Luminor

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

LUMINOR GROUP AB

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INTRODUCTION

Risk Management and Capital Adequacy Disclosure (hereinafter – Pillar 3) report is prepared according to EU Regulation No 575/2013 (hereinafter – CRR) Part Eight, European Commission implementing regulations as well as European Banking Authority's (hereinafter – EBA) guidelines.

Luminor Bank AS in Latvia, Luminor Bank AS in Estonia and Luminor Bank AB in Lithuania (hereinafter referred to jointly as the "Luminor Group AB Subsidiaries" or in short "Subsidiaries"), as significant subsidiaries of EU parent financial holding company Luminor Group AB (Sweden), disclose information specified in Articles 437, 438, 440, 442, 450, 451 and 453 on sub consolidated basis as of 31 December 2017 in local internet pages Financial annual accounts directories. Information on full requirements specified in part eight of the CRR is disclosed on consolidated situation of Luminor Group AB (hereinafter – the Group) in this report. 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.

Pillar 3 report has not been audited, however it includes reconciled information contained in the Annual report for 2017. In addition, all the qualitative and quantitative data used in this report is audited by external or internal audit either as part of Financial accounts or Risk related questions (for e.g. Internal Capital Adequacy Assessment Process).

This document includes information based on calculations made according to the law binding at 31 December 2017, provides additional information to Luminor Group AB Consolidated Annual Report 2017 and must be read in conjunction with it. Only information considered to be material, not proprietary and not confidential is provided here.

The Risk Management and Capital Adequacy Disclosure report is produced in accordance with the Information guidelines in respect of Pillar 3 Report. The Information guidelines and the Report are approved by the Board of Directors.

BUSINESS TRANSFER

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 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).

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. As Luminor Group AB is a newly established company, in templates that require the disclosure of data for current and previous reporting periods, the disclosure of data for the previous period is not required as this data is being reported for the first time for Luminor Group AB.

SCOPE OF APPLICATION OF THE REGULATORY FRAMEWORK

Luminor Group AB is a holding company established in the Kingdom of Sweden and it is a 100% shareholder of each of the Baltic Luminor banks: Luminor Bank AB (Lithuania, hereinafter – Luminor LT), Luminor Bank AS (Estonia, hereinafter – Luminor EE) and Luminor Bank AS (Latvia, hereinafter – Luminor LV). Each Luminor Group AB Subsidiary owns several subsidiaries, including, among others, subsidiaries like pension fund management companies, an insurance broker company (in Estonia) and leasing companies, as well as special purpose vehicles owning repossessed assets and real estate broker company (in Lithuania). Full list of entities is presented in EU LI3, which outlines the differences in the scopes of consolidation (entity by entity). Luminor Group AB Subsidiaries within the scope of prudential consolidation are subject to local regulatory and tax requirements as well as potentially exchange controls.

The institution is not aware of any material impediments existing for capital distribution within the Luminor Group AB. Luminor Group AB Subsidiaries' entities that were not included in the regulatory consolidation due to their immateriality did not have to comply with own minimum capital standards in 2017.

The consolidated financial statements are compiled in accordance with International Financial Reporting Standards (hereinafter – IFRS). As the Parent Company is based in the EU, only EU approved IFRS are applied. The consolidated accounts have been compiled in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL 1995:1559) as Luminor Group AB is regarded as a financial holding company, meaning that the Group also has to apply this law's provisions on compilation of consolidated accounts. The consolidated accounts have also been compiled in accordance with the Swedish Financial Supervisory Authority's regulations and general recommendations regarding annual accounts for credit institutions and security companies (FFFS 2008:25), including all applicable amended regulations, the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary accounting rules for the Group and the Recommendation of the Swedish Financial Reporting Board. The Parent

Company's annual report is prepared in accordance with the Swedish Annual Accounts Act (1995:1554) and with application of the Swedish Financial Reporting Boards RFR 2 Accounting for legal entities. This means that IFRS valuation and information rules are applied with the exceptions and supplements specified in the section concerning the Parent Company's accounting principles.

EU LI1 – Difference between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories.

			Carrying values of items			
TEUR	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to the CCR framework	Subject to the market risk framework	Not subject to capital requirement or subject to deduction from capital
Assets	**a**	**b**	**c**	**d**	**e**	**f**
Cash and balances with central banks	2 629 007	2 629 007	2 629 007	-	-	-
Due from banks and other credit institutions	249 238	249 238	249 238	-	-	-
Financial assets held for trading	2 325	2 325	-	-	2 325	-
Financial assets designated at fair value through profit or loss	166 420	166 420	80 834	-	85 586	-
Derivative financial instruments	27 753	27 753	-	27 753	6 369	-
Bonds and CPs, held to maturity	1 513	1 513	1 513	-	-	-
Loans and advances to customers	11 040 444	11 038 966	11 038 966	-	-	-
Reverse repurchase agreements and other similar	157 636	157 636	56 150	101 486	-	-
Available for sale financial assets	5 812	5 812	5 812	-	-	-
Property, plant and equipment	40 482	40 478	40 478	-	-	-
Intangible assets	9 257	9 251	-	-	-	9 251
Investment in an associate	6 110	6 127	6 127	-	-	-
Investment in subsidiaries	-	892	892	-	-	-
Other assets	58 744	58 632	58 632	-	-	-
Non-current assets and disposal groups held for sale	4 340	4 340	4 340	-	-	-
Finance lease receivables	639 778	639 778	639 778	-	-	-
Deferred tax asset	1 350	1 350	-	-	-	1 350
Investment property	51 283	51 283	51 283	-	-	-
Total assets	**15 091 492**	**15 090 801**	**14 863 050**	**129 239**	**94 280**	**10 601**

Liabilities						
Due to banks and other credit institutions	4 724 916	4 724 916	-	-	-	4 724 916
Due to customers	8 548 893	8 551 677	-	-	-	8 551 677
Derivative financial instruments	33 174	33 174	-	11 905	7 744	21 269
Provisions	2 146	2 146	-	-	-	2 146
Current income tax liabilities	3 288	3 290	-	-	-	3 290
Other liabilities	65 174	65 014	-	-	-	65 014
Total liabilities	**13 377 592**	**13 380 217**	**-**	**11 905**	**7 744**	**13 368 312**

Luminor LT contributes to the Group's exposures that are subject to credit risk, counterparty credit risk and market risk. It is also the only Subsidiary in the Group that recognizes a trading book. Luminor LV contributes to the Group's exposures subject to credit risk and counterparty credit risk framework. Luminor EE does not distinguish counterparty credit risk framework for reporting purposes and contributes only to Group's exposures under credit risk.

Liabilities of the Group are generally not subject to capital requirements framework except for derivatives which are considered as liabilities due to negative valuation as of reporting date. In accordance with CRR, a derivative instrument with negative valuation is subject to counterparty credit risk as it generates potential future credit exposure whereas an underlying instrument gives rise to position risk (part of market risk, applicable for Luminor LT only). The Group duly considers such cases in EU LI1.

In the template EU LI1, Carrying values under scope of regulatory consolidation (column 'b') does not necessarily constitute sum of exposures under credit risk, counterparty credit risk and market risk frameworks (columns 'c', 'd', 'e'). That is because an exposure might be subject to counterparty credit risk and market risk frameworks at the same time.

EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

			Items subject to		
	TEUR	Total	Credit risk framework	CCR framework	Market risk framework
		a	b	c	d
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI 1)**	15 090 801	14 863 050	129 239	94 280
2	Liabilities carrying amount under the regulatory scope of consolidation (as per template EU LI1)	13 380 217	-	11 905	7 744
3	Total net amount under the regulatory scope of consolidation	15 004 194	14 863 050	141 144	102 024
4	Off-balance sheet amounts	2 255 914	2 255 914	-	-
5	Differences in valuations	37 758	-	37 758	(94 280)
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-
7	Differences due to considerations for provisions	(37 198)	(37 198)	-	
8	Differences due to prudential filters	-	-	-	
9	Other adjustments	140 931	156 997	(16 066)	
10	**Exposure amounts considered for regulatory purposes**	**17 401 599**	**17 238 763**	**162 836**	**7 744**

EU LI2 starts with carrying values of assets and liabilities that are subject to CRR risk frameworks. Then adjustments are made for:

- Off-balance sheet exposures – total notional off-balance amount is taken for capital requirements purpose,
- Difference in valuation – exposure value of financial derivative for capital requirements purpose and balance sheet valuation differ hence a reconciliation is made,
- Differences due to considerations for provisions – provisioning for the purpose of balance sheet valuation is calculated as of the reporting date 2017-12-31 whereas for capital requirements, credit risk adjustments should be taken as of the date of the latest recognized P&L in own funds. Those two dates differ for Luminor LV and Luminor EE. For Luminor LT an adjustment is not necessary because of financial year loss (recognized in own funds already).
- Other adjustment – reconciliation position with COREP values.

Column Total in EU LI2 sums items subject to credit risk and counterparty credit risk framework so that values can be reconciled with COREP 07.00.

Differences in basis of consolidation for accounting and prudential purposes

The Group applies Chapter 2, Title II, Part One of CRR (`Prudential consolidation') to consolidate subsidiaries for regulatory purpose. The scope of prudential consolidation is not identical to accounting consolidation conducted in financial statements although the differences are minor and come from prudential sub-consolidation conducted locally in Lithuania and Estonia. Scope of consolidation at Luminor LV is the same for regulatory and accounting purposes.

Details about the scope of prudential consolidation and accounting consolidation are summarized in template EU LI3. Source of differences in consolidation scope are companies outside the banking and financial sector that are included in the consolidated financial statements according to IFRS at sub-consolidated level locally in Lithuania and Estonia. Neither subsidiary has been deducted from own funds. This applies both for consolidated and sub-consolidated level.

EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity)

Name of the entity	Consolidating entity	Method of accounting consolidation	Method of regulatory consolidation: Full consolidation	Method of regulatory consolidation: Neither consolidated nor deducted	Description of the entity
Luminor Bank AB Lithuania (Luminor LT)	Luminor Group	Full	X		Bank
Luminor Bank AS Estonia (Luminor EE)	Luminor Group	Full	X		Bank
Luminor Bank AB Latvia (Luminor LV)	Luminor Group	Full	X		Bank
Luminor Būstas UAB	Luminor LT	Full		X	Real estate management entity
Luminor Investicijų valdymas UAB	Luminor LT	Full	X		Investment asset management entity
UAB Intractus	Luminor LT	Full	X		Real estate management entity
UAB Industrius	Luminor LT	Full	X		Real estate management entity
UAB Recurso	Luminor LT	Full	X		Real estate management entity
Promano Lit UAB	Luminor LT	Full	X		Real estate management entity
Luminor Lizingas UAB	Luminor LT	Full	X		Leasing company
Luminor Liising AS	Luminor EE	Full	X		Leasing company
Promano Est OÜ	Luminor EE	Full	X		Asset management
Uus-Sadama 11 OÜ	Luminor EE	Full	X		Asset management
Luminor Pensions Estonia AS	Luminor EE	Full	X		I and III pillar pension funds
Luminor Kindlustusmaakler OÜ	Luminor EE	Full		X	Insurance broker
SIA Luminor Līzings Latvija	Luminor LV	Full	X		Leasing company
IPAS Luminor Asset Management	Luminor LV	Full	X		Asset management
SIA Skanstes 12	Luminor LV	Full	X		Maintenance of the office building
SIA SALVUS	Luminor LV	Full	X		Real estate management entity
SIA SALVUS 2	Luminor LV	Full	X		Real estate management entity
SIA SALVUS 3	Luminor LV	Full	X		Real estate management entity
SIA SALVUS 4	Luminor LV	Full	X		Real estate management entity
SIA SALVUS 6	Luminor LV	Full	X		Real estate management entity
SIA Luminor Līzings	Luminor LV	Full	X		Leasing company
AS Luminor Latvijas atklātais pensiju fonds	Luminor LV	Full	X		Asset management
IPAS Luminor Pensions Latvia	Luminor LV	Full	X		Asset management
SIA Promano Lat	Luminor LV	Full	X		Real estate management entity
SIA Baltik Īpašums	Luminor LV	Full	X		Real estate management entity
SIA Luminor Finance	Luminor LV	Full	X		Real estate management entity
SIA Trioleta	Luminor LV	Full	X		Real estate management entity
SIA Realm	Luminor LV	Full	X		Real estate management entity

OWN FUNDS AND CAPITAL REQUIREMENTS

The table below provides reconciliation between balance sheet items (in the scope of prudential consolidation) used to calculate own funds and regulatory own funds.

BALANCE SHEET RECONCILIATION

TEUR	31.12.2017
FINREP	
Capital	**10 000**
Paid up capital	10 000
Share premium	**1 645 099**
Accumulated other comprehensive income	**1 914**
Items that will not be reclassified to profit or loss	234
Tangible assets	234
Items that may be reclassified to profit or loss	1 680
Available-for-sale financial assets	1 680
Retained earnings	**58 117**
Other equity	**1 629**
Profit or loss attributable to owners of the parent	**(5 834)**
TOTAL EQUITY in FINREP	**1 710 925**
Accounting adjustments	
Difference in OCI due to regulatory requirements in tangible assets treatment	(101)
This difference due to charges for provisions	9 646
Profit/loss not eligible	(3 812)
The difference in retained earnings due to Luminor LT merger	(6 994)
Other equity (not eligible)	(1 629)
Common Equity Tier 1 (CET1) capital before regulatory adjustments	1 708 035
Regulatory adjustments	
Additional Valuation Adjustment (AVA)	(1 397)
Foreseeable tax charge	(9 646)
Unrealised gains/losses	(402)
Goodwill and intangibles	(9 251)
Deferred tax assets	(1 350)
Additional deductions of CET1 due to article 3 CRR	(3 278)
TOTAL CET1	**1 682 711**

MINIMUM CAPITAL REQUIREMENTS

Minimum capital requirements are calculated according to requirements set out in the CRR. Minimum capital requirements are calculated for credit risk, credit counterparty risk, market risk and operational risk.

TEUR	31.12.2017
Capital requirements for credit risk, standardised approach	**691 286**
Central governments or central banks	-
Regional governments or local authorities	943
Public sector entities	466
Institutions	6 328
Corporates	363 013
Retail	121 629
Secured by mortgages on immovable property	127 006
Exposures in default	42 037
Items associated with particularly high risk	6 378
Equity	1 026
Other items	22 459
Capital requirements for market risk, standardised approach	**5 219**
Traded debt instruments	5 216
Equities	3
Foreign exchange	-
Commodities	-
Capital requirements for operational risk, basic indicator approach and standardised approach	**55 352**
Capital requirements for credit valuation adjustment risk	**1 039**
Total capital requirements	**754 866**

The Group has a trading book. Debt securities are purchased in limited amounts and only for liquidity purposes. The Group has no securitisation exposures. The Group performs limited trading activities in the fixed income segment. Securities trading services for target customer groups are offered. The aim of the Group's trading activities is to support customers with products and prices. The Group does not actively seek to take market risk, but rather enter into positions to facilitate client trades.

CAPITAL ADEQUACY

TEUR	31.12.2017
Total own funds for solvency purposes	1 682 711
Capital requirements	754 866
Surplus of own funds	927 845
Risk weighted assets	9 435 825
Solvency ratio of Tier 1 capital (%)	17.83%

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CAPITAL INSTRUMENTS' MAIN FEATURES

1	Issuer	Luminor Group AB
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 1 655 million
9	Nominal amount of instrument	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	01.10.2017 (date of foundation)
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
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	Fully discretionary, partially discretionary or mandatory	Fully discretionary
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)	Tier1
36	Non-compliant transitioned features	NO
37	If yes, specify non-compliant features	N/A
N/A – not applicable		

TRANSITIONAL OWN FUNDS DISCLOSURE

		(A)	(B)	(C)
(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				
Common Equity Tier 1 capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	1 655 099	26 (1), 27, 28, 29, EBA list 26 (3)	-
	of which: share capital	1 655 099		-
	of which: share capital in addition to share capital with full voting rights	-		-
	of which: member certificate	-		-
2	Retained earnings	51 123	26 (1) (c)	-
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	1 813	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)	-
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	1 708 035		-
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	(1 397)	34, 105	-
8	Intangible assets (net of related tax liability) (negative amount)	(9 251)	36 (1) (b), 37, 472 (4)	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(1 350)	36 (1) (c), 38, 472 (5)	-
25.a	Losses for the current financial year (negative amount)	-	36 (1) (a), 472 (3)	-
25.b	Foreseeable tax charges relating to CET1 items (negative amount)	(9 646)	36 (1) (l)	-
26.b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	(402)	481	-
27.a	Additional deductions of CET1 Capital due to Article 3 CRR	(3 278)		-
28	Total regulatory adjustments to Common equity Tier 1 (CET1)	(25 324)		-
29	Common Equity Tier 1 (CET1) capital	1 682 711		-

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)	1 682 711		-
Tier 2 (T2) capital: instruments and provisions				
51	Tier 2 (T2) capital before regulatory adjustments	-		-
Tier 2 (T2) capital: regulatory adjustments				
56.c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	229	467, 468, 481	-
	Of which: possible filter for unrealized gains	229	468	-
57	Total regulatory adjustments to Tier 2 (T2) capital	229		-
58	Tier 2 (T2) capital	229		-
59	Total capital (TC = T1 + T2)	1 682 940		-
60	Total risk weighted assets	9 435 825		-
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	17,83%	92 (2) (a), 465	-
62	Tier 1 (as a percentage of risk exposure amount)	17,83%	92 (2) (b), 465	-
63	Total capital (as a percentage of risk exposure amount)	17,84%	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)	3,87%	CRD 128, 129, 130	-
65	of which: capital conservation buffer requirement	2,45%		-
66	of which: countercyclical buffer requirement	0,00%		-
67	of which: systemic risk buffer requirement	0,25%		-
67.a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	1,17%	CRD 131	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	9,83%	CRD 128	-

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

In accordance with the capital and liquidity adequacy regulations, the Group has implemented a process for assessing the risk profile and internal capital and liquidity adequacy. In preparation of ICAAP reports in all three countries, the Group in addition to the common EU regulations takes into account country specific local FSAs requirements. By means of this process, it is assured that Luminor Group AB and its' Subsidiaries are appropriately capitalised with respect to all material risks that arise from current and future operations. Integration of the Internal Capital Adequacy Assessment Process (ICAAP) with the financial and strategic planning processes makes the ICAAP an important tool for efficient capital allocation and for identification of capital needs. This report is intended to be effective tool for the Bank's senior management, which gives a holistic view not only on the risk profile but also on financial and strategic matters. ICAAP is aligned with the uniform guidelines pan-Baltic level for the Luminor Group AB.

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ICAAP Report 2018 from the Baltic level perspective was prepared on Financial Group consolidation level in order to fulfil regulatory requirements and to see the high level view on whole Luminor capital and liquidity structure. The Baltic level report is prepared as the main report and Subsidiaries' reports are presented as annexes to it. Baltic level and country specific ICAAP reports incorporate Internal Liquidity Adequacy Assessment Process (hereinafter - ILAAP). The ICAAP Reports reflects the results of the assessment of adequacy of the capitalisation level, liquidity assessment and discloses the risk profile with respect to all material risks as well as the main principles of their management and measurement for the Group.

The purpose of ICAAP is to assure that the Group is appropriately capitalised with respect to all material risks that arise from current and future operations. Moreover, the internal capital requirement under Pillar 2 is calculated as a sum of the regulatory capital requirement and additional capital needs for material risks, that were not or were not fully captured by the regulatory capital requirement, are estimated during ICAAP. Liquidity risk is covered under ILAAP and Liquidity risk management framework. Self-assessment and stress testing are integral parts of entire ICAAP process and are closely intertwined. The major sources of risk concerning the Group are assessed during self-assessment, their materiality and capital requirements are considered.

Additional capital needs for material risks, identified during the internal risks self-assessment process with the involvement of different structural units in order to capture all material risks, are assessed in ICAAP:

· The concentration risk is assessed for asset classes exposed to credit risk. Besides the imposed limits on lending the Group calculates the internal capital requirement for different type of concentration risk according to the estimated risk level.

· Capital buffer is calculated for additional credit risk not covered by regulatory capital or by internal capital allocated for other Pillar 2 credit risk components. It includes residual risk as part of credit risk - that arises from credit risk mitigation techniques that can be less effective than it was expected.

· 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 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 losses.

· Additional internal capital requirement for operational risk is assessed if needed based on the results of risk assessment, self-assessment and historical data analysis.

· The Group may set aside additional capital for other risks including but not limited with business risk and reputational risk.

Moreover, stress testing results are integrated into ICAAP in order to ensure adequate capitalisation and resilience to adverse developments. For the solvency stress testing maximum potential loss, capital adequacy ratios as well as leverage ratios were assessed under three different scenarios – standard, possible and worst case. Reverse stress testing was performed to enable assessment of severity and plausibility of the earlier mentioned three solvency stress testing scenarios. Liquidity Stress testing is covered under ILAAP.

