and the public interest.

In 2017 four meetings of AB DNB Bankas Remuneration Committee were held and one meeting of Luminor Bank AB Nomination Committee was held.

The Bank's Remuneration committee consists of these members:

	AB DNB Bankas	**Luminor Bank AB**
Chairman	**Atle Knai**	**Erkki Raasuke**
Members	Eline Skramstad Olaf Tronsgaard Ivars Kapitovičs Leif Rene Hansen	Karl Christian Wallentin Mari Mõis

Nomination Committee

The Nomination Committee is established and controlled by the Supervisory Council. The regulations of AB DNB Bankas Nomination Committee were approved on 29 September 2015. Meanwhile the regulations of Luminor Bank AB Nomination Committee were approved on 1 October 2017.

In 2017 one meeting of AB DNB Bankas Nomination Committee was held and one meeting of Luminor Bank AB Remuneration Committee was held.

The Nomination Committee:

- Recommends, for the approval of the management bodies or for approval of the shareholder, candidates to fill the vacancies in the management bodies, evaluates the balance of knowledge, skills and experience of the management bodies and prepares a description of the roles and capabilities for a particular appointment, and assess the time commitment expected, as well as evaluates the candidates proposed by the shareholder;
- At least annually, assesses the structure, size, composition and performance of the management bodies and makes recommendations to the management bodies with regard to necessary changes;
- At least annually, assesses the knowledge, skills and experience of individual members of the management bodies and of the management bodies collectively, and reports to the management bodies accordingly;
- Makes recommendations to the management bodies in order to ensure that the management body's decision making is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interests of the Bank as a whole;
- Decides on a target for the representation of the underrepresented gender in the management bodies and prepares proposals (policy) on how to increase the number of the underrepresented gender in the management bodies in order to meet that target;
- Periodically reviews the policy for selection and appointment of the senior management and makes recommendations to the management bodies.

The Nomination Committee consists of these members appointed from the members of the Supervisory Council:

	AB DNB Bankas	**Luminor Bank AB**
Chairman	**Atle Knai**	**Erkki Raasuke**
Members	Eline Skramstad Olaf Tronsgaard Ivars Kapitovičs Leif Rene Hansen	Karl Christian Wallentin Mari Mõis

14. Employees

As of 31 December 2017 the number of employees in the Group was 1,294 employees, 1,245 of them were the employees of Luminor Bank AB. In the reporting year, the number of the Group’s employees averaged 1,108.

Changes in the number of employees and salaries

	31 12 2013	**31 12 2014**	**31 12 2015**	**31 12 2016**	**31 12 2017**
Number of staff in the Bank	1,221	1,127	1,040	1,059	1,245
Number of staff in the Group	1,252	1,158	1,056	1,072	1,294
Average monthly salary in the Group in EUR	1,265	1,332	1,372	1,390	1,551

As at 31 December 2017, the average monthly salary by main staff groups was as follows: EUR 3,331 to the administration (excluding members of the top management); EUR 1,311 to the specialists.

The Group's staff by groups of positions as of 31 December 2017

	Number of employees	Staff structure by education		
		Higher	Specialized secondary (high)	Secondary
Administration	153	148	1	4
Specialists	1,141	902	82	157
Total	**1,294**	**1,050**	**83**	**161**

15. REMUNERATION POLICY

In March 2017 the Remuneration Policy of the Bank was updated in order to bring its provisions into the line with the current legislation. The Remuneration Policy has been drawn up in accordance with the European Banking Authority Guidelines on sound remuneration policies under Article 74(3) and Article 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013, Resolution No. 03-82 of the Board of the Bank of Lithuania of 8 May 2015 on Approval of the Description of Minimum Remuneration Policy Requirements for Employees of Credit Institutions and Financial Brokerage Companies, as well as other legal acts.

The Remuneration Policy applies to all Bank's employees in ensuring equal opportunities without gender discrimination or on any other grounds. The Remuneration Policy applies to the Bank's subsidiaries insofar as it does not conflict with the legal acts applicable to them. The Remuneration Policy provides an overall framework for the remuneration scheme which support the prevailing strategy and values, inspire such conduct to build the desired corporate culture with respect to performance and profit orientation, cooperation, mobility and reputation, contribute to the Group image as an attractive employer, ensure that the remuneration schemes are consistent and transparent. The Group aims to have a consistent and transparent remuneration system enabling for proper evaluation of each employee's contribution taking into consideration the results achieved, encouraging proper risk management and control, preventing from the possibility to assume too high risk and helping to avoid conflict of interest, form a common platform for business-focused solutions in the various business areas and staff units.

No external consultants' services were used to draft the Remuneration Policy. No persons in conflict of interests contributed to preparation of the Remuneration Policy.

Major structural parts of the Remuneration Policy:

- Introduction;
- Definitions;
- Fixed salary;
- Variable remuneration;
- Benefits;
- Remuneration to control functions performing units;
- Remuneration Committee;
- Information disclosure;
- Final provisions.

Remuneration means fixed and variable remuneration in all forms:

- Fixed salary means a salary fixed in an employment contract and other long-term benefits not related with employee's performance.
- Variable remuneration means a non-guaranteed portion of remuneration, including project incentive, collective incentive and benefits, which depends on employee's performance, conduct, commitment to the Group's values and other evaluation criteria and is awarded at the sole discretion of the employer, and the employees acquire no right to claim it despite his or her performance. Variable remuneration may be awarded and paid out in the form of financial and non-financial rewards, contributions to the pension funds, rights to the Shares
- Collective incentive means a flat-amount reward provided at the discretion of the employer to its employees on an annual basis for distinguishing high annual and/or long-term performance of the Group.
- Project incentive means a non-guaranteed reward provided at the sole discretion of the employer (the Project Steering Committee or by decision of the Management Board of the Bank) to the employees for their contribution to successful implementation of a project, which is additional to and beyond the employee's direct duties and/or functions. The project incentive is defined in the relevant project mandate or in another document that approves the relevant project.
- Benefits means the uniform loyalty programs applied to employees or their separate categories, regardless of their performance.

Remuneration should reflect employee’s competences, experiences, market practice, and achievements. Fixed salary shall form a sufficiently big portion of total cash to ensure competitive salaries. Fixed salary competitiveness is established on an annual basis in view of the banking or international companies’ sector data as indicated in the Lithuanian remuneration market research by Hay Group.

Variable remuneration may or may not be awarded to the employee at the discretion of the employee's manager based on an overall assessment of the Group and/or Bank, and/or the respective structural unit and/or of the Employee. Variable remuneration is awarded following the “grandfather” principle, i.e. the allocation of variable remuneration shall be approved by the intermediate manager.

Variable remuneration, except for project incentive, may be allocated and paid out once per year and only if the Bank’s financial situation is sustainable. Without prejudice to the requirements of the legal acts, variable remuneration may be reduced or not paid out if the Bank’s or/and the Bank subsidiary company’s performance is inconsistent with the ratios indicated in the Bank’s or the Bank subsidiary company’s business strategy and/or business activity is loss-making, and/or the employee has acted dishonestly or employee’s actions caused the Bank’s or the company’s loss.

The amount of variable remuneration cannot exceed per annum:
- 200% of the annual fixed salary per employee, except employees whose activities and/or decisions are likely to have a material impact on the Bank’s risk profile
- 100% of the annual fixed salary per employee whose activities and/or decisions are likely to have a material impact on Bank’s risk profile.

Variable remuneration is paid only if Bank's financial situation is sustainable. If the Bank's and/or the respective subsidiary's performance is loss-making, variable remuneration is not allocated or is reduced respectively.

Principles of variable remuneration to risk takers

The job positions and/or employees whose activities performed and/or decisions made are likely to have a significant impact on Bank's risk profile shall be identified once per year. The list of such job positions and/or employees is compiled in view of the quantitative and qualitative criteria defined in Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014. The persons performing the functions of risk management, compliance, business support (legal, personnel, etc.) within the Bank are involved in this process by their competence. The list of job positions and/or employees whose activities and/or decisions are likely to have a material impact on the Bank’s risk profile and the criteria under which it was made are approved together with the Remuneration Policy.

When considering an issue relating to the allocation of variable remuneration to risk takers, including the deferred portion, not shorter than a three-year performance assessment is taken into account and, where the duration of such employee’s labour relationships is shorter than 3 years, the available employee’s performance assessment is taken into account.

Not lower than a 50% portion of variable remuneration is subject to the deferral period. In case the employee whose activities and/or decisions are likely to have a material impact on the Bank’s risk profile is rewarded with variable remuneration in the amount of 100% or more of his or her annual fixed salary, the deferral period is applied to minimum 60% of variable salary. Payments of the deferred portion of variable remuneration starts not earlier than after 1 year from the end of the employee’s, whose activities and/or decisions are likely to have a material impact on the Bank’s risk profile, performance assessment and is paid out based on a pro rata principle, i.e. the deferred portion of variable remuneration is allocated proportionally throughout the three-year deferral period.

If the risk takers have been provided with variable remuneration in the amount of 20% or more of annual fixed salary and it is equal or higher than EUR 8,000 the deferred portion of variable remuneration is paid out in the form of the shares. If the risk takers have been awarded with variable remuneration not exceeding 20% of annual fixed salary and it is lower than EUR 8,000, the provisions of the Remuneration Policy regarding the deferral are not applicable.

Before transfer of the shares to the risk takers a follow-up risk assessment shall be performed in order to analyse whether the initial risk assessment was correct. If the assessment shows that the initial risk assessment was not correct, the right to claim the allocated shares may be revoked, in full or in part.

The deferred portion of variable remuneration in the form of the shares to the employees with whom labour relationships were terminated during the deferral period is transferred within the terms set in the Remuneration Policy after making a risk assessment for the period stated in the Remuneration Policy for which variable remuneration is allocated.

Payments related to employment contract termination (severance payments), except for payments established in the legal acts and/or other mandatory payments, shall be determined in view of employee's performance results and paid out under the procedure outlined in the Remuneration Policy. The procedure and terms for making such payments are also indicated in the agreement on employment contract termination, which is kept by the Human Resources Department.

Overall quantitative information on remuneration divided by employee groups (total remuneration amount, total variable remuneration amount, number of employees)

Information for 2017 is based on the data available on 31 December 2017. All amounts indicated are before taxes.

Luminor Group	Fixed remuneration (TEUR)	Variable remuneration (TEUR)	Number of employees who received VR
Bank administration and risk takers*	2,156	240	32
Employees	18,406	799	930
Total:	20,562	1,039	962

Luminor Group	Fixed remuneration (TEUR)	Variable remuneration (TEUR)	Number of employees received VR
Management Board*	719	103	6
Retail*	400	36	7
Front office*	467	63	8
Back office*	570	38	11
Employees	18,406	799	930
Total:	20,562	1,039	962

*As of 31 December 2017 no payments for performance results of 2017 were made to the Bank employees. Variable remuneration was paid in 2017 for performance results of 2016. Front office – Corporate and Markets employees.

Amounts and form of the variable remuneration portion divided into cash, shares, equity-linked financial instruments and other portions, amounts of non-paid deferred remuneration amounts

Luminor Group	Variable remuneration paid in cash (TEUR)	Allocated deferred variable remuneration in shares (TEUR)	Non-allocated deferred variable remuneration in shares (TEUR)
Bank administration and risk takers	160	26	53
Employees	799	-	-
Total:	959	26	53

Luminor Group	Variable remuneration paid in cash (TEUR)	Allocated deferred variable remuneration in shares (TEUR)	Non-allocated deferred variable remuneration in shares (TEUR)
Management Board	52	17	34
Retail	30	2	4
Front office	48	5	10
Back office	30	2	5
Employees	799	-	-
Total:	959	26	53

Amount of deferred variable remuneration allocated in the financial year, paid out and adjusted in respect of the performance results

In 2017 no such adjustments were made.

Amount of guaranteed variable remuneration provided under new agreements and severance payments in the financial year and the number of recipients of such payments

No guaranteed variable remuneration was provided to the recipients.

Amounts of severance pays allocated in the financial year, number of recipients of such pays and the largest allocated amount per person:

Luminor Group	Number of recipients	Severance payments amount (TEUR)	Largest amount per person (TEUR)
	75	1,209	148

The Bank has no special commitments for employees regarding severance payment.

The additional retirement benefit or early retirement scheme does not apply to the Executive Officers of the Bank.

Information on amounts allocated within the reporting period to the Bank's Management Board Members holding other positions at the Bank and to the Chief Financial Officer

In 2017, no assets were gratuitously transferred or guarantees granted to these employees on behalf of the Bank. The information below shows the amounts allocated to these persons in total and the average amounts allocated to the Bank's Executives, Chief Executive Officer, and Chief Financial Officer. Information on amounts paid individually to each person is not submitted following the requirements relating to the Bank's secret and personal data protection.

	Allocated amounts (TEUR)
Overall amount to the Bank's all Executives and to the Chief Financial Officer	**1,025**
Under employment agreement	782
Employer's social insurance contributions	243
Other payments including the employer's social insurance contributions*	**128**
Average per Executive and Chief Financial Officer of the Bank	**114**
Under employment agreement	87
Employer's social insurance contributions	27

*Expenses related with car rent, accommodation and settling.

16. SOCIAL RESPONSIBILITY

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

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

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

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

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

In 2017 DNB Bankas has received ISO14001 certificate. This certificate is an internationally agreed standard that sets out the requirements for an environmental management system. The certificate shows that DNB Bank is compliant with current and future statutory and regulatory requirements in environment field. The sertificate helped to improve DNB Bank's environmental performance through more efficient use of resources and reduction of waste.

In 2017, *DNB Bankas* as predecessor of *Luminor group* developed social initiatives and participated in the implementation of the social initiatives that create value to the society. *DNB Bankas* contributed to promotion of healthy lifestyle: in cooperation with the partners organised a running event – DNB| NIKE WE RUN VILNIUS. This international event that takes place in many modern cities of the world, attracted more than 7,000 participants in Vilnius.

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

Luminor human resources, remuneration and employer benefits policy is explained in Accounting and Remuneration policies in this report.

A. Načajus
Chief Executive Officer

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

THE GROUP AND BANK INCOME STATEMENT

		Group		Bank	
	NOTES	2017	2016	2017	2016
Interest income		87,534	79,117	84,889	79,185
Interest expense		(11,821)	(11,464)	(11,820)	(11,463)
Net interest income	1	75,713	67,653	73,069	67,722
Fee and commission income	2	46,251	37,551	42,130	34,507
Fee and commission expense	2	(10,234)	(8,625)	(9,891)	(8,298)
Net interest, fee and commission income		111,730	96,579	105,308	93,931
Net gain (loss) on operations with securities and derivative financial instruments and net foreign exchange result	3	17,248	9,125	18,512	10,777
Share of profit of an associate		84	(114)	-	(143)
Impairment, change in fair value of investment property and provisions	4	(52,890)	(20,286)	(52,912)	(22,391)
Other income	5	4,860	8,554	4,689	8,228
Personnel expenses	6	(33,019)	(26,795)	(31,964)	(26,228)
Depreciation and amortisation	7	(4,169)	(3,958)	(3,683)	(3,433)
Other administrative expenses	8	(49,145)	(36,497)	(47,780)	(34,382)
Profit (loss) before income tax		(5,301)	26,608	(7,830)	26,359
Income tax	9	(5,351)	(3,797)	(5,269)	(3,755)
Net profit (loss) for the year		(10,652)	22,811	(13,099)	22,604
Profit (loss) attributable to:					
Equity holders of the parent		(10,652)	22,811	(13,099)	22,604
Earnings per share (in EUR per share)					
Basic	10	(1.87)	3.99		
Diluted	10	(1.87)	3.99		

These Financial Statements were signed on 14 March 2018:

A.Načajus
Chief Executive Officer

J. Šaučiūnienė
Chief Accountant

The accounting policies and notes on pages 41 to 134 are an integral part of these financial statements.

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

THE GROUP AND BANK STATEMENT OF COMPREHENSIVE INCOME

	Group		Bank	
	2017	2016	2017	2016
Profit (loss) for the year	**(10,652)**	**22,811**	**(13,099)**	**22,604**
Other comprehensive income (expenses) to be reclassified to profit or loss in subsequent periods (net of tax):				
Net gain on available for sale financial assets	953	193	953	193
Reclassification adjustments to the income statement (Note 16)	-	(10,800)	-	(10,800)
Other comprehensive income (expenses) not to be reclassified to profit or loss in subsequent periods:	-	-	-	-
Total other comprehensive income (expenses), net of tax	**953**	**(10,607)**	**953**	**(10,607)**
Total comprehensive income (expenses) for the year, net of tax	**(9,699)**	**12,204**	**(12,146)**	**11,997**
Attributable to:				
Equity holders of the parent	(9,699)	12,204	(12,146)	11,997

These Financial Statements were signed on 14 March 2018:

A. Načajus
Chief Executive Officer

J. Šaučiūnienė
Chief Accountant

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

THE GROUP AND BANK STATEMENT OF FINANCIAL POSITION

		Group		Bank	
	Notes	31 December 2017	31 December 2016	31 December 2017	31 December 2016
ASSETS					
Cash and balances with central banks	11	1,362,543	134,149	1,362,543	134,149
Due from banks and other credit institutions	12	251,142	744,577	251,142	744,577
Financial assets held for trading	13	2,325	5,273	2,325	5,273
Financial assets designated at fair value through profit or loss	14	85,586	98,593	84,171	97,461
Derivative financial instruments	15	6,369	13,607	6,369	13,607
Available for sale financial assets	16	3,265	2,624	3,265	2,624
Loans and advances to customers	17	4,445,709	2,751,441	4,858,475	2,757,189
Finance lease receivables	19	639,778	160,600	178,472	160,600
Investments in subsidiaries	20	-	-	92,922	41,291
Investment in an associate	21	1,658	-	-	-
Investment property	23	17,147	30,015	812	-
Property, plant and equipment	22	12,308	15,644	11,918	15,640
Intangible assets	24	3,350	4,709	3,329	4,229
Deferred tax asset	9	1,350	4,807	907	4,807
Other assets	25	16,963	14,532	12,825	13,911
Non-current assets and disposal groups held for sale	26	1,310	7,994	29	29
Total assets		**6,850,803**	**3,988,565**	**6,869,504**	**3,995,387**
LIABILITIES AND EQUITY					
Due to banks and other credit institutions	27	2,229,590	1,012,291	2,229,590	1,012,291
Derivative financial instruments	15	7,744	9,378	7,744	9,378
Due to customers	28	3,856,118	2,475,696	3,888,188	2,486,137
Provisions	29	1,093	296	1,093	296
Current income tax liabilities		1,803	2,111	1,916	2,213
Other liabilities	30	27,376	15,183	20,074	13,626
Total liabilities		**6,123,724**	**3,514,955**	**6,148,605**	**3,523,941**
Equity attributable to equity holders of the Bank					
Ordinary shares	31	190,205	190,205	190,205	190,205
Share premium	31	81,942	81,942	81,942	81,942
Retained earnings		76,371	86,411	70,482	84,329
Reserves	32	378,561	115,052	378,270	114,970
Total equity		**727,079**	**473,610**	**720,899**	**471,446**
Total liabilities and equity		**6,850,803**	**3,988,565**	**6,869,504**	**3,995,387**

These Financial Statements were signed on 14 March 2018:

A. Načajus
Chief Executive Officer

J. Šaučiūhienė
Chief Accountant

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

THE GROUP STATEMENT OF CHANGES IN EQUITY

	Issued shares	Share premium	Reserve capital	Available for sale financial assets revaluation reserve	Mandatory reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2016	**190,205**	**81,942**	**105,500**	**10,800**	**5,860**	**241**	**66,858**	**461,406**
Profit for the period	-	-	-	-	-	-	22,811	22,811
Other comprehensive income (Note 16)	-	-	-	(10,607)	-	-	-	(10,607)
Total comprehensive income (expenses) for the year, net of tax	**-**	**-**	**-**	**(10,607)**	**-**	**-**	**22,811**	**12,204**
Transfer to mandatory reserve	-	-	-	-	3,258	-	(3,258)	-
Balance at 31 December 2016	**190,205**	**81,942**	**105,500**	**193**	**9,118**	**241**	**86,411**	**473,610**
Profit (loss) for the period	-	-	-	-	-	-	(10,652)	(10,652)
Other comprehensive income (Note 16)	-	-	-	953	-	-	-	953
Total comprehensive income (expenses) for the year, net of tax	**-**	**-**	**-**	**953**	**-**	**-**	**(10,652)**	**(9,699)**
Transfer to mandatory reserve	-	-	-	-	4,240	(140)	(4,100)	-
Increase of reserve capital (Note 32)	-	-	258,263	-	-	-	-	258,263
Changes related to merger with Nordea (Note 41)	-	-	-	-	193	-	4,712	4,905
Balance at 31 December 2017	**190,205**	**81,942**	**363,763**	**1,146**	**13,551**	**101**	**76,371**	**727,079**

These Financial Statements were signed on 14 March 2018:

A. Načajus
Chief Executive Officer

J. Šaučiūnienė
Chief Accountant

The accounting policies and notes on pages 41 to 134 are an integral part of these financial statements.

