RISK MANAGEMENT AND CAPITAL ADEQUACY (PILLAR 3) DISCLOSURE REPORT **2017**

LUMINOR LATVIA GROUP

INTRODUCTION

Risk Management and Capital Adequacy (Pillar 3) Disclosure report is prepared according to EU Regulation No 575/2013 (hereinafter referred to as the Regulation) part eight, European Commission implementing regulations as well as European Banking Authority's guidelines. Luminor Bank AS in Latvia (hereinafter referred to as the Bank) as significant subsidiary of EU parent financial holding company Luminor Group AB (Sweden) discloses information specified in Articles 437, 438, 440, 442, 450, 451 and 453 on sub-consolidated basis regarding the Luminor Group in Latvia (hereinafter referred to as the Group) as of 31 December 2017. Information on full requirements specified in part eight of the Regulation will be disclosed on consolidated situation of Luminor Group AB. Pillar 3 report has not been audited by internal or external auditors, however it includes information contained in the Bank's Annual report for 2017. Pillar 3 complements Pillar 1 (minimum capital requirements) and Pillar 2 (internal capital adequacy assessment process and supervisory review process) with the aim to improve market discipline through disclosure of information regarding risks, risk management and capital.

On 1 October 2017 Nordea Bank AB (Sweden) and DNB Bank ASA (Norway) 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 in Lithuania (prev. AB DNB bankas), Luminor Bank AS in Latvia (prev. DNB banka AS) and Luminor Bank AS in Estonia (prev. Aktsiaselts DNB Pank). More information on the merger is available in Luminor Bank AS consolidated annual report for the year ended 31 December 2017. 2017 full year result for Luminor Group in Latvia consists of 9 months DNB Group result plus 3 months Luminor Group result. Opening balances in this report reflect the situation as at the beginning of 2017.

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

CONSOLIDATION GROUP

Luminor Bank AS, registration number 40003024725. The following subsidiaries of Luminor Bank AS are included in the consolidation group in Latvia:

Company name	Share capital, TEUR	Bank's share (%)	Country	Consolidation method
SIA Luminor Līzings Latvija	4 838	100	Latvia	full
IPAS Luminor Asset Management	3 000	100	Latvia	full
SIA Skanstes 12	1 181	100	Latvia	full
SIA SALVUS*	9 467	100	Latvia	full
SIA SALVUS 2*	3 031	100	Latvia	full
SIA SALVUS 3*	1 307	100	Latvia	full
SIA SALVUS 4*	735	100	Latvia	full
SIA SALVUS 6*	300	100	Latvia	full
SIA Luminor Līzings	4 410	100	Latvia	full
AS Luminor Latvijas atklātais pensiju fonds	400	100	Latvia	full
IPAS Luminor Pensions Latvia	2 000	100	Latvia	full
SIA Promano Lat*	29 999	100	Latvia	full
SIA Baltik Īpašums*	3	100	Latvia	full
SIA Luminor Finance*	1 088	100	Latvia	full
SIA Trioleta*	3 965	100	Latvia	full
SIA Realm*	10 002	100	Latvia	full

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

The consolidation scope and method used in the balance sheet in the financial statements is the same as the one used for regulatory purposes.

OWN FUNDS AND CAPITAL REQUIREMENTS

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

TEUR	31.12.2017
Total own funds for solvency purposes*	**516 460**
Tier 1: Original own funds	**516 460**
Paid up capital	191 178
Share premium	69 713
Reserves	261 676
Valuation differences to eligible as original own funds	(1 148)
Other deductions from Original Own Funds	(4 959)

* not including audited profit of 2017

MINIMUM CAPITAL REQUIREMENTS

Minimum capital requirements are calculated according to requirements set out in the Regulation. Minimum capital requirements are calculated for credit risk (including counterparty credit risk and credit valuation adjustment), market risk and operational risk. This Regulation determines not only approaches to be used in calculations but also defines elements of own funds and limitations regarding their inclusion in total own funds.

The Group has no trading book. The Group has no securitisation exposures.

