Luminor

RISK MANAGEMENT AND CAPITAL ADEQUACY (PILLAR 3) DISCLOSURE REPORT

Interim report for 2018 Q2

LUMINOR LATVIA

INTRODUCTION

Risk Management and Capital Adequacy (Pillar 3) Disclosure report is prepared according to EU Regulation No 575/2013 (hereinafter referred to as the Regulation) part eight, European Commission implementing regulations as well as European Banking Authority's guidelines. Luminor Bank AS in Latvia (hereinafter referred to as the Bank) as significant subsidiary of EU parent financial holding company Luminor Group AB (Sweden) discloses information specified in Articles 437, 438, 442, 450, 451 and 453 on sub-consolidated basis regarding the Luminor Group in Latvia (hereinafter referred to as the Group) as of 30 June 2018. Information on full requirements specified in part eight of the Regulation relevant for the semi-annual report will be disclosed on consolidated situation of Luminor Group AB. Pillar 3 report has not been audited by internal or external auditors, however it includes information contained in the Bank's interim condensed financial statements for the six months ended 30 June 2018. 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.

EU OV1 – OVERVIEW OF RISK WEIGHTED ASSETS (RWA)

TEUR		RWAs		Minimum capital requirements
		30.06.2018	31.03.2018	30.06.2018
1	Credit risk (excluding CCR)	2 569 638	2 529 936	205 571
2	of which the standardised approach	2 569 638	2 529 936	205 571
6	CCR	36 263	18 158	2 901
7	of which mark to market	22 037	11 941	1 763
12	of which CVA	14 226	6 217	1 138
13	Settlement risk			
14	Securitisation exposures in the banking book (after the cap)			
19	Market risk			
22	Large exposures			
23	Operational risk	221 895	221 895	17 752
24	of which basic indicator approach	221 895	221 895	17 752
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	0	0	0
28	Floor adjustment			
29	**Total**	**2 827 797**	**2 769 989**	**226 224**

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

1	Issuer	Luminor Bank AS
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Commercial law
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier1
5	Post-transitional CRR rules	Common Equity Tier1
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo and consolidated
7	Instrument type	Ordinary shares
8	Amount recognised in regulatory capital	EUR 261 million
9	Nominal amount of instrument	EUR 191 million
9.a	Issue price	share nominal value EUR 1, a premium was applied for some emissions
9.b	Redemption price	N/A
10	Accounting classification	Shareholders' equity

11	Original date of issuance	06.09.1991. (date of foundation)
12	Perpetual or dated	Perpetual
13	Original maturity date	Perpetual
14	Issuer call subject to prior supervisory approval	NO
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	NO
20.a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary – according to decision of shareholders' meeting, with the restrictions set in laws and regulations
20.b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary – according to decision of shareholders' meeting, with the restrictions set in laws and regulations
21	Existence of step up or other incentive to redeem	NO
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	NO
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	NO
37	If yes, specify non-compliant features	N/A
N/A – not applicable		

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

(A) Amount at Disclosure Date, thousand EUR (B) Regulation (EU) No 575/2013 Article Reference		**(A)**	**(B)**
Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	260 891	26 (1), 27, 28, 29
	Of which: ordinary shares	260 891	EBA list 26 (3)
2	Retained earnings	(219 500)	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	467 473	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
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	508 864	Sum of rows 1 to 5a
Common Equity Tier 1 (CET1) capital: regulatory adjustments			