The Risk Analysis Department initiates and coordinates the ICAAP in Luminor Group AB. It works in cooperation with other structural units and sets the internal capital assessment rules and eventually prepares the ICAAP Report. Although the Risk Analysis Department has an overall overview on setting of the internal capital assessment rules, selection of risk measurement methods for each individual material risk not covered by the regulatory capital requirement and risk measurement itself is split between different structural units responsible for risk control.

Both self-assessment and stress testing processes is being led by the Risk Analysis Department. Other relevant structural units including both business lines and risk management and control area are involved in identifying material risks through the process for risks self-assessment, development of methodologies and defining assumptions as well as estimation of the stress testing outcomes under the different stress testing scenarios. The key responsibility for separate parts of both self-assessment and stress testing rests within the Risk and Finance divisions.

Internal Audit regularly reviews and assesses the ICAAP and ILAAP processes in the Luminor Baltic Group. According to the Regulator's requirements during the last ICAAP/ILAAP audit the Self-Assessment, ICAAP, ILAAP and Stress Testing evaluation was carried out in all three countries in Luminor, i.e. Estonia, Latvia and Lithuania. The last ICAAP, with the ILAAP as the integrated part, audit was performed in Q1 2018.

Overall, Luminor Group AB is well positioned to meet the increasing regulatory requirements towards the capitalisation. Moreover, the capital level is adequate to absorb large additional potential losses stemming from risks to which it is exposed or may be exposed in the future. Luminor Stress testing results on liquidity risk are assessed as acceptable and has low liquidity risk profile that is ensured by the implemented Liquidity Risk Management Strategy.

EU OV1 – OVERVIEW OF RISK WEIGHTED ASSETS (RWA)

TEUR		RWAs 31.12.2017	Minimum capital requirements 31.12.2017
1	Credit risk (excluding CCR)	8 641 070	691 286
2	of which the standardised approach	8 641 070	691 286
6	CCR	37 623	3 010
7	of which mark to market	24 635	1 971
12	of which CVA	12 988	1 039
13	Settlement risk	-	-
14	Securitisation exposures in the banking book (after the cap)	-	-
19	Market risk	65 237	5 219
20	of which the standardised approach	65 237	5 219
22	Large exposures	-	-
23	Operational risk	691 897	55 352
24	of which basic indicator approach	415 200	33 216
25	of which the standardised approach	276 697	22 136
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-
29	**Total**	**9 435 827**	**754 866**

The Subsidiaries use different approaches for credit counterparty risk. Luminor Bank AB (Lithuania) and Luminor Banks AS (Latvia) use mark to market method while Luminor Bank AS (Estonia) uses original exposure method.

COUNTERCYCLICAL CAPITAL BUFFER

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

TEUR	General credit exposures 010	Sum of long and short position of trading book 030	Own funds requirement: General credit exposures 070	Own funds requirement: Trading book exposures 080	Total 100	Own funds requirement weights 110	Countercyclical capital buffer rate 120
Breakdown by country (010):							
Lithuania	5 314 772	2 578	285 579	206	285 785	41,76%	0,00%
Latvia	2 457 647	32	196 563	3	196 566	28,72%	0,00%
Estonia	3 168 067	-	172 870	-	172 870	25,26%	0,00%
Other EU countries: CC buffer 0%	319 432	18	23 487	1	23 488	3,43%	0,00%
Other EU countries: CC buffer >0%	14 937	-	974	-	974,00	0,14%	1,25%
Other non-EU countries:							
CC buffer 0%	64 907	-	4 444	-	4 444	0,65%	0,00%
Other non-EU countries:							
CC buffer >0%	5 109	-	247	-	247	0,04%	1,63%
Total (020)	**11 344 871**	**2 628**	**684 164**	**210**	**684 374**	**100,00%**	**N/A**

The Group recognizes general credit exposure or trading book exposure in 105 countries. Countercyclical capital buffer does not need to be calculated separately in each of them. Instead, a reporting institution could apply some simplification and combine non-material exposures with its home country exposure (based on Commission Delegated Regulation EU 2015/155). Nevertheless, the Subsidiaries do not use that derogation for countercyclical capital buffer calculation, the simplification was applied for the purpose of local Pillar 3 reports and the same is done for the Group's Pillar 3 report.

Materiality threshold has been calculated as a sum of general credit exposure and trading book exposure. Those notions were defined in accordance to Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 (commonly referred to as the 'CRD IV'). Materiality threshold amounts to TEUR 226 950 at the Group level. Local exposures in Lithuania, Latvia and Estonia are found to be above the threshold and hence shall be deemed as relevant in accordance to Commission Delegated Regulation (EU) 2015/1555. Remaining countries were grouped into EU and non-EU states and into non-zero or zero countercyclical buffer. For groups with non-zero countercyclical buffer rates, the column 120 of the table below shows simple average of the buffer rates in the cohort.

In none of the domicile countries of the Group (Lithuania, Latvia and Estonia) the countercyclical buffer rate has been established. Institution specific buffer rate at the level of 0,0036% is implied by the buffer rates in Sweden and Norway.

Amount of institution-specific countercyclical capital buffer.

Row		Column 010
010	Total risk exposure amount, TEUR	9 435 825
020	Institution specific countercyclical buffer rate	0,0036%
030	Institution specific countercyclical buffer requirement, TEUR	336

RISK MANAGEMENT OBJECTIVES AND POLICIES

CHIEF RISK OFFICER'S COMMENT

Luminor was created by merging Nordea's and DNB's Baltic operations to form a new stand-alone Baltic bank with arm's-length governance from both parent banks. Both organisations are proud of their Nordic roots and culture and are 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.

Sound risk management is a prerequisite for long-term value generation as the profitability is dependent on Group's ability to identify, manage and accurately price the risk. In 2017 the Group carried out harmonisation of risk management process within combined banks. The Group determines, analyses, evaluates, accepts and manages the risks or combinations of risks it is exposed to. Risk management at Luminor Group AB aims at ensuring an acceptable profitability and return on equity following the adequate risk management policy. While implementing a sound risk management policy the Group focuses not only on minimising the potential risk but also on improving pricing and achieving efficient capital allocation. Risk is an integral part of the management and monitoring of business areas to the extent possible, including taken into account during strategic and planning processes, lending process, product development and other daily business activities. In addition, the Group aims to design an organisational structure which would ensure effective and reliable governance as well as efficient risk management.

Key Strategic Choices:

- We are a contemporary financial service provider operating in the Baltic countries.
- We excel in customer experience.
- We are a pan-Baltic organization with local face towards our customers.
- We are data and knowledge driven.
- We are entrepreneurial, collaborative and open.

Strong Capitalisation

The Group is well positioned to meet the increasing regulatory requirements towards the capitalisation and is able to comply with all established capital buffers' requirements. According to the stress testing results capital level is adequate to absorb large additional potential losses stemming from risks to which it is exposed or may be exposed in the future at Group level as well as at the level of each stressed Luminor Group AB Subsidiary. The results of the stress testing show the solid capitalisation, which is capable to resist the adverse developments in the economy. In addition, the Group has a strong support from its shareholders.

The current capitalisation level enables to exploit growth opportunities in the market, implement the strategic initiatives and strive for the challenging goals set in the business strategy and financial plans. Economic profitability is the key driver in the allocation of capital, therefore only a growth creating economic value is considered. This will contribute to ensuring adequate capital levels in the long run and sustainable profitability of the Group.

Solid Liquidity Position

The Group has a low liquidity risk profile. It is ensured by the implemented the Liquidity Risk Management Strategy that the Group does not take any risk positions related to the liquidity management. The general approach is that the balance sheet of the Group as a stand-alone institution in each country would be fully consistent with both the regulatory requirements and potential challenges related to the market environment.

The Group uses a set of liquidity risk metrics to measure its liquidity position, structural liquidity mismatches, and a concentration of funding. In 2017 the Luminor Subsidiaries in each Baltic country were in compliance with the all regulatory liquidity ratios and minimum reserves requirements. The Group's liquidity risk is hedged with sufficient, long-term credit lines and funding deals from parent banks (Nordea AB and DNB ASA). The Groups consolidated stress tests results on liquidity risk are assessed as acceptable.

The Group CRO is of the opinion, that Luminor Group's AB Risk Management and Capital Adequacy Report gives a good and accurate description of the risk situation and of the way risk is measured, managed and reported in Luminor Group AB.

RISK MANAGEMENT OBJECTIVES, STRATEGIES AND CONTROLS

1. RISK MANAGEMENT

Risk management principles are disclosed in the consolidated annual report part G7. RISK MANAGEMENT. This part presents different topics:

- The Group risk management process;
- Organisational Risk division structure;
- Risk Committee functions;
- Credit risk:
  - Measurement;
  - Mitigation;
  - Limit control set-up;
  - Impairment policies;
- Market risk:
  - Measurement techniques;
  - Foreign exchange risk;
  - Interest rate risk;
  - Equity risk
- Liquidity risk:
  - Liquidity risk management process
  - Funding approach
- Operational risk.

In conjunction, the Risk management information is presented in Luminor Group AB Subsidiaries financial annual reports and local, smaller extent, Pillar 3 reports.

2. CAPITALISATION POLICY

Capitalisation Policies for Luminor Group AB Subsidiaries are prepared on pan-Baltic level and is aimed at ensuring that equity is adequate to secure effective and optimal use of equity relative to the scope and risk profile of operations.

The equity shall enable to:

- comply with minimum capital requirements, regulatory and management buffer requirements in accordance to institutions' risk profile and risk tolerance,
- exploit growth opportunities in the market,
- achieve a competitive return on equity.

Key element in the capitalisation is the implementation of Basel III / CRD IV capitalisation requirements in the local legislations. The Group is closely following development of regulatory requirements and adjusts Capitalisation Policy accordingly. The Capitalisation Policy is reviewed at least annually as part of the Luminor ICAAP process or in case of material changes either in regulatory / management buffers or in legal / organisational structure of institution that effects relevant capital ratios.

Based on Luminor Capitalisation Policy – capitalisation level will reflect that the capital resources are kept as high in the corporate structure as possible. Major part of own funds of Luminor consists of CET1, hence, there is no material difference in CET1 capital ratio and the Total capital ratio.

Capital Buffers

As of the end of 2017 the capital conservation buffer of 2,5 per cent and countercyclical buffer of 0 per cent is set for Luminor Group AB Subsidiaries in Estonia, Latvia and Lithuania.