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

THE BANK STATEMENT OF CHANGES IN EQUITY

	Issued shares	Share premium	Reserve capital	Available for sale financial assets revaluation reserve	Mandatory reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2016	**190,205**	**81,942**	**105,500**	**10,800**	**5,787**	**241**	**64,974**	**459,449**
Profit for the period	-	-	-	-	-	-	22,604	22,604
Other comprehensive income (Note 16)	-	-	-	(10,607)	-	-	-	(10,607)
Total comprehensive income (expenses) for the year, net of tax	**-**	**-**	**-**	**(10,607)**	**-**	**-**	**22,604**	**11,997**
Transfer to mandatory reserve	-	-	-	-	3,249	-	(3,249)	-
Balance at 31 December 2016	**190,205**	**81,942**	**105,500**	**193**	**9,036**	**241**	**84,329**	**471,446**
Profit (loss) for the period	-	-	-	-	-	-	(13,099)	(13,099)
Other comprehensive income (Note 16)	-	-	-	953	-	-	-	953
Total comprehensive income (expenses) for the year, net of tax	-	-	**-**	**953**	**-**	**-**	**(13,099)**	**(12,146)**
Transfer to mandatory reserve	-	-	-	-	4,224	(140)	(4,084)	-
Increase of reserve capital (Note 32)	**-**	**-**	258,263	**-**	**-**	**-**	**-**	258,263
Changes related to merger with Nordea branch (Note 41)	**-**	**-**	**-**	**-**	-	**-**	3,336	3,336
Balance at 31 December 2017	**190,205**	**81,942**	**363,763**	**1,146**	**13,260**	**101**	**70,482**	**720,899**

These Financial Statements were signed on 14 March 2018:

A. Načajus
Chief Executive Officer

J. Šaučiūnienė
Chief Accountant

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

THE GROUP AND BANK STATEMENT OF CASH FLOWS

	Group		Bank	
	2017	2016	2017	2016
Operating activities				
Interest receipt	101,674	76,261	98,961	76,326
Interest payments	(12,667)	(11,960)	(11,055)	(12,111)
Collected previously written-off loans	7,812	2,439	7,812	2,439
Net receipt from FX trading and operations in securities	(1,776)	11,719	(1,776)	11,719
Fee and commission receipt	46,251	37,530	42,130	34,507
Fee and commission payments	(10,234)	(8,630)	(9,891)	(8,298)
Salaries and related payments	(32,736)	(27,057)	(31,778)	(26,500)
Other payments	(44,285)	(27,917)	(43,091)	(26,154)
Net cash flows from operating activities before changes in operating assets and liabilities	**54,039**	**52,385**	**51,312**	**51,928**
(Increase) decrease in operating assets:				
(Increase) decrease in loans to credit and financial institutions	533,587	(184,223)	533,587	(184,223)
(Increase) decrease in loans granted, except loans to credit and financial institutions	(89,664)	(28,392)	(82,645)	(10,803)
(Increase) decrease in trading securities	14,801	17,941	14,801	17,941
(Increase) decrease in other assets	14,562	16,345	1,690	(7,961)
Change in operating assets	**473,286**	**(178,329)**	**467,433**	**(185,046)**
Increase (decrease) in liabilities:				
Increase (decrease) in liabilities to central bank	-	(42,700)	-	(42,700)
Increase (decrease) in liabilities to credit and financial institutions	260,945	(28,835)	261,445	(28,746)
Increase in deposits	183,895	133,136	193,072	138,497
Increase (decrease) in other liabilities	2,496	(1,688)	(1,236)	(1,841)
Change in operating liabilities	**447,336**	**59,913**	**453,281**	**65,210**
Income tax paid	**(454)**	**(2,513)**	**(387)**	**(2,463)**
Net cash flows from operating activities	**974,207**	**(68,544)**	**971,639**	**(70,371)**
Investing activities				
Acquisition of property, plant, equipment and intangible assets	(2,849)	(6,605)	(1,420)	(6,596)
Disposal of property, plant, equipment and intangible assets	659	11,489	659	11,485
(Increase) decrease in securities	12,235	(23,914)	12,235	(23,717)
Dividends received	124	24	1,287	1,665
Interest received	953	2,070	929	2,054
Disposal of asociate	-	350	-	350
Changes related to merger with Nordea (Note 41)	38,360	-	83,088	-
Acquisition of Nordea subsidiary (Note 41)	-	-	(44,728)	-
Net cash flows from investing activities	**49,482**	**(16,586)**	**52,050**	**(14,759)**

The accounting policies and notes on pages 41 to 134 are an integral part of these financial statements.

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

THE GROUP AND BANK STATEMENT OF CASH FLOWS (continued)

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Financing activities				
Increase of reserve capital (Note 32)	258,263	-	258,263	-
Net cash flows from financing activities	**258,263**	**-**	**258,263**	**-**
Net increase (decrease) in cash and cash equivalents	**1,281,952**	**(85,130)**	**1,281,952**	**(85,130)**
Net foreign exchange difference on cash and cash equivalents	(13,422)	2,607	(13,422)	2,607
Cash and cash equivalents at 1 January	**163,667**	**246,190**	**163,667**	**246,190**
Cash and cash equivalents at 31 December (Note 35)	**1,432,197**	**163,667**	**1,432,197**	**163,667**

These Financial Statements were signed on 14 March 2018:

A. Načajus
Chief Executive Officer

J. Šaučiūnienė
Chief Accountant

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

NOTES TO FINANCIAL STATEMENTS

GENERAL BACKGROUND

The Bank as a joint stock company was registered on 13 September 1993. The Bank possesses License No. 10 issued by the Bank of Lithuania, which entitles the Bank to provide financial services established in the Law on Banks of the Republic of Lithuania and the Law on Financial Institutions of the Republic of Lithuania.

The Bank accepts deposits, issues loans, makes money transfers and documentary settlements, exchanges currencies for its customers, issues and processes debit and credit cards, provides financial lease services, is engaged in trade finance and is investing and trading in securities as well as provides other financial services established in the Law of the Republic of Lithuania on Banks and on Financial Institutions.

As at 31 December 2017, the Bank owned the following subsidiaries:

- Luminor Investicijų Valdymas UAB (investment asset management activities),
- Luminor Būstas UAB (real estate brokerage),
- Luminor Lizingas UAB (financing, leasing, factoring activities),
- Intractus UAB (real estate management, development and sale). Intractus UAB owned (0.08% of shares) company Industrius UAB (the Company was registered in the Register of Legal Entities, State Enterprise Centre of Registers, on 15 February 2011) and subsidiary UAB Geležės Projektai (acquired from the Bank on 19 October 2011),
- Industrius UAB (real estate management, development and sale); the Company's capital increase was registered in the Register of Legal Entities, State Enterprise Centre of Registers, on 21 December 2012,
- RECURSO UAB (real estate management),
- PROMANO LIT, UAB (real estate management).

As at 31 December 2017 the Bank owned 100% of the share capital of Luminor Būstas UAB, Luminor Investicijų Valdymas UAB, Luminor Lizingas UAB, RECURSO UAB, PROMANO LIT UAB, Intractus UAB and 99.92% of the share capital of Industrius UAB. UAB Intractus owned 100% of the share capital of UAB Gėlužės Projektai and 0.08% of Industrius UAB. The head offices of the Bank and its subsidiaries Luminor Būstas UAB, Luminor Investicijų Valdymas UAB, Intractus UAB, Industrius UAB, Geležės Projektai UAB are located in Vilnius, Konstitucijos av. 21A. The head offices of RECURSO UAB and PROMANO LIT UAB are located in Vilnius, Šeimyniškių str. 21B, Luminor Lizingas UAB is located in Vilnius, Lvovo str. 25.

At the end of the reporting period the Bank had 45 customer service outlets (2016: 38 customer service outlets). As at 31 December 2017, the Bank had 1,245 employees (2016: 1,059 employees). As at 31 December 2017, the Group had 1,294 employees (2016: 1,072 employees).

As at 31 December 2017, the authorized capital of the Bank is EUR 190,204,564 (2016: 190,204,564), which is divided into 5,710,134 (2016: 5,710,134) ordinary registered shares with EUR 33.31 par value each. Luminor Group AB is a 100% shareholder of each of the Baltic Luminor banks: Luminor Bank AB (Lithuania), Luminor Bank AS (Latvia) and Luminor Bank AS (Estonia). Nordea Bank AB and DNB Bank ASA are ultimate owners of holding company Luminor Group AB (or "Luminor Group"), which is registered in Sweden, registration No 559072-8316. Nordea Bank AB and DNB Bank ASA have equal voting rights in Luminor Group. Nordea Bank AB owns 56,2% and DNB Bank ASA owns 43,6% of proprietary rights, which reflects the proportional contribution of each bank made at the closure of the Luminor Group deal on 1 October 2017.

DNB Bank ASA (commercial register number 984 851 006) is Norway's largest financial services group and one of the largest in the Nordic region in terms of market capitalization. The DNB group offers a full range of financial services, including loans, savings, advisory services, insurance and pension products for retail and corporate customers. 60% of major Norwegian companies, every second Norwegian and two of five Norwegian companies use the services of the DNB Group. DNB Bank ASA has a credit rating (Fitch A+, Moody's Aa2).

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

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

ACCOUNTING POLICIES

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

Basis of preparation of financial statements

The financial statements of the Group and the Bank are prepared in accordance with the International Financial Reporting Standards (IFRS) effective as of 31 December 2017 that have been adopted for use in the European Union. The financial statements are prepared on a historical cost basis, except for available for sale financial assets, financial assets designated at fair value through profit or loss, financial assets and financial liabilities held for trading, derivative financial instruments and investment properties, that have been measured at fair value and non-current assets and disposal groups held for sale that have been measured at fair value less costs to sell.

These financial statements combine the consolidated financial statements for the Group and stand-alone financial statements of the parent Bank. In addition, the financial information of the Financial Group is presented in Note 40 in accordance with the requirements of the Bank of Lithuania.

The amounts shown in these financial statements are presented in the local currency, Euro (EUR). 1 January 2015 was the day of the Euro adoption in Lithuania, thus on this day the functional currency of the Group was converted. According to the irrevocable decision of the European Council the Litas to Euro conversion rate was LTL 3.45280 for EUR 1.

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

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

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**
  The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The Amendments had no impact on the financial statements of the Group.

- **IAS 7: Disclosure Initiative (Amendments)**
  The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The Amendments had no impact on the financial statements of the Group.

Standards issued but not yet effective

IFRS 9 Financial Instruments

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

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

ACCOUNTING POLICIES (continued)

Classification and measurement

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

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

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

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

Impairment of financial assets

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

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

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

Integration of the IFRS 9 impairment methodology into business processes (related to SPPI checks and accounting for modifications) is not finalized in the Bank. Also, development of some parts (mostly related to end of month procedures as well as internal documentation or those which were evaluated as not having material impact like off-balance part inclusion into Stage 3 impairment calculations) was postponed and is intended to be finalized during the year 2018. Validation of the model will be done in March 2018. In general, IFRS 9 impairment model will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowances recognised for these items. Moreover, it is expected that the impairment calculations under IFRS 9 will be more volatile and pro-cyclical than under IAS 39, mainly due to the significant subjectivity applied in the forward looking scenarios. IFRS 9 impairment requirements are applied retrospectively, with transition impact recognized in retained earnings. Based on assessment performed to date, the transition impact on the opening balance of the Group's retained earnings as at 1 January 2018 is estimated to fall within the range of EUR 15-18 million (Bank's: EUR 8-10 million).

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

ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

ACCOUNTING POLICIES (continued)

IFRS 16: Leases

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Group has not yet evaluated the impact of the implementation of this standard.

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of this amendment.

IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These Amendments have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of this amendment.

IAS 40: Transfers to Investment Property (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of this amendment.

IFRS 9: Prepayment features with negative compensation (Amendment)

The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These Amendments have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of this amendment.

IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)

The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of this amendment.

IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of this amendment.

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

ACCOUNTING POLICIES (continued)

IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration
The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of this interpretation.

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These amendments will not have any impact on the financial statements of the Group and the Bank.

- ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5. This annual improvement has not yet been endorsed by the EU.
- ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters. This annual improvement has not yet been endorsed by the EU.
- ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments
The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of this interpretation.

The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of these improvements.

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

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

ACCOUNTING POLICIES (continued)

Use of judgements and estimates in the preparation of financial statements

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

Going concern

The Bank's and Group's management is fully convinced of stable and balanced performance going forward and based on that prepared these financial statements on the going concern basis. Please refer to Note 42 which provides an additional information on the Bank's and the Group's activities in the future that do not change management's assessment of going concern since the bank will continue to operate in Lithuanian market via banking branch and the mentioned restructuring is merely a change in legal status.

Impairment losses on loans and lease receivables

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

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when assessing its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. For impairment losses refer to Note 4.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. For fair value of financial assets and liabilities refer to Notes 13-16.

Fair value of investment properties

Investment properties are stated at fair value, which for the major part of properties has been determined according to valuations performed by accredited independent valuers and/or internal valuation specialists of the Group. The valuation model for the Group's investment properties was formed based on market comparable and income approaches. For fair value of investment properties refer to Note 23.

Deferred tax asset

Deferred tax asset is recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax asset that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. For carrying amounts see Note 9.

Investment in subsidiaries

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

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. For impairment loss for subsidiaries refer to Note 4.

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

ACCOUNTING POLICIES (continued)

Significant accounting judgments

Accounting for merger with Nordea
During the Merger with Nordea (Note 41) an assessment was done on the accounting principle to be used for the transaction.

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

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

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

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

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

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

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

More details on the Merger can be found in Note 41.

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

Intangible assets licensing agreements
The management of the Group has concluded that intangible asset licensing agreements where the Group and/or the Bank is a licensee and the rights received under the licensing agreement are non-exclusive are out of scope of *IAS 17 Leases*. In addition, the management considers that non-exclusive rights received under such licensing agreements do not give a control of underlying intangible assets. Therefore, no intangible assets should be recognized in the Group's and/or the Bank's financial statements in accordance with *IAS 38 Intangible Assets*. Finally, the management considers that such licensing agreements should not be recognized as an intangible asset as it represents an executory contract as defined in *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* that are not recognized, unless are onerous. Fees paid according such licensing agreements are recognized as expenses when incurred.

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

ACCOUNTING POLICIES (continued)

Onerous contract

The bank has a long term agreement re IT services provided by DNB Invest Denmark AS. According to this agreement the Bank compensates to the service provider for the development and usage of IT systems. As a consequence of the merger, the Management of the Bank has assessed that those systems will be ceased to use in 4 years time and will be replaced by new systems then. Based on that, the assessment of the IT contract becoming onerous (the Bank has an obligation to pay for the amounts relating to year 5 and onwards, although no benefit will be realised from this payment) was done and the provision of EUR 43 million was recognised in Bank's financial statements. The provision was assessed based on the amounts that are related to year 5th and onwards.

In addition to that the payment schedule of the IT agreement was changed by agreeing to pre-pay the amount payable for year 5 and onwards (according to the original schedule) in 2017. After the payment was done the respective prepayment was netted with the liabilities accounted for the onerous contract as no services are to be received in the future for the prepayment made.

Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Investment funds and pension funds management

The Group assesed that it does not control the investment and pension funds it manages. This is because the Group has a narrow scope of decision making powers (within local laws and regulations the funds manager has a disrection about the assets in which to invest), remuneration is commensurate with the services provided, no obligation to fund losses. For information on managed investment and pension funds refer to Note 33.

Consolidation

The subsidiaries are all investees over which the Bank has:

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

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity. The subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are de-consolidated from the date that control ceases. For more details on investments into subsidiaries refer to Note 20.

The accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Bank. Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated.

Combination of entities under common control and usage of the pooling of interest method (Note 41)

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

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

ACCOUNTING POLICIES (continued)

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

Investment in associates

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

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

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

Investments into associates in the Bank's separate financial statements are carried at cost less impairment (if any). For more details on investments in an associate refer to Note 21.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in EUR, which is the Bank's and subsidiaries' functional and presentation currency.

All monetary assets and liabilities denominated in foreign currencies are translated into EUR at the official rate of the Bank of Lithuania prevailing at the reporting period end. Gains and losses arising from this translation are included in the income statement for the period. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, whilst assets carried at fair value are translated at the exchange rate when the fair value was determined.

Transactions denominated in foreign currency are recorded at the rate ruling on the date of the transaction. Exchange differences arising from the settlement of transactions denominated in foreign currency are charged to the income statement at the time of settlement using the exchange rate ruling at that date.

Recognition of income and expenses

Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Loan origination fees for loans and other credit related fees are deferred (together with any incremental costs) and accounted for as an adjustment to the effective interest rate calculation for each issued loan separately.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

ACCOUNTING POLICIES (continued)

Fee and commission income and expense

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

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

Other expenses

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

Dividend income

Dividends are recognised in the income statement when the entity’s right to receive payments is established.

Taxation

Income tax

In accordance with the Lithuanian Law on Corporate Income Tax, the current income tax rate is 15 % on taxable income. Expenses related with taxation charges and included in these financial statements are based on calculations made by the management in accordance with the Lithuanian tax legislation.

Deferred income tax is provided using the balance sheet liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for the financial reporting purposes. Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that a taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities. The losses from disposal of securities can be carried forward for 5 consecutive years. Starting with 1 January 2014 tax losses carried forward can be used to reduce the taxable income earned during the reporting year by maximum 70 %.

Deferred tax related to fair value re-measurement of available for sale investments which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and subsequently recognised in the income statement together with the deferred gain or loss.

Other taxes

Other taxes are included in other expenses in the income statement.

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

ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the cash, other valuables, correspondent bank account balances, correspondent account and one night deposits with the Bank of Lithuania.Required reserves in national currency in Central Bank are also treated as cash as readily available.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial assets

Financial assets are classified into these groups: financial assets designated at fair value through profit or loss, loans and receivables, financial assets available for sale. Management determines the classification of its investments at initial recognition.

Financial assets designated at fair value through profit or loss

Securities designated at fair value through profit or loss

Securities classified in this category are designated at fair value through profit or loss on initial recognition when the following criterias are met:

- that type of classification eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing gains or losses on them on different bases; or
- a group of securities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group of these assets is provided internally to the Bank's management.

Securities designated at fair value through profit or loss are recognized at settlement date, which is the date that an asset is delivered to or by the Group. Securities are initially recognised at fair value. Changes in fair value are recorded in net gain (loss) on operations with securities.

Trading securities

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

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

Derivative financial instruments

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

Changes in the fair value of derivatives held for trading are included in net trading income.

Certain derivatives embedded in other financial instruments, such as index linked options in bond issued or deposits, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

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

ACCOUNTING POLICIES (continued)

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policy, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in net trading income.

Fair values of the derivative financial instruments are disclosed in Note 15.

Available for sale financial assets

Available for sale financial assets at fair value through other comprehensive income include financial assets that are invested in equity shares. Available for sale financial assets are those intended to be held for an indefinite period of time.

Available for sale financial assets are initially recognised at fair value based on quoted bid prices or amounts derived from discounted cash flow models. Unrealised gains and losses arising from changes in the fair value of financial assets classified as available for sale are recognised in other comprehensive income (OCI) except for impairment losses and foreign exchange gains or losses. When the financial asset is derecognised the cumulative gain or loss previously recognised in OCI is recognised in profit or loss. However interest calculated using the effective interest rate is recognised in profit or loss.

Interest earned whilst holding securities is reported as interest income. Dividends receivable are included separately in dividend income when the right of the payment has been established.

All regular way purchases and sales of securities are recognised at settlement date, which is the date that an asset is delivered to or by the Group. All other purchases and sales are recognised as derivative forward transactions until settlement.

Repurchase and reverse repurchase agreements

The securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction's economic substance as a loan to the Bank.

The securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. Reverse repurchase agreements are classified as loans and receivables to other banks or customers, and are accounted for using the amortised cost method. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Loans

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the bank upon initial recognition designates as at fair value through profit or loss; (b) those that the bank upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Loans are carried at amortised cost using the effective interest method.

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

Impairment losses on loans, finance lease receivables and other financial assets

Losses on loan, finance lease receivables and other financial assets impairment are established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the impairment losses is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, based on the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

ACCOUNTING POLICIES (continued)

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. The main criterias that the Group uses to determine whether there is objective evidence of an impairment include:

- Delinquency in contractual payments of principal or interest;
- Significant financial difficulties of the borrower or issuer;
- Due to economic or legal reasons pertaining to financial difficulties of the borrower the latter benefits from allowance, which otherwise would not be granted by the Bank;
- Bankruptcy or reorganisation process against the borrower or issuer;
- Breach of covenant that affects borrower's repayment ability.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually material, and individually for financial assets that are not above materiality thresholds. If the Group determines that no objective evidence of impairment exists for an individually assessed financial assets, whether material or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The Group also collectively assesses the impairment for the financial assets, when a loss event has occurred but it cannot be attributed either to particular type of assets or to the particular group of assets.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all necessary procedures have been completed and the amount of the loss has been determined.

If in a subsequent period the amount of the impairment loss decreases and that decrease can be related objectively to an event (such as an improvement in the debtor’s credit rating) occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement as reducing the impairment charge for credit losses.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

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

ACCOUNTING POLICIES (continued)

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

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

Intangible assets

An intangible asset is recognised only when its cost can be measured reliably, it is controlled by the Group as a result of past events and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. The Group controls an asset if the Group has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses (if any).

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised using the straight–line method over the useful economic life. The amortisation period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end in order to reflect the pattern of consumption of such asset.

Investment properties

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

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

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

Property, plant and equipment

Property, plant and equipment are held at historical cost less accumulated depreciation and any impairment in value. Depreciation is provided on a straight-line basis to write off proportionally the cost of each asset over its estimated useful life.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amount and are charged to the income statement. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Asset maintenance costs are charged to the income statement when they are incurred. Significant renewals of assets are capitalised and depreciated over the remaining useful life period of the improved asset.

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

ACCOUNTING POLICIES (continued)

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, management has committed to the sale and the sale is expected to be completed within one year from the date of classification.
Non-current assets classified as held for sale are not depreciated or amortised.

Fair values of the non-current assets held for sale are disclosed in Note 26.

Leases

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

Group is the lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of lease and included into other administrative expenses.

Group is the lessor

Operating leases

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

Finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Initial direct costs are included in the initial measurement of the lease receivables.

Assets / funds under management and related liabilities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

The Bank's assets under management include loans that are managed by the Bank in the name of the Lithuanian Ministry of Finance and the Lithuanian Ministry of Agriculture. The Group's assets under management also include funds under management and are accounted for off-balance sheet.

Employee benefits

Social security contributions

The Group pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs. Social security contributions each year are allocated by the Fund for pension, health, sickness, maternity and unemployment payments.

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

ACCOUNTING POLICIES (continued)

Termination benefits

Termination benefits are payable when an employee's employment is terminated on initiative of employer or the employment is terminated by mutual employee's and employer's agreement. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after statement of financial position date are discounted to present value. Termination benefits are included within staff costs in the income statement and within other liabilities in the statement of financial position.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The expense relating to any provision is recognised in the income statement. If the effect of the time value of money is material, provisions are discounted using current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Onerous contracts provision

Onerous contracts provision is recognised when the Group has a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

Financial guarantees and credit-related commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of the financial guarantee on the initial recognition does not include the gross receivable for future premiums not yet due. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee or the best estimate of the expenditure required to settle any financial obligation arising at the statement of financial position date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management. Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

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

Fair value of assets and liabilities

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

- In the principal market for the asset or liability, or
- In the absence of the principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

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

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

ACCOUNTING POLICIES (continued)

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

Offsetting financial assets and financial liabilities

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

Off-balance sheet items

Off-balance sheet derivative transactions are marked to market at the reporting date and any arising profit or loss is recognised in the income statement for the period and treated as an asset or liability in the statement of financial position respectively.

All liabilities that might give rise to statement of financial position exposures are accounted for as off-balance sheet liabilities. This allows the Bank and the Group to assess capital requirement and to allocate funds required to cover those obligations.

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Earnings per share

Basic earnings per share amounts are calculated by dividing net result for the year attributable to ordinary equity holders of the parent by the weighted number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net result attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Subsequent events

Post-year-end events that provide additional information about the Bank’s position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

Other

Prior year figures were corrected where needed in order to make them comparable to current year presentation.

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

RISK MANAGEMENT

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

The most important types of risk the Group is exposed to are credit risk, market risk, liquidity risk, operational risk, compliance risk, business risk, reputational risk. Concentration risk is assessed as part of credit risk. Other types of concentration were assessed to be less material for the Group. Market risk includes foreign exchange risk, interest rate risk and equity price risk.

The main risk management principles are revealed in the Risk Management Strategy:

- Risk management is based on the best practice of the institutions having similar complexity of the products, services and extent of the activities;
- If the situation is unclear or if any doubts occur with respect to appropriate risk management the Group follows principles of precaution, conservatism and prudence;
- Risk management is organised in such a way that any possible conflicts of interests among the personnel and/or between the structural units would be avoided. The principle is being taken into action by designing Bank's organisational structure, defining functions and responsibilities as well as subordinate relations. The Bank aims to design an organisational structure which would ensure effective and reliable governance both at the Bank and the Group level.