(A) Amount at Disclosure Date, thousand EUR (B) Regulation (EU) No 575/2013 Article Reference		(A)	(B)
7	Additional value adjustments (negative amount)	(772)	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(1 379)	36 (1) (b), 37
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)		36 (1) (c), 38
25.a	Losses for the current financial year (negative amount)	0	36 (1) (a)
25.b	Foreseeable tax charges relating to CET1 items (negative amount)		36 (1) (l)
	Additional deductions of CET1 Capital	(2 741)	3
28	Total regulatory adjustments to Common equity Tier 1 (CET1)	(4 892)	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	Common Equity Tier 1 (CET1) capital	503 971	Row 6 minus 28
Additional Tier 1 (AT1) capital: instruments			
36	Additional Tier 1 (AT1) capital before regulatory adjustments		Sum of rows 30, 33 and 34
Additional Tier 1 (AT1) capital: regulatory adjustments			
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital		Sum of rows 37 to 42
44	Additional Tier 1 (AT1) capital		Row 36 minus row 43
45	Tier 1 capital (T1 = CET1 + AT1)	503 971	Sum of row 29 and 44
Tier 2 (T2) capital: instruments and provisions			
51	Tier 2 (T2) capital before regulatory adjustments		
Tier 2 (T2) capital: regulatory adjustments			
57	Total regulatory adjustments to Tier 2 (T2) capital		Sum of rows 52 to 56
58	Tier 2 (T2) capital		Row 51 minus row 57
59	Total capital (TC = T1 + T2)	503 971	Sum of row 45 and row 58
60	Total risk weighted assets	2 827 797	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	17.8%	92 (2) (a)
62	Tier 1 (as a percentage of risk exposure amount)	17.8%	92 (2) (b)
63	Total capital (as a percentage of risk exposure amount)	17.8%	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)	9.04%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.5%	
66	of which: countercyclical buffer requirement	0%	
67	of which: systemic risk buffer requirement	0.04%	
67.a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	2%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	9.8%	CRD 128

CREDIT RISK

INDIVIDUAL AND COLLECTIVE IMPAIRMENTS

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

Stage 1 – part of the portfolio for which no significant deterioration in credit quality has occurred since initial recognition (or the exposure is of low credit risk) and the financial instrument is not considered credit-impaired;

Stage 2 – part of the portfolio for which significant deterioration in credit quality has occurred since initial recognition, evidenced by the SICR – significant increase in credit risk - indicator, and the financial instrument is not considered credit-impaired;

Stage 3 – credit-impaired part of the portfolio. Luminor equates default and credit-impairment definitions so that all defaulted exposures are treated as credit-impaired and all credit-impaired exposures are treated as defaulted.

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

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

- central governments;
- central bank;
- regional governments;
- local authorities;
- institutions.

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

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

- significant increase of point-in-time (PIT) forward-looking 12-month PD since initial recognition until reporting date;
- risk grade 9 or 10 as of reporting date;
- more than 30 days past due as of reporting date;
- forborne performing status as of reporting date (forbearance not triggering non-performing status) in accordance with FINREP instruction reporting requirements;
- watch list status as of reporting date.

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

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

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

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

- distressed restructuring of credit obligation (forbearance triggering non-performing status in accordance with FINREP instruction requirements);
- major financial problems of the customer (present or expected), i.e. significant financial difficulties;
- recognition of specific credit risk adjustment resulting from a significant decline in credit quality of the exposure;
- bankruptcy of the customer or similar protection;
- disappearance of an active market for a financial asset because of financial difficulties of the customer;
- sale of credit obligation at material credit-related economic loss;
- purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- credit fraud;
- external rating indicating default.

The default is recognised on customer level.

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

For POCI financial assets ECL is estimated in the lifetime horizon till the maturity. The loss expected at initial recognition is referred to as Initial impairment. At subsequent periods only the cumulative changes in the lifetime expected credit losses, since initial recognition, are recognised in profit or loss.

Collective assessment of impairment is performed for all financial instruments that are not defaulted as of the reporting date, i.e. are classified to either Stage 1 or Stage 2 or are non-defaulted POCI asset. The expected loss is calculated as probability weighted average of losses expected in different macroeconomic scenarios. Expected loss in concrete macroeconomic scenario is calculated as the discounted value of the product of probability of default (PD), loss given default (LGD), exposure at default (EAD) and cumulative prepayment rate. PD curves, LGD curves and EAD curves are estimated for all months until the maturity date of the facility. If the facility is classified to Stage 1, expected losses are estimated over the period of up to 12 months. If the facility is classified to Stage 2 then the expected loss is estimated over the period up to maturity date of the facility.

For Stage 3 exposures (or defaulted POCI assets), which are classified as material, Luminor evaluates the impairment amount on individual basis (individual assessment) under discounted cash flows (DCF) method.