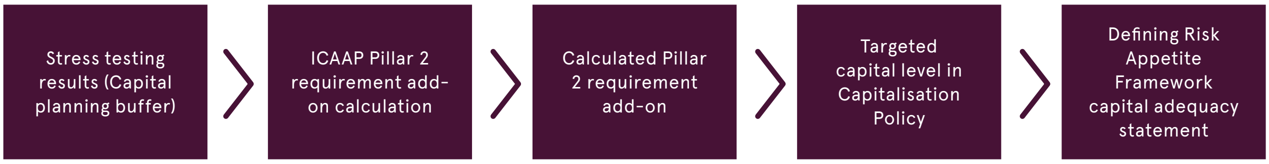
Regarding the Other systemically important institution (hereinafter – O-SII) buffer, slightly different situation is in each country:

- As of 30.11.2017, Bank of Lithuania recognised Luminor as a systemically important financial institution in Lithuania (same as former AB DNB Bankas) and left unchanged O-SII buffer of 2,0 per cent (same as it was for AB DNB Bankas).
- The same as former AS DNB Banka, Luminor in Latvia is identified as other systemically significant institution. Starting from 31.12.2017 O-SII capital buffer in amount of 1,0 per cent of risk weighted assets will be applied, it will increase to 2,0 per cent of risk weighted assets as of 30.06.2018.
- In 2017, Eesti Pank has not assessed Luminor as systemically important institution. However, the systemic importance of credit institutions was assessed again in May, 2018. The O-SII buffer of 2 per cent will be applied for Luminor in Estonia from the 30.06.2018.

In Estonia, Systemic risk buffer is set to be 1,0 per cent (for risk exposure located in Estonia) by local FSA for all banks and banking groups authorised in Estonia. In addition to the current capital buffers, the Group takes into consideration the upcoming capitalisation requirements according to the possible local regulator view and CRD IV / CRR when setting the required capital ratio in its Capitalisation Policy.

3. RISK APPETITE FRAMEWORK

The Group's risk policy and guidelines are operationalised in the Risk Appetite Framework (hereinafter – RAF) to ensure that risk is managed and integrated with other key steering processes in the organisation in a practical, structured, transparent and synchronised manner. RAF is designed as an "early warning system". RAF concept has emerged as an industry best practice enabling organisations to include risk as a holistic part of the planning and strategy processes and thus enables to react more swiftly to changing environment. Following this year's SREP dialogue, the Pillar 2 capital guidance buffer as early warning signal has been incorporated in RAF via Targeted capital level set in Capitalisation Policy 2018. All material risks are covered by RAF, the stress testing results are incorporated via capital adequacy statement, as such a flow of data can be presented:



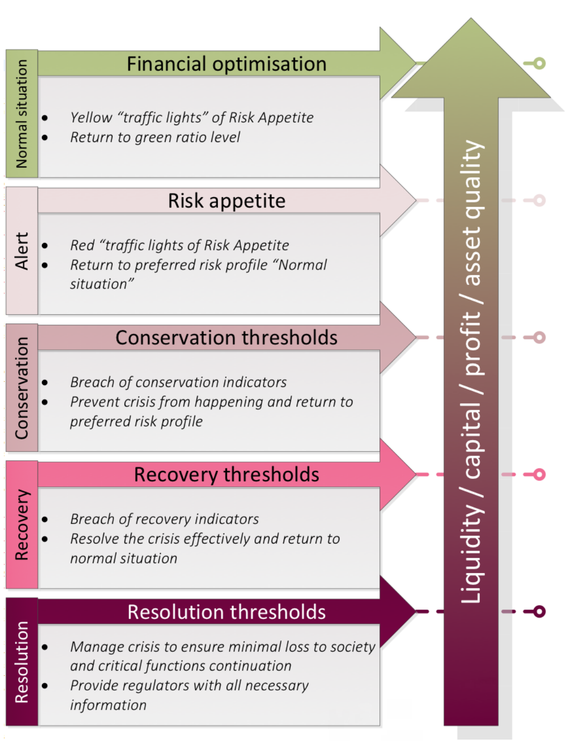
RAF is expressed in the form of metrics and statements. The Risk appetite statements are defined across the different risk types using metrics and qualitative statements. Risk Metrics across all risk types will be used to frame and manage Risk Appetite.

4. RECOVERY PLAN

For severe financial stress scenarios, the Recovery Plan (hereinafter – RP) for the Group was prepared in 2018 Q1 and would facilitate the restoration of the Group financial position without the need for any government support, while maintaining performance of critical and systemically important functions. The plan was drawn up using several main principles aiming to be in line with the ethical standards and regulatory rules: preserving the critical banking functions, protecting depositors, taking actions in order to maintain the stability of the financial system, maintaining and enhancing public and market confidence in the stability of the financial system. As a vital part of corporate governance and the overall risk management framework, the document and its principles are to be reviewed at least once a year.

The whole RP document with recovery indicators supplement the other risk management frameworks currently used in the Luminor such as the RAF and the new resolution regime, create multi-layer protective barriers.

The RP presents different type indicators: marking the recovery and conservation thresholds that would activate the RP. This framework enables to better describe any means taken to restore a normal situation.



The indicators are aligned with RAF and monitoring structure to ensure an appropriate risk governance process. The indicators are based on EBA's minimum list of required indicators, adapted to the Group business model and market position as appropriate to alert the deteriorating conditions that could lead to activation of the RP. As prescribed in EBA's guidelines, the number of indicators should be adequately targeted and manageable by the institution.

Luminor has defined RP indicators with corresponding recovery and/or conservation indicator levels within the five categories prescribed by EBA's Guidelines on RP Indicators:

- capitalisation,
- liquidity / funding,
- profitability,
- asset quality and
- macroeconomic reactions.

When calibrating the indicator levels, Luminor tried to balance the need to set triggers so high that Luminor will have sufficient time and space to recover, and, on the other hand, to reflect that recovery for the institution would mean a severe stress situation that is not easily resolved.

CREDIT RISK

The Subsidiaries apply different approaches locally to credit risk and counterparty credit risk reporting. Luminor LT and Luminor LV make a distinction between credit risk framework and credit counterparty risk framework in supervisory reporting. Luminor EE does not make such distinction and all exposures are reported in credit risk framework. This has implication for consolidated Pillar III reports. When a scope of a template indicates credit risk framework, one should be aware that it includes credit risk framework in Luminor LT and Luminor LV and exposures subject to credit risk and counterparty credit risk in Luminor EE. On the contrary, when a template scope is dictated as credit counterparty framework only, one should be aware that it will not include such exposures from Luminor EE. This is due to local data availability, reporting procedures and other local specificities.

TOTAL NET AMOUNT OF EXPOSURES

Template EU CRB-B covers exposures subject to credit risk. Reported values do not account for credit risk mitigation techniques or credit conversion factors but adjust for provisions and allowances. Such definition corresponds to the COREP original exposure value less credit risk adjustments in accordance to Annex II of Commission Implementing Regulation (EU) No 680/2014 (hereinafter "net COREP original exposure").

In accordance to Guideline EBA/GL/2016/11, the template CRB-B shall disclose net values of exposures as of 31-12-2017 as well as quarterly average of net exposures during 2017. The Group inception date was October 1st hence one-year moving average is not yet feasible.

Credit risk management principles are disclosed in the consolidated annual report part G7. RISK MANAGEMENT.

EU CRB-B — Total and average net amount of exposures

TEUR		Net value of exposures 31.12.2017	Average net exposures 2017
16	Central governments or central banks	2 614 102	2 614 102
17	Regional governments or local authorities	227 911	227 911
18	Public sector entities	46 992	46 992
19	Multilateral development banks	-	-
20	International organisations	-	-
21	Institutions	383 372	383 372
22	Corporates	5 481 587	5 481 587
23	of which: SMEs	1 918 865	1 918 865
24	Retail	2 648 708	2 648 708
25	of which: SMEs	1 531 649	1 531 649
26	Secured by mortgages on immovable property	4 545 471	4 545 471
27	of which: SMEs	21 349	21 349
28	Exposures in default	459 704	459 704
29	Items associated with particularly high risk	65 298	65 298
30	Covered bonds	-	-
31	Claims on institutions and corporates with a short-term credit assessment	-	-
32	Collective investments undertakings	-	-
33	Equity exposures	12 831	12 831
34	Other exposures	463 366	463 366
35	**Total (standardised approach)**	**16 949 342**	**16 949 342**

GEOGRAPHICAL BREAKDOWN OF EXPOSURES

The Group recognizes exposures subject to credit risk or counterparty credit risk in 105 countries. Hence, for the sake of report clarity, the Group assumed that it is relevant to disclose separately exposure in all three domicile countries of Luminor LT, Luminor EE and Luminor LV. The remaining countries were summed up and disclosed as aggregate values. The exposure measure in template CRB-C is net COREP original exposure.

EU CRB-C — geographical breakdown of exposures

TEUR		Baltic countries total	Lithuania	Latvia	Estonia	Other countries	Total
7	Central governments or central banks	2 625 991	1 228 438	1 086 439	311 114	-	2 625 991
8	Regional governments or local authorities	227 911	162 938	21 030	43 943	-	227 911
9	Public sector entities	47 010	47 010	-	-	-	47 010
10	Multilateral development banks	-	-	-	-	-	-
11	International organisations	-	-	-	-	-	-
12	Institutions	57 527	19 569	5 345	32 613	468 615	526 142
13	Corporates	5 102 233	2 396 626	1 507 778	1 197 829	386 359	5 488 592
14	Retail	2 628 518	882 700	908 201	837 617	21 321	2 649 839
15	Secured by mortgages on immovable property	4 477 144	2 079 372	1 357 247	1 040 525	68 324	4 545 468
16	Exposures in default	455 951	193 501	196 386	66 064	3 778	459 729
17	Items associated with particularly high risk	64 947	64 947	-	-	350	65 297
18	Covered bonds	-	-	-	-	-	-
19	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
20	Collective investments undertakings	-	-	-	-	-	-
21	Equity exposures	7 019	2 550	2 987	1 482	5 813	12 832
22	Other exposures	461 885	180 272	137 637	143 976	1 490	463 375
23	**Total (standardised approach)**	**16 156 136**	**7 257 923**	**5 223 050**	**3 675 163**	**956 050**	**17 112 186**

CONCENTRATION OF EXPOSURES BY INDUSTRY AND COUNTERPARTY TYPES

Template EU CRB-D covers exposures to non-financial legal entities which are subject to credit risk framework. The reported values are net COREP original exposures. The basis for division by industry are the NACE codes.