The risk management process in the Group includes:

- Risk identification. The identification of new risks is performed during internal risks self-assessment process.
- Quantitative evaluation of risks and internal capital calculation for their coverage. The major part of risks the Group is exposed to in its activities is evaluated quantitatively (credit, market, partly operational). Other risks, that depend on a variety factors and outcomes which cannot be reliably forecasted quantitatively, are evaluated qualitatively (operational risk). Internal capital is calculated taking into account possible outcomes for the Group due to realisation of risks.
- Consolidation (aggregation) of risks.
- Ex-ante control is performed by setting limits on operations, planning pricing, selecting suitable customers or segments of customers for the Group. Ex-ante control of risks also covers planning of crisis management and business continuity, stress testing.
- Risk monitoring. Continuous supervision and control should ensure that assumed risks are in line with the Group risk level and structure. Risk related ratios levels are monitored on a regular basis. Processes and compliance with quality requirements are monitored for non-quantifiable risks.
- Ex-post control. Internal reports play an important role in control of outcomes, that allows for timely evaluation of occurrence, dimension of risks and implementation of appropriate measures for avoiding the risk or mitigating it in the future. The Group deals with this type of control by hedging risk or part of risk, increasing capital, diversifying risks.

New types of activity or products as well as financial instruments are incorporated into the Group's activity after these conditions are met:

- The market analysis for the new product is done;
- The procedure for usage, evaluation and accounting of new type of activity, product or financial instrument is prepared;
- The risk, internal control, possible need of capital was evaluated and/or risk limits are approved.

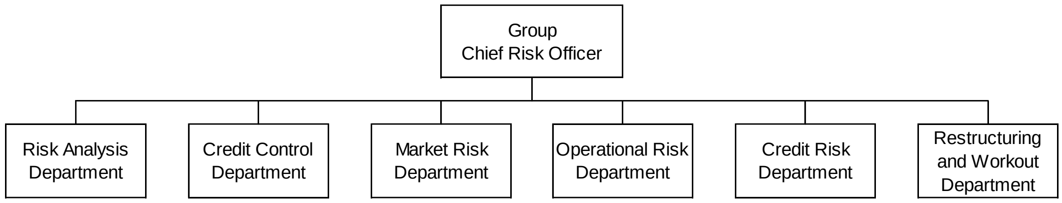
The Group maintains the Recovery Plan following the Bank Recovery and Resolution Directive adopted by the European Parliament. The plan serves as one of the risk management prevention tools and should ensure restoration of the Group's solvency following situations of severe stress without any involvement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

The risk management function of the Group is organised in such a way that ensures efficient risk management and facilitates the realisation of the tasks stipulated in the Risk Management Strategy. The management of separate risks of the Group is under responsibility of structural units within their competence limits. The function of all-type risk control is segregated from risk taking, i.e. from the front-office units.

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

RISK MANAGEMENT (continued)

Risk division organisational structure:



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

In Luminor Group separate Compliance division is established. Lithuania Compliance Department and Lithuania AML Department belong to this division.

An independent Compliance Department represents the second line of defence according to the three lines of defence model. Within the scope of its activities, the Compliance Department identifies, assesses, advises, monitors, tests and reports on compliance risk in ensuring the compliance with the laws, rules and regulations applicable to the broad range of business activities as well as the internal policies and procedures of Luminor Group. The Compliance Department functionally reports as a dotted line to the Chief Executive Officer of the Bank and as a solid line to the Group Chief Compliance Officer.

AML Department represents the first line of defence and is responsible for implementation of anti-money laundering controls within the Bank. AML Department functionally reports as a solid line to local Chief Risk Officer of the Bank and as a dotted line to Luminor Group Audit and Compliance Committee.

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

Risk management processes and effectiveness of internal control are assessed by the Internal Audit Department.

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

Non-structural unit of the Bank – Risk Committee – is responsible for ensuring the effective formation of optimal capital structure, risk management and control. Also it aims to optimize the Bank's asset and liability structure with regard to acceptable risk and return. The Risk Committee considers and assesses the main risk-related processes. Risk reports covering analysis of all the risks are presented to the Risk Committee on a regular basis.

The Credit Committee is founded for the improvement of overall credit risk management quality in the Group based on regular risk reporting. The Credit Committee is a decision making body regarding the individual credit cases and contributes to developing a sound and uniform credit culture in the Group. The Credit Committee provides recommendations regarding approval of impairment losses calculated by business units and verified by Credit Control.

1. Credit risk

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

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

RISK MANAGEMENT (continued)

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

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

The credit risk arises as well from investment activities (e.g. debt securities), the Group's assets as well as from the off-balance sheet financial instruments, such as loan commitments, guarantees and letters of credit.

The credit risk management is an independent function from the front-office. Final approval of credits above a certain level is done together with the independent credit officers. In all cases the four-eye principle must be followed (in cases of small credit card limits/consumer credits one pair of eyes may be replaced by rating).

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

1.1. Credit risk measurement

(a) Loans and advances

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

The credit risk is assessed by using the customer / product segment specific rating models, which are used for homogeneous groups of customers:

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

These instruments are constantly improved based on the results of analysing the historical data on credit-risk-related losses and tested for reliability (validated).

In the year 2016 the rating models and risk parameters, mainly for business customers, were subject to further amendment in order to reflect the risk more precisely. While review of LGD (*loss given default*) parameters for leasing started with car leasing to private individuals and legal entities already in 2016, for the remaining other (non-car) leasing segments estimation and implementation of new LGD parameters was finalized by 2017. A new rating model for microbusiness segment was implemented in July 2017. Moreover, in 2017 the considerable amount of efforts were aimed towards implementation of a uniform landscape of rating models and risk parameters in the Group after combination of operations of AB DNB Bankas and Nordea Bank AB, which is mainly based on the rating models and risk parameters developed internally by AB DNB Bankas. For this purpose, the usage of the rating model of corporates with annual sales from EUR 10 million to 125 million was extended to large corporates with annual sales exceeding 125 million in the second half of 2017 after calibration of the rating model to the different large corporates segment specific calibration level. In parallel, recalibration of the rating model for cash-generating real estate projects of legal entities was accomplished.

The internal rating models are applied in decision making, pricing, monitoring and risk reporting as well as economic capital (risk-adjusted capital, hereinafter referred to as RAC) calculation. RAC is used for decision making with respect to strategic capital allocation, i.e. for determining the strategic segments in lending activity as well as capital planning for the Bank and the Group.

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

RISK MANAGEMENT (continued)

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

In 2017, the Group reviewed and updated the principles and tools for RAC-based pricing decisions taking into account the above mentioned changes to the rating models and risk parameters as well as the need to ensure usage of a uniform pricing approach within the Group after combination of operations of AB DNB Bankas and Nordea Bank AB.

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

In 2017, high attention was dedicated to training of employees involved in credit activities on rating models and risk parameters, risk-based pricing principles, RORAC-based profitability measurement and relationship between them as well as risk data quality assurance issues as well as to ensure the common understanding of these issues through the whole Group.

(b) Debt securities

Debt securities exposure of the Group for the end of year is close to EUR 88 million. The credit risk arising from them is considered as being immaterial. Close to 100 % of all debt securities are issued by the Governments of Lithuania and Latvia. The average weighted duration of the portfolio is about 1.9 years. The remaining minority consists of Lithuanian and Latvian corporate bonds. The debt securities investments are performed in accordance with the limits set by the Luminor Executive Management. The limit utilization is monitored on a daily basis.

1.2. Risk limit control and mitigation policies

(a) Concentration risk

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

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

Concentration risk of lending to the economic sectors is regarded as being material and is closely monitored and controlled. Complimentary to the Bank of Lithuania requirements to limit the large exposures to a single borrower or the group of related borrowers, the Group implements limits to economic sectors, i.e. a possible concentration in certain economic sectors at the Group level is restricted by the internal percentage lending limits. At the end of the year 2017, the loan portfolio of the Group was well diversified by economic sectors.

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

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

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

(b) Collateral

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

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

RISK MANAGEMENT (continued)

The Group mitigates credit risk through taking of security for funds advances. Types of collateral considered by the Group as the most acceptable for securing loans and advances are the following:

- Property rights over financial instruments (debt securities, equities, cash);
- Guarantees;
- Real estate (mainly residential properties, commercial real estate);
- Business assets (equipment, inventory, transport vehicles).

The terms of the loans are taken into account when considering the type of collateral, a priority is given to long-term loans being covered by long-term property, mainly residential properties. More information on collaterals, value assessments of collaterals, periodical review of collateral values is provided in 1.5.e).

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

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

(c) Derivative financial instruments

The credit risk arising from derivative instruments is managed daily by assessing the potential market value changes. Margining agreements are established with the customers. Credit lines are usually granted to manage the credit risk of these financial instruments. Cash or securities collateral are less frequent option to be used as a collateral. In most cases deals are contracted in order to hedge customer's cash flow.

(d) Credit-related commitments

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

1.3. Impairment policies

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

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

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

RISK MANAGEMENT (continued)

The impairment allowances for impaired small exposures are made distinguishing homogenous pools. The impairment rates are based on the historical data on actual losses and expert judgment. These methodologies enable an assessment of the incurred losses of a high number of the impaired small exposures and at the same time provide a possibility to focus on the individual assessment of the Bank's largest impaired borrowers under the discounted cash flow method.

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

Valuation of finance lease and factoring receivables follows broadly the same concept as described above. Impairment indicators for finance lease receivables are the same as for loans.

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

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

RISK MANAGEMENT (continued)

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

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Credit risk exposures relating to on-balance sheet assets are as follows:				
Cash and balances with central banks	**1,362,543**	**134,149**	**1,362,543**	**134,149**
Due from banks and other credit institutions	**251,142**	**744,577**	**251,142**	**744,577**
Loans and advances to customers:	**4,445,709**	**2,751,441**	**4,858,475**	**2,757,189**
Loans and advances to financial institutions	**15,633**	**11,817**	**651,108**	**11,817**
Loans to individuals (retail):	**2,522,869**	**1,536,251**	**2,522,811**	**1,536,251**
- Consumer loans	90,421	75,706	90,421	75,706
- Mortgages	2,199,366	1,243,739	2,199,366	1,243,739
- Loans secured by equity linked bonds issued by Bank	690	1,500	690	1,500
- Other (credit cards, reverse repurchase agreements, other loans backed by securities, other)	232,392	215,306	232,334	215,306
Loans to business customers:	**1,907,207**	**1,203,373**	**1,684,556**	**1,209,121**
- Public authorities, state and municipal entities	197,382	256,692	197,382	256,692
- Large corporates	814,376	633,573	721,170	639,321
- SMEs	894,234	312,343	764,789	312,343
- Other	1,215	765	1,215	765
Finance lease receivables	**639,778**	**160,600**	**178,472**	**160,600**
- Individuals	140,898	46,065	57,173	46,065
- Business customers	498,880	114,535	121,299	114,535
Trading assets:	**2,325**	**5,273**	**2,325**	**5,273**
- Debt securities	2,325	5,273	2,325	5,273
Securities designated at fair value through profit or loss	**85,586**	**98,593**	**84,171**	**97,461**
- Debt securities	85,568	98,575	84,153	97,443
- Equity securities	18	18	18	18
Derivative financial instruments	**6,369**	**13,607**	**6,369**	**13,607**
Securities available for sale	**3,265**	**2,624**	**3,265**	**2,624**
- Equity securities	3,265	2,624	3,265	2,624
Credit risk exposures relating to off – balance sheet items are as follows:	**986,390**	**533,378**	**1,036,388**	**537,230**
- Financial guarantees	80,537	40,575	80,537	40,575
- Loan commitments and other credit related liabilities	905,853	492,803	955,851	496,655
December 31	**7,783,107**	**4,444,242**	**7,783,150**	**4,452,710**

The table above represents credit risk exposure at 31 December 2017 and 2016, without taking into account any credit risk mitigation techniques. On-balance sheet assets are reported above based on the net carrying amount as they appear in the statement of financial position.

Large corporates are legal entities with annual turnover higher than EUR 25 million, while SMEs are legal entities with annual turnover up to EUR 25 million.

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

RISK MANAGEMENT (continued)

Loans and advances to banks and customers account for 60 % of the total maximum exposure of the Group (2016: 79 %) and for 66 % of the total maximum exposure of the Bank (2016: 79 %).

Due to the improved risk profile of the existing customers, inflow of new performing customers into the portfolio as well as due to write-offs, positive trends in the quality of the portfolio of loans and advances to customers are noticeable: the ratio of impairment losses to the respective Group's portfolio in 2017 was 2.3 % (in 2016 3.5 %), whereas the ratio of impairment losses to the respective Bank's portfolio in 2017 stood at 2.1 % (in 2016 3.5 %).

Possible credit risk losses are significantly reduced by collaterals: mortgage loans and 62 % of the Group loans and advances to business customers are secured by collateral (see paragraph 1.5.e) for more detailed information on collateralisation).

The Group pays special attention on determining proper and acceptable risk criteria (regarding financial status of the customer and currency of the contract) that are applicable in decision making on granting of loans as well as on monitoring process seeking to sustain optimal credit risk level.

1.5. Loans and advances

Loans and advances are summarized as follows:

Group

	31 December			
	2017		2016	
	Loans and advances to customers	Due from banks and other credit institutions	Loans and advances to customers	Due from banks and other credit institutions
Neither past due nor impaired	4,115,050	251,142	2,453,328	744,577
Past due but not impaired	207,421	-	184,992	-
Impaired	226,001	-	211,777	-
Gross	**4,548,472**	**251,142**	**2,850,097**	**744,577**
Less: allowance for impairment	(102,763)	-	(98,656)	-
Net	**4,445,709**	**251,142**	**2,751,441**	**744,577**

Bank

	31 December			
	2017		2016	
	Loans and advances to customers	Due from banks and other credit institutions	Loans and advances to customers	Due from banks and other credit institutions
Neither past due nor impaired	4,534,079	251,142	2,459,076	744,577
Past due but not impaired	201,650	-	184,992	-
Impaired	225,263	-	211,777	-
Gross	**4,960,992**	**251,142**	**2,855,845**	**744,577**
Less: allowance for impairment	(102,517)	-	(98,656)	-
Net	**4,858,475**	**251,142**	**2,757,189**	**744,577**

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

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

RISK MANAGEMENT (continued)

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

In 2017, the Group's net amount of total loans and advances to customers increased by 61.6 % mostly due to the merged portfolios of AB DNB Bankas and Nordea Bank AB. The Group's total impairment allowance for loans and advances is EUR 102,763 thousand (2016: EUR 98,656 thousand) and it accounts for 2.3 % of the Group's respective portfolio (2016: 3.5 %). The Group's impaired loans and advances to customers make 5.0 % of the respective portfolio (2016: 7.4%). The reasons for the decrease are the improving creditworthiness of the existing customers, inflow of new solvent customers into the portfolio as well as write-offs.

a) Loans and advances neither past due nor impaired

Loans to private individuals are assessed based on application scorings when decision is made. After the loans are granted they are monitored, the customer's status is periodically evaluated using the behavioural scoring tool.

Credit quality of loans to individual and business customers is disclosed in the tables below according to the risk scale as set in the Credit Manual.

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

31 December 2017

	Group loans to customers		
	Business customers	**Individual customers**	**Total**
Low risk	803,860	1,907,342	2,711,202
Moderate risk	880,322	382,887	1,263,209
High risk	74,407	66,232	140,639
Total	**1,758,589**	**2,356,461**	**4,115,050**

31 December 2016

	Group loans to customers		
	Business customers	**Individual customers**	**Total**
Low risk	537,349	1,091,579	1,628,928
Moderate risk	465,533	277,958	743,491
High risk	23,475	57,434	80,909
Total	**1,026,357**	**1,426,971**	**2,453,328**

31 December 2017

	Bank loans to customers		
	Business customers	**Individual customers**	**Total**
Low risk	681,700	1,907,284	2,588,984
Moderate risk	1,433,692	382,887	1,816,579
High risk	62,284	66,232	128,516
Total	**2,177,676**	**2,356,403**	**4,534,079**

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

RISK MANAGEMENT (continued)

31 December 2016

	Bank loans to customers		
	Business customers	**Individual customers**	**Total**
Low risk	543,097	1,091,579	1,634,676
Moderate risk	465,533	277,958	743,491
High risk	23,475	57,434	80,909
Total	**1,032,105**	**1,426,971**	**2,459,076**

b) Loans and advances past due but not impaired

The gross amount of loans and advances are reported in the tables below. At 31 December 2017 and 2016 there were no past due but not impaired loans in the category "Loans and advances to banks" either at the Bank or at the Group level.

Upon initial recognition of loans and advances, the fair value of collateral is based on the valuation techniques commonly used for the corresponding types of collateral. In subsequent periods, the fair value of collateral is updated when the exposure becomes impaired or regular monitoring of material credit risk related exposures indicates a possibility of significant changes in collateral value (see more detailed explanation on recognition of collateral in paragraph 1.5.e)).

31 December 2017

	Group loans to customers		
	Business customers	**Individual customers**	**Total**
Past due up to 3 days	35,728	19,918	55,646
Past due 4 -30 days	27,771	53,316	81,087
Past due 31-60 days	4,341	26,205	30,546
Past due 61-90 days	1,127	13,298	14,425
Past due more than 90 days	6,236	19,481	25,717
Total	**75,203**	**132,218**	**207,421**
Value of risk mitigation measures	43,225	126,907	170,132

31 December 2016

	Group loans to customers		
	Business customers	**Individual customers**	**Total**
Past due up to 3 days	37,243	9,339	46,582
Past due 4 -30 days	42,829	26,083	68,912
Past due 31-60 days	1,754	21,812	23,566
Past due 61-90 days	3,862	9,077	12,939
Past due more than 90 days	19,434	13,559	32,993
Total	**105,122**	**79,870**	**184,992**
Value of risk mitigation measures	65,740	76,168	141,908

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

RISK MANAGEMENT (continued)

31 December 2017

	Bank loans to customers		
	Business customers	**Individual customers**	**Total**
Past due up to 3 days	33,337	19,918	53,255
Past due 4 -30 days	25,013	53,316	78,329
Past due 31-60 days	3,880	26,205	30,085
Past due 61-90 days	1,121	13,298	14,419
Past due more than 90 days	6,081	19,481	25,562
Total	**69,432**	**132,218**	**201,650**
Value of risk mitigation measures	41,548	126,907	168,455

31 December 2016

	Bank loans to customers		
	Business customers	**Individual customers**	**Total**
Past due up to 3 days	37,243	9,339	46,582
Past due 4 -30 days	42,829	26,083	68,912
Past due 31-60 days	1,754	21,812	23,566
Past due 61-90 days	3,862	9,077	12,939
Past due more than 90 days	19,434	13,559	32,993
Total	**105,122**	**79,870**	**184,992**
Value of risk mitigation measures	65,740	76,168	141,908

More than half of loans and advances (65.9 % for the Group and 65.3 % for the Bank) reported as past due but not impaired are past due up to one month, up to 30 days as at 31 December 2017 (2016: 62.4 %).

c) Impaired loans and advances

There are no individually impaired loans and advances to banks and financial institutions either at the Bank or at the Group level as of 31 December 2017 and 2016.

The gross amount of individually impaired loans and advances by customer type is reported together with the value of related collateral held as security in the tables below.

Individually impaired loans and advances are most often secured by real estate and movable assets. The value for such collateral is equal to its market value (not liquidation value), which is updated shortly after identification of impairment.

Loans and advances which are not impaired individually are grouped and assessed for collective impairment. Loans and advances are grouped into private individuals and legal entities.

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

RISK MANAGEMENT (continued)

	Group loans		
	Business customers	**Individual customers**	**Total**
31 December 2017			
Individually assessed impaired loans	154,015	71,986	226,001
Fair value of collateral	98,930	45,386	144,316
31 December 2016			
Individually assessed impaired loans	145,984	65,793	211,777
Fair value of collateral	95,315	38,015	133,330

	Bank loans		
	Business customers	**Individual customers**	**Total**
31 December 2017			
Individually assessed impaired loans	153,277	71,986	225,263
Fair value of collateral	98,421	45,386	143,807
31 December 2016			
Individually assessed impaired loans	145,984	65,793	211,777
Fair value of collateral	95,315	38,015	133,330

d) Renegotiated loans and advances

The renegotiation of loans is performed at the different levels of competence taking into account significance and level of risk of these loans.

The table below discloses the volume of loans that were renegotiated in the years 2017 (only during the period from 01 10 2017 to 31 12 2017 for loans from Nordea Bank AB portfolio) and 2016.

	Group and Bank loans	
	2017	**2016**
Loans to individuals (retail):	**11,403**	**14,553**
- Consumer loans	160	196
- Mortgages	5,812	5,985
- Loans secured by equity-linked bonds issued by the Bank	218	683
- Other (credit cards, reverse repurchase agreements, other loans backed by securities, other)	5,213	7,689
Loans to business customers:	**28,615**	**25,820**
- Large corporates	16,776	7,410
- SMEs	11,839	18,410
Total	**40,018**	**40,373**

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

RISK MANAGEMENT (continued)

e) Information about collaterals of loans

Upon initial recognition of loans and advances, the fair value of collateral is based on the valuation techniques commonly used for the corresponding types of collateral. Market values (or purchase price, whichever is lower) are used for real estate and movable assets serving as collateral. In subsequent periods, the fair value of collateral is updated when exposure becomes individually impaired or results of a regular credit risk monitoring indicate the possibility of significant changes in collateral value. The value of residential real estate is recalculated periodically by applying the indices.

The Bank takes into account guarantees issued by the State, other parties issuing guarantees which are equivalent to the State guarantees (e.g. guarantees of Investicijų ir Verslo Garantijos UAB, Žemės Ūkio Paskolų Garantijų Fondas UAB), municipalities, banks as well as credit insurance provided by the company owned by the Ministry of Finance Būsto Paskolų Draudimas UAB in disclosing information on guarantees serving as collateral. Guarantees and warranties issued by other parties (private individuals, legal entities), although they mitigate the risk, are considered to be immaterial and are not disclosed here.

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

The most commonly used type of collateral is residential real estate comprising 56 % of the secured part of the Group's loan portfolio (2016: 50 %).