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

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

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

	TEUR	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Net values
		Defaulted exposures	Non-defaulted exposures			
16	Central governments or central banks		798 077	0	-	798 077
17	Regional governments or local authorities		15 993	0	-	15 993
21	Institutions		148 950	8	-	148 942
22	Corporates		1 640 902	2 489	-	1 638 413
23	*Of which: SMEs*		*811 542*	*1 446*	-	*810 096*
24	Retail		875 480	10 087	-	865 392
25	*Of which: SMEs*		*445 833*	*1 493*	-	*444 341*
26	Secured by mortgages on immovable property		1 358 553	7 152	-	1 351 401
27	*Of which: SMEs*		0	*0*	-	0
28	Exposures in default	299 053		112 939	-	186 114
33	Equity exposures		6 687	440	-	6 247
34	Other exposures		130 438	581	-	129 856
35	**Total (standardised approach)**	**299 053**	**4 975 080**	**133 697**	**-**	**5 140 436**
37	Of which: Loans	293 766	3 245 232	131 547	-	3 407 452
38	Of which: Debt securities	0	54 296	0	-	54 296
39	Of which: Off-balance-sheet exposures	4 848	671 875	1 061	-	675 662

EU CR1-B — CREDIT QUALITY OF EXPOSURES BY INDUSTRY

TEUR		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Net values
		Defaulted exposures	Non-defaulted exposures			
1	Agriculture, forestry and fishing	17 226	183 095	3 352	-	196 969
2	Mining and quarrying	219	20 724	222	-	20 721
3	Manufacturing	35 342	229 172	9 512	-	255 003
4	Electricity, gas, steam and air conditioning supply	4 376	124 689	3 193	-	125 872
5	Water supply; sewerage; waste management and remediation activities	0	36 728	21	-	36 707
6	Construction	12 148	250 383	6 686	-	255 845
7	Wholesale and retail trade; repair of motor vehicles and motorcycles	6 830	400 360	2 360	-	404 830
8	Transporting and storage	11 261	208 992	4 727	-	215 526
9	Accommodation and food service activities	906	34 045	373	-	34 577
10	Information and communication	31	21 809	29	-	21 812
11	Real estate activities	99 568	300 973	36 250	-	364 291
12	Professional, scientific and technical activities	967	53 686	292	-	54 361
13	Administrative and support service activities	72	59 157	224	-	59 005
14	Public administration and defence; compulsory social security	0	67 165	1	-	67 164
15	Education	94	1 326	34	-	1 387
16	Human health and social work activities	148	9 140	77	-	9 211
17	Arts, entertainment and recreation	157	2 790	146	-	2 801
18	Other services; household mortgages	109 705	2 970 846	66 196	-	3 014 355
19	**Total**	**299 053**	**4 975 080**	**133 697**	**-**	**5 140 436**

EU CR1-C — CREDIT QUALITY OF EXPOSURES BY GEOGRAPHY

TEUR		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Net values
		Defaulted exposures	Non-defaulted exposures			
1	Baltic countries total	297 432	4 650 443	132 510	-	4 815 364
2	Latvia	286 155	4 527 459	128 079	-	4 685 535
3	Lithuania	5 989	24 035	2 332	-	27 692
4	Estonia	5 288	98 948	2 099	-	102 138
5	Other EU countries	755	236 782	622	-	236 915
6	Other countries outside EU	866	87 855	565	-	88 157
7	**Total**	**299 053**	**4 975 080**	**133 697**	**-**	**5 140 436**

EU CR1-D — AGEING OF PAST-DUE EXPOSURES

TEUR		Gross carrying values					
		≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans	72 966	23 360	12 225	13 929	14 825	91 599
2	Debt securities						
3	**Total exposures**	**72 966**	**23 360**	**12 225**	**13 929**	**14 825**	**91 599**

EU CR1-E — NON-PERFORMING AND FORBORNE EXPOSURES

TEUR		Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
			of which performing but past due > 30 days and <= 90 days	of which performing forborne	of which non-performing				on performing exposures		on non-performing exposures		on non-performing exposures	of which: forborne
						of which: defaulted	of which: impaired	of which: forborne		of which: forborne		of which: forborne		
010	Debt securities	54 296												
020	Loans and advances	4 332 110	19 751	27 249	289 178	289 178	289 178	86 347	(17 470)	(1 835)	(100 324)	(21 409)	152 092	78 135
030	Off-balance sheet exposures	676 723			4 997	4 997								