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 managment 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	Total
8	Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	22	-	162 916	-	-	-	-	162 938
9	Public sectors entities	58	-	32	73	1 509	38	19	929	-	85	4 158	922	111	34 825	1 319	2 357	322	234	46 991
12	Institutions	48	-	-	23	96	-	-	135	-	-	13 568	-	-	-	-	-	-	-	13 870
13	Corporates	304 171	40 467	904 061	290 533	45 449	439 532	1 246 692	468 182	64 503	31 435	841 251	122 533	194 371	8 839	1 268	10 637	6 244	134 766	5 154 933
14	Retail	309 267	7 714	226 147	6 032	10 036	153 750	247 423	166 410	13 550	20 285	77 885	73 706	110 405	350	5 256	14 057	7 442	78 079	1 527 795
15	Secured by mortgages on immovable property	3 453	-	2 218	30	-	1 817	5 659	1 424	909	689	7 444	5 041	559	-	306	80	182	1 298	31 109
16	Exposures in default	18 605	833	54 337	4 289	54	12 439	18 598	8 540	7 986	512	147 226	2 518	16 153	-	180	161	634	7 547	300 612
17	Items associated with particularly high risk	-	-	-	-	-	8 042	-	-	-	-	49 093	-	-	-	-	-	-	-	57 135
22	Other exposures	6 553	1 215	6 248	126	241	4 634	12 279	7 020	747	1 467	1 617	5 250	21 853	-	608	768	632	11 401	82 658
23	**Total (standardised approach)**	**642 155**	**50 229**	**1 193 042**	**301 106**	**57 384**	**620 253**	**1 530 670**	**652 642**	**87 695**	**54 473**	**1 142 241**	**209 991**	**343 451**	**206 931**	**8 936**	**28 060**	**15 456**	**233 324**	**7 378 041**

MATURITY OF EXPOSURES

Template EU CRB-E covers exposures subject to credit risk. Reported values are net COREP original exposure.

EU CRB-E — Maturity of exposures

TEUR		Net exposure value					
		On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
7	Central governments or central banks	2 442 691	22 898	31 171	117 342	-	2 614 102
8	Regional governments or local authorities	-	1 038	46 220	180 652	-	227 911
9	Public sector entities	51	323	39 968	6 650	-	46 992
12	Institutions	190 464	125 032	99 835	8 513	-	423 843
13	Corporates	390 108	1 167 509	2 758 402	1 145 640	-	5 461 659
14	Retail	97 908	348 138	1 408 068	794 562	-	2 648 677
15	Secured by mortgages on immovable property	2 061	23 441	113 134	4 406 834	-	4 545 471
16	Exposures in default	59 631	125 128	133 146	141 801	-	459 706
17	Items associated with particularly high risk	-	27 488	32 200	5 609	-	65 297
21	Equity exposures	-	891	6 406	-	5 534	12 831
22	Other exposures	-	40 173	286 132	408	138 003	464 716
23	**Total (standardised approach)**	**3 182 914**	**1 882 060**	**4 954 683**	**6 808 011**	**143 537**	**16 971 204**

CREDIT QUALITY OF EXPOSURES BY EXPOSURE CLASS AND INSTRUMENT

Template EU CR1-A covers exposures that are subject to credit risk framework. Reported values are gross exposures as defined in Annex II of Commission Implementing Regulation (EU) No 680/2014 that is an exposure value without taking into account value adjustments and provisions, conversion factors and the effect of credit risk mitigation techniques (hereinafter "gross COREP original exposure"). The template contains also net COREP original exposure calculated as a sum of gross COREP original exposure less specific credit risk adjustment.

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	Net values
16	Central governments or central banks		2 614 102	-	2 614 102
17	Regional governments or local authorities		228 037	(126)	227 911
18	Public sector entities		47 034	(42)	46 992
21	Institutions		383 385	(13)	383 372
22	Corporates		5 489 677	(8 090)	5 481 587
23	Of which: SMEs		1 372 536	(14 600)	1 357 936
24	Retail		2 660 407	(11 699)	2 648 708
25	Of which: SMEs		1 509 911	(3 154)	1 506 758
26	Secured by mortgages on immovable property		4 548 584	(3 113)	4 545 471
27	Of which: SMEs		20 091	(27)	20 064
28	Exposures in default	699 232		(239 528)	459 704
29	Items associated with particularly high risk		91 247	(25 949)	65 298
33	Equity exposures		13 271	(440)	12 831
34	Other exposures		463 789	(423)	463 366
35	**Total (standardised approach)**	**699 232**	**16 539 533**	**(289 423)**	**16 949 342**
37	Of which: Loans	645 296	9 917 181	(277 226)	10 285 251
38	Of which: Debt securities	-	110 662	-	110 662
39	Of which: Off-balance-sheet exposures	22 760	2 215 107	(107)	2 237 760

CREDIT QUALITY OF EXPOSURES BY INDUSTRY

Template EU CR1-B covers exposures to non-financial legal entities which are subject to credit risk framework. The basis for division by industry is the NACE codes. Reported values are gross and net COREP original exposure. Net COREP original exposure is calculated as gross COREP original exposure less specific credit risk adjustment.

EU CR1-B — Credit quality of exposures by industry

TEUR		Gross carrying values of			
		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Net values
1	Agriculture, forestry and fishing	22 077	625 569	(3 371)	644 275
2	Mining and quarrying	1 185	49 467	(423)	50 229
3	Manufacturing	71 721	1 146 676	(14 111)	1 204 286
4	Electricity, gas, steam and air conditioning supply	6 888	297 625	(3 408)	301 105
5	Water supply; sewerage; waste management and remediation activities	65	57 682	(355)	57 391
6	Construction	25 302	558 292	(13 646)	569 948
7	Wholesale and retail trade; repair of motor vehicles and motorcycles	29 330	1 516 732	(12 113)	1 533 949
8	Transporting and storage	15 175	646 710	(6 271)	655 614
9	Accommodation and food service activities	10 802	79 918	(3 025)	87 695
10	Information and communication	705	55 984	154	56 843
11	Real estate activities	235 410	1 019 168	(102 206)	1 152 372
12	Professional, scientific and technical activities	3 155	211 823	(491)	214 487
13	Administrative and support service activities	16 465	328 710	(559)	344 616
14	Public administration and defence; compulsory social security	3	207 086	(157)	206 932
15	Education	195	8 769	(20)	8 944
16	Human health and social work activities	509	27 987	(420)	28 076
17	Arts, entertainment and recreation	751	14 858	(139)	15 470
18	Other services	7 045	227 778	146	234 970
19	**Total**	**446 782**	**7 080 835**	**(160 415)**	**7 367 202**

CREDIT QUALITY OF EXPOSURES BY GEOGRAPHY

In template EU CR1-C the same logic has been applied as in EU CRB-C, that is, the Group assumed that it is relevant to disclose separately each domicile country of each credit institution in consolidated by the Group – Luminor LT, Luminor EE and Luminor LV.

EU CR1-C — Credit quality of exposures by geography

TEUR		Gross carrying values of			
		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Net values
1	Baltic countries total	689 537	15 749 398	282 808	16 156 127
2	Lithuania	265 515	7 096 411	104 002	7 257 924
3	Latvia	332 324	5 041 872	151 145	5 223 051
4	Estonia	91 698	3 611 115	27 661	3 675 152
5	Other countries	9 716	952 947	6 611	956 052
6	**Total**	**699 253**	**16 702 345**	**289 419**	**17 112 179**

AGEING OF PAST-DUE EXPOSURES

Template EU CR1-D presents gross COREP original exposures which are at least 1 day past-due.

EU CR1-D — Ageing of past-due exposures

TEUR		Gross carrying values of					
		≤ 30 days	> 30 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans	422 320	101 690	35 344	58 434	43 591	237 561
2	Debt securities	-	-	-	-	-	-
3	**Total exposures**	**422 320**	**101 690**	**35 344**	**58 434**	**43 591**	**237 561**

NON-PERFORMING AND FORBORNE EXPOSURES

Template EU CR1-E reports gross COREP original exposures divided in accordance to performing/non-performing status, forbearance status and default status. The definitions of abovementioned statuses are aligned with those used in FINREP, therefore the total of defaulted exposure might differ from total COREP defaulted class exposure (as reported e.g. in Table 13 CR1-A).

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 non-performing				on performing exposures		on non-performing exposures			
						of which: defaulted	of which: impaired	of which: forborne		of which: forborne		of which: forborne		
010	Debt securities	110 665	-	-	-	-	-	-	-	-	-	-	-	-
020	Loans and advances	13 650 066	100 439	171 789	817 768	629 663	644 225	415 635	(30 009)	(5 227)	(276 337)	(159 231)	339 821	247 771
030	Off-balance sheet exposures	2 256 021	87	-	21 588	22 760	1 307	217	(650)	-	(107)	-	2 708	-

CHANGES IN THE STOCK OF SPECIFIC CREDIT RISK ADJUSTMENTS

Template EU CR2-A shall disclose half-year flows within default class of exposures. Because the Luminor Group inception date is 1st October, the opening balance (6 months prior reporting date) is not available. Consequently, the change has been allocated to field `Other adjustment'. Consecutive Pillar 3 disclosure reports will begin with the closing balance from the EU CR2-A and then allocate appropriate flows in accordance to EBA/GL/2016/11.

EU CR2-A — Changes in the stock of general and specific credit risk adjustments

TEUR		Accumulated specific credit risk adjustment
1	Opening balances	-
2	Increases due to amounts set aside for estimated loan losses during the period	-
3	Decreases due to amounts reversed for estimated loan losses during the period	-
4	Decreases due to amounts taken against accumulated credit risk adjustments	-
5	Transfers between credit risk adjustments	-
6	Impact of exchange rate difference	-
7	Business combinations, including acquisitions and disposals of subsidiaries	-
8	Other adjustments	(306 347)
9	**Closing balance**	**(306 347)**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	10 566
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	-

CHANGES IN THE STOCK OF DEFAULTED AND IMPAIRED LOANS

Template EU CR2-B applies the same logic as EU CR2-A.

EU CR2-B — Changes in the stock of defaulted and impaired loans and debt securities

TEUR		Gross carrying value defaulted exposures
1	Opening balance	-
2	Loans and debt securities that have defaulted or impaired since the last reporting period	-
3	Returned to non-defaulted status	-
4	Amounts written off	-
5	Other changes	680 574
6	**Closing balance**	**680 574**

CREDIT RISK MITIGATION

Overview of CRM techniques, as presented in Template EU CR3, is given separately for each of the Group's Subsidiaries due to different scope of exposures and exposure definition applied locally for Pillar 3 reporting. In the Template EU CR3, following exposure scope and definition have been used:

- Luminor LT reported exposures subject to credit risk and counterparty credit risk framework using net original COREP exposures
- Luminor EE reported exposures subject to credit risk (which includes exposures subject to counterparty credit risk) using net original COREP exposures
- Luminor LV reported loans and debt securities at net original COREP exposure

Note that credit risk mitigation is presented in the consolidated annual report RISK MANAGEMENT part 1.2 Credit risk mitigation.