TEUR	31.12.2017
Capital requirements for credit risk, standardised approach	**205 131**
Central governments or central banks	0
Regional governments or local authorities	240
Institutions	2 918
Corporates	95 414
Retail	41 919
Secured by mortgages on immovable property	38 704
Exposures in default	18 416
Equity	443
Other items	7 079
Capital requirements for market risk, standardised approach	**0**
Capital requirements for operational risk, basic indicator approach	**17 752**
Capital requirements for credit valuation adjustment risk	**620**
Total capital requirements	**223 502**

CAPITAL ADEQUACY

TEUR	31.12.2017
Total own funds for solvency purposes*	516 460
Capital requirements	223 502
Surplus of own funds	292 958
Risk weighted assets	2 793 780
Solvency ratio of Tier 1 capital (%)	18.5%

* not including audited profit of 2017

EU OV1 – OVERVIEW OF RISK WEIGHTED ASSETS (RWA)

TEUR		RWAs		Minimum capital requirements
		31.12.2017	31.12.2016	31.12.2017
1	Credit risk (excluding CCR)	2 547 730	1 273 624	203 818
2	of which the standardised approach	2 547 730	1 273 624	203 818
6	CCR	24 155	49 978	1 932
7	of which mark to market	16 410	31 044	1 313
12	of which CVA	7 744	18 935	620
13	Settlement risk			
14	Securitisation exposures in the banking book (after the cap)			
19	Market risk			
22	Large exposures			
23	Operational risk	221 895	121 986	17 752
24	of which basic indicator approach	221 895	121 986	17 752
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	0	22 011	0
28	Floor adjustment			
29	**Total***	**2 793 780**	**1 467 600**	**223 502**

* Changes in the amount of risk weighted assets within the year 2017 are related to the merger transaction.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

Luminor Bank AS performs assessment of internal capital adequacy according to regulatory requirements. The primary goal of the process is to assess and reflect results on the Bank's capital situation, capital requirements and risk profile as well as to provide information on the Bank's significant risks and main measurement principles. As internal capital adequacy assessment process is an integral part of risk management framework, the risk definitions used are the same as in overall risk management. For the annual internal capital assessment process a planning period of three years is used similarly as for annual financial and strategic planning process, therefore the financial forecasts are integrated in the capital adequacy assessment.

The Group uses "Pillar 1 +" approach for internal capital adequacy assessment, at first minimum regulatory capital requirements are analysed according to the EU Regulation No 575/2013 and after that internal capital add-ons are calculated to cover other risks as well as the amount of capital buffer is estimated. To cover those types of risks for which minimum regulatory requirements are not determined the necessary capital amount is calculated according to simplified approach determined in the Financial and Capital Market Commission Regulations on the Internal Capital and Liquidity Adequacy Assessment Process or using similar internal models. Diversification effects between particular risks are not taken into account.

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

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

Regular monitoring and control of capital adequacy has been carried out in the Group. Internal capital adequacy assessment process has been done according to the Financial and Capital Market Commission requirements. Improvement of internal capital adequacy assessment process will continue in the coming years by taking into account changes in internal and external factors. Internal capital adequacy assessment process is aligned with the uniform guidelines on pan-Baltic level for the Luminor Group AB. Baltic level Internal Capital Adequacy Assessment Process Report and local annexes are prepared as the result of internal capital adequacy assessment process in Luminor Group AB that incorporates internal liquidity adequacy assessment process as well.

The following risks have been assessed as significant for 2017 for which adequate internal capital has been kept:

- credit risk (including concentration risk and models risk);
- market risk (including foreign exchange risk and interest rate risk);
- operational risk (including money laundering and terrorism financing risk and compliance risk);
- liquidity risk;
- other risks (including business model, leverage and reputational risks).

Concentration risk

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

Operational risk

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

Business model risk

Business model risk is mitigated through annual budgeting and strategic planning processes. However, according to the requirements stipulated by the Financial and Capital Market Commission, the Group includes business model risk into other risk category together with leverage, reputational and other risks and keeps capital not less than 5% of the sum of minimum capital requirements to cover these risks.