31 December 2017

	Group loans					
	Business customers	**%**	**Individuals (retail)**	**%**	**Total**	**%**
Unsecured loans	**762,133**	**38%**	**133,452**	**5%**	**895,585**	**20%**
Loans collateralized by:	**1,225,423**	**62%**	**2,427,212**	**95%**	**3,652,635**	**80%**
- residential real estate	35,497	2%	2,021,597	79%	2,057,094	45%
- other real estate	825,594	42%	153,025	6%	978,619	22%
- securities	1,360	0%	115	0%	1,475	0%
- guarantees	58,323	3%	228,683	9%	287,006	6%
- other assets	304,649	15%	23,792	1%	328,441	7%
Total	**1,987,556**	**100%**	**2,560,664**	**100%**	**4,548,220**	**100%**

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

RISK MANAGEMENT (continued)

31 December 2016

	Group loans					
	Business customers	%	**Individuals (retail)**	%	**Total**	%
Unsecured loans	**384,282**	**30%**	**111,596**	**7%**	**495,878**	**17%**
Loans collateralized by:	**893,181**	**70%**	**1,461,038**	**93%**	**2,354,219**	**83%**
- residential real estate	34,220	3%	1,141,192	73%	1,175,412	41%
- other real estate	656,363	51%	132,265	8%	788,628	28%
- securities	930	0%	5	0%	935	0%
- guarantees	53,962	4%	159,776	10%	213,738	8%
- other assets	147,706	12%	27,800	2%	175,506	6%
Total	**1,277,463**	**100%**	**1,572,634**	**100%**	**2,850,097**	**100%**

31 December 2017

	Bank loans					
	Business customers	%	**Individuals (retail)**	%	**Total**	%
Unsecured loans	**1,205,670**	**50%**	**133,395**	**5%**	**1,339,065**	**27%**
Loans collateralized by:	**1,194,715**	**50%**	**2,427,212**	**95%**	**3,621,927**	**73%**
- residential real estate	35,497	2%	2,021,597	79%	2,057,094	41%
- other real estate	825,594	34%	153,025	6%	978,619	20%
- securities	1,360	0%	115	0%	1,475	0%
- guarantees	58,323	3%	228,683	9%	287,006	6%
- other assets	273,941	11%	23,792	1%	297,733	6%
Total	**2,400,385**	**100%**	**2,560,607**	**100%**	**4,960,992**	**100%**

31 December 2016

	Bank loans					
	Business customers	%	**Individuals (retail)**	%	**Total**	%
Unsecured loans	**390,030**	**30%**	**111,596**	**7%**	**501,626**	**18%**
Loans collateralized by:	**893,181**	**70%**	**1,461,038**	**93%**	**2,354,219**	**82%**
- residential real estate	34,220	3%	1,141,192	73%	1,175,412	41%
- other real estate	656,363	51%	132,265	8%	788,628	28%
- securities	930	0%	5	0%	935	0%
- guarantees	53,962	4%	159,776	10%	213,738	7%
- other assets	147,706	12%	27,800	2%	175,506	6%
Total	**1,283,211**	**100%**	**1,572,634**	**100%**	**2,855,845**	**100%**

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

RISK MANAGEMENT (continued)

1.6. Finance lease receivables

Finance lease receivables are summarized as follows:

	Group					
	2017			2016		
	Business customers	Individuals	Total	Business customers	Individuals	Total
Neither past due nor impaired	479,244	136,114	615,358	108,887	44,016	152,903
Past due but not impaired	14,991	4,540	19,531	2,944	1,952	4,896
Impaired	9,432	525	9,957	5,205	244	5,449
Gross	**503,667**	**141,179**	**644,846**	**117,036**	**46,212**	**163,248**
Less: allowance for impairment	(4,787)	(281)	(5,068)	(2,501)	(147)	(2,648)
Net	**498,880**	**140,898**	**639,778**	**114,535**	**46,065**	**160,600**

In 2017, finance lease receivables portfolio increased by 295 % due to the inflow of Nordea Finance Lithuania UAB portfolio. Total impairment allowance for finance lease receivables is EUR 5,068 thousand and it accounts for 0.8 % of the respective portfolio.

	Bank					
	2017			2016		
	Business customers	Individuals	Total	Business customers	Individuals	Total
Neither past due nor impaired	116,996	55,346	172,342	108,887	44,016	152,903
Past due but not impaired	2,777	1,763	4,540	2,944	1,952	4,896
Impaired	3,977	224	4,201	5,205	244	5,449
Gross	**123,750**	**57,333**	**181,083**	**117,036**	**46,212**	**163,248**
Less: allowance for impairment	(2,451)	(160)	(2,611)	(2,501)	(147)	(2,648)
Net	**121,299**	**57,173**	**178,472**	**114,535**	**46,065**	**160,600**

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

RISK MANAGEMENT (continued)

1.7. Exposures rated by External Credit Assessment Institutions

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

31 December 2017

Group

Rating	Trading securities		Securities designated at fair value through profit or loss		Total
	Bonds	T-Bills	Bonds	T-Bills	
Aaa	-	-	-	-	**-**
From Aa3 to Aa1	-	-	-	-	**-**
From A3 to A1	2,189	-	85,568	-	**87,757**
From Baa1 to Ba3	136	-	-	-	**136**
From B1 to B3	-	-	-	-	**-**
NR	-	-	-	-	**-**
Total	**2,325**	**-**	**85,568**	**-**	**87,893**

31 December 2017

Bank

Rating	Trading securities		Securities designated at fair value through profit or loss		Total
	Bonds	T-Bills	Bonds	T-Bills	
Aaa	-	-	-	-	**-**
From Aa3 to Aa1	-	-	-	-	**-**
From A3 to A1	2,189	-	84,153	-	**86,342**
From Baa1 to Ba3	136	-	-	-	**136**
From B1 to B3	-	-	-	-	**-**
NR	-	-	-	-	**-**
Total	**2,325**	**-**	**84,153**	**-**	**86,478**

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

RISK MANAGEMENT (continued)

31 December 2016

Group

Rating	Trading securities		Securities designated at fair value through profit or loss		Total
	Bonds	T-Bills	Bonds	T-Bills	
Aaa	-	-	-	-	**-**
From Aa3 to Aa1	-	-	10,007	-	**10,007**
From A3 to A1	2,935	-	88,568	-	**91,503**
From Baa1 to Ba3	193	-	-	-	**193**
From B1 to B3	-	-	-	-	**-**
NR	2,145	-	-	-	**2,145**
Total	**5,273**	**-**	**98,575**	**-**	**103,848**

31 December 2016

Bank

Rating	Trading securities		Securities designated at fair value through profit or loss		Total
	Bonds	T-Bills	Bonds	T-Bills	
Aaa	-	-	-	-	**-**
From Aa3 to Aa1	-	-	10,007	-	**10,007**
From A3 to A1	2,935	-	87,436	-	**90,371**
From Baa1 to Ba3	193	-	-	-	**193**
From B1 to B3	-	-	-	-	**-**
NR	2,145	-	-	-	**2,145**
Total	**5,273**	**-**	**97,443**	**-**	**102,716**

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

RISK MANAGEMENT (continued)

1.8. Repossessed assets

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

	Gross amount			
	Group		Bank	
Nature of assets at gross values	**2017**	**2016**	**2017**	**2016**
Repossessed assets (investment properties, Note 23)	17,147	30,015	812	-
Repossessed assets (non-current assets held for sale, Note 26)	1,310	7,994	29	29
Retrieved assets under cancelled lease contracts (Note 25)	628	1,726	628	1,726
Total	**19,085**	**39,735**	**1 469**	**1,755**

Other repossessed assets and retrieved assets under cancelled lease contracts (mainly vehicles and equipment) are accounted at the lower of cost and net realisable value and are classified in the statement of financial position within other assets.

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

RISK MANAGEMENT (continued)

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

Economic sectors

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

Group

	Financial intermediation	Agriculture, hunting, forestry, fishing	Manufacturing	Electricity, gas, water supply	Construction	Wholesale and retail trade	Transport, storage, communication	Real estate activities*	Public sector	Other industries	Private individuals	**Total**
Neither past due nor impaired	3,431	303,356	417,504	83,958	71,782	541,758	209,847	338,258	195,162	229,052	2,336,300	4,730,408
Past due but not impaired	34	18,352	11,078	2,256	3,672	19,834	4,973	29,575	1,293	11,215	124,670	226,952
Impaired	-	4,321	11,741	53	17,124	19,156	4,509	94,302	-	14,865	69,887	235,958
Value adjustments and provisions	(5)	(2,345)	(3,406)	(203)	(8,819)	(11,162)	(2,859)	(35,626)	(150)	(6,720)	(36,536)	(107,831)
Changes for value adjustments and provisions during the reporting period	7	(36)	3,327	(151)	3,245	(3,538)	(504)	(3,987)	80	(3,037)	(1,933)	(6,527)
Total at 31 December 2017	**3,460**	**323,684**	**436,917**	**86,064**	**83,759**	**569,586**	**216,470**	**426,509**	**196,305**	**248,412**	**2,494,321**	**5,085,487**
Total at 31 December 2016	**451**	**189,193**	**210,239**	**42,139**	**40,827**	**222,111**	**53,514**	**351,322**	**254,291**	**116,576**	**1,431,378**	**2,912,041**

Bank

	Financial intermediation	Agriculture, hunting, forestry, fishing	Manufacturing	Electricity, gas, water supply	Construction	Wholesale and retail trade	Transport, storage, communication	Real estate activities*	Public sector	Other industries	Private individuals	**Total**
Neither past due nor impaired	637,920	208,380	274,777	79,762	51,668	457,151	58,766	332,800	194,921	154,801	2,255,475	4,706,421
Past due but not impaired	-	12,200	10,472	2,071	3,163	14,890	1,678	29,534	1,282	9,007	121,893	206,190
Impaired	-	2,030	11,305	21	16,424	18,620	2,735	94,300	-	14,443	69,586	229,464
Value adjustments and provisions	(3)	(1,391)	(3,247)	(61)	(8,616)	(10,914)	(2,293)	(35,614)	(148)	(6,426)	(36,415)	(105,128)
Changes for value adjustments and provisions during the reporting period	9	918	3,486	(9)	3448	(3,290)	62	(3,975)	82	(2,743)	(1,812)	(3,824)
Total at 31 December 2017	**637,917**	**221,219**	**293,307**	**81,793**	**62,639**	**479,747**	**60,886**	**421,020**	**196,055**	**171,825**	**2,410,539**	**5,036,947**
Total at 31 December 2016	**451**	**189,193**	**210,239**	**42,139**	**40,827**	**222,111**	**53,514**	**357,070**	**254,291**	**116,576**	**1,431,378**	**2,917,789**

*Real estate activities include counterparties reported under loans and advances to financial institutions in Financial risk management note 1.4.

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

RISK MANAGEMENT (continued)

2. Market risk

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

The interest rate risk is assessed using the BPV (basis point value) technique, which measures an impact on the value of net cash flows given a one basis point (0.01 %) parallel shift in market interest rates. An exchange rate risk is evaluated by calculation of open foreign exchange positions. The aforementioned calculations are performed daily and submitted to the Bank's Management, as well as Bank's Markets and Treasury Departments. Interest rate and foreign exchange risks are restricted by the limits determined by the Luminor Executive Management and monitored daily by the Risk analysis department.

2.1 Market risk measurement techniques

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

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

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

2.2. Foreign exchange risk

Note 36 reveals that the Group has the main exposure to the Euro (EUR), exposures to other currencies are not significant. The Group follows a very conservative approach to the foreign exchange risk which is measured as the nominal value of open FX positions converted to the Euro using the current spot rate. The Group is responsible to stay within the given limits – both intraday and overnight.

Sensitivity of foreign exchange risk

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

Currency	Reasonable shift
USD	5.2%
Other currencies	5.2%

The presumable FX rate change creates an acceptable impact on the Bank's and Group's annual profit as well as equity and makes an impact of EUR 11 thousand in 2017 (EUR 13 thousand in 2016) on profit.

The Group's and Bank's exposure to the foreign currency exchange rate risk is summarised in Note 36.

2.3. Interest rate risk

The interest rate risk is measured as BPV, i.e. the change in market value of interest rate exposures equal to the financial result actually accounted for in the Euro resulting from a 0.01 %-point rate change. Interest rate risk exposure inherited in all types of on- and off-balance sheet instruments is transformed to BPV. When calculating the total interest exposure the sums of BPV in each currency are aggregated irrespective if the total exposure in each individual currency is a short or long position, i.e. netting of positions between currencies is not allowed.

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

RISK MANAGEMENT (continued)

The Group's main exposure to the interest rate risk is in the EUR currency, while the interest rate risk in other currencies is not significant. In case of EUR, funding from DNB Oslo and Nordea Helsinki is mainly covering exposure from assets. As the Group follows a conservative approach in interest rate risk, a set of limits for exposures in different currencies is set by the Luminor Executive Management. The interest rate risk from single currency position is calculated and monitored on a daily basis.

The Bank's and Group's exposure to interest rate risk as of 31 December 2017 (basis point value in TEUR):

Currency	Bank	Luminor Asset Management	Luminor Leasing	Elimination effect	Consolidated
EUR	(17.4)	(0.3)	(0.1)	-	(17.8)
USD	0.3	-	-	-	0.3
NOK	0.0	-	-	-	0.0
Others	0.0	-	-	-	0.0

The Bank's and Group's exposure to interest rate risk as of 31 December 2016 (basis point value in TEUR):

Currency	Bank	DNB Asset Management	Elimination effect	Consolidated
EUR	(6.8)	(0.3)	-	(7.1)
USD	0.6	-	-	0.6
NOK	0.0	-	-	0.0
Others	0.0	-	-	0.0

The Group's and Bank's interest rate gap analysis is summarized in Note 37.

Sensitivity of interest rate risk

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

Reasonable shift in bp	**EUR**	**USD**
2017	119	160
2016	119	160

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

Impact on equity and P&L:

	Equity		P&L	
Year	Group	Bank	Group	Bank
2017	2,190	2,136	3,507	3,546
2016	957	925	2,085	2,054

2.4 Equity risk

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

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

RISK MANAGEMENT (continued)

3. Liquidity risk

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

The Bank's management constantly monitors the liquidity situation on the financial markets. The Bank is ready to act if the liquidity situation becomes worse, business and funding contingency plans are in place and up to date. The liquidity risk management strategy is reviewed at least annually or after any significant change in the internal or external environment the Bank operates in.

3.1 Liquidity risk management process

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

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

The liquidity gap is calculated by analysing the Group's net refinancing situation within one week, one month and three months applying a "business as usual" approach. Liquid assets and short-term liabilities are included in the liquidity gap calculation for respective terms (1 week to 3 months). The liquidity gap of the Bank does not materially differ from the Group.

	31 December 2017			**31 December 2016**		
million EUR	1 week	1 month	3 months	1 week	1 month	3 months
Liquidity gap (Group)	1,382	1,325	1,303	195	165	114
Limits	0	0	0	0	0	0

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

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

The LCR and NSFR ratios of the Bank does not materially differ from the Group.

	31 December 2017	**31 December 2016**
LCR (Group)	158%	181%
NSFR (Group)	133%	133%

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

RISK MANAGEMENT (continued)

3.2. Funding approach

The Bank has a possibility of attracting funding from the ultimate shareholders (DNB Bank ASA and Nordea Bank AB) who provide funding in the Euro and foreign currencies according to the Liquidity Facility and the Long Term Revolving Facility. In addition, the Bank has alternative high quality funding sources at attractive costs. The Bank is taking part in ECB's Eurosystem open market operations. In particular the Bank is a user of ECB Targeted Long Term Refinancing Operations. The significant part of funding is attracted through retail and corporate deposits. Moreover, the Bank is planning to issue its own debt securities in the near future which will further diversify possibilities of attracting funding.

3.3. Non-derivative cash flows

Undiscounted cash flows below describe the liability side outflows which are represented by nominal contract amounts together with accrued interest till the end of the contract. Possible early repayments foreseen in the loan agreements are included in cash flows calculations.

Group

31 December 2017 Liabilities	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Due to banks and other credit institutions	59,052	35	1,281,961	899,803	-	**2,240,851**
Due to customers	3,435,781,	101,846	305,240	11,667	1,544	**3,856,078**
Other financial liabilities	34,944	1,262	2,670	554	61	**39,491**
Total liabilities (contractual maturity dates)	**3,529,777**	**103,143**	**1,589,871**	**912,024**	**1,605**	**6,136,420**

Bank

31 December 2017 Liabilities	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Due to banks and other credit institutions	59,052	35	1,281,961	899,803	-	**2,240,851**
Due to customers	3,467,850	101,846	305,240	11,667	1,544	**3,888,147**
Other financial liabilities	27,955	1,164	2,568	554	61	**32,302**
Total liabilities (contractual maturity dates)	**3,554,857**	**103,045**	**1,589,769**	**912,024**	**1,605**	**6,161,300**

Group

31 December 2016 Liabilities	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Due to banks and other credit institutions	23,418	15,750	13,994	956,285	-	**1,009,447**
Due to customers	2,283,819	51,039	130,483	8,287	2,152	**2,475,780**
Other financial liabilities	12,995	1,527	2,483	533	52	**17,590**
Total liabilities (contractual maturity dates)	**2,320,232**	**68,316**	**146,960**	**965,105**	**2,204**	**3,502,817**

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

RISK MANAGEMENT (continued)

Bank **31 December 2016** **Liabilities**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Due to banks and other credit institutions	23,418	15,750	13,994	956,285	-	**1,009,447**
Due to customers	2,294,260	51,039	130,483	8,287	2,152	**2,486,221**
Other financial liabilities	11,663	1,425	2,462	533	52	**16,135**
Total liabilities (contractual maturity dates)	**2,329,341**	**68,214**	**146,939**	**965,105**	**2,204**	**3,511,803**

3.4. Derivative cash flows

The tables below analyse cash flows from derivative instruments. Commonly the Group has exposure to foreign exchange derivatives, i.e. forwards, swaps, interest rate derivatives, i.e. swaps and options on interest rates, and equity derivatives, i.e. options on equity indices.

a) Derivatives settled on a net basis

31 December 2017	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Derivatives held for trading						
- Interest rate derivatives	13	(10)	(413)	(994)	(492)	**(1,896)**
- Commodity derivatives	12	4	70	31	-	**117**
Total	**25**	**(6)**	**(343)**	**(963)**	**(492)**	**(1,779)**

31 December 2016	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Derivatives held for trading						
- Interest rate derivatives	25	3	(100)	(166)	(104)	**(342)**
- Commodity derivatives	6	13	68	6	-	**93**
Total	**31**	**16**	**(32)**	**(160)**	**(104)**	**(249)**

b) Derivatives settled on a gross basis

31 December 2017 **Derivatives held for trading**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
Foreign exchange derivatives					
Outflow	**128,244**	**90,224**	**45,711**	**155**	**264,334**
Inflow	**127,601**	**89,613**	**45,492**	**154**	**262,860**
Total outflow	**128,244**	**90,224**	**45,711**	**155**	**264,334**
Total inflow	**127,601**	**89,613**	**45,492**	**154**	**262,860**

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

RISK MANAGEMENT (continued)

31 December 2016 **Derivatives held for trading**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
Foreign exchange derivatives					
Outflow	50,748	43,987	118,731	833	214,299
Inflow	52,311	45,892	119,774	839	218,816
Total outflow	**50,748**	**43,987**	**118,731**	**833**	**214,299**
Total inflow	**52,311**	**45,892**	**119,774**	**839**	**218,816**

3.5. Off - balance sheet items

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

Group

	Up to one year	**From 1 to 5 years**	**Over 5 years**	**Total**
At 31 December 2017				
Financial guarantees	58,172	22,301	64	80,537
Letters of credit	49,125	250	-	49,375
Commitments to grant loans	484,908	213,136	8,185	706,229
Commitments to grant finance leases	35,571	11,450	2,815	49,836
Capital commitments and other commitments to acquire assets	691	-	-	691
Other commitments	52,656	41,442	11,540	105,638
Total	**681,123**	**288,579**	**22,604**	**992,306**

	Up to one year	**From 1 to 5 years**	**Over 5 years**	**Total**
At 31 December 2016				
Financial guarantees	25,914	14,239	422	40,575
Letters of credit	1,794	-	-	1,794
Commitments to grant loans	273,992	143,084	4,306	421,382
Commitments to grant finance leases	25	1,986	50	2,061
Capital commitments and other commitments to acquire assets	546	-	-	546
Other commitments	36,110	23,654	12,964	72,728
Total	**338,381**	**182,963**	**17,742**	**539,086**

Bank

	Up to one year	**From 1 to 5 years**	**Over 5 years**	**Total**
At 31 December 2017				
Financial guarantees	58,172	22,301	64	80,537
Letters of credit	49,125	250	-	49,375
Commitments to grant loans	568,274	223,934	8,185	800,393
Commitments to grant finance leases	-	2,855	2,815	5,670
Capital commitments and other commitments to acquire assets	691	-	-	691
Other commitments	52,656	41,442	11,540	105,638
Total	**728,918**	**290,782**	**22,604**	**1,042,304**

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

RISK MANAGEMENT (continued)

Bank

	Up to one year	From 1 to 5 years	Over 5 years	Total
At 31 December 2016				
Financial guarantees	25,914	14,239	422	40,575
Letters of credit	1,794	-	-	1,794
Commitments to grant loans	273,992	146,936	4,306	425,234
Commitments to grant finance leases	25	1,986	50	2,061
Capital commitments and other commitments to acquire assets	546	-	-	546
Other commitments	36,110	23,654	12,964	72,728
Total	**338,381**	**186,815**	**17,742**	**542,938**

4. Fair value of financial assets and liabilities

The table below summarizes the carrying amounts and fair values of financial assets and liabilities not presented on the Group and Bank statement of financial position at their fair value. The fair values disclosed in the table below are categorised as level 3. The estimated fair value represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at the current market interest rates (EURIBOR, LIBOR) plus or minus the current margin for similar products to determine the fair value.

As at 31 December 2017	**Group**		**Bank**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Assets				
Due from banks and other credit institutions	251,142	251,175	251,142	251,175
Loans and advances to customers of which:	4,445,709	4,406,388	4,858,475	4,814,195
-Loans to individuals	2,522,869	2,500,555	2,522,811	2,499,818
-Loans to business customers	1,907,207	1,890,338	1,684,556	1,669,203
-Loans and advances to financial institutions	15,633	15,495	651,108	645,174
Finance lease receivables of which:	639,778	634,119	178,472	176,845
-Individuals	140,898	139,652	57,173	56,652
-Business customers	498,880	494,467	121,299	120,193
Liabilities				
Due to banks	2,229,590	2,240,729	2,229,590	2,240,729
Due to customers	3,856,118	3,855,558	3,888,188	3,887,631

As at 31 December 2016	**Group**		**Bank**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Assets				
Due from banks and other credit institutions	744,577	744,587	744,577	744,587
Loans and advances to customers of which:	2,751,441	2,712,724	2,757,189	2,718,391
-Loans to individuals	1,536,251	1,514,633	1,536,251	1,514,633
-Loans to business customers	1,203,373	1,186,440	1,209,121	1,192,107
-Loans and advances to financial institutions	11,817	11,651	11,817	11,651
Finance lease receivables of which:	160,600	158,340	160,600	158,340
-Individuals	46,065	45,417	46,065	45,417
-Business customers	114,535	112,923	114,535	112,923
Liabilities				
Due to banks	1,012,291	998,835	1,012,291	998,835
Due to customers	2,475,696	2,475,704	2,486,137	2,486,145

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

RISK MANAGEMENT (continued)

Next tables below summarize the fair value measurement hierarchy of the Bank financial assets and liabilities accounted for at fair value. Financial instruments are distributed by 3 levels of the fair value:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The fair value of all Bank contracted derivatives is defined as level 2. These are mainly interest rate swaps and FX derivatives which are valued using the discounted cashflow or present value calculation method and revaluation of options is based on the Black and Scholes model. In all cases pricing is based on market observable inputs. Debt securities priced in accordance with the market quotes are defined as level 1.

The carying value of accrued expenses as disclosed in Note 30 represents the fair value.

There were no movements of financial instruments between the levels during 2017 and 2016.

Valuation of all financial assets and liabilities measured at fair value was performed as at 31 December 2017.