EU CR3 — CRM techniques – Overview

		Luminor LT			
TEUR		Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees
1	Total loans	5 469 995	2 282 790	2 205 174	77 616
2	Total debt securities	-	-	-	-
3	**Total exposures**	**5 469 995**	**2 282 790**	**2 205 174**	**77 616**
4	Of which defaulted	136 634	56 299	53 762	2 537

		Luminor EE			
TEUR		Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees
1	Total loans	2 910 408	1 058 762	1 058 762	-
2	Total debt securities	34 354	-	-	-
3	**Total exposures**	**2 944 763**	**1 058 762**	**1 058 762**	**-**
4	Of which defaulted	71 511	5 652	5 652	-

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

CREDIT RISK AND CRM IN THE STANDARDISED APPROACH

Within the calculation of its own funds requirements for credit risk, the Group uses the credit assessments assigned by the external credit assessment institutions. As at 31 December 2017, the Group used external ratings based on Fitch Ratings Services or their equivalent.

Template EU CR4 presents exposure subject to credit risk framework at values in accordance to net original COREP exposure definition.

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	2 508 081	106 021	2 612 500	53 007	-	0,00%
2	Regional government or local authorities	214 349	13 562	217 548	6 798	11 790	0,14%
3	Public sector entities	45 855	1 137	65 727	433	5 822	0,07%
6	Institutions	343 422	39 950	258 941	32 179	79 104	0,92%
7	Corporates	3 964 564	1 517 023	3 953 906	665 959	4 537 664	52,51%
8	Retail	2 141 366	507 342	2 111 550	227 549	1 520 360	17,59%
9	Secured by mortgages on immovable property	4 537 490	7 981	4 537 490	3 117	1 587 577	18,37%
10	Exposures in default	437 051	22 653	434 514	10 156	525 464	6,08%
11	Exposures associated with particularly high risk	43 207	22 091	43 207	9 940	79 719	0,92%
15	Equity	12 831	-	12 831	-	12 831	0,15%
16	Other items	463 366	-	463 366	-	280 736	3,25%
17	**Total**	**14 711 582**	**2 237 760**	**14 711 580**	**1 009 137**	**8 641 067**	**100,00%**

Template EU CR4 presents exposure subject to counterparty credit risk framework at values in accordance to net original COREP exposure definition.

EU CR5 — Standardised approach – BREAKDOWN OF CREDIT RISK EXPOSURE BY ASSET CLASS AND RISK WEIGHT

TEUR		Risk weight															Total	Of which unrated
	Exposure classes	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
1	Central governments or central banks	2 665 507	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2 665 507	2 404 393
2	Regional government or local authorities	165 394	-	-	-	58 952	-	-	-	-	-	-	-	-	-	-	224 346	189 192
3	Public sector entities	54 483	-	-	-	51	-	11 625	-	-	-	-	-	-	-	-	66 159	66 159
6	Institutions	-	-	-	-	230 133	-	55 821	-	-	5 167	-	-	-	-	-	291 121	156 830
7	Corporates	-	-	-	-	-	-	-	-	-	4 619 193	672	-	-	-	-	4 619 865	4 545 115
8	Retail	-	-	-	-	-	-	-	-	2 339 099	-	-	-	-	-	-	2 339 099	2 048 835
9	Secured by mortgages on immovable property	-	-	-	-	-	4 540 607	-	-	-	-	-	-	-	-	-	4 540 607	3 849 326
10	Exposures in default	-	-	-	-	-	-	-	-	-	283 083	161 587	-	-	-	-	444 669	460 349
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	53 147	-	-	-	-	53 147	53 147
15	Equity	-	-	-	-	-	-	-	-	-	12 831	-	-	-	-	-	12 831	12 831
16	Other items	177 800	-	-	-	6 037	-	-	-	-	279 529	-	-	-	-	-	463 366	457 471
17	**Total**	**3 063 184**	**-**	**-**	**-**	**295 173**	**4 540 607**	**67 446**	**-**	**2 339 099**	**5 199 802**	**215 406**	**-**	**-**	**-**	**-**	**15 720 717**	**14 243 647**

CREDIT COUNTERPARTY RISK

Counterparty credit risk (CCR) exposure arises from business activities in derivatives and securities financing transactions (SFT). It is the risk that the counterparty of a transaction may default before completing the satisfactory settlement of the transaction.

Credit counterparty risk framework is reported separately from credit risk framework in Luminor LT and Luminor LV. In Luminor EE it is reported jointly with credit risk therefore this section will generally involve data from two Subsidiaries only.

Exposure to CCR is calculated using mark-to-market method for derivatives and financial collateral comprehensive method for SFT respectively for Luminor LT and Luminor LV. Original exposure method is used to calculate the exposure value of derivatives in Luminor EE.

The Group establishes credit limits for transactions with derivative financial instruments in order to reduce counterparty and settlement risk. The assignment and approval of limits is an integral part of the Group's credit risk policy. The Group signs the CSA (credit support annex) contracts with majority of its customers. This means that the market value of the transaction and collateral claims are recalculated daily. Derivative financial transactions may be secured by collateral. Collateral contracts are not tied to credit ratings; accordingly, the downgrading of the credit rating does not affect the collateral requirements.

To determine the exposure value of a derivative, that is, the exposure value of the counterparty's exposure to the credit risk, mark-to-market method is applied. The exposure value is the sum of the present replacement value and the potential future value of the credit exposure transaction value.

The Group has no credit derivatives transactions.

EU CCR1 – Analysis of CCR exposure by approach

TEUR		Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
1	Mark to market		23 593	37 757			61 350	23 317
2	Original exposure	-					-	-
3	Standardised approach		-			-	-	-
4	Corporates				-	-	-	-
5	Retail				-	-	-	-
6	Secured by mortgages on immovable property				-	-	-	-
7	Exposures in default				-	-	-	-
8	Equity						-	-
9	Other items						6 589	1 318
10	VaR for SFTs						-	-
11	**Total**							**24 635**

EU CCR2 — Analysis of CCR exposure by approach

TEUR		Exposure value	RWAs
4	All portfolios subject to the standardised method	40 063	12 988
5	**Total subject to CVA capital charge**	**40 063**	**12 988**

EU CCR3 — Standardised approach – CCR exposures by regulatory portfolio and risk

TEUR		Risk weight												
	Exposure classes	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total	Of which unrated
1	Central governments or central banks	11 888	-	-	-	-	-	-	-	-	-	-	11 888	11 888
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	19	-	-	-	-	-	19	19
4	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	-	-	23 417	24 457	-	-	-	-	-	47 874	19 092
7	Corporates	-	-	-	-	-	-	-	-	7 003	-	-	7 003	7 003
8	Retail	-	-	-	-	-	-	-	1 134	-	-	-	1 134	1 134
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
10	**Other items**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**22**
10.a	**Exposures in default**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**22**	**-**	**22**	**-**
11	**Total**	**11 888**	**-**	**-**	**-**	**23 417**	**24 476**	**-**	**1 134**	**7 003**	**22**	**-**	**67 940**	**39 158**

EU CCR5-B — Composition of collateral for exposures to CCR

TEUR	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Debt securities	-	-	-	-	94 897	-
Total	**-**	**-**	**-**	**-**	**94 897**	**-**

MARKET RISK

The Group is primarily exposed to market risks such as interest rate risk, foreign exchange risk. The Group shall take nor option risk, neither risk in commodity. In those rare cases when such transactions are concluded, they shall be hedged back to back, nevertheless such transactions will be subject to other risks if applicable, e.g. counterparty risk. All transactions causing volatility risk, to the extent possible, shall be performed on a back-to-back basis only.

Market risk management and control is organized in three lines of defence. The first line consists of Markets Front Office who is responsible for risk management at the moment of the conclusion of the transaction, whereas Markets Back Office is mainly responsible for deal execution related routines. The second line involves Markets and Treasury Middle Office who performs market control and support functions with responsibility covering entire value chain and market risks in particular. Internal Audit performs validation of all related processes and is the third line of defence.

Interest rate risk

Interest rate risk is the most significant to the Group out of all market risk types. In the course of its business, the interest rate risk arises due to different maturities (for fixed rate financial instruments) and due to the revision of rates (for variable rate financial instruments) in the Group's assets, liabilities and memorandum items.

The interest rate risk in terms of individual currencies is calculated and controlled using the basis point value (BPV) analysis, which reflects the sensitivity of the present value of the Group's future cash flows to the parallel changes in market interest rates by 0,01%. Calculations are made once a week. The Group applies a conservative approach to managing interest rate risk in an effort to balance the maturity and revaluation profiles of assets, liabilities and off-balance sheet items in order to meet the limits set by the Luminor Executive Management. The limits are set separately for each currency in which the Group performs a significant activity, as well as all currencies together. In 2017, the Group met all the limits.

The main part of the interest rate risk arises from the positions that are denominated in euro, so the risk mitigation measures are employed for these positions. Since the maturity of assets that are denominated in euro is longer than the maturity of the respective liabilities, the risk of open interest rate position arises due to maturity gap. Long-term financing and interest rate swaps are used in order to reduce the risk of the long-term and short-term gap.

Foreign exchange risk

Foreign exchange (FX) risk is managed by monitoring open FX positions and keeping them close to zero on intraday basis. The Group is trying to balance assets, liabilities and memorandum items in foreign currencies, so that the FX risk is within the limits set by the Luminor Executive Management.

The size of foreign currency positions is insignificant after euro introduction, as the main part of the balance sheet is denominated in euro, while open positions in all other currencies are immaterial and are well below limits.

Market risk tolerance

The Group is aiming to keep a conservative overall risk profile in general, and will only assume risk which is comprehensible and possible to follow up. The general approach is that the balance sheet of the Group would be fully consistent with both the regulatory requirements and potential challenges related to the market environment. Market risk tolerance is reflected in the Market Risk Policy where approach to different market risks, roles and responsibilities, and limits are described. The Group is an international group with shareholders DNB Bank ASA in Norway and Nordea Bank AB in Finland.

Risk Appetite Framework (RAF) additionally represents an operationalization of the Group policy and guidelines for risk management. The purpose of RAF is to ensure that risk management is integrated in the Group's other governance processes. Measuring risks against the RAF provides an overview of the risk situation in the Group, including figures related to market risk.