Interest rate risk

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

Money laundering and terrorism financing risk

During internal capital adequacy assessment process, the Group evaluates money laundering and terrorism financing risk and assesses the capital needed to cover the risk. To determine capital requirements for money laundering and terrorism financing risk the Group uses simplified approach prescribed by the Financial and Capital Market Commission Regulations on the Internal Capital and Liquidity Adequacy Assessment Process. Considering the low risk profile, the Group does not maintain capital for money laundering and terrorism financing risk according to the Financial and Capital Market Commission Regulations. The money laundering and terrorism financing risk is assessed as relatively low which is achieved by appropriate procedures starting the collaboration with customers as well as solid monitoring of transactions performed. The employed control mechanisms are appropriate for the level of risk the Group is exposed to.

Capital buffer

To determine the capital buffer, the Bank assesses possible development scenarios for next three years. During the internal capital adequacy assessment process a firm-wide stress testing was performed including all significant risks the Bank is exposed to. Scenarios and results of stress tests were discussed with the Bank's management. Taking into consideration that correlation effects between risks are immaterial, the firm-wide stress test result is an aggregate of individual risk assessments which is taken into account determining the capital buffer.

CAPITAL INSTRUMENTS' MAIN FEATURES TEMPLATE ACCORDING TO COMMISSION IMPLEMENTING REGULATION (EU) NO 1423/2013

1	Issuer	Luminor Bank AS
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Commercial law
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier1
5	Post-transitional CRR rules	Common Equity Tier1
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo and consolidated
7	Instrument type	Ordinary shares
8	Amount recognised in regulatory capital	EUR 261 million
9	Nominal amount of instrument	EUR 191 million
9.a	Issue price	share nominal value EUR 1, a premium was applied for some emissions
9.b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	06.09.1991. (date of foundation)
12	Perpetual or dated	Perpetual
13	Original maturity date	Perpetual
14	Issuer call subject to prior supervisory approval	NO
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	NO
20.a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary – according to decision of shareholders' meeting, with the restrictions set in laws and regulations
20.b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary – according to decision of shareholders' meeting, with the restrictions set in laws and regulations
21	Existence of step up or other incentive to redeem	NO
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	NO
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	NO
37	If yes, specify non-compliant features	N/A

N/A – not applicable

TRANSITIONAL OWN FUNDS DISCLOSURE ACCORDING TO COMMISSION IMPLEMENTATION REGULATION (EU) NO 1423/2013

	(A) Amount at Disclosure Date, thousand EUR (B) Regulation (EU) No 575/2013 Article Reference (C) Amount Subject to pre-Regulation (EU) No 575/2013 Treatment or Prescribed Residual Amount of Regulation (EU) No 575/2013	(A)	(B)	(C)
	Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	260 891	26 (1), 27, 28, 29, EBA list 26 (3)	
2	Retained earnings	(205 310)	26 (1) (c)	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	466 986	26 (1)	
3.a	Funds for general banking risk		26 (1) (f)	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1		486 (2)	
	Public sector capital injections grandfathered until 1 January 2018		483 (2)	
5	Minority Interests (amount allowed in consolidated CET1)		84, 479, 480	
5.a	Independently reviewed interim profits net of any foreseeable charge or dividend		26 (2)	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	522 567		
	Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(975)	34, 105	
8	Intangible assets (net of related tax liability) (negative amount)	(1 681)	36 (1) (b), 37, 472 (4)	
25.a	Losses for the current financial year (negative amount)	0	36 (1) (a), 472 (3)	
25.b	Foreseeable tax charges relating to CET1 items (negative amount)		36 (1) (l)	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	(173)		
	Additional deductions of CET1 Capital	(3 278)	3	
28	Total regulatory adjustments to Common equity Tier 1 (CET1)	(6 107)		
29	Common Equity Tier 1 (CET1) capital	516 460		
	Additional Tier 1 (AT1) capital: instruments			
36	Additional Tier 1 (AT1) capital before regulatory adjustments			
	Additional Tier 1 (AT1) capital: regulatory adjustments			
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital			
44	Additional Tier 1 (AT1) capital			
45	Tier 1 capital (T1 = CET1 + AT1)	516 460		
	Tier 2 (T2) capital: instruments and provisions			
51	Tier 2 (T2) capital before regulatory adjustments			
	Tier 2 (T2) capital: regulatory adjustments			
57	Total regulatory adjustments to Tier 2 (T2) capital			
58	Tier 2 (T2) capital			
59	Total capital (TC = T1 + T2)	516 460		
60	Total risk weighted assets	2 793 780		
	Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	18.5%	92 (2) (a), 465	
62	Tier 1 (as a percentage of risk exposure amount)	18.5%	92 (2) (b), 465	
63	Total capital (as a percentage of risk exposure amount)	18.5%	92 (2) (c)	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	8%	CRD 128, 129, 130	
65	of which: capital conservation buffer requirement	2.5%		
66	of which: countercyclical buffer requirement	0%		
67	of which: systemic risk buffer requirement	0.01%		
67.a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	1%	CRD 131	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	10.5%	CRD 128	