Group

As at 31 December 2017	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Derivative financial assets (Note 15):				
FX forwards, swaps, put, call options	-	771	-	771
Interest rate swaps, collars	-	3,744	-	3,744
Commodity swaps	-	1,854	-	1,854
	-	**6,369**	**-**	**6,369**
Financial assets held for trading (Note 13):				
Debt securities	2,325	-	-	2,325
	2,325	**-**	**-**	**2,325**
Financial assets designated at fair value through profit or loss (Note 14):				
Debt securities	85,568	-	-	85,568
Equity securities	-	-	18	18
	85,568	**-**	**18**	**85,586**
Available for sale financial assets (Note 16):				
Equity securities	-	-	3,265	3,265
	-	**-**	**3,265**	**3,265**
	87,893	**6,369**	**3,283**	**97,545**
Liabilities measured at fair value				
Derivative financial liabilities (Note 15):				
FX forwards, swaps, put, call options	-	2,577	-	2,577
Interest rate swaps, collars	-	3,373	-	3,373
Commodity swaps	-	1,794	-	1,794
	-	**7,744**	**-**	**7,744**

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

RISK MANAGEMENT (continued)

Bank

As at 31 December 2017	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Derivative financial assets (Note 15):				
FX forwards, swaps, put, call options	-	771	-	771
Interest rate swaps, collars	-	3,744	-	3,744
Commodity swaps	-	1,854	-	1,854
	-	**6,369**	**-**	**6,369**
Financial assets held-for-trading (Note 13):				
Debt securities	2,325	-	-	2,325
	2,325	**-**	**-**	**2,325**
Financial assets designated at fair value through profit or loss (Note 14):				
Debt securities	84,153	-	-	84,153
Equity securities	-	-	18	18
	84,153	**-**	**18**	**84,171**
Available for sale financial assets (Note 16):				
Equity securities	-	-	3,265	3,265
	-	**-**	**3,265**	**3,265**
	86,478	**6,369**	**3,283**	**96,130**
Liabilities measured at fair value:				
Derivative financial liabilities (Note 15):				
FX forwards, swaps, put, call options	-	2,577	-	2,577
Interest rate swaps, collars	-	3,373	-	3,373
Commodity swaps	-	1,794	-	1,794
	-	**7,744**	**-**	**7,744**

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

RISK MANAGEMENT (continued)

Group

As at 31 December 2016	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Derivative financial assets (Note 15):				
FX forwards, swaps, put, call options	-	6,093	-	6,093
Interest rate swaps, collars	-	4,369	-	4,369
Commodity swaps	-	3,145	-	3,145
	-	**13,607**	**-**	**13,607**
Financial assets held for trading (Note 13):				
Debt securities	3,128	-	2,145	5,273
	3,128	**-**	**2,145**	**5,273**
Financial assets designated at fair value through profit or loss (Note 14):				
Debt securities	98,575	-	-	98,575
Equity securities	-	-	18	18
	98,575	**-**	**18**	**98,593**
Available for sale financial assets (Note 16):				
Equity securities	-	-	2,624	2,624
	-	**-**	**2,624**	**2,624**
	101,703	**13,607**	**4,787**	**120,097**
Liabilities measured at fair value				
Derivative financial liabilities (Note 15):				
FX forwards, swaps, put, call options	-	2,011	-	2,011
Interest rate swaps, collars	-	4,314	-	4,314
Commodity swaps	-	3,053	-	3,053
	-	**9,378**	**-**	**9,378**

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

RISK MANAGEMENT (continued)

Bank

As at 31 December 2016	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Derivative financial assets (Note 15):				
FX forwards, swaps, put, call options	-	6,093	-	6,093
Interest rate swaps, collars	-	4,369	-	4,369
Commodity swaps	-	3,145	-	3,145
	-	**13,607**	**-**	**13,607**
Financial assets held-for-trading (Note 13):				
Debt securities	3,128	-	2,145	5,273
	3,128	**-**	**2,145**	**5,273**
Financial assets designated at fair value through profit or loss (Note 14):				
Debt securities	97,443	-	-	97,443
Equity securities	-	-	18	18
	97,443	**-**	**18**	**97,461**
Available for sale financial assets (Note 16):				
Equity securities	-	-	2,624	2,624
	-	**-**	**2,624**	**2,624**
	100,571	**13,607**	**4,787**	**118,965**
Liabilities measured at fair value:				
Derivative financial liabilities (Note 15):				
FX forwards, swaps, put, call options	-	2,011	-	2,011
Interest rate swaps, collars	-	4,314	-	4,314
Commodity swaps	-	3,053	-	3,053
	-	**9,378**	**-**	**9,378**

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

RISK MANAGEMENT (continued)

5. Operational risk

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

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

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

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

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

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

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

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

6. Stress tests

Besides the regular assessment of the risks and the capital requirement calculation, the Group also performs stress tests for the credit, liquidity, market (interest rate and foreign exchange), operational risks and the stress testing of the financial plan (business risk). The purpose of the stress-testing is to evaluate whether the Group's capital is sufficient to cover those extraordinary losses that might occur in the case where the testing scenario is realised as well as to prepare the contingency plan for the Group. In order to evaluate the losses caused by the aforesaid risks the realisations of the standard, possible and worst case scenarios are assumed. Liquidity risk is tested under the following scenarios: specific scenario, market scenario, and combined scenario.

The results of the stress tests are submitted to the Group's management bodies at least once a year.

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

RISK MANAGEMENT (continued)

7. Capital management

The capital of the Group is calculated and allocated for the risk coverage following the regulations in a new capital requirements directive, CRD IV, and capital requirements regulation CRR of the European Union and the Bank of Lithuania legal acts. The Group's objectives in capital management are as follows:

1) to comply with the capital requirements set by the European Union as well as the higher target capital requirements set by the major shareholder,
2) to safeguard the Bank's and the Group's ability to continue as a going concern so that it can provide returns for shareholders and benefits for other stakeholders,
3) to support the development of the Group's business with the help of the strong capital base.

Capital adequacy report is submitted to the supervising authority on a quarterly basis in accordance with the regulations of the European Union and the Bank of Lithuania.

The Group's regulatory capital is divided into two tiers:
1) Tier 1/Common Equity Tier 1 (CET 1) capital consists of the ordinary shares, share premium, retained earnings of the previous financial year, accumulated other comprehensive income, other reserves, value adjustments due to requirements for prudent valuation and less the intangible assets, deferred tax assets and other deductions.
2) Tier 2 capital consists of transitional adjustments related to the accumulated other comprehensive income.

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

The table below summarizes the composition of regulatory capital and the ratios of the Bank and the Group for the years ended 31 December. According to the regulatory requirements, 8 % capital adequacy ratio is applicable to the Goup. In addition to that, new capital buffers were introduced in 2015 that have to be preserved. At the end of 2015, the capital conservation buffer of 2.5% was implemented for all banks in Lithuania. Countercyclical capital buffer of 0 % was implemented in 2015 and is still valid. However,on 20 December 2017, the Management Board of the Bank of Lithuania approved the decision to set 0.5 % Countercyclical capital buffer that will come into effect from 31 December 2018. At the end of 2016, other systematically important institutions capital buffer of 2 % was implemented for four Lithuanian banks. As of 30 November 2017, the Bank of Lithuania recognized Luminor Bank AB as a systemically important financial institution in Lithuania (same as AB DNB Bankas) and left unchanged Other systemically important institution (O-SII) buffer of 2 % (same as in 2016 set to AB DNB Bankas).

During 2017 and 2016, the Group and Bank complied with the applicable capital ratio:

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Tier 1/Common Equity Tier 1 (CET 1) capital	713,029	426,010	712,601	424,533
Tier 2 capital	229	77	229	77
Total own funds	**713,258**	**426,087**	**712,830**	**424,610**
Total risk exposure amount	**4,164,493**	**2,382,424**	**4,197,603**	**2,391,166**
Tier1/Common Equity Tier 1 (CET 1) capital ratio, %	17.12	17.88	16.98	17.75
Capital ratio, %	**17.13**	**17.88**	**16.98**	**17.76**

Capital requirements

The standardized approach is used for the regulatory capital requirements calculation of the credit, market and operational risks, risk exposure amount for credit valuation adjustment both at the Bank and on the Group level. For the credit risk capital requirement calculation purposes, the Bank uses Fitch Ratings for counterparty risk assessment.

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

RISK MANAGEMENT (continued)

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

	Group			Bank		
	Exposure net of value adjustments and provisions	Total exposure value covered by eligible collaterals	Total exposure value covered by guarantees	Exposure net of value adjustments and provisions	Total exposure value covered by eligible collaterals	Total exposure value covered by guarantees
Central governments or central banks	1,228,438	-	-	1,228,438	-	-
Regional governments or local authorities	162,938	-	-	162,759	-	-
Public sector entities	47,011	91	34,611	46,659	91	34,611
Institutions	278,611	94,897	-	278,192	94,897	-
Items associated with particularly high risk	65,298	-	-	65,251	-	-
Corporates	2,602,055	7,160	10,653	2,702,857	7,160	10,613
Retail	889,685	3,502	29,815	810,529	3,561	29,889
Secured by mortgage or immovable property	2,098,276	2,098,276	-	2,098,382	2,098,382	-
Exposures in default	192,933	1,248	2,537	173,635	1,189	2,503
Equity exposures	4,923	-	-	96,187	-	-
Other items	181,838	-	-	159,694	-	-
Total	**7,752,006**	**2,205,174**	**77,616**	**7,822,583**	**2,205,280**	**77,616**

The Group assesses the material risks it is exposed to and calculates the internal capital for the risks not covered or not fully covered by the Pillar I capital as part of the Internal Capital Adequacy Assessment Process (ICAAP).

The principles of ICAAP are uniform in the whole Luminor Group and implemented in the individual banks in view of their specifics.

The concentration risk is assessed for the asset classes exposed to credit risk, the risk level of different concentrations as well as the need of additional capital calculation is evaluated. Besides the imposed limits on lending, the Group calculates the internal capital requirement for concentration risk according to the estimated risk level.

The Bank calculates capital requirement due to occurrence of the residual risk - that arises from credit risk mitigation techniques that can be less effective than it was expected - if it is assessed during self-assessment that residual risk is material.

As the regulatory capital requirement is calculated for the interest rate risk arising from the trading book, the Group additionally assesses and calculates the internal capital requirement for the interest rate risk arising from the banking book. The approach and the parameters used for this calculation are the same as the ones for evaluating the stress testing possible scenario losses.

In order to have sufficient capital charge for the foreign exchange risk, the Bank allocates additional capital based on the results of stress testing possible scenario losses.

Additional internal capital requirement for operational risk is calculated based on the results of risk assessment and self-assessment and expert judgement.

The Group may set aside additional capital for such risks as business risk or reputational risk.
The Group calculates the total internal capital requirement as Pillar I capital according to regulatory requirements adjusted by the amounts evaluated for the risks identified during self-assessment and ICAAP.

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

OTHER NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 NET INTEREST INCOME

	Group		Bank	
	2017	2016	2017	2016
Interest income:				
on loans(including finance lease) and advances to customers, banks and other credit institutions	86,734	77,177	84,108	77,268
of wich on liabilities	1,551	1,801	1,551	1,801
on financial assets held for trading	156	944	156	944
on financial assets designated at fair value through profit or loss	644	996	625	973
Total interest income	**87,534**	**79,117**	**84,889**	**79,185**
Interest expense				
on deposits and other repayable funds	5,962	4,474	5,962	4,474
of wich on assets	3,835	2,171	3,835	2,171
fees for compulsory insurance of deposits and for resolution fund	5,859	6,990	5,858	6,989
Total interest expense	**11,821**	**11,464**	**11,820**	**11,463**
Net interest income	**75,713**	**67,653**	**73,069**	**67,722**

NOTE 2 NET FEE AND COMMISSION INCOME

	Group		Bank	
	2017	2016	2017	2016
Fee and commission income:				
money transfer operations	32,260	26,715	32,260	26,715
securities operations	973	973	914	973
trust and other fiduciary activities	3,562	3,268	186	199
guarantee commissions	1,496	1,036	1,496	1,036
other	7,960	5,559	7,274	5,584
Total fee and commission income	**46,251**	**37,551**	**42,130**	**34,507**
Fee and commission expense:				
money transfer operations	7,876	7,214	7,876	7,214
guarantee commissions	55	50	55	50
trust and other fiduciary activities	162	186	162	186
other	2,141	1,175	1,798	848
Total fee and commission expense	**10,234**	**8,625**	**9,891**	**8,298**
Net fee and commission income	**36,017**	**28,926**	**32,239**	**26,209**

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

NOTE 3 NET GAIN (LOSS) ON OPERATIONS WITH SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS AND NET FOREIGN EXCHANGE RESULT

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Debt securities* (Note 13)	9,315	(8,336)	9,315	(8,336)
Derivative financial instruments	(9,760)	4,223	(9,760)	4,223
Gains or (-) losses on financial assets and liabilities held for trading, net	**(445)**	**(4,113)**	**(445)**	**(4,113)**
Equity instruments (Note 16)	-	12,042	-	12,042
Gains or (-) losses on financial assets and liabilities available for sale, net	**-**	**12,042**	**-**	**12,042**
Debt securities	(408)	(371)	(391)	(360)
Gains or (-) losses of financial assets and liabilities designated at fair value through profit or loss, net	**(408)**	**(371)**	**(391)**	**(360)**
Net foreign exchange result	18,061	1,543	18,061	1,543
Received dividends	40	24	1,287	1,665
Total	**17,248**	**9,125**	**18,512**	**10,777**

*Major part of net gain during 2017 on operations with securities comprise of sale of one investment for which unrealised loss was reported for 2016.

NOTE 4 IMPAIRMENT, CHANGE IN FAIR VALUE OF INVESTMENT PROPERTY AND PROVISIONS

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Impairment losses on loans:				
Increase of impairment losses, net	8,982	15,840	8,982	15,840
Recovered previously written off loans	(7,794)	(2,439)	(7,794)	(2,439)
Total impairment losses on loans	1,188	13,401	1,188	13,401
Impairment losses (reversals) on finance lease receivables (Note 19)	954	1,201	(36)	1,201
Impairment losses for other assets	145	1,020	138	1,365
Changes in fair value of investment property	7,092	4,940	471	-
Impairment losses for investments in subsidiares	-	-	7,640	6,700
Other provisions*	43,511	(276)	43,511	(276)
Total	**52,890**	**20,286**	**52,912**	**22,391**

*Major part of other provisions comprise of provisions for onerous contracts related to IT systems.

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

NOTE 5 OTHER INCOME

	Group		Bank	
	2017	2016	2017	2016
Net gain (loss) on sale of property	495	2,462	589	2,270
On rent of property	457	638	197	145
Deductible VAT	1,061	2,874	1,061	2,874
Other	2,847	2,580	2,842	2,939
Total	**4,860**	**8,554**	**4,689**	**8,228**

NOTE 6 PERSONNEL EXPENSES

	Group		Bank	
	2017	2016	2017	2016
Salaries	21,558	18,103	20,787	17,680
Social insurance	7,488	5,913	7,218	5,791
Other	3,973	2,779	3,959	2,757
Total	**33,019**	**26,795**	**31,964**	**26,228**

NOTE 7 DEPRECIATION AND AMORTISATION

	Group		Bank	
	2017	2016	2017	2016
Amortisation of intangible assets	1,938	1,794	1,459	1,272
Depreciation of property, plant and equipment	2,231	2,164	2,224	2,161
Total	**4,169**	**3,958**	**3,683**	**3,433**

NOTE 8 OTHER ADMINISTRATIVE EXPENSES

	Group		Bank	
	2017	2016	2017	2016
Office equipment and maintenance expenses	14,406	14,828	14,271	14,583
Taxes other than income tax	12,493	5,668	11,877	4,364
Other expenses	9,327	6,000	9,407	5,765
Rent of premises and maintenance expenses	4,630	3,680	4,569	3,666
Cash collection, consultancy and other services expenses	4,202	1,374	3,729	1,258
Transportation, post and communications expenses	2,220	2,526	2,080	2,438
Advertising and marketing expenses	1,363	1,137	1,349	1,043
Training and business trip expenses	338	556	332	537
Foreclosed assets expenses	166	728	166	728
Total	**49,145**	**36,497**	**47,780**	**34,382**

Expenses of the Bank and the Group related to non-audit services provided by the audit firm comprise of EUR 11 thousand in year 2017.

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

NOTE 9 INCOME TAX

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Current tax for the year	3,165	4,549	3,083	4,509
Adjustments in respect of current income tax of previous years	(1,714)	(962)	(1,714)	(964)
Change of deferred tax asset (see below)	3,900	210	3,900	210
Total	**5,351**	**3,797**	**5,269**	**3,755**

The tax on the Bank's and the Group profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Profit (loss) before income tax	(5,301)	26,608	(7,830)	26,359
Tax calculated at a tax rate of 15%	(795)	3,991	(1,175)	3,954
Income not subject to tax	(211)	(347)	(402)	(585)
Adjustments in respect of current income tax of previous years	(1,714)	(962)	(1,714)	(964)
Expenses not deductible for tax purposes	8,071	1,195	8,560	1,371
Tax exemption	-	(80)	-	(21)
Income tax charge	5,351	3,797	5,269	3,755
Movement in deferred tax asset				
At the beginning of the year	4,807	5,017	4,807	5,017
Change due to the merger with Nordea branch (Note 41)	443	-	-	-
Income statement credit (charge)	(3,900)	(210)	(3,900)	(210)
At the end of the year	**1,350**	**4,807**	**907**	**4,807**

15% tax rate was used to calculate deferred income taxes in 2017 and 2016.

The movement in deferred tax assets and liabilities of the Group and of the Bank during the period is as follows:

Group – deferred tax liabilities

	Investment property revaluation	VAT on long term assets	Valuation of securities	Total
As at 1 January 2016	-	1,032	1,833	2,865
Charged/ (credited) in income statement	-	144	(1,653)	(1,509)
As at 1 January 2017	-	1,176	180	1,356
Charged/ (credited) in income statement	-	37	(3)	34
Change due to the merger with Nordea branch (Note 41)	23	-	-	23
As at 31 December 2017	**23**	**1,213**	**177**	**1,413**

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

NOTE 9 INCOME TAX (continued)

Group – deferred income tax asset

	Depreciation of long-term assets	Valuation of securities	Tax losses	Accrued expenses/ deferred income	Total
As at 1 January 2016	658	429	6,703	92	7,882
(Charged)/ credited in income statement	188	1,344	(3,159)	(92)	(1,719)
As at 1 January 2017	846	1,773	3,544	-	6,163
(Charged)/ credited in income statement	106	(1,635)	(3,544)	1,207	(3,866)
Change due to the merger with Nordea branch (Note 41)	-	-	5	461	466
As at 31 December 2017	**952**	**138**	**5**	**1,668**	**2,763**

Bank – deferred tax liabilities

	VAT on long term assets	Valuation of securities	Total
As at 1 January 2016	1,032	1,833	2,865
Charged/ (credited) in income statement	144	(1,653)	(1,509)
As at 1 January 2017	1,176	180	1,356
Charged/ (credited) in income statement	37	(3)	34
As at 31 December 2017	**1,213**	**177**	**1,390**

Bank – deferred tax asset

	Depreciation of long-term assets	Valuation of securities	Tax losses	Accrued expenses/ deferred income	Total
As at 1 January 2016	658	429	6,703	92	7,882
(Charged)/ credited in income statement	188	1,344	(3,159)	(92)	(1,719)
As at 1 January 2017	846	1,773	3,544	-	6,163
(Charged)/ credited in income statement	106	(1,635)	(3,544)	1,207	(3,866)
As at 31 December 2017	**952**	**138**	**-**	**1,207**	**2,297**

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

NOTE 9 INCOME TAX (continued)

Deferred income tax assets are recognized for tax loss carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. The deferred tax assets recognised at 31 December 2017 in respect of tax losses have been based on the profitability assumptions over a three year horizon. The expected future taxable profits are based on the business plan assumptions in view of the uncertainties arising from the current economic environment. If the business plan earnings and assumptions in the following quarters substantially deviate from the current assumptions, the amount of the existing deferred tax assets may need to be adjusted.

As at 31 December 2017, the Bank has EUR 6,5 million unused tax losses to carry forward (EUR 24 million as at 31 December 2016).

As at 31 December 2017, the Group has EUR 34 million of unused tax losses which have no expiry date (unused tax losses with no expiry date as at 31 December 2016 were equal to EUR 36 million). As at 31 December 2017, the Group has EUR 1 million of a temporary difference (EUR 1.5 million as at 31 December 2016) resulting from the revaluation of investment property and property held for sale to fair value for which no deferred tax has been recognised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. The Bank’s and Group’s deferred tax assets and liabilities as shown in the statement of financial position are:

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Deferred income tax assets	2,763	6,163	2,297	6,163
Deferred income tax liabilities	1,413	(1,356)	(1,390)	(1,356)
As presented in statement of financial position	**1,350**	**4,807**	**907**	**4,807**

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

NOTE 10 EARNINGS PER SHARE

Earnings per share were calculated by dividing the Group's net profit for the period by the weighted average number of ordinary registered shares in issue during the period.

Calculation of weighted average for 2017	Note	Number of shares	Par value	Issued/ 365 (days)	Weighted average
Shares issued as of 31 December 2017		5,710,134	33.31	365/365	5,710,134
Shares issued as of 31 December 2017	31	**5,710,134**	**33.31**	**365/365**	**5,710,134**

Calculation of weighted average for 2016	Note	Number of shares	Par value	Issued/ 366(days)	Weighted average
Shares issued as of 31 December 2016		5,710,134	33.31	366/366	5,710,134
Shares issued as of 31 December 2016	31	**5,710,134**	**33.31**	**366/366**	**5,710,134**

	Group 2017	Group 2016
Profit attributed to equity holders of the parent	(10,652)	22,811
Weighted average number of issued shares (units)	5,710,134	5,710,134
Earnings per share (EUR per share)	(1.87)	3.99

The 2017 and 2016 diluted earnings per share ratios are the same as basic earnings per share.

NOTE 11 CASH AND BALANCES WITH CENTRAL BANKS

	Group		Bank	
	2017	2016	2017	2016
Cash and other valuables	134,105	93,144	134,105	93,144
Placements with Central Bank:				
Compulsory reserves in national currency	45,414	25,182	45,414	25,182
Correspondent account with central bank	1,183,024	15,823	1,183,024	15,823
Total	**1,362,543**	**134,149**	**1,362,543**	**134,149**

Required reserves held with the Bank of Lithuania are calculated according to reserve maintenance calendar announced by ECB. 1% required reserves rate is applied for the Bank's total liabilities subject to the required reserves. All required reserves are held only in EUR. The Bank of Lithuania does not pay interest for the required reserves.

NOTE 12 DUE FROM BANKS AND OTHER CREDIT INSTITUTIONS

	Group		Bank	
	2017	2016	2017	2016
Due from banks and other credit institutions				
Demand deposits	69,654	30,865	69,654	30,865
of which funds to secure the derivatives deals	6,262	1,347	6,262	1,347
Term deposits	80,002	572,017	80,002	572,017
Short term loans	101,486	141,695	101,486	141,695
Total	**251,142**	**744,577**	**251,142**	**744,577**

There were no allowances for impairment due from banks neither at the Bank nor on the Group level as of the end of 2017 and 2016. Respectively, there were no changes in allowances for loan impairment and write-offs for such due and allowances in 2017 and 2016.