EU MR1 — MARKET RISK UNDER THE STANDARDISED APPROACH

TEUR		RWAs	Capital requirements
1	Outright products		
2	**Interest rate risk (general and specific)**	**65 201**	**5 216**
3	**Equity risk (general and specific)**	**36**	**3**
4	**Foreign exchange risk**	**-**	**-**
5	**Commodity risk**	**-**	**-**
11	**Total**	**65 237**	**5 219**

EXPOSURES IN EQUITIES NOT INCLUDED IN THE TRADING BOOK

The Group does not perform proprietary stock trading. The shares of SWIFT and VISA are not considered as an investment into securities due to the fact that this is recognized as participation in these settlement systems rather than any kind of investment into shares. Remaining shares constitute investment in associates or subsidiaries (outside of scope of prudential consolidation).

BANKING BOOK EQUITY EXPOSURES – BALANCE SHEET AMOUNT AND FAIR VALUE

TEUR	Balance sheet amounts		Fair value amounts	
	Listed on the active market	Unlisted on the active market	Listed on the active market	Unlisted on the active market
Visa Inc.	-	5 791	-	5 791
S.W.I.F.T. SCRL	-	21	-	21
Investment in associates	-	6 110	-	6 110
Luminor Būstas UAB (not in prudential scope of consolidation)	-	892	-	892
Luminor Kindlustusmaakler OÜ (not in prudential scope of consolidation)	-	17	-	-
TOTAL	**-**	**12 831**	**-**	**12 814**

BANKING BOOK EQUITY EXPOSURES – GAINS AND LOSSES

TEUR	Gains/losses on derecognision and impairment		Unrealised gains/losses on revaluation	
	Gains	Losses	Gains	Losses
Visa Inc.	84	-	534	-
S.W.I.F.T. SCRL	-	300	-	-
Investment in associates	40	-	-	-
Luminor Būstas UAB (not in prudential scope of consolidation)	209	-	-	-
Luminor Kindlustusmaakler OÜ (not in prudential scope of consolidation)	-	-	-	-
TOTAL	**333**	**300**	**534**	**-**

EXPOSURES TO INTEREST RATE RISK IN THE BANKING BOOK

Non-traded market risk arises in the course of core banking activities such as lending, deposit taking, and debt issuance. The main component of non-traded market risk is Interest Rate Risk in the Banking Book (IRRBB) that refers to the current or prospective risk to both the Group's capital and net interest income arising from adverse movements in interest rates affecting Group's Banking Book exposures. IRRBB can materialize through changes in the net present value of future cash flow from the Banking Book or change in net interest rate income.

IRRBB is assessed as the impact of the yield curve parallel shift on the present value of the difference between total assets and total liabilities divided by time bands. This risk is measured as the value of 1 basis point change (BPV). 1 BPV change indicates the effect of the yield curve parallel shift on the net result. The main positions are denominated in euro currency.

The supervisory standard shock and earnings measures for IRRBB include assumption of earnings estimate based on current and projected balances and rates for one year time horizon. One-off large interest rate shock (both upward and downward) is applied for interest bearing instruments. Different assumptions for each instrument is assumed including expected clients' behavior from changes in interest rate curve, interest rate floor at zero for current negative rates environment, all maturing products are rolled back into the same product type.

OPERATIONAL RISK

The Group is not using the Advanced Measurement Approach for Operational risk assessment purposes, therefore the approaches for the assessment of own funds requirements for operational risk that the institution qualifies for is not required to be disclosed.

LIQUIDITY

Liquidity risk is the risk arising from the Group potential inability to meet all payment obligations when they come due or only being able to meet these obligations at excessive costs.

Liquidity Risk Management Framework

The Liquidity Risk Management Framework in the Group consists of Liquidity Risk Management Strategy, Policy, Contingency Funding Plan and related procedures. It is aligned with the Group business strategy and integrated into the Group enterprise risk management process, including credit, market, operational and reputational risks. The Liquidity Risk Management Framework is set in order to maintain adequate liquidity and management of the funding structure.

The Treasury and Assets and Liquidity Management (TALM) is responsible for daily liquidity risk management activities, making transactions, working together with the central banks on requirements in Baltics, regular review of the funding structure of the Group and planning funding sources diversification. Liquidity risk is maintained in a manner to ensure a constant ability to settle contractual obligations in both usual and stress environments. The Markets and Treasury Middle Office's (MTMO's) main activities are to develop, implement and maintain market and liquidity risk governance framework, ensure that market and liquidity risks are identified, assessed, monitored, tested and independently reported, and develop market and liquidity risk management policies and implement related procedures. The Management Board of the Group receives main information on liquidity on a regular basis as a part of Market Risk Report and makes a thorough review and discussion on the liquidity status of the Financial Group on a monthly basis at the Management Board meeting.

Liquidity risk management consists of three management layers. Firstly, an intraday liquidity management is performed by forecasting cash flows and utilizing available funding facilities. Secondly, liquidity gaps are followed up in three different short terms: 1 week, 1 month and 3 months. For all terms, the Group must maintain a positive net cash flow. LCR is also a very important element of this liquidity management layer, as it provides a detailed and wide-scope approach by means of defining the sensitivity of the Group balance sheet items concerning liquidity risk. NSFR (Net Stable Funding Ratio) is an element of a long-term (1 year and above) liquidity management of the Group. Finally, loan to deposit ratio reflects the Group ability to create assets using customers' deposits as a type of funding.

The Supervisory Council of the Group takes the responsibility to define a Liquidity Risk Management Strategy and Policy, as well as approves the Liquidity Risk Appetite, whereas the Management Board sets the relevant limits for all liquidity risk metrics mentioned above for 3 different layers. The Management Board also approves the Funding Contingency Plan covering trigger events, escalation process, remedial actions and a communication plan.

Liquidity Risk Tolerance

According to the Liquidity Risk Management Strategy, the Group keeps a low liquidity risk profile and does not take any risk positions related to liquidity management. The general approach is that the balance sheet of the Group would be fully consistent with both the regulatory requirements and potential challenges related to the market environment.

Liquidity Risk Tolerance is set in the Liquidity Risk Management Strategy as surviving periods analyzed across different stress scenarios. Stress tests are based on both idiosyncratic and systemic stress assumptions. The survival periods are defined as periods with a positive cumulative cash flow; these are regularly measured and reported to the Group management.

An important element of the risk tolerance is the fact that the Group is an international group and most of wholesale funding comes from the two shareholders DNB Bank ASA in Norway and Nordea Bank AB in Finland. Significant amounts of commitment in funding facilities remain non-utilized.

Liquidity Risk Strategy

Based on the Liquidity Risk Appetite and Strategy set by the Supervisory Council, the MTMO prepares the Liquidity Risk Policy, develops and updates relevant routines. The Policy is the subject for the approval by the Management Board of the Group. The structural units responsible for funding and liquidity risk management are the TALM and the MTMO, where the TALM is taking active role in managing liquidity of the Group, while MTMO is acting as an independent agent for measuring and controlling the levels of liquidity risk metrics. The setup is also strengthened by having the TALM and the MTMO in different divisions of the Group with independent reporting lines: the TALM belongs to the Financial Division and reports to CFO, while the MTMO is a part of the Risk Division with reporting line to the CRO of the Group.

The MTMO prepares reports on liquidity status and provides own judgement of the situation facilitating the risk management performed in the TALM. The TALM monitors and manages intraday liquidity by attracting from and placing funds at the most reliable counterparties such as the ECB, the Bank of Lithuania, the Bank of Latvia, the Bank of Estonia, DNB Bank ASA, Nordea Bank AB. The liquidity management also includes converting and structuring the balance sheet of the Group to ensure optimal utilization of the resources and continuity of its operations. Taking the above into consideration the Management of the Group considers the risk strategy to be relevant to the size and the diversity of the operations of the Group.

Liquidity Buffers and Collateral Management

The main liquidity buffer is the Bank's Target subaccount with the central bank, where the Group held close to EUR 2,4 billion at the end of year 2017. This buffer can be utilized at any time when the need arises.

The Group has established a liquidity portfolio with intention to accumulate high quality liquid debt securities. The portfolio is accounted at fair value. Currently the size of the portfolio is set at the level of EUR 160,8 million with relatively short portfolio average duration and maximum duration of the debt securities is set at 5 years. The portfolio is targeting to ensure the continuity of the Group operations and provides the stabilization effect for all liquidity risk metrics including LCR. The securities held in the portfolio are by definition unencumbered and available for instant raise of funds in unexpected or stressed situations. At the end of year 2017 part of this portfolio has been pledged as a collateral in order to get Targeted Long Term Refinancing Operations (TLTRO) low cost funding through Eurosystem's open market operations. Group actively utilizes Eurosystem's open market operations and in particular TLTRO program. Pledged debt securities are accounted separately from the liquidity portfolio and are not included into liquid assets, for instance in LCR calculations. Loans issued to entities with the government rating (municipalities and government institutions) were pledged as a collateral as well.

Moreover, at the end of year 2017, the Group had a credit line of EUR 4,954 million from the two parent banks of which EUR 677 million have been unutilized and available as a buffer for liquidity management. Funding from the parent banks has commitment period of at least 12 months.

The Management of the Group finds the size and characteristics of the buffers mentioned in this paragraph to be commensurate with the extent and complexity of the Group operations.

Liquidity Monitoring

Liquidity monitoring is performed by both the TALM and the MTMO. The TALM is monitoring the liquidity metrics related to intraday liquidity management, such as the amounts at current and nostro accounts, as this is underlying information for intraday liquidity management. The TALM is also generating cash flow forecast for 1 month period in order to plan necessary funding operations. The MTMO is responsible for the rest of liquidity monitoring and its reporting to the TALM and the Management Board. LCR, NSFR and liquidity gaps (1 week, 1 month and 3 months) are measured and reported on a regular basis. Based on the level of all liquidity metrics provided, tactical decisions regarding liquidity management are made. Depending on the level of liquidity status, size, utilisation and other parameters of the liquidity portfolio, funding is adjusted in order to maintain the Group balance sheet structure at an optimal level.

Market Access

The Group periodically validates the process and its efficiency of pledging high quality liquid debt securities in order to obtain funds. Currently most of the liquidity funds are deposited in central bank account and they can be withdrawn at any time. In the Group management opinion, this setup is the safest from the risk appetite side and rational from economic point of view.

Intraday Liquidity Management

The TALM manages liquidity on daily basis taking into account daily flows of payments and forecasts for 1 week, 1 month, 3 moths, 1 year and longer periods. Currently the Bank uses a credit line of EUR 4,954 million with DNB Bank ASA in Norway and Nordea bank AB in Finland for both short and long term funding in response to the daily needs. In addition, the Group uses Eurosystem's open market operations mostly as a low cost alternative for long-term funding (TLTRO). The Group invests surplus of liquidity into account with the central bank that is used as a short-term liquidity buffer. Under stressful conditions, the Group could use funds in the account with the central bank or use the undrawn portion of the credit line to cover additional liquidity needs. LCR of the Group at the end of 2017 was above the minimum requirement of 100 per cent with safe margin.