COUNERCYCLICAL CAPITAL BUFFER – DISCLOSURE ACCORDING TO COMMISSION DELEGATED REGULATION (EU) NO 2015/1555

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements				Own funds requirement weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
TEUR	**010**	**020**	**030**	**040**	**050**	**060**	**070**	**080**	**090**	**100**	**110**	**120**
Breakdown by country (010):												
Latvia	3 549 458	-	-	-	-	-	189 952	-	-	189 952	94.05%	0.0%
Other EU countries: CC buffer 0%	147 785	-	-	-	-	-	10 950	-	-	10 950	5.42%	0.0%
Other EU countries: CC buffer >0%	820	-	-	-	-	-	30	-	-	30	0.01%	2.0%
Other countries: CC buffer 0%	19 510	-	-	-	-	-	993	-	-	993	0.49%	0.0%
Other countries: CC buffer >0%	1 455	-	-	-	-	-	49	-	-	49	0.02%	1.91%
Total (020)	**3 719 029**	-	-	-	-	-	**201 974**	-	-	**201 974**	**100%**	

CC buffer – countercyclical buffer rate

Amount of institution-specific countercyclical capital buffer

Row		**Column 010**
010	Total risk exposure amount, TEUR	2 793 780
020	Institution specific countercyclical buffer rate	0.00%
030	Institution specific countercyclical buffer requirement	-

CREDIT RISK

The Group uses the following definitions for accounting purposes:

- Neither past due nor impaired – exposures which are not due and for which no individual allowances for impairment are made;
- Past due but not impaired – past due exposures (including those delayed at least 1 day) without individual impairment indications (i.e. no individual allowances for impairment made);
- Impaired – exposures with individual allowances for impairment (i.e., not overdue and overdue exposures with individual allowances for impairment).

The amount of those more than 90 days past-due exposures which are not classified as impaired as at 31 December 2017 was EUR 2 million due to sufficient collateral values why there is no reason to establish individual allowances for impairment or due to collective assessment of impairment for exposures which were not delayed more than 90 days at the moment of impairment assessment.

INDIVIDUAL AND COLLECTIVE IMPAIRMENTS

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

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

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

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

The Group in 2017 has reviewed provisioning approach for loans to eliminate the most significant differences within combined bank. No significant changes have been made as approaches used are similar. Pool rates for loans assessed collectively and overdue more than 90 days are reassessed at least once a year.

To assess the provisioning level for mortgage and private loans secured with real estate collateral, the Group and the Bank has performed individual and statistical revaluation of real estate collaterals, as well as reviewed assumptions used in calculations (e.g. expected recovery of unsecured part after realisation of collateral and estimated migration of restructured loans to non-performing status). It resulted in decrease in provisions by EUR 2,200 thou, mainly as a result of statistical revaluation of real estate collaterals.

Considerable changes are made in 2018 with implementation of the approach and methodology in compliance with International Financial Reporting Standard 9. Implementation of the standard is described in more details in Luminor Bank AS annual report for the year 2017.

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

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

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

EU CRB-B — TOTAL NET AMOUNT OF EXPOSURES

TEUR		Net value of exposures end of period (2017.12.31)
16	Central governments or central banks	1 086 439
17	Regional governments or local authorities	21 030
18	Public sector entities	0
19	Multilateral development banks	0
20	International organisations	0
21	Institutions	185 778
22	Corporates	1 563 231
23	*of which: SMEs*	957 184
24	Retail	913 641
25	*of which: SMEs*	482 326
26	Secured by mortgages on immovable property	1 385 068
27	*of which: SMEs*	0
28	Exposures in default	203 515
29	Items associated with particularly high risk	0
30	Covered bonds	0
31	Claims on institutions and corporates with a short-term credit assessment	0
32	Collective investments undertakings	0
33	Equity exposures	5 534
34	Other exposures	138 003
35	**Total (standardised approach)**	**5 502 240**