As at 31 December 2017, the short term loans of EUR 101,486 thousand include reverse repurchase agreements collaterised by securities with the fair value of EUR 100,587 thousandand corresponds to the fair value level 1.

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

NOTE 13 FINANCIAL ASSETS HELD FOR TRADING

Group and Bank

	2017			2016		
Debt securities	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Government bonds and treasury bills of the Republic of Lithuania	2,112	-	-	2,433	-	-
Government bonds of foreign issuers	77	-	-	393	-	-
Debt securities of local entities	104	-	-	-	-	-
Debt securities of foreign entities	32	-	-	302	-	2,145
Total	**2,325**	**-**	**-**	**3,128**	**-**	**2,145**

The significant unobservable inputs used in the fair value measurement of bonds on level 3 are as follows:

	2017	2016
Indicated value of bonds*	2,145	7,560
Cash value adjustment	(2,145)	(4,226)
Investment value adjustment	-	(1,189)
Fair value as at December 31	-	2,145

*indicated value is determined by quote in Bloomberg system multiplied by nominal amount.

NOTE 14 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

GROUP

	2017			2016		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Debt securities						
Government bonds and treasury bills of the Republic of Lithuania	85,568	-	-	88,568	-	-
Debt securities of foreign banks	-	-	-	10,007	-	-
Equity securities						
Other	-	-	18	-	-	18
Total	**85,568**	**-**	**18**	**98,575**	**-**	**18**

BANK

	2017			2016		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Debt securities						
Government bonds and treasury bills of the Republic of Lithuania	84,153	-	-	87,436	-	-
Debt securities of foreign banks	-	-	-	10,007	-	-
Equity securities						
Other	-	-	18	-	-	18
Total	**84,153**	**-**	**18**	**97,443**	**-**	**18**

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

NOTE 14 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

No additional disclosures are made on Level 3 financial assets since the amount of such assets is immaterial to the total balance.

Weighted yields and duration till maturity of debt securities are as follows:

Group	2017		2016	
	%	Maturity (in years)	%	Maturity (in years)
Government bonds of the Republic of Lithuania	0.08	1.88	0.13	2.77
Debt securities of foreign banks	-	-	(0.27)	0.24

Bank	2017		2016	
	%	Maturity (in years)	%	Maturity (in years)
Government bonds of the Republic of Lithuania	0.08	1.87	0.13	2.77
Debt securities of foreign banks	-	-	(0.27)	0.24

NOTE 15 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial instruments predominantly used for hedging against risks under the Group's risk management positions. The Group and the Bank enter into transactions involving the following derivative instruments:

- Forward, future, swap, interest rates, indexes, stocks, bonds and commodities and/or any combinations of those.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates, commodity or equity prices relative to their terms.

Aggregate amounts of derivative contracts can fluctuate within the risk ratio limits set by the Group. Fair values of derivative financial assets and liabilities may fluctuate significantly subject to the market development.

The fair values of derivative financial instruments are set out in the following table.

Group and Bank

	Notional amounts	Fair values	
		Assets	Liabilities
As at 31 December 2017			
FX forwards, swaps, put, call options	262,860	771	2,577
Interest rate swaps, collars	1,004,939	3,744	3,373
Commodity related agreements	26,867	1,854	1,794
Total	**1,294,666**	**6,369**	**7,744**
As at 31 December 2016			
FX forwards, swaps, put, call options	218,817	6,093	2,011
Interest rate swaps, collars	630,849	4,369	4,314
Commodity related agreements	41,044	3,145	3,053
Total	**890,710**	**13,607**	**9,378**

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

NOTE 16 AVAILABLE FOR SALE FINANCIAL ASSETS

Group and Bank

	2017			2016		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Equity securities						
Shares	-	-	3,265	-	-	2,624
Total	**-**	**-**	**3,265**	**-**	**-**	**2,624**

The total amount of available for sale securities are unimpaired assets. There were no movement of securities between the levels during 2017 and 2016.

In November 2015, VISA Inc. announced the agreement to acquire all shares in VISA Europe Ltd. The Bank had a direct ownership interest in VISA Europe activities. During 2016 the acquisition of VISA Europe was completed. The cumulative gain previously recognised in other comprehensive income during 2016 was recognised in the income statement (Note 3) and amounted to EUR 10.8 thousand.

The carrying amount of shares as at 31 December 2017 and 31 December 2016 consists of Visa Inc. shares with fair value changes recognised in other comprehensive income.

The significant unobservable inputs used in the fair value measurement of shares on level 3 are as follows: conversion rate, average trading price, liquidity discount.

Generally, a change in the input used for the valuation multiple assumptions is accompanied by a change in the liquidity discount. The management believes that reasonably possible changes to other unobservable inputs would not result in a significant change in the estimated fair value. The table below shows the changes in the fair value of securities from a 10% increase or decrease respectively in the liquidity discount, all other inputs being constant.

	Impact of change of liquidity discount	
	increase	**decrease**
	+10%	**-10%**
Increase / (decrease) in fair value as at December 31, 2017	441	(441)

The movement of available for sale securities (level 3) during 2017:

	Group	**Bank**
Beginning balance	2,624	2,624
Additions	-	-
Disposals	-	-
Unrealised gains/losses for assets held at the end of the reporting period	641	641
Closing balance	3,265	3,265

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

NOTE 17 LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2017	2016	2017	2016
Loans and advances to financial institutions	**15,646**	**11,829**	**651,121**	**11,829**
Loans to business customers:				
- Public authorities, state and municipal entities	197,532	256,923	197,532	256,923
- Large corporates	851,910	673,156	758,705	678,904
- SMEs	921,422	334,704	791,730	334,704
- Other	1,297	850	1,297	850
Total loans to business customers	**1,972,161**	**1,265,633**	**1,749,264**	**1,271,381**
Loans to individuals (retail):				
- Consumer loans	90,780	76,023	90,780	76,023
- Mortgages	2,213,899	1,250,171	2,213,899	1,250,171
- Loans secured by equity linked bonds issued by Bank	1,046	3,105	1,046	3,105
- Other	254,940	243,336	254,882	243,336
Total loans to individuals (retail)	**2,560,665**	**1,572,635**	**2,560,607**	**1,572,635**
Total gross loans granted	**4,548,472**	**2,850,097**	**4,960,992**	**2,855,845**
Total allowance for impairment:	(102,763)	(98,656)	(102,517)	(98,656)
to financial institutions	(13)	(11)	(13)	(11)
to business customers	(64,954)	(62,262)	(64,708)	(62,262)
to individuals	(37,796)	(36,383)	(37,796)	(36,383)
Total net loans and advances to customers	**4,445,709**	**2,751,441**	**4,858,475**	**2,757,189**

Other loans include credit cards, reverse repurchase agreements, other loans backed by securities and other.

Allowance for impairment

Reconciliation of allowance account for losses on loans and advances by class is as follows:

31 December 2017

	Group loans to individuals (retail)	Group loans to business customers and financial institutions
Balance as at 1 January 2017	**36,383**	**62,262**
Change in allowance for loan impairment	4,994	3,988
Changes related to merger with Nordea branch (Note 41)	10,582	7,554
Loans written off during the year as uncollectible	(14,163)	(8,837)
As at 31 December 2017	**37,796**	**64,967**
Individual impairment	36,628	61,089
Collective impairment	1,168	3,878
	37,796	**64,967**
Gross amount of loans, individually determined to be impaired, before deducting the individually assessed impairment allowance	71,986	154,015

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

NOTE 17 LOANS AND ADVANCES TO CUSTOMERS (continued)

31 December 2016

	Group and Bank loans to individuals (retail)	Group and Bank loans to business customers
Balance as at 1 January 2016	**44,110**	**67,992**
Change in allowance for loan impairment	6,403	9,437
Loans written off during the year as uncollectible	(14,130)	(15,167)
As at 31 December 2016	**36,383**	**62,262**
Individual impairment	35,180	60,975
Collective impairment	1,203	1,287
	36,383	**62,262**
Gross amount of loans, individually determined to be impaired, before deducting the individually assessed impairment allowance	65,793	145,984

31 December 2017

	Bank loans to individuals (retail)	Bank loans to business customers and financial institutions
Balance as at 1 January 2017	**36,383**	**62,262**
Change in allowance for loan impairment	4,994	3,988
Changes related to merger with Nordea branch (Note 41)	10,582	7,307
Loans written off during the year as uncollectible	(14,163)	(8,836)
As at 31 December 2017	**37,796**	**64,721**
Individual impairment	36,628	61,089
Collective impairment	1,168	3,632
	37,796	**64,721**
Gross amount of loans, individually determined to be impaired, before deducting the individually assessed impairment allowance	71,986	153,277

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

NOTE 17 LOANS AND ADVANCES TO CUSTOMERS (continued)

31 December 2016

	Group and Bank loans to individuals (retail)	Group and Bank loans to business customers
Balance as at 1 January 2016	**44,110**	**67,992**
Change in allowance for loan impairment	6,403	9,437
Loans written off during the year as uncollectible	(14,130)	(15,167)
As at 31 December 2016	**36,383**	**62,262**
Individual impairment	35,180	60,975
Collective impairment	1,203	1,287
	36,383	**62,262**
Gross amount of loans, individually determined to be impaired, before deducting the individually assessed impairment allowance	65,793	145,984

Given the deteriorated financial strength and the likely recovery, the Bank had accounted for material impairment losses on the individual customer loans (assigned to the banking business segment of the Group). The gross loans amounted to EUR 3,227 thousand, accrued interest – EUR 46 thousand as of December 31, 2017, impairment losses for them amounted to EUR 2,317 thousand year-to-date, of which EUR 46 thousand for accrued interest. The fair value was determined based on the discounted cash flow method as it is described in the accounting policy.

The material recovery on an individual item (assigned to the banking business segment of the Group) amounted to EUR 6,061 thousand year-to-date.

NOTE 18 OFFSETTING

As at 31 December 2017	Gross carrying amount	Amounts offset in the statement of financial position	Carrying amount	Collateralized by securities	Amounts after possible netting
ASSETS					
Due from banks[1]	101,486	-	101,486	100,587	899
Derivative financial instruments[2]	140	-	140	-	140
LIABILITIES					
Derivative financial instruments[2]	253	20	233	-	233

As at 31 December 2016	Gross carrying amount	Amounts offset in the statement of financial position	Carrying amount	Collateralized by securities	Amounts after possible netting
ASSETS					
Due from banks[1]	141,702	-	141,702	141,702	-
Derivative financial instruments[2]	125	1	124	-	124
LIABILITIES					
Derivative financial instruments[2]	232	65	167	-	167

1) *Includes reverse repurchase agreements.*
2) *Includes derivative financial instruments which are settled on a net basis.*

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

NOTE 19 FINANCE LEASE RECEIVABLES

Group

	Up to one year	From 1 to 5 years	Over 5 years	Total
Gross investments in leasing				
Balance as at 31 December 2016	**15,058**	**149,509**	**5,852**	**170,419**
Change during 2017	8,718	1,370	12,040	22,128
Changes related to merger with Nordea (Note 41)	25,002	443,379	12,820	481,201
Balance as at 31 December 2017	**48,778**	**594,258**	**30,712**	**673,748**
Unearned finance income on finance leases				
Balance as at 31 December 2016	**3,287**	**3,837**	**47**	**7,171**
Change during 2017	883	1,152	148	2,183
Changes related to merger with Nordea (Note 41)	1,002	18,251	49	19,302
Balance as at 31 December 2017	**5,172**	**23,240**	**244**	**28,656**
Net investments in finance leases before impairment				
31 December 2016	11,771	145,672	5,805	163,248
31 December 2017	43,606	571,018	30,468	645,092
Balance as at 31 December 2016	**527**	**1,713**	**408**	**2,648**
Increase (decrease) in impairment (Note 4)	644	522	(212)	954
Changes related to merger with Nordea (Note 41)	1,330	382	-	1,712
Balance as at 31 December 2017	**2,501**	**2,617**	**196**	**5,314**
Net investments in finance leases after impairment				
31 December 2016	11,244	143,959	5,397	160,600
31 December 2017	**41,105**	**568,401**	**30,272**	**639,778**

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

NOTE 19 FINANCE LEASE RECEIVABLES (continued)

BANK	**Up to one year**	**From 1 to 5 years**	**Over 5 years**	**Total**
Gross investments in leasing				
Balance as at 31 December 2016	**15,058**	**149,509**	**5,852**	**170,419**
Change during 2017	8,286	10,427	1,510	20,223
Balance as at 31 December 2017	**23,344**	**159,936**	**7,362**	**190,642**
Unearned finance income on finance leases				
Balance as at 31 December 2016	**3,287**	**3,837**	**47**	**7,171**
Change during 2017	873	1,373	141	2,387
Balance as at 31 December 2017	**4,160**	**5,210**	**188**	**9,558**
Net investments in finance leases before impairment				
31 December 2016	11,771	145,672	5,805	163,248
31 December 2017	19,184	154,726	7,174	181,084
Balance as at 31 December 2016	**527**	**1,713**	**408**	**2,648**
Increase (decrease) in impairment (Note 4)	(5)	181	(212)	(36)
Balance as at 31 December 2017	**522**	**1,894**	**196**	**2,612**
Net investments in finance leases after impairment				
31 December 2016	11,244	143,959	5,397	160,600
31 December 2017	**18,662**	**152,832**	**6,978**	**178,472**

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

NOTE 20 INVESTMENTS IN SUBSIDIARIES

	2017				2016
	Share	Nominal value	Accumulated impairment losses	Carrying value	Carrying value
Investments in consolidated subsidiaries					
Luminor Investicijų Valdymas, UAB (DNB Investicijų Valdymas, UAB)	100%	1,158	-	1,158	1,158
Luminor Būstas, UAB (DNB Būstas, UAB)	100%	1,260	(368)	892	892
Intractus UAB	100%	44,569	(23,240)	21,329	27,829
Industrius UAB	99.92%	13,771	(3,259)	10,512	11,412
Recurso UAB	100%	4,631	(110)	4,521	-
Promano LIT UAB	100%	9,912	(130)	9,782	-
Luminor Lizingas UAB (Nordea Finance, UAB)	100%	44,728	-	44,728	-
Total				**92,922**	**41,291**

As a result of merger with Nordea branch (Note 41), the Bank acquired 100% of the shares of Luminor Lizingas, UAB, Promano Lit UAB, and Recurso UAB.

During the reported period the Bank did not sell its own shares or the shares of its subsidiaries to third parties.

In 2017, based on the estimated expected future cash flows, business growth and risk costs of subsidiaries, the Bank recorded impairment losses amounting to EUR 6.5 million to investment in Intractus UAB, EUR 0.9 milion to Industrius UAB, EUR 0.1 milion to PROMANO LIT UAB, and EUR 0.1 milion to RECURSO UAB. The recoverable amount was measured at fair value less costs to sell which is categorised within Level 3.

NOTE 21 INVESTMENT IN AN ASSOCIATE

					2017	2016
	Share	Nominal value	Change related to merger with Nordea	Share of result	Carrying value	Carrying value
Investments in an associate						
UAB ALD Automotive	25.00%	1,477	1,574	84	1,658	-
Total		**1,477**	**1,574**	**84**	**1,658**	**-**

In November 2014 AB DNB Bankas, had acquired 36.47 per cent ordinary registered shares in AB “Informacinio verslo paslaugų įmonė“ during recovery process. These shares were sold in March 2016.

As a result of the acquisition of the shares of Luminor Lizingas, UAB (Note 41), the Group also acquired 25% of the shares of UAB ALD Automotive.

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

NOTE 22 PROPERTY, PLANT AND EQUIPMENT

Group	Buildings and premises	Equipment and other fixed assets	Total
Cost:			
At 1 January 2016	**31,295**	**19,704**	**50,999**
Acquisitions	1,008	4,566	5,574
Disposals and write-offs	(16,646)	(3,354)	(20,000)
At 31 December 2016	**15,657**	**20,916**	**36,573**
Acquisitions	13	854	867
Disposals and write-offs	(2,586)	(1,515)	(4,101)
Reclassification to Investment property (Note 23)	(1,284)	-	(1,284)
Acquisition related to merger with Nordea branch (Note 41)	-	2,276	2,276
At 31 December 2017	**11,800**	**22,531**	**34,331**
Depreciation and impairment:			
At 1 January 2016	**14,160**	**14,655**	**28,815**
Disposals and write-offs	(8,319)	(3,082)	(11,401)
Depreciation charge for year	391	1,773	2,164
Impairment	1,351	-	1,351
At 31 December 2016	**7,583**	**13,346**	**20,929**
Disposals and write-offs	(1,419)	(1,464)	(2,883)
Depreciation charge for year	178	2,053	2,231
Changes related to merger with Nordea branch (Note 41)	-	1,746	1,746
At 31 December 2017	**6,342**	**15,681**	**22,023**
Net book value:			
At 1 January 2016	**17,135**	**5,049**	**22,184**
At 31 December 2016	**8,074**	**7,570**	**15,644**
At 31 December 2017	**5,458**	**6,850**	**12,308**
Economic life (in years)	50	3-10	-

The cost of fully depreciated property, plant and equipment that is still in use:

Group

	Buildings and premises	Equipment and other fixed assets
31 December 2016	1,288	8,239
31 December 2017	1,588	9,569

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

NOTE 22 PROPERTY, PLANT AND EQUIPMENT (continued)

Bank	**Buildings and premises**	**Equipment and other fixed assets**	**Total**
Cost:			
At 1 January 2016	**31,295**	**19,681**	**50,976**
Acquisitions	1,008	4,564	5,572
Disposals and write-offs	(16,646)	(3,346)	(19,992)
At 31 December 2016	**15,657**	**20,899**	**36,556**
Acquisitions	13	850	863
Acquisition related to merger with Nordea branch (Note 41)	-	1,678	1,678
Reclassification to Investment property (Note 23)	(1,284)	-	(1,284)
Disposals and write-offs	(2,586)	(1,507)	(4,093)
At 31 December 2017	**11,800**	**21,920**	**33,720**
Depreciation and impairment:			
At 1 January 2016	**14,160**	**14,639**	**28,799**
Disposals and write-offs	(8,319)	(3,076)	(11,395)
Depreciation charge for year	391	1,770	2,161
Impairment	1,351	-	1,351
At 31 December 2016	**7,583**	**13,333**	**20,916**
Disposals and write-offs	(1,419)	(1,458)	(2,877)
Depreciation charge for year	178	2,046	2,224
Changes related to merger with Nordea branch (Note 41	-	1,539	1,539
At 31 December 2017	**6,342**	**15,460**	**21,802**
Net book value:			
At 1 January 2016	**17,135**	**5,042**	**22,177**
At 31 December 2016	**8,074**	**7,566**	**15,640**
At 31 December 2017	**5,458**	**6,460**	**11,918**
Economic life (in years)	50	3-10	-

Due to the expected changes to the manner in which assets are used the recoverable amount on buildings was estimated and in 2016 the Bank recorded impairment losses amounting to EUR 1.4 million (2017: 0). The recoverable amount was measured at fair value less costs to sell.

No assets were pledged to a third party as at 31 December 2017 and 31 December 2016.

The Bank (Group) had ownership title to all of the property and equipment as at 31 December 2017 and 31 December 2016.

The cost of fully depreciated property, plant and equipment that is still in use:

Bank

	Buildings and premises	**Equipment and other fixed assets**
31 December 2016	1,288	8,231
31 December 2017	1,588	9,483

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

NOTE 23 INVESTMENT PROPERTY

Group

	Land plots		Buildings						
	Other Level 2	Other Level 3	Commer-cial Level 2	Residen-tial Level 2	Commer-cial Level 3	Residen-tial Level 3	Other Level 3	Total 2017	Total 2016
Book value as at 1 January	**-**	**17,654**	**-**	**-**	**4,388**	**7,833**	**140**	**30,015**	**63,038**
Changes related to merger with Nordea branch (Note 41)	466	-	-	1,650	-	-	-	2,116	-
Acquisitions	-	-	-	-	-	-	-	-	96
Additions, capitalised investments	-	4	-	-	-	-	-	4	122
Reclassifications from property plant and equipment	-	1,008	-	-	276	-	-	1,284	-
Reclassifications from/to other Level	173	(173)	-	915	-	(915)	-	-	-
Disposals (sale)	-	(5,025)	-	(68)	(630)	(2,416)	-	(8,139)	(20,336)
Classified as held for sale	-	(391)	-	-	(560)	(40)	(50)	(1,041)	(7,965)
Net gains (loss) resulting from adjustment to fair value	(43)	(4,977)	-	(82)	(1,351)	(588)	(51)	(7,092)	(4,940)
Book value as at 31 December	**596**	**8,100**	**-**	**2,415**	**2,123**	**3,874**	**39**	**17,147**	**30,015**

As at 31 December 2017 and 2016, there was no temporary restriction of disposal rights applied to the property owned by the Group.

The movement of income/expenses related to the investment properties were as follows:

	Level 1	Level 2	Level 3	Total 2017	Total 2016
Rental income from investment properties	-	149	120	269	493
Direct expenses (including repairs and maintenance) related to investment properties generating rental income	-	5	54	59	167
Direct expenses (including repairs and maintenance) related to investment properties not generating rental income	-	21	148	169	227

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

NOTE 23 INVESTMENT PROPERTY (continued)

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

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

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

Under the market comparable approach, the fair value of property is estimated based on comparable transactions. The market comparable approach is based upon the principle of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. The unit of comparison applied by the Group is the price per square metre (sqm).

The average prices of land plots and buildings used in determining the fair value according to their purpose were as follows:

Land plots	**Average prices per are in 2017, in EUR thousand**	**Average prices per are in 2016, in EUR thousand**
Residential	0.02 – 13.89	0.03 – 23.60
Other	0.01 – 2.19	0.01 – 6.97
Buildings	**Average prices per sq.m. in 2017, in EUR thousand**	**Average prices per sq.m. in 2016, in EUR thousand**
Commercial	0.01 – 0.72	0.01 – 0.82
Residential	0.02 – 0.72	0.06 – 1.32
Other	0.25 -0.48	0.43 - 0.58

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

NOTE 24 INTANGIBLE ASSETS

Cost	Group	Bank
As at 1 January 2016	**11,222**	**9,624**
Acquisitions	1,031	1,024
Disposals and write-offs	(207)	(196)
At 31 December 2016	**12,046**	**10,452**
Acquisitions	558	557
Acquisition related to merger with Nordea branch (Note 41)	1,466	965
Disposals and write-offs	(1,002)	(1,002)
At 31 December 2017	**13,068**	**10,972**
Amortisation and impairment		
At 1 January 2016	**5,750**	**5,147**
Disposals	(207)	(196)
Amortisation	1,794	1,272
At 31 December 2016	**7,337**	**6,223**
Disposals	(1,003)	(1,002)
Changes related to merger with Nordea branch (Note 41)	1,446	963
Amortisation	1,938	1,459
At 31 December 2017	**9,718**	**7,643**
Net book value:		
At 1 January 2016	**5,472**	**4,477**
At 31 December 2016	**4,709**	**4,229**
At 31 December 2017	**3,350**	**3,329**
Economic life (in years)	3-5	5

No assets were pledged to a third party as at 31 December 2017 and 31 December 2016. Intangible assets include purchased computer software.