LIQ1 PART I – LCR DISCLOSURE TEMPLATE

TEUR		Total unweighted value (average) 31.12.2017	Total weighted value (average) 31.12.2017
Number of data points used in the calculation of averages		3	3
1	**Total high-quality liquid assets (HQLA)**		**2 602 110**
2	Retail deposits and deposits from small business customers, of which:	4 240 142	323 653
3	Stable deposits	2 471 769	123 588
4	Less stable deposits	1 768 373	200 065
5	Unsecured wholesale funding	3 532 541	1 532 035
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	12 397	3 099
7	Non-operational deposits (all counterparties)	3 520 145	1 528 936
8	Unsecured debt	-	-
9	Secured wholesale funding		-
10	Additional requirements	1 110 307	122 975
11	Outflows related to derivative exposures and other collateral requirements	5 531	5 531
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	1 104 775	117 444
14	Other contractual funding obligations	57 083	33 844
15	Other contingent funding obligations	670 868	33 344
16	**Total cash outflows**		**2 045 851**
17	Secured lending (e.g. reverse repos)	36 491	36 491
18	Inflows from fully performing exposures	459 428	318 117
19	Other cash inflows	48 498	48 498
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)		-
EU-19b	(Excess inflows from a related specialised credit institution)		-
20	**Total cash - inflows**	**544 417**	**403 106**
EU-20a	**Fully exempt inflows**	**-**	**-**
EU-20b	**Inflows subject to 90% cap**	**-**	**-**
EU-20c	**Inflows subject to 75% cap**	**544 417**	**403 106**
21	**Liquidity buffer**		**2 602 110**
22	**Total net cash outflows**		**1 642 745**
23	**Liquidity coverage ratio**		**158,40%**

LIQ1 PART I contains simple average of values from LCR COREP reports prepared by the Group in October, November and December that precede the reporting date. Although the guideline EBA/GL/2017/01 requires the 12-month rolling average captured in 4 different points in time (end of each quarter in the one year period preceding the reporting date) the data availability dictated by Luminor Group inception date. This limits the feasible disclosure in LIQ1 PART I. Liquidity disclosure will be expanded as the new LCR COREP reports are to be prepared for the next consecutive reporting periods.

The weighting in template LIQ1 PART I is conducted in COREP reports in line with requirement laid out in Part Six of CRR. Already-weighted values are then imported and disclosure to LIQ1 PART I.

LIQ1 PART II – QUALITATIVE INFORMATION ON THE LCR

LCR is an important element of the liquidity management layer, as it provides a detailed and wide-scope approach by means of defining the sensitivity of the Group balance sheet items concerning liquidity risk.

The main liquidity buffer is the Group's Target subaccount with the central banks, where the Group held close to EUR 2,4 billion at the end of year 2017. This buffer can be utilized at any time when the need arises. The Group periodically validates the process and its efficiency of pledging high quality liquid debt securities in order to obtain funds as well. This setup is the safest from the risk appetite side and rational from economic point of view.

The Group has established a liquidity portfolio with intention to accumulate high quality liquid debt securities. The portfolio is accounted at fair value. Currently the size of the portfolio is set at the level of EUR 160.8 million with relatively short portfolio average duration and maximum duration of the debt securities is set at 5 years. The portfolio is targeting to ensure the continuity of the Group operations and provides the stabilization effect for all liquidity risk metrics including LCR. The securities held in the portfolio are by definition unencumbered and available for instant raise of funds in unexpected or stressed situations. At the end of year 2017 part of this portfolio has been pledged as a collateral in order to get Targeted Long Term Refinancing Operations (TLTRO) low cost funding through Eurosystem's open market operations. The Group actively utilizes Eurosystem's open market operations and in particular TLTRO program. Pledged debt securities are accounted separately from the liquidity portfolio and are not included into liquid assets for LCR calculations. Loans issued to entities with the government rating (municipalities and government institutions) were pledged as a collateral as well.

At the end of year 2017, the Group had a credit line of EUR 4 954 million from the two parent banks DNB Bank ASA in Norway and Nordea Bank AB in Finland of which EUR 677 million have been unutilized and available as a buffer for liquidity management. Funding from the parent banks has commitment period of at least 12 months. The Treasury and ALM (TALM) manages liquidity on daily basis taking into account daily flows of payments and forecasts for 1 week, 1 month, 3 months, 1 year and longer periods.

Main driver of LCR outflows are non-operational deposits of which most outflows are from corporate customers. Inflows mainly come from retail and non-financial corporates amortizations and moneys due from financial customers. As a result of all mentioned above the Group's LCR for end of 2017 was above the regulatory requirement of 100% with safe margin.

UNENCUMBERED ASSETS

Assets shall be deemed unencumbered where the Group is not subject to any legal, contractual, regulatory or other restriction preventing it from liquidating, selling, transferring, assigning or, generally, disposing of such asset via active outright sale or repurchase agreement.

The Group has established a liquidity portfolio with intention to accumulate high quality liquid debt securities. The securities held in the portfolio are by definition unencumbered and available for instant raise of funds in unexpected or stressed situations.

At the end of year 2017 part of this portfolio has been pledged as collateral in order to get Targeted Long Term Refinancing Operations (TLTRO) low cost funding through Eurosystem's open market operations. The Group actively utilizes Eurosystem's open market operations and in particular TLTRO program.

Pledged debt securities are accounted separately from the liquidity portfolio and are not included into liquid assets. Loans issued to entities with the government rating (municipalities and government institutions) were pledged as a collateral as well.

Additionally, in line with the EBA technical standards on regulatory asset encumbrance reporting, the Group considers assets placed with settlement systems as encumbered, as well as other assets pledged which cannot be freely withdrawn such as mandatory minimum reserves at central banks. The Group also includes derivative margin receivable assets as encumbered under these EBA guidelines.

TEMPLATE A – ENCUMBERED AND UNENCUMBERED ASSETS

TEUR		Carrying amount of encumbered assets 010	Fair value of encumbered assets 040	Carrying amount of unencumbered assets 060	**Fair value of unencumbered assets 090**
010	**Assets of the reporting institution**	**187 737**		**14 905 600**	
030	Equity instruments	-		10 356	
040	Debt securities	-	-	198 559	164 201
070	of which: issued by general governments	-	-	163 060	133 869
080	of which: issued by financial corporations	-	-	31 710	30 197
090	of which: issued by non-financial corporations	-	-	3 789	5 286
120	Other assets	187 737		14 696 685	
121	of which: loans	187 737		14 309 523	
121.a	of which: loans on demand	187 737		11 635 138	
121.b	of which: mortgage loans	-		7 049 172	

TEMPLATE B – COLLATERAL RECEIVED

TEUR			Unencumbered
		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	**Collateral received by the reporting institution**	**237 017**	**5 851**
140	Loans on demand	-	-
150	Equity instruments	-	-
160	Debt securities	237 017	-
190	of which: issued by general governments	-	-
200	of which: issued by financial corporations	61 042	-
210	of which: issued by non-financial corporations	175 975	-
220	Loans and advances other than loans on demand	-	-
230	Other collateral received	-	5 851
240	**Own debt securities issued other than own covered bonds or asset-backed securities**	-	-
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	424 754	

TEMPLATE C – SOURCES OF ENCUMBREANCE

TEUR		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	**396 606**	**424 754**
011	Derivatives	106	106
	of which: Over-The-Counter	106	106
	Deposits	396 500	424 648
	Repurchase agreements	-	-
	of which: central banks	-	-
	Collateralised deposits other than repurchase agreements	396 500	424 577
	of which: central banks	96 500	98 689

LEVERAGE

The leverage ratio is determined as Tier 1 capital divided by the total leverage 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 10,52%. 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.

The Group regularly evaluates the leverage risk. The information on leverage ratio is regularly presented to the Group's Management Board 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.

Due to the merger in 2017 both, Tier 1 capital and total risk exposure increased. However, the growth of capital and exposure was proportional therefore the leverage ratio has not changed substantially compared to the end of 2016.

LRQUA: QUALITATIVE ITEMS.

Row		
1.	Description of the processes used to manage the risk of excessive leverage	Subsidiaries 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 Group'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 Q1 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 Group 10,52%.
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. However, the growth of capital and exposure was proportional therefore the leverage ratio has not changed substantially compared to the end of 2016.

LRSUM: RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES.

TEUR		Applicable amount
1	Total assets as per published financial statements	15 094 027
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	146
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)	-
4	Adjustments for derivative financial instruments	37 757
5	Adjustment for securities financing transactions (SFTs)	900
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1 037 652
{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)	-
{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)	-
7	Other adjustments	(174 279)
8	**Leverage ratio total exposure measure**	**15 996 203**

Relatively high value of Other adjustments in LRSUM template comes mostly from Luminor EE. This is due to the local specificities in treatment of operating lease.

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)	14 810 091
2	(Asset amounts deducted in determining Tier 1 capital)	(15 276)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	14 794 815
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	23 593
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	37 757
{ES-5a}	Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
11	**Total derivatives exposures (sum of lines 4 to 10)**	**61 350**
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	101 486
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	900
{ES-14a}	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
{ES-15a}	(Exempted CCP leg of client-cleared SFT exposure)	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	102 386
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	2 237 763
18	(Adjustments for conversion to credit equivalent amounts)	(1 200 111)
19	Other off-balance sheet exposures (sum of lines 17 and 18)	1 037 652
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))	-
{ES-19b}	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
Capital and total exposure measure		
20	**Tier 1 capital**	1 682 940
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	15 996 203
Leverage ratio		
22	**Leverage ratio**	10,52%

Choice on transitional arrangements and amount of derecognised fiduciary items		
ES-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in
ES-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-

LRSPL: SPLIT-UP OF ON BALANCE SHEET EXPOSURES.

TEUR		CRR leverage ratio exposures
ES-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	14 810 092
ES-2	Trading book exposures	87 911
ES-3	Banking book exposures, of which:	14 722 181
ES-4	Covered bonds	
ES-5	Exposures treated as sovereigns	2 754 113
ES-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	98 786
ES-7	Institutions	258 942
ES-8	Secured by mortgages of immovable properties	4 537 490
ES-9	Retail exposures	2 141 366
ES-10	Corporate	3 964 429
ES-11	Exposures in default	441 277
ES-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	525 778

REMUNERATION POLICY

Partial Remuneration policy disclosure covering Article 450 of the CRR is disclosed in the consolidated annual financial report. More detailed information in accordance with the requirements of Article 450 is being prepared and will be published in the middle of 2018.