EU CRB-C — GEOGRAPHICAL BREAKDOWN OF EXPOSURES

TEUR		Net value						
		Baltic countries total	Latvia	Lithuania	Estonia	Other EU countries	Other countries outside EU	Total
7	Central governments or central banks	1 086 439	1 086 439	0	0	0	0	1 086 439
8	Regional governments or local authorities	21 030	21 030	0	0	0	0	21 030
9	Public sector entities	0	0	0	0	0	0	0
10	Multilateral development banks	0	0	0	0	0	0	0
11	International organisations	0	0	0	0	0	0	0
12	Institutions	19 023	4 226	93	14 704	53 999	112 757	185 778
13	Corporates	1 427 550	1 417 855	4 994	4 701	131 018	4 662	1 563 231
14	Retail	908 296	907 505	36	755	3 160	2 186	913 641
15	Secured by mortgages on immovable property	1 358 108	1 356 752	511	846	14 915	12 046	1 385 068
16	Exposures in default	202 847	196 154	3 688	3 005	537	131	203 515
17	Items associated with particularly high risk	0	0	0	0	0	0	0
18	Covered bonds	0	0	0	0	0	0	0
19	Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0
20	Collective investments undertakings	0	0	0	0	0	0	0
21	Equity exposures	2 987	2 987	0	0	21	2 527	5 534
22	Other exposures	137 941	137 528	56	357	62	0	138 003
23	**Total (standardised approach)**	**5 164 221**	**5 130 476**	**9 379**	**24 367**	**203 711**	**134 308**	**5 502 240**

EU CRB-D — CONCENTRATION OF EXPOSURES BY INDUSTRY AND COUNTERPARTY TYPES

	TEUR	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply; sewerage; waste management and remediation activities	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles	Transporting and storage	Accommodation and food service activities	Information and communication	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence; compulsory social security	Education	Human health and social work activities	Arts, entertainment and recreation	Other services; household mortgages	Total
7	Central governments or central banks	0	0	0	0	0	0	0	0	0	20	0	0	0	58 000	6 044	0	24	1 022 351	**1 086 439**
8	Regional governments or local authorities	0	0	0	3 987	0	0	0	0	0	0	0	0	0	16 657	0	386	0	0	**21 030**
12	Institutions	0	0	0	0	0	25 184	0	0	0	0	0	1 960	0	0	0	0	0	158 635	**185 778**
13	Corporates	96 640	16 228	150 188	106 427	27 709	196 039	306 906	166 306	35 187	14 730	273 030	14 795	52 804	8 746	48	4 554	181	92 711	**1 563 231**
14	Retail	75 016	3 068	67 338	5 380	5 491	64 043	91 703	62 172	2 216	7 154	28 077	39 503	15 174	346	1 777	5 228	2 872	437 085	**913 641**
15	Secured by mortgages on immovable property	0	0	92	0	0	0	0	0	0	133	0	55	90	0	0	0	0	1 384 698	**1 385 068**
16	Exposures in default	10 148	782	19 353	4 206	7	5 847	3 903	2 885	857	5	91 040	109	6 257	0	0	50	14	58 051	**203 515**
21	Equity exposures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	5 534	**5 534**
22	Other exposures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	138 003	**138 003**
23	**Total (standardised approach)**	**181 805**	**20 078**	**236 972**	**119 999**	**33 206**	**291 113**	**402 512**	**231 363**	**38 260**	**22 042**	**392 147**	**56 422**	**74 325**	**83 750**	**7 869**	**10 219**	**3 090**	**3 297 068**	**5 502 240**

EU CRB-E — MATURITY OF EXPOSURES

		Net exposure value					
TEUR		On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
7	Central governments or central banks	1 022 248	22 205	41 985			1 086 439
8	Regional governments or local authorities		407	4 014	16 609		21 030
12	Institutions	26 779	95 323	63 324	352		185 778
13	Corporates	23 862	489 928	900 633	148 808		1 563 231
14	Retail	25 302	152 909	491 772	243 658		913 641
15	Secured by mortgages on immovable property	0	10 152	55 904	1 319 012		1 385 068
16	Exposures in default	50 899	85 733	38 452	28 431		203 515
17	Items associated with particularly high risk						
21	Equity exposures					5 534	5 534
22	Other exposures					138 003	138 003
23	**Total (standardised approach)**	**1 149 090**	**856 657**	**1 596 086**	**1 756 870**	**143 537**	**5 502 240**