The cost of fully amortised intangible assets that are still in use:

	Group	Bank
31 December 2016	3,008	3,002
31 December 2017	4,041	3,893

NOTE 25 OTHER ASSETS

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Accrued income and deferred expenses	3,683	3,412	3,673	3,400
Assets bought for leasing activities	974	527	974	527
Prepayments and receivables	9,668	4,732	6,012	4,267
Taxes owerpayment	273	4,752	273	4,752
Other assets	2,045	723	1,573	579
Retrieved assets under cancelled lease contracts	628	1,726	628	1,726
Gross	**17,271**	**15,872**	**13,133**	**15,251**
Less: allowance for impairment of retrieved assets under cancelled lease contracts	(308)	(1,340)	(308)	(1,340)
Total	**16,963**	**14,532**	**12,825**	**13,911**

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

NOTE 26 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

Movements on non-current assets and disposal groups held for sale by class were as follows:
Group

	Land plots				Buildings				
	Other Level 2	Other Level 3	Commer-cial Level 2	Residen-tial Level 2	Commer-cial Level 3	Residen-tialLevel 3	Other Level 3 320	Total 2017	Total 2016
Book value as at 1 January	**-**	**940**	**3,500**	**29**	**3,205**	**320**	**-**	**7,994**	**5,537**
Changes related to merger with Nordea branch (Note 41)	-	-	-	240	-	-	-	240	-
Additions (movement from investment property)	-	391	-	-	560	40	50	1,041	7,965
Disposals (sale)	-	(937)	(3,500)	-	(3,201)	(320)	-	(7,958)	(5,508)
Disposals (movement to investment property)	-	(3)	-	-	(4)	-	-	(7)	-
Book value as at 31 December	**-**	**391**	**-**	**269**	**560**	**40**	**50**	**1,310**	**7,994**

During the year, the Group took possession of real estate with the carrying value of EUR 1,310 thousand at the year-end (in 2016 EUR 7,994 thousand), which the Group is in the process of selling and which is included in non-current assets held for sale. There is no cumulative income or expenses in other comprehensive income relating to assets held for sale. Valuations of non-current assets and disposal groups held for sale were performed as at 31 December 2017. There were no reclasifications of assets between levels during 2017 and 2016. Non-current assets held for sale that were revalued using the comparable approach method with no significant adjustments to observable prices are clasified as Level 2, the rest are clasified as Level 3. For more details on the fair value measurement refer to Note 23.

NOTE 27 DUE TO BANKS AND OTHER CREDIT INSTITUTIONS

	Group		Bank	
	2017	2016	2017	2016
Funds of Central bank	300,000	300,000	300,000	300,000
Funds of banks and other credit institutions:				
Demand deposits	59,048	23,418	59,048	23,418
Term deposits	-	31,032	-	31,032
Loans	1,870,542	657,841	1,870,542	657,841
Total	**2,229,590**	**1,012,291**	**2,229,590**	**1,012,291**

As at 31 December 2017, Funds of Central Bank (EUR 300,000 thousand) contains proceeds from ECB under targeted longer-term refinancing operations (TLTROs). The carrying amount of pledged assets under this agreement amounted to EUR 325,887 thousand (EUR 149,912 thousand loans granted to governmental institutions, EUR 75,388 thousand acquired central government bonds and EUR 100,587 thousand bonds, acquired under REPO agreement with DNB Bank ASA).

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

NOTE 28 DUE TO CUSTOMERS

	Group 2017	Group 2016	Bank 2017	Bank 2016
Demand deposits				
of public authorities	402,352	290,415	402,352	290,415
of financial institutions	29,109	12,953	30,990	14,337
of private entities	1,490,097	803,616	1,520,286	812,673
of individuals	1,442,841	1,139,142	1,442,841	1,139,142
Total demand deposits	**3,364,399**	**2,246,126**	**3,396,469**	**2,256,567**
Term deposits				
of public authorities	45,862	5,149	45,862	5,149
of financial institutions	13,532	145	13,532	145
of private entities	105,808	11,943	105,808	11,943
of individuals	326,416	211,999	326,416	211,999
Total term deposits	**491,618**	**229,236**	**491,618**	**229,236**
Term loan	101	334	101	334
Total	**3,856,118**	**2,475,696**	**3,888,188**	**2,486,137**

As at 31 December 2017, the Group's deposits of EUR 12,310 thousand (2016: EUR 11,232 thousand) and Bank's deposits of EUR 12,310 thousand (2016: EUR 11,232 thousand) held as collateral for irrevocable commitments under import letter of credit, guarantees and loans were included in customer accounts.

NOTE 29 PROVISIONS

The movement of provisions was as follows:

	Group				Bank			
	Loan commitments and guarantees	Pending legal issues	Restruc-turing	Other	Loan commitments and guarantees	Pending legal issues	Restruc-turing	Other
As at 1 January 2017	**-**	**291**	**-**	**5**	**-**	**291**	**-**	**5**
Increase in provisions	107	30	858	43,412*	107	30	858	43,412*
Utilised	-	(198)	-	(43,412)**	-	(198)	-	(43,412)**
As at 31 December 2017	**107**	**123**	**858**	**5**	**107**	**123**	**858**	**5**
Current (less than one year)	107	-	858	5	107	-	858	5
Non-current (more than one year)	-	123	-	-	-	123	-	-
As at 31 December 2017	**107**	**123**	**858**	**5**	**107**	**123**	**858**	**5**

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

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

NOTE 29 PROVISIONS (continued)

	Group				Bank			
	Loan commitments and guarantees	Pending legal issues	Restruc-turing	Other	Loan commitments and guarantees	Pending legal issues	Restruc-turing	Other
As at 1 January 2016	**13**	**738**	**661**	**5**	**13**	**738**	**661**	**5**
Increase in provisions	-	-	-	-	-	-	-	-
Utilised	-	(275)	(43)	-	(13)	(275)	(43)	-
Unused amounts reversed	(13)	(172)	(618)	-	-	(172)	(618)	-
Changes due to exchange rates	-	-	-	-	-	-	-	-
As at 31 December 2016	**-**	**291**	**-**	**5**	**-**	**291**	**-**	**5**
Current (less than one year)	-	275	-	5	-	275	-	5
Non-current (more than one year)	-	16	-	-	-	16	-	-
As at 31 December 2016	**-**	**291**	**-**	**5**	**-**	**291**	**-**	**5**

Legal claims. As at 31 December 2017, contingent liabilities that may arise as a result of pending court proceedings in which the Bank would appear as a respondent amounted to EUR 5,545 thousand (2016: EUR 10,885 thousand), of which EUR 1,100 thousand for legal claims related to the group of (ex-Nordea Bank) customers' claim (regarding modification of mortgage loan agreements under which loans were issued in Swiss Francs and commitment to calculate negative interest), the Bank does not see the need for provisions for this case as the risk is remote; of which EUR 1,679 thousand (2016: EUR 1,682 thousand) for legal claims related to index linked bonds and EUR 2,766 thousand for other legal claims (2016: EUR 8,912). The Bank established a provision of EUR 123 thousand (2016: EUR 291 thousand) against potential losses in relation to the outcome of legal claims.

NOTE 30 OTHER LIABILITIES

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Accrued expenses and deferred income	10,481	6,132	9,441	6,012
Transit accounts (for payments of loans)	3,755	1,078	3,755	1,078
Payables	6,991	4,615	4,113	4,502
Advance payment	4,345	1,405	1,221	1,405
Other liabilities	1,804	1,953	1,544	629
Total	**27,376**	**15,183**	**20,074**	**13,626**

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

NOTE 31 SHARE CAPITAL

The share premium amounted to EUR 81,942 thousand as at 31 December 2017 (as at 31 December 2016 – EUR 81,942 thousand).

Information about the share capital of the Bank is listed in the table below:

	2017			2016		
	Number of shares	Nominal value, EUR thousand	%	Number of shares	Nominal value, EUR thousand	%
Luminor Group AB	5,710,134	190,205	100.00	5,710,134	190,205	100.00
Total	**5,710,134**	**190,205**	**100.00**	**5,710,134**	**190,205**	**100.00**

NOTE 32 RESERVES

	Group		Bank	
	2017	2016	2017	2016
Mandatory reserve	13,551	9,118	13,260	9,036
Financial assets revaluation reserve (Note 16)	1,146	193	1,146	193
Other reserves	101	241	101	241
Reserve capital	363,763	105,500	363,763	105,500
Total	**378,561**	**115,052**	**378,270**	**114,970**

The reserve capital of a bank is formed by additional contributions of the Bank's shareholders. On 27 September 2017 there was a decision taken of the sole shareholder of AB DNB Bankas to increase the reserve capital of the Bank by EUR 258,263 thousand.

According to the Law of the Republic of Lithuania on Banks, allocations to the mandatory reserve shall be compulsory and may not be less than 1/20 of the net profit. The mandatory reserve may, by a decision of the annual or extraordinary general meeting of the shareholders, be used only to cover losses from operations.

Other reserves contain fixed assets revaluation reserve which relates to the revaluation of tangible fixed assets.

NOTE 33 ASSETS / FUNDS UNDER MANAGEMENT

Assets under management and related liabilities are accounted in the off-balance sheet.

Assets under management of the Bank totalling to EUR 3,735 thousand as at 31 December 2017 (2016: EUR 4,417 thousand) consist of loans granted to legal entities and individuals, including farmers and house building associations and other companies. These loans were granted from the Lithuanian Agricultural Support Fund, the Farmers' Support Fund, the Agricultural Support Fund (proceeds from sale of grain received from the USA) and the Common Mortgage Support Fund, the BoL Mortgage Support Fund.

The Bank manages these loans on behalf of the Lithuanian Ministry of Finance and the Lithuanian Ministry of Agriculture. The Bank's credit risk in respect of these loans is limited to the customer's failure to pay the accrued interest margin. The Bank is not subject to any interest or currency risk on these loans.

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

NOTE 33 ASSETS / FUNDS UNDER MANAGEMENT (continued)

The subsidiary Luminor Investicijų Valdymas UAB manages the following funds:

	2017 (Unaudited)	2016 (Unaudited)
2rd pillar pension funds:		
Luminor pensija 1 (DNB pensija 1)	31,827	31,257
Luminor pensija 2 (DNB pensija 2)	113,040	101,783
Luminor pensija 3 (DNB pensija 3)	161,429	141,516
Luminor pensija 4	561	-
3rd pillar pension fund:		
Luminor pensija 2 plius (DNB papildoma pensija)	28,466	22,886
Luminor pensija 3 plius (DNB papildoma pensija 100)	4,663	3,181
Luminor pensija 1 plius (DNB papildoma konservatyvi pensija)	8,288	6,187
Luminor pensija darbuotojui 1 plius (DNB papildoma darbuotojo pensija 25)	710	495
Luminor pensija darbuotojui 2 plius (DNB papildoma darbuotojo pensija 50)	1,475	890
Assets under management of institutionals portfolios	10,505	8,963
Total	**360,964**	**317,158**

NOTE 34 CONTINGENT LIABILITIES AND COMMITMENTS

Guarantees, letters of credit, commitments to grant loans and other commitments

	Group		Bank	
	2017	2016	2017	2016
Financial guarantees	80,537	40,575	80,537	40,575
Letters of credit	49,375	1,794	49,375	1,794
Commitments to grant loans	706,229	421,382	800,393	425,234
Commitments to grant finance leases	49,836	2,061	5,670	2,061
Capital commitments and other commitments to acquire assets	691	546	691	546
Other commitments	105,638	72,728	105,638	72,728
Total	**992,306**	**539,086**	**1,042,304**	**542,938**

The management of the Bank considers the level of provisions to be sufficient to cover the potential losses that may arise out of the above items. Additional commitments to related parties are disclosed in Note 38.

NOTE 35 CASH AND CASH EQUIVALENTS

	Group		Bank	
	2017	2016	2017	2016
Cash (Note 11)	134,105	93,144	134,105	93,144
Correspondent accounts with other banks	69,654	29,518	69,654	29,518
Required reserves in national currency in Central Bank (Note 11)	45,414	25,182	45,414	25,182
Correspondent account with Central Bank (Note 11)	1,183,024	15,823	1,183,024	15,823
Total	**1,432,197**	**163,667**	**1,432,197**	**163,667**

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

NOTE 36 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS

The Group's open positions of prevailing currencies as at 31 December 2017 were as follows:

	USD	GBP	NOK	Other currencies	Total currencies	EUR	Total
Assets							
Cash and balances with central banks	2,284	1,564	1,114	4,710	9,672	1,352,871	1,362,543
Due from banks and other credit institutions	4,790	2,925	883	42,763	51,361	199,781	251,142
Financial assets held for trading	1,534	-	-	-	1,534	791	2,325
Financial assets designated at fair value throught profit or loss	-	-	-	-	-	85,586	85,586
Derivative financial instruments	710	-	1,144	-	1,854	4,515	6,369
Available for sale financial assets	3,265	-	-	-	3,265	-	3,265
Loans and advances to customers	19,861	3,436	936	26,305	50,538	4,395,171	4,445,709
Finance lease receivables	179	-	-	-	179	639,599	639,778
Investments in associate	-	-	-	-	-	1,658	1,658
Investment property	-	-	-	-	-	17,147	17,147
Property, plant and equipment	-	-	-	-	-	12,308	12,308
Intangible assets	-	-	-	-	-	3,350	3,350
Deferred tax asset	-	-	-	-	-	1,350	1,350
Other assets	179	68	46	1	294	16,669	16,963
Non-curent assets and disposal groups held for sale	-	-	-	-	-	1,310	1,310
Total assets	**32,802**	**7,993**	**4,123**	**73,779**	**118,697**	**6,732,106**	**6,850,803**
Liabilities and equity							
Due to banks and other credit institutions	1,695	928	517	39,357	42,497	2,187,093	2,229,590
Derivative financial instruments	680	-	1,113	-	1,793	5,951	7,744
Due to customers	112,544	10,108	34,921	14,511	172,084	3,684,034	3,856,118
Provisions	-	-	-	-	-	1,093	1,093
Current income tax liabilities	-	-	-	-	-	1,803	1,803
Other liabilities	326	-	29	3	358	27,018	27,376
Total equity	-	-	-	-	-	727,079	727,079
Total liabilities and equity	**115,245**	**11,036**	**36,580**	**53,871**	**216,732**	**6,634,071**	**6,850,803**
Net balance sheet position	**(82,443)**	**(3,043)**	**(32,457)**	**19,908**	**(98,035)**	**98,035**	**-**
Off-balance sheet position	82,449	3,523	32,567	(20,100)	98,439	(99,974)	(1,535)
Net open position	6	480	110	(192)	404	(1,939)	(1,535)

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

NOTE 36 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS (continued)

The Group's open positions of prevailing currencies as at 31 December 2016 were as follows:

	USD	GBP	NOK	Other currencies	Total currencies	EUR	Total
Assets							
Cash and balances with central banks	2,206	1,485	1,723	3,396	8,810	125,339	134,149
Due from banks and other credit institutions	1,974	4,774	285	7,656	14,689	729,888	744,577
Financial assets held for trading	718	-	-	-	718	4,555	5,273
Financial assets designated at fair value throught profit or loss	-	-	-	-	-	98,593	98,593
Derivative financial instruments	292	-	2,853	-	3,145	10,462	13,607
Available for sale financial assets	2,624	-	-	-	2,624	-	2,624
Loans and advances to customers	14,663	-	-	-	14,663	2,736,778	2,751,441
Finance lease receivables	391	-	-	-	391	160,209	160,600
Investment in an associate	-	-	-	-	-	-	-
Investment property	-	-	-	-	-	30,015	30,015
Property, plant and equipment	-	-	-	-	-	15,644	15,644
Intangible assets	-	-	-	-	-	4,709	4,709
Deferred income tax asset	-	-	-	-	-	4,807	4,807
Other assets	79	5	8	5	97	14,435	14,532
Non-curent assets and disposal groups held for sale	-	-	-	-	-	7,994	7,994
Total assets	**22,947**	**6,264**	**4,869**	**11,057**	**45,137**	**3,943,428**	**3,988,565**
Liabilities and equity							
Due to banks and other credit institutions	514	1,018	1,340	1,466	4,338	1,007,953	1,012,291
Derivative financial instruments	274	-	2,779	-	3,053	6,325	9,378
Due to customers	94,912	7,286	34,005	10,102	146,305	2,329,391	2,475,696
Provisions	-	-	-	-	-	296	296
Current income tax liabilities	-	-	-	-	-	2,111	2,111
Other liabilities	235	5	9	13	262	14,921	15,183
Total equity	-	-	-	-	-	473,610	473,610
Total liabilities and equity	**95,935**	**8,309**	**38,133**	**11,581**	**153,958**	**3,834,607**	**3,988,565**
Net balance sheet position	**(72,988)**	**(2,045)**	**(33,264)**	**(524)**	**(108,821)**	**108,821**	**-**
Off-balance sheet position	**72,973**	**2,027**	**33,242**	**555**	**108,797**	**(104,377)**	**4,420**
Net open position	**(15)**	**(18)**	**(22)**	**31**	**(24)**	**4,444**	**4,420**

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

NOTE 36 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS (continued)

The Bank's open positions of prevailing currencies as at 31 December 2017 were as follows:

	USD	GBP	NOK	Other curren-cies	Total currencies	EUR	Total
Assets							
Cash and balances with central banks	2,284	1,564	1,114	4,710	9,672	1,352,871	1,362,543
Due from banks and other credit institutions	4,790	2,925	883	42,763	51,361	199,781	251,142
Financial assets held for trading	1,534	-	-	-	1,534	791	2,325
Financial assets designated at fair value throught profit or loss	-	-	-	-	-	84,171	84,171
Derivative financial instruments	710	-	1,144	-	1,854	4,515	6,369
Available for sale financial assets	3,265	-	-	-	3,265	-	3,265
Loans and advances to customers	19,861	3,436	936	26,305	50,538	4,807,937	4,858,475
Finance lease receivables	179	-	-	-	179	178,293	178,472
Investments in subsidiaries	-	-	-	-	-	92,922	92,922
Investment property	-	-	-	-	-	812	812
Property, plant and equipment	-	-	-	-	-	11,918	11,918
Intangible assets	-	-	-	-	-	3,329	3,329
Deferred income tax asset	-	-	-	-	-	907	907
Other assets	179	68	46	1	294	12,531	12,825
Non-curent assets and disposal groups held for sale	-	-	-	-	-	29	29
Total assets	**32,802**	**7,993**	**4,123**	**73,779**	**118,697**	**6,750,807**	**6,869,504**
Liabilities and equity							
Due to banks and other credit institutions	1,695	928	517	39,357	42,497	2,187,093	2,229,590
Derivative financial instruments	680	-	1,113	-	1,793	5,951	7,744
Due to customers	112,544	10,108	34,921	14,511	172,084	3,716,104	3,888,188
Provisions	-	-	-	-	-	1,093	1,093
Current income tax liabilities	-	-	-	-	-	1,916	1,916
Other liabilities	326	-	29	3	358	19,716	20,074
Total equity	-	-	-	-	-	720,899	720,899
Total liabilities and equity	**115,245**	**11,036**	**36,580**	**53,871**	**216,732**	**6,652,772**	**6,869,504**
Net balance sheet position	**(82,443)**	**(3,043)**	**(32,457)**	**19,908**	**(98,035)**	**98,035**	**-**
Off-balance sheet position	82,449	3,523	32,567	(20,100)	98,439	(99,974)	(1,535)
Net open position	6	480	110	(192)	404	(1,939)	(1,535)

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

NOTE 36 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS (continued)

The Bank's open positions of prevailing currencies as at 31 December 2016 were as follows:

	USD	GBP	NOK	Other curren-cies	Total currencies	EUR	Total
Assets							
Cash and balances with central banks	2,206	1,485	1,723	3,396	8,810	125,339	134,149
Due from banks and other credit institutions	1,974	4,774	285	7,656	14,689	729,888	744,577
Financial assets held for trading	718	-	-	-	718	4,555	5,273
Financial assets designated at fair value throught profit or loss	-	-	-	-	-	97,461	97,461
Derivative financial instruments	292	-	2,853	-	3,145	10,462	13,607
Available for sale financial assets	2,624	-	-	-	2,624	-	2,624
Loans and advances to customers	14,663	-	-	-	14,663	2,742,526	2,757,189
Finance lease receivables	391	-	-	-	391	160,209	160,600
Investments in subsidiaries	-	-	-	-	-	41,291	41,291
Investment in an associate	-	-	-	-	-	-	-
Investment property	-	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	15,640	15,640
Intangible assets	-	-	-	-	-	4,229	4,229
Deferred income tax asset	-	-	-	-	-	4,807	4,807
Other assets	79	5	8	5	97	13,814	13,911
Non-curent assets and disposal groups held for sale	-	-	-	-	-	29	29
Total assets	**22,947**	**6,264**	**4,869**	**11,057**	**45,137**	**3,950,250**	**3,995,387**
Liabilities and equity							
Due to banks and other credit institutions	514	1,018	1,340	1,466	4,338	1,007,953	1,012,291
Derivative financial instruments	274	-	2,779	-	3,053	6,325	9,378
Due to customers	94,912	7,286	34,005	10,102	146,305	2,339,832	2,486,137
Provisions	-	-	-	-	-	296	296
Current income tax liabilities	-	-	-	-	-	2,213	2,213
Other liabilities	235	5	9	13	262	13,364	13,626
Total equity	-	-	-	-	-	471,446	471,446
Total liabilities and equity	**95,935**	**8,309**	**38,133**	**11,581**	**153,958**	**3,841,429**	**3,995,387**
Net balance sheet position	**(72,988)**	**(2,045)**	**(33,264)**	**(524)**	**(108,821)**	**108,821**	**-**
Off-balance sheet position	**72,973**	**2,027**	**33,242**	**555**	**108,797**	**(104,377)**	**4,420**
Net open position	**(15)**	**(18)**	**(22)**	**31**	**(24)**	**4,444**	**4,420**

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

NOTE 37 INTEREST RATE RISK

The table below summarises the Group's interest rate risks as at 31 December 2017. Assets and liabilities are shown at their carrying amounts categorised by the earlier of contractual repricing or maturity dates