EU CR1-A — CREDIT QUALITY OF EXPOSURES BY EXPOSURE CLASS AND INSTRUMENT

		Gross carrying values of				
TEUR		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Net values
16	Central governments or central banks		1 086 439	0	-	1 086 439
17	Regional governments or local authorities		21 034	4	-	21 030
21	Institutions		185 778	0	-	185 778
22	Corporates		1 566 490	3 259	-	1 563 231
23	*Of which: SMEs*		959 615	*2 431*	-	957 184
24	Retail		922 751	9 110	-	913 641
25	*Of which: SMEs*		483 533	*1 207*	-	482 326
26	Secured by mortgages on immovable property		1 387 583	2 515	-	1 385 068
27	*Of which: SMEs*		0	*0*	-	0
28	Exposures in default	343 443		139 928	-	203 515
33	Equity exposures		5 974	440	-	5 534
34	Other exposures		138 426	423	-	138 003
35	**Total (standardised approach)**	**343 443**	**5 314 476**	**155 679**	**-**	**5 502 240**
37	Of which: Loans	338 941	3 270 605	154 816	-	3 454 731
38	Of which: Debt securities	0	76 308	0	-	76 308
39	Of which: Off-balance-sheet exposures	4 480	718 816	0	-	723 296

EU CR1-B — CREDIT QUALITY OF EXPOSURES BY INDUSTRY

	TEUR	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Net values
		Defaulted exposures	Non-defaulted exposures			
1	Agriculture, forestry and fishing	11 610	172 342	2 147	-	181 805
2	Mining and quarrying	1 005	19 312	239	-	20 078
3	Manufacturing	34 088	218 006	15 122	-	236 972
4	Electricity, gas, steam and air conditioning supply	6 802	116 551	3 354	-	119 999
5	Water supply; sewerage; waste management and remediation activities	17	33 402	212	-	33 206
6	Construction	11 985	285 412	6 285	-	291 113
7	Wholesale and retail trade; repair of motor vehicles and motorcycles	4 727	399 480	1 694	-	402 512
8	Transporting and storage	6 730	228 677	4 044	-	231 363
9	Accommodation and food service activities	1 064	37 572	376	-	38 260
10	Information and communication	15	22 045	18	-	22 042
11	Real estate activities	157 438	301 820	67 111	-	392 147
12	Professional, scientific and technical activities	247	56 393	217	-	56 422
13	Administrative and support service activities	6 342	68 121	137	-	74 325
14	Public administration and defence; compulsory social security	0	83 761	11	-	83 750
15	Education	0	7 871	2	-	7 869
16	Human health and social work activities	116	10 226	123	-	10 219
17	Arts, entertainment and recreation	15	3 084	9	-	3 090
18	Other services; household mortgages	101 242	3 250 402	54 577	**-**	3 297 068
19	**Total**	**343 443**	**5 314 476**	**155 679**	**-**	**5 502 240**

EU CR1-C — CREDIT QUALITY OF EXPOSURES BY GEOGRAPHY

	TEUR	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Net values
		Defaulted exposures	Non-defaulted exposures			
1	Baltic countries total	342 662	4 976 575	155 016	-	5 164 221
2	Latvia	331 833	4 949 512	150 869	-	5 130 476
3	Lithuania	5 902	5 694	2 217	-	9 379
4	Estonia	4 927	21 369	1 929	-	24 367
5	Other EU countries	645	203 544	478	-	203 711
6	Other countries outside EU	136	134 357	185	-	134 308
7	**Total**	**343 443**	**5 314 476**	**155 679**	**-**	**5 502 240**

EU CR1-D — AGEING OF PAST-DUE EXPOSURES

TEUR		Gross carrying values ≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans	167 570	53 062	12 705	12 484	14 907	100 419
2	Debt securities						
3	**Total exposures**	**167 570**	**53 062**	**12 705**	**12 484**	**14 907**	**100 419**

EU CR1-E — NON-PERFORMING AND FORBORNE EXPOSURES

	TEUR	Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
			of which performing but past due > 30 days and <= 90 days	of which performing forborne	of which non-performing	of which: defaulted	of which: impaired	of which: forborne	on performing exposures	of which: forborne	on non-performing exposures	of which: forborne	on non-performing exposures	of which: forborne
010	Debt securities	76 308												
020	Loans and advances	3 527 263	46 812	60 540	340 624	324 764	287 480	168 799	-15 713	-4 951	-139 102	-64 920	137 965	141 215
030	Off-balance sheet exposures	723 296			4 486	2 369		217						

EU CR2-A — CHANGES IN THE STOCK OF GENERAL AND SPECIFIC CREDIT RISK ADJUSTMENTS

TEUR		Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
1	**Opening balance**	**-76 964**	**-**
2	Increases due to amounts set aside for estimated loan losses during the period	-31 650	-
3	Decreases due to amounts reversed for estimated loan losses during the period	24 254	-
4	Decreases due to amounts taken against accumulated credit risk adjustments	25 309	-
5	Transfers between credit risk adjustments	0	-
6	Impact of exchange rate difference	170	-
7	Business combinations, including acquisitions and disposals of subsidiaries	-97 568	-
8	Other adjustments	1 634	-
9	**Closing balance**	**-154 816**	**-**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	2 754	-
11	Specific credit risk adjustments directly recorded to the statement of profit or loss		

EU CR2-B — CHANGES IN THE STOCK OF DEFAULTED AND IMPAIRED LOANS AND DEBT SECURITIES

TEUR		Gross carrying value defaulted exposures
1	**Opening balance**	**145 275**
2	Loans and debt securities that have defaulted or impaired since the last reporting period	32 079
3	Returned to non-defaulted status	37 393
4	Amounts written off	25 309
5	Other changes*	210 112
6	**Closing balance**	**324 764**

* 'Other changes' in the stock of defaulted and impaired exposures are related to the merger transaction.

CREDIT RISK MITIGATION

Credit risk mitigation is an integral part of the credit risk management in the Group. The main actions for the credit risk mitigation are strictly defined requirements for new customers, prudent assessment of the debt servicing capacity and collateral pledged. Also other risk mitigation tools and procedures are used in everyday activities including but not only different models for risk classification, calculation of creditworthiness, clear loan approval authorisations and strict decision making rules, ongoing monitoring of credit risk.

There are three main types of collateral:

- real estate (housing property, commercial property, land);
- movable property;
- other collateral (including surety and guarantees).

For capital adequacy purposes regarding credit risk mitigation, the Group:

- takes into consideration the pledged real estate to assess the correspondence of the exposure or its part to the exposure class “secured by mortgage”. The Group applies this to risk exposures which are secured by housing mortgages;
- in certain cases state guarantees are applied;
- for repo transactions the Group accepts financial instruments as collateral (central government securities) applying simplified credit risk mitigation approach.

The Group regularly reviews collateral values. The review of real estate collateral values for private individuals is made both individually and using statistical methods. The review of real estate collateral values for private individuals is performed at least annually.

The Group uses unfunded credit protection, i.e. guarantees from countries with high credit ratings for mitigation of credit risk. As of 31 December 2017, guarantees of the central governments of the following EU countries were received: Latvia, France, Belgium and Luxembourg.

The Group has no credit derivative transactions.

EU CR3 — CRM TECHNIQUES – OVERVIEW

TEUR		Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Total loans	1 983 605	1 471 126	1 470 992	134	0
2	Total debt securities	46 112	30 197	0	30 197	0
3	**Total exposures**	**2 029 716**	**1 501 323**	**1 470 992**	**30 331**	**0**
4	Of which defaulted	163 794	35 220	35 220	0	0