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Non interest bearing	Total
Assets								
Cash and balances with central banks	1,362,543	-	-	-	-	-	-	1,362,543
Due from banks and other credit institutions	103,468	147,674	-	-	-	-	-	251,142
Financial assets held for trading	1	56	2	18	1,296	952	-	2,325
Financial assets designated at fair value throught profit or loss	-	8,996	103	11,361	43,474	21,634	18	85,586
Derivative financial instruments	26	85	48	11	1,371	1,430	3,398	6,369
Available for sale financial assets	-	-	-	-	-	-	3,265	3,265
Loans and advances to customers	704,836	1,553,307	1,369,839	426,265	188,117	203,345	-	4,445,709
Finance lease receivables	35,960	485,117	85,047	2,464	-	31,190	-	639,778
Investment in an associate							1,658	1,658
Investment property	-	-	-	-	-	-	17,147	17,147
Property, plant and equipment	-	-	-	-	-	-	12,308	12,308
Intangible assets	-	-	-	-	-	-	3,350	3,350
Deferred income tax asset	-	-	-	-	-	-	1,350	1,350
Other assets	-	-	-	-	-	-	16,963	16,963
Non-curent assets and disposal groups held for sale	-	-	-	-	-	-	1,310	1,310
Total assets	**2,206,834**	**2,195,235**	**1,455,039**	**440,119**	**234,258**	**258,551**	**60,767**	**6,850,803**
Liabilities and shareholders' equity								
Due to banks and other credit institutions	139,590	680,000	1,290,000	-	70,000	50,000	-	2,229,590
Derivative financial instruments	52	91	105	42	1,245	1,062	5,147	7,744
Due to customers	3,436,315	101,730	175,358	129,432	9,556	3,727	-	3,856,118
Provisions	-	-	-	-	-	-	1,093	1,093
Current income tax liabilities	-	-	-	-	-	-	1,803	1,803
Other liabilities	-	-	-	-	-	-	27,376	27,376
Shareholders' equity	-	-	-	-	-	-	727,079	727,079
Total liabilities and shareholders' equity	**3,575,957**	**781,821**	**1,465,463**	**129,474**	**80,801**	**54,789**	**762,498**	**6,850,803**
Interest rate sensitivity gap	**(1,369,123)**	**1,413,414**	**(10,424)**	**310,645**	**153,457**	**203,762**	**(701,731)**	**-**

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

NOTE 37 INTEREST RATE RISK (continued)

The Group's interest rate risk as at 31 December 2016 was as follows:

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Non interest bearing	Total
Assets								
Cash and balances with central banks	134,149	-	-	-	-	-	-	134,149
Due from banks and other credit institutions	645,388	99,189	-	-	-	-	-	744,577
Financial assets held for trading	2	339	34	678	2,562	1,658	-	5,273
Financial assets designated at fair value throught profit or loss	-	10,523	1,835	864	47,740	37,613	18	98,593
Derivative financial instruments	49	94	31	6	1,739	2,449	9,239	13,607
Available for sale financial assets	-	-	-	-	-	-	2,624	2,624
Loans and advances to customers	317,673	1,087,402	967,618	135,323	92,711	150,714	-	2,751,441
Finance lease receivables	36,687	71,622	43,137	1,885	5,317	1,952	-	160,600
Investment in an associate							-	-
Investment property	-	-	-	-	-	-	30,015	30,015
Property, plant and equipment	-	-	-	-	-	-	15,644	15,644
Intangible assets	-	-	-	-	-	-	4,709	4,709
Deferred income tax asset	-	-	-	-	-	-	4,807	4,807
Other assets	-	-	-	-	-	-	14,532	14,532
Non-curent assets and disposal groups held for sale	-	-	-	-	-	-	7,994	7,994
Total assets	**1,133,948**	**1,269,169**	**1,012,655**	**138,756**	**150,069**	**194,386**	**89,582**	**3,988,565**
Liabilities and shareholders' equity								
Due to banks and other credit institutions	23,418	33,681	589,838	15,354	330,000	20,000	-	1,012,291
Derivative financial instruments	73	111	28	5	1,833	2,265	5,063	9,378
Due to customers	2,283,895	51,485	62,650	67,732	6,974	2,960	-	2,475,696
Provisions	-	-	-	-	-	-	296	296
Current income tax liabilities	-	-	-	-	-	-	2,111	2,111
Other liabilities	-	-	-	-	-	-	15,183	15,183
Shareholders' equity	-	-	-	-	-	-	473,610	473,610
Total liabilities and shareholders' equity	**2,307,386**	**85,277**	**652,516**	**83,091**	**338,807**	**25,225**	**496,263**	**3,988,565**
Interest rate sensitivity gap	**(1,173,438)**	**1,183,892**	**360,139**	**55,665**	**(188,738)**	**169,161**	**(406,681)**	**-**

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

NOTE 37 INTEREST RATE RISK (continued)

The Bank's interest rate risk as at 31 December 2017 is as follows:

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Non interest bearing	Total
Assets								
Cash and balances with central banks	1,362,543	-	-	-	-	-	-	1,362,543
Due from banks and other credit institutions	103,468	147,674	-	-	-	-	-	251,142
Financial assets held for trading	1	56	2	18	1,296	952	-	2,325
Financial assets designated at fair value throught profit or loss	-	8,851	101	11,360	42,817	21,024	18	84,171
Derivative financial instruments	26	85	48	11	1,371	1,430	3,398	6,369
Available for sale financial assets	-	-	-	-	-	-	3,265	3,265
Loans and advances to customers	706,095	1,987,535	1,373,141	386,961	204,642	200,101	-	4,858,475
Finance lease receivables	35,960	69,872	62,905	2,464	-	7,271	-	178,472
Investments in subsidiaries	-	-	-	-	-	-	92,922	92,922
Investment in an associate							-	-
Investment property	-	-	-	-	-	-	812	812
Property, plant and equipment	-	-	-	-	-	-	11,918	11,918
Intangible assets	-	-	-	-	-	-	3,329	3,329
Deferred income tax asset	-	-	-	-	-	-	907	907
Other assets	-	-	-	-	-	-	12,825	12,825
Non-curent assets and disposal groups held for sale	-	-	-	-	-	-	29	29
Total assets	**2,208,093**	**2,214,073**	**1,436,197**	**400,814**	**250,126**	**230,778**	**129,423**	**6,869,504**
Liabilities and shareholders' equity								
Due to banks and other credit institutions	139,590	680,000	1,290,000	-	70,000	50,000	-	2,229,590
Derivative financial instruments	52	91	105	42	1,245	1,062	5,147	7,744
Due to customers	3,468,385	101,730	175,358	129,432	9,556	3,727	-	3,888,188
Provisions	-	-	-	-	-	-	1,093	1,093
Current income tax liabilities	-	-	-	-	-	-	1,916	1,916
Other liabilities	-	-	-	-	-	-	20,074	20,074
Shareholders' equity	-	-	-	-	-	-	720,899	720,899
Total liabilities and shareholders' equity	**3,608,027**	**781,821**	**1,465,463**	**129,474**	**80,801**	**54,789**	**749,129**	**6,869,504**
Interest rate sensitivity gap	**(1,399,934)**	**1,432,252**	**(29,266)**	**271,340**	**169,325**	**175,989**	**(619,706)**	**-**

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

NOTE 37 INTEREST RATE RISK (continued)

The Bank's interest rate risk as at 31 December 2016 was as follows:

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Non interest bearing	Total
Assets								
Cash and balances with central banks	134,149	-	-	-	-	-	-	134,149
Due from banks and other credit institutions	645,388	99,189	-	-	-	-	-	744,577
Financial assets held for trading	2	339	34	678	2,562	1,658	-	5,273
Financial assets designated at fair value throught profit or loss	-	10,516	1,834	653	47,190	37,250	18	97,461
Derivative financial instruments	49	94	31	6	1,739	2,449	9,239	13,607
Available for sale financial assets	-	-	-	-	-	-	2,624	2,624
Loans and advances to customers	317,673	1,087,402	967,618	135,323	92,711	156,462	-	2,757,189
Finance lease receivables	36,687	71,622	43,137	1,885	5,317	1,952	-	160,600
Investments in subsidiaries	-	-	-	-	-	-	41,291	41,291
Investment in an associate							-	-
Investment property	-	-	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	-	15,640	15,640
Intangible assets	-	-	-	-	-	-	4,229	4,229
Deferred income tax asset	-	-	-	-	-	-	4,807	4,807
Other assets	-	-	-	-	-	-	13,911	13,911
Non-curent assets and disposal groups held for sale	-	-	-	-	-	-	29	29
Total assets	**1,133,948**	**1,269,162**	**1,012,654**	**138,545**	**149,519**	**199,771**	**91,788**	**3,995,387**
Liabilities and shareholders' equity								
Due to banks and other credit institutions	23,418	33,681	589,838	15,354	330,000	20,000	-	1,012,291
Derivative financial instruments	73	111	28	5	1,833	2,265	5,063	9,378
Due to customers	2,294,336	51,485	62,650	67,732	6,974	2,960	-	2,486,137
Provisions	-	-	-	-	-	-	296	296
Current income tax liabilities	-	-	-	-	-	-	2,213	2,213
Other liabilities	-	-	-	-	-	-	13,626	13,626
Shareholders' equity	-	-	-	-	-	-	471,446	471,446
Total liabilities and shareholders' equity	**2,317,827**	**85,277**	**652,516**	**83,091**	**338,807**	**25,225**	**492,644**	**3,995,387**
Interest rate sensitivity gap	**(1,183,879)**	**1,183,885**	**360,138**	**55,454**	**(189,288)**	**174,546**	**(400,856)**	**-**

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

NOTE 38 RELATED PARTY TRANSACTIONS

The balances of loans granted by the Group to the management and close family members, deposits accepted as at the end of the period are as follows:

	Balances of deposits		Principal of loans outstanding	
	2017	2016	2017	2016
Management of the Group and close family members of management	850	699	549	913

In 2017, the total compensations for the Group management approximated EUR 1,207 thousand (in 2016 – EUR 1,428 thousand). In 2017, the total compensations for the Bank's management approximated EUR 738 thousand (in 2016 – EUR 1,244 thousand). The remuneration to key management personnel mainly consists of short term employee benefits.

The following balances were outstanding with ultimate owners related companies:

Assets	**2017**	**2016**
Correspondent bank accounts	58,532	18,342
Overnight deposits	-	-
Term deposits	-	572,017
Reverse repurchase agreements	101,486	141,695
Derivative financial instruments	2,606	9,920
Other assets	162	27
Receivable	-	-
Liabilities		
Correspondent bank accounts	695	5,597
Term deposits	1,870,542	31,032
Derivative financial instruments	6,250	4,795
Loans	-	657,841
Payable	-	138
Other liabilities	730	-

Income	**2017**	**2016**
Interest	1,832	2,316
Fee and commission	290	262
Net gain (loss) on operations with securities and derivative financial instruments and net foreign exchange result	(4,638)	8,904
Other	92	-
Expenses		
Interest	4,254	3,885
Fee and commission	234	242
Other*	7,350	6,808

*From the total other expenses amount stated above the expenses related to the IT services and upgrade of the Bank's core IT systems as at 31 December 2017 amounted to 6,163 EUR (31 December 2016 6,357 EUR).

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

NOTE 38 RELATED PARTY TRANSACTIONS (continued)

The following balances were outstanding with Luminor Group AB companies:

Assets	**2017**	**2016**
Correspondent bank accounts	844	1,485
Term deposits	80,000	-
Receivable	-	646
Other assets	1,121	5
Liabilities		
Correspondent bank accounts	931	315
Payable	-	1,013
Other liabilities	81	-

Income	**2017**	**2016**
Fee and commission	57	12
Net gain (loss) on operations with securities and derivative financial instruments and net foreign exchange result	-	28
Other	1,367	644
Expenses		
Fee and commission	240	129
Other	2,284	1,495

The following balances were outstanding on the Bank statement of financial position with subsidiaries:

Assets	**2017**	**2016**
Loans	635,474	5,748
Equity securities	92,922	41,291
Other assets	13	19
Liabilities		
Demand deposits	32,070	10,441
Other liabilities	13	19

The main income/expenses of the Bank from transactions with the subsidiaries are as follows:

Income	**2017**	**2016**
Interest	1,307	91
Fee and commission	725	929
Dividends	1,247	1,641
Other	352	46
Expenses		
Other	124	210
Impairment	7,640	6,700

As at 31 December 2017, the main off-balance sheet commitments (guarantees, commitments to grant loans) with the subsidiaries amounted to EUR 94,164 thousand (2016: EUR 3,852 thousand).

Terms and conditions of transactions with related parties
The above mentioned outstanding balances arose from the ordinary course of business. The interest charged to and by related parties are at arm's length rates.

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

NOTE 39 CONCENTRATION EXPOSURE

According to the regulations approved by the Bank of Lithuania, the Large exposure per borrower may not exceed 25 % of the Bank's calculated capital or EUR 150 million. In 2017 and 2016, the Bank complied with the maximum exposure to one borrower requirements set by the Bank of Lithuania. As at 31 December 2017, the largest single exposure comprising loans to several related borrowers treated as a single borrower, not secured by the Government guarantees, is 14.42 % of the Bank's calculated capital (in 2016 - 11.29 % respectively).

As of the end of 2017 the Group exceeded Group Large exposure to one borrower requirement. Actual exposure was 28.71 per cent (maximum exposure limit is 25 per cent). Management of the Group took actions to decrease the exposure and the Group meets all prudential requirements at the end of February 2018. The Group immediately informed Supervisory authorities about the breach and are in constant contact on the matter. Management of the Group is of the opinion, that the breach will not have significant adverse impact on the operations of the Group as this was one-time event caused by the merger.

NOTE 40 ADDITIONAL INFORMATION REQUIRED TO BE DISCLOSED BY LAWS

According to the local legislation, the Bank is required to prepare the Financial Group's consolidated financial information. The Financial Group includes the Bank and its subsidiaries engaged in financial service activities, that is Luminor Investicijų Valdymas UAB, Luminor Lizingas UAB, Industrius UAB, RECURSO UAB, PROMANO LIT UAB, and Intractus UAB with its subsidiary Gėlužės Projektai UAB. The Financial Group's consolidated income statement, statements of comprehensive income, financial position, changes in shareholder's equity and cash flows are presented in this note below:

FINANCIAL GROUP INCOME STATEMENT

	Financial Group	
	2017	**2016**
Interest income	87,534	79,117
Interest expense	(11,821)	(11,464)
Net interest income	**75,713**	**67,653**
Fee and commission income	45,735	37,029
Fee and commission expense	(10,012)	(8,302)
Net interest, fee and commission income	**111,436**	**96,380**
Net gain on operations with securities and derivative financial instruments and net foreign exchange gain	17,332	8,982
Impairment, change in fair value of investment property and provisions	(52,890)	(20,286)
Other income	4,917	8,576
Personnel expenses	(32,849)	(26,587)
Depreciation and amortisation	(4,161)	(3,949)
Other administrative expenses	(49,332)	(36,890)
Profit (loss) before income tax	**(5,547)**	**26,226**
Income tax	(5,314)	(3,743)
Net profit (loss) for the year	**(10,861)**	**22,483**
Profit (loss) attributable to:		
Equity holders of the parent	(10,861)	22,483

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

NOTE 40 ADDITIONAL INFORMATION REQUIRED TO BE DISCLOSED BY LAWS (continued)

THE FINANCIAL GROUP STATEMENT OF COMPREHENSIVE INCOME

	Financial Group	
	2017	**2016**
Profit (loss) for the year	**(10,861)**	**22,483**
Other comprehensive income (expenses) to be reclassified to profit or loss in subsequent periods: Net gain on available for sale financial assets	953	193
Reclassification adjustments to the income statement	-	(10,800)
Other comprehensive income (expenses) not to be reclassified to profit or loss in subsequent periods:	-	-
Total other comprehensive income (expenses)	**953**	**(10,607)**
Total comprehensive income (expenses) for the year, net of tax	**(9,908)**	**11,876**
Atributable to:		
Equity holders of the parent	(9,908)	11,876

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

NOTE 40 ADDITIONAL INFORMATION REQUIRED TO BE DISCLOSED BY LAWS (continued)

FINANCIAL GROUP STATEMENT OF FINANCIAL POSITION

	Financial Group	
	31 December 2017	31 December 2016
ASSETS		
Cash and balances with central banks	1,362,543	134,149
Due from banks and other credit institutions	251,142	744,577
Financial assets held for trading	2,325	5,273
Financial assets designated at fair value through profit or loss	85,586	98,593
Derivative financial instruments	6,369	13,607
Available for sale financial assets	3,265	2,624
Loans and advances to customers	4,445,709	2,751,441
Finance lease receivables	639,778	160,600
Investments in subsidiaries	892	892
Investment in an associate	1,658	-
Investment property	17,147	30,015
Property, plant and equipment	12,304	15,641
Intangible assets	3,344	4,699
Deferred income tax asset	1,350	4,807
Other assets	16,854	14,435
Non-curent assets and disposal groups held for sale	1,310	7,994
Total assets	**6,851,576**	**3,989,347**
LIABILITIES AND EQUITY		
Due to banks and other credit institutions	2,229,590	1,012,291
Derivative financial instruments	7,744	9,378
Due to customers	3,857,540	2,476,895
Provisions	1,093	296
Current income tax liabilities	1,811	2,090
Other liabilities	27,222	15,081
Total liabilities	**6,125,000**	**3,516,031**
Equity attributable to equity holders of parent		
Ordinary shares	190,205	190,205
Share premium	81,942	81,942
Retained earnings	75,908	86,141
Reserves	378,521	115,028
Total equity	**726,576**	**473,316**
Total liabilities and equity	**6,851,576**	**3,989,347**

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

NOTE 40 ADDITIONAL INFORMATION REQUIRED TO BE DISCLOSED BY LAWS (continued)

FINANCIAL GROUP STATEMENT OF CHANGES IN EQUITY

	Issued shares	Share premium	Reserve capital	Available for sale financial assets revaluation reserve	Manda-tory reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2016	**190,205**	**81,942**	**105,500**	**10,800**	**5,845**	**241**	**66,907**	**461,440**
Profit for the period	-	-	-	-	-	-	22,483	22,483
Other comprehensive income (Note 16)	-	-	-	(10,607)	-	-	-	(10,607)
Total comprehensive income (expenses) for the year, net of tax	**-**	**-**	**-**	**(10,607)**	**-**	**-**	**22,483**	**11,876**
Transfer to mandatory reserve	-	-	-	-	3,249	-	(3,249)	-
Balance at 31 December 2016	**190,205**	**81,942**	**105,500**	**193**	**9,094**	**241**	**86,141**	**473,316**
Profit for the period	-	-	-	-	-	-	(10,861)	(10,861)
Other comprehensive income (Note 16)	-	-	-	953	-	-	-	953
Total comprehensive income (expenses) for the year, net of tax	**-**	**-**	**-**	**953**	**-**	**-**	**(10,861)**	**(9,908)**
Transfer to mandatory reserve	-	-	-	-	4,224	(140)	(4,084)	-
Increase of reserve capital	-	-	258,263	-	-	-	-	258,263
Changes related to merger with Nordea branch (Note 41)	-	-	-	-	193	-	4,712	4,905
Balance at 31 December 2017	**190,205**	**81,942**	**363,763**	**1,146**	**13,511**	**101**	**75,908**	**726,576**

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

NOTE 40 ADDITIONAL INFORMATION REQUIRED TO BE DISCLOSED BY LAWS (continued)

FINANCIAL GROUP STATEMENT OF CASH FLOWS

	Financial Group	
	31 December 2017	**31 December 2016**
Operating activities		
Interest receipts	101,521	76,261
Interest payments	(11,114)	(11,939)
Collected previously written-off loans	7,812	2,439
Net receipt from FX trading and operations in securities	(1,776)	11,719
Fee and commission receipt	45,735	37,034
Fee and commission payments	(10,012)	(8,307)
Salaries and related payments	(32,561)	(26,850)
Other payments	(44,415)	(28,314)
Net cash flow from operating activities before changes in operating assets and liabilities	**55,190**	**52,043**
(Increase) decrease in operating assets:		
(Increase) decrease in loans to credit and financial institutions	533,587	(184,223)
(Increase) decrease in loans granted	(89,664)	(28,392)
(Increase) decrease in trading securities	14,801	17,941
(Increase) decrease in other assets	13,216	16,330
Change in operating assets	**471,940**	**(178,344)**
Increase (decrease) in operating liabilities:		
Increase (decrease) in liabilities to central bank	-	(42,700)
Increase (decrease) in liabilities to credit and financial institutions	260,945	(28,835)
Increase in deposits	184,118	133,342
Increase (decrease) in other liabilities	2,396	(1,589)
Change in operating liabilities	**447,459**	**60,218**
Income tax paid	**(387)**	**(2,466)**
Net cash flows from operating activities	**974,202**	**(68,549)**
Investing activities		
Acquisition of property, plant , equipment and intangible assets	(2,844)	(6,596)
Disposal of property, plant, equipment and intangible assets	659	11,485
(Increase) decrease in securities	12,235	(23,914)
Dividends received	124	24
Interest received	953	2,070
Disposal of asociate	-	350
Changes related to merger with Nordea branch (Note 41)	38,360	-
Net cash flows from investing activities	**49,487**	**(16,581)**
Financing activities		
Increase of reserve capital (Note 32)	258,263	-
Net cash flows from financing activities	**258,263**	**-**
Net increase in cash and cash equivalents	**1,281,952**	**(85,130)**
Net foreign exchange difference on cash and cash equivalents	(13,422)	2,607
Cash and cash equivalents at 1 January	163,667	**246,190**
Cash and cash equivalents as at 31 December (Note 35)	**1,432,197**	**163,667**

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

NOTE 41 MERGER WITH NORDEA

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

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

	Nordea bank AB Lithuania branch as at 30 September 2017
ASSETS	
Cash and balances with central banks	92,062
Financial assets held for trading	659
Loans and advances to customers	2,067,227
Investments in subsidiaries	14,490
Tangible and Intangible assets	142
Deferred income tax asset	371
Other assets	3,260
Total assets	**2,178,211**
LIABILITIES AND EQUITY	
Financial liabilities held for trading	650
Financial liabilities measured at amortised cost	2,158,614
Tax liabilities	89
Other liabilities	6,590
Total liabilities	**2,165,943**
Total equity	**12,268**
Total liabilities and equity	**2,178,211**
OFF-BALANCE	
Financial guarantees	101,496
Loan commitments and other credit related liabilities	412,107
Total Off –balance sheet items	**513,603**

Total consideration paid for the Nordea Branch amounted to EUR 8,974 thousand. Difference between consideration paid and net assets acquired in amount of EUR 3,294 thousand were accounted for directly into Equity of the Bank as merger effect.

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

The last statement of financial position of Nordea Finance (Luminor lizingas) UAB is presented below:

	Nordea Finance UAB as at 30 September 2017
ASSETS	
Cash and balances with central banks	-
Financial assets held for trading	-
Loans and advances to customers	674,933
Factoring	176,514
Financial lease receivables	498,419
Investments in subsidiaries	1,574
Tangible and Intangible assets	49
Deferred income tax asset	1,270
Other assets	1,785
Total assets	**679,611**
LIABILITIES AND EQUITY	
Financial liabilities held for trading	-
Financial liabilities measured at amortised cost	631,433
Tax liabilities	1,042
Other liabilities	816
Total liabilities	**633,291**
Total equity	**46,320**
Total liabilities and equity	**679,611**

Total consideration paid for Nordea finance UAB amounted to EUR 44,728 thousand. Difference between consideration paid and net assets acquired in amount of EUR 1,592 thousand were accounted for directly into Equity of the Group as merger effect.

In addition newly acquired subsidiaries' Promano Lit UAB, and RECURSO UAB assets amounted to EUR 14,6 million and liabilities to EUR 0,08 million. Approx. EUR 12.0 million of assets comprised of cash at Nordea branch.

Reconciliation of the transaction for cash flows statement:

	Group	Bank
Consideration paid	53,702	8,974
Cash and cash equivalents acquired	92,062	92,062
Consideration paid, less cash and cash equivalents acquired	(38,360)	(83,088)

NOTE 42 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

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