EU CR4 — STANDARDISED APPROACH – CREDIT RISK EXPOSURE AND CRM EFFECTS

TEUR		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments or central banks	1 080 418	6 021	1 165 032	3 007	0	0%
2	Regional government or local authorities	8 989	12 042	8 989	6 021	3 002	20%
6	Institutions	167 106	18 672	82 626	17 087	36 471	37%
7	Corporates	1 060 843	502 388	1 060 709	140 646	1 192 672	99%
8	Retail	737 528	176 114	737 528	53 124	523 987	66%
9	Secured by mortgages on immovable property	1 381 489	3 579	1 381 489	780	483 794	35%
10	Exposures in default	199 035	4 480	199 035	2 182	230 194	114%
15	Equity	5 534	0	5 534	0	5 534	100%
16	Other items	138 003	0	138 003	0	88 485	64%
17	**Total**	**4 778 944**	**723 296**	**4 778 944**	**222 846**	**2 564 140**	**51%**

LEVERAGE

The leverage ratio is determined as Tier 1 capital divided by the total exposure measure. This ratio ensures additional level of protection against model risks and assessment errors.

As of 31 December 2017, the leverage ratio of the Group was 10.28%. The capital measure is Tier 1 capital, the total exposure measure is the aggregate amount of assets and off-balance sheet items. The leverage ratio is calculated using end of reporting period data. The Group is not exposed to the risk of excessive leverage.

CRR LEVERAGE RATIO – DISCLOSURE ACCORDING TO COMMISSION DELEGATED REGULATION (EU) NO 2016/200

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

TEUR		Applicable amount
1	Total assets as per published financial statements	4 738 939
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0
4	Adjustments for derivative financial instruments	30 226
5	Adjustment for securities financing transactions (SFTs)	0
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	243 670
{ES-6a}	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
{ES-6b}	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	9 606
8	**Leverage ratio total exposure measure**	**5 022 441**

Table LRCom: Leverage ratio common disclosure

TEUR		CRR leverage ratio exposures
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	4 733 176
2	(Asset amounts deducted in determining Tier 1 capital)	(1 853)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**4 731 322**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	17 223
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	30 226
{ES-5a}	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	**Total derivatives exposures (sum of lines 4 to 10)**	**47 449**
	SFT exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	0
{ES-14a}	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0

TEUR		CRR leverage ratio exposures
15	Agent transaction exposures	0
{ES-15a}	(Exempted CCP leg of client-cleared SFT exposure)	0
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**0**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	723 296
18	(Adjustments for conversion to credit equivalent amounts)	(479 626)
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**243 670**
	Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	
{ES-19a}	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
{ES-19b}	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
	Capital and total exposure measure	
20	**Tier 1 capital**	**516 460**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**5 022 441**
	Leverage ratio	
22	**Leverage ratio**	**10.28%**
	Choice on transitional arrangements and amount of derecognised fiduciary items	
ES-23	Choice on transitional arrangements for the definition of the capital measure	**Transitional**
ES-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

TEUR		CRR leverage ratio exposures
ES-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	4 733 176
ES-2	Trading book exposures	0
ES-3	Banking book exposures, of which:	4 733 176
ES-4	Covered bonds	0
ES-5	Exposures treated as sovereigns	1 153 143
ES-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	8 989
ES-7	Institutions	49 913
ES-8	Secured by mortgages of immovable properties	1 381 489
ES-9	Retail exposures	736 966
ES-10	Corporate	1 058 446
ES-11	Exposures in default	199 013
ES-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	145 217

Table LRQua: qualitative items

Row		
1.	Description of the processes used to manage the risk of excessive leverage	The Bank and the Group regularly evaluates the leverage risk. Every quarter the information on leverage ratio is included in the Risk report and presented to the Bank's Management Board and Supervisory Council Risk Committee that in case of necessity make decisions on appropriate actions in order to decrease the risk of excessive leverage. Such actions may include increase of own capital, sales of assets or lending limitation. In Q2 2018, the Supervisory Council approved the reviewed Risk Appetite framework where also the minimum level of leverage ratio is set. Neither the Bank, nor the Group are exposed to the risk of excessive leverage. As at 31 December 2017, the leverage ratio for the Bank was 10.15% and for the Group 10.28%.
2.	Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers	Due to the merger, in 2017 both Tier 1 capital and total risk exposure increased. As a result the leverage ratio has not changed substantially compared to the end of 2016.

REMUNERATION POLICY

Information about the Group's remuneration policy can be found in the Luminor website: https://www.luminor.lv/lv/finansu-rezultati#atalgojuma-politika-un-prakse.