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

TEUR		Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
1	**Opening balance***	**156 145**	**-**
2	Increases due to amounts set aside for estimated loan losses during the period	873	-
3	Decreases due to amounts reversed for estimated loan losses during the period	(1 122)	-
4	Decreases due to amounts taken against accumulated credit risk adjustments	(34 992)	-
5	Transfers between credit risk adjustments	(3 188)	-
6	Impact of exchange rate difference	79	-
7	Business combinations, including acquisitions and disposals of subsidiaries		-
8	Other adjustments		-
9	**Closing balance**	**117 794**	**-**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	(1 163)	-
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	182	

* Opening balance differs from the reported closing balance as at 31 December 2017 (154.8 million euro) due to recalculation of impairment under requirements of IFRS 9. The total calculated amount of ECL increased, additionally part of it is attributable to initial impairment of POCI assets and provisions for off-balance exposures which are reported separately under FINREP requirements. The total one time impact of IFRS 9 implementation to the Group's capital was around 16 million eurp.

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

TEUR		Gross carrying value defaulted exposures
1	**Opening balance**	**324 764**
2	Loans and debt securities that have defaulted or impaired since the last reporting period	92 381
3	Returned to non-defaulted status	(11 566)
4	Amounts written off	(34 694)
5	Other changes	(81 707)
6	**Closing balance**	**289 178**

The total stock of defaulted and impaired exposures decreased during the 1st half of 2018. Inflow to the stock of defaulted and impaired loans was mostly driven by introduction of extended definition of default under requirements of IFRS 9 as well as recognition of default status for few large previously problematic customers. Outflow was driven mostly by repayments of few large exposures (reported under line 'Other changes').

CREDIT RISK MITIGATION

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

There are three main types of collateral:

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

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

- takes into consideration the pledged real estate to assess the correspondence of the exposure or its part to the exposure class “secured by mortgage”. The Group applies this to risk exposures which are secured by housing mortgages;
- in certain cases state guarantees as well as guarantees from other members of Luminor Baltic Group are applied.

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

The Group uses unfunded credit protection, i.e. guarantees from countries with high credit ratings for mitigation of credit risk. As of 30 June 2018, guarantees of the central governments of the following EU countries were received: Latvia, France, Belgium and Luxembourg.

The Group has no credit derivative transactions.

EU CR3 — CRM TECHNIQUES – OVERVIEW

	TEUR	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Total loans	1 984 259	1 423 193	1 398 126	25 067	0
2	Total debt securities	31 159	23 137	0	23 137	0
3	**Total exposures**	**2 015 418**	**1 446 330**	**1 398 126**	**48 204**	**0**
4	Of which defaulted	127 967	53 373	53 373	0	0

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

	TEUR	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments or central banks	785 889	12	809 093	2	0	0%
2	Regional government or local authorities	4 518	11 476	4 518	5 738	2 051	20%
6	Institutions	88 106	16 473	89 969	15 231	36 756	35%
7	Corporates	1 158 193	477 232	1 133 126	129 988	1 251 119	99%
8	Retail	705 779	159 485	705 779	50 452	502 289	66%
9	Secured by mortgages on immovable property	1 344 753	6 648	1 344 753	1 416	471 159	35%
10	Exposures in default	181 340	4 336	181 340	1 476	216 600	118%
15	Equity	6 247	0	6 247	0	6 247	100%
16	Other items	129 856	0	129 856	0	83 416	64%
17	**Total**	**4 404 680**	**675 662**	**4 404 680**	**204 303**	**2 569 638**	**56%**

LEVERAGE

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

As of 30 June 2018, the leverage ratio of the Group was 10.75%. The capital measure is Tier 1 capital, the total exposure measure is the aggregate amount of assets and off-balance sheet items. The leverage ratio is calculated using end of reporting period data. The Group is not exposed to the risk of excessive leverage.

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

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

TEUR		Applicable amount
1	Total assets as per published financial statements	4 437 811
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0
4	Adjustments for derivative financial instruments	28 410
5	Adjustment for securities financing transactions (SFTs)	0
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	224 882
{ES-6a}	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
{ES-6b}	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	(1 447)
8	**Leverage ratio total exposure measure**	**4 689 657**

Table LRCom: Leverage ratio common disclosure

TEUR		CRR leverage ratio exposures
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	4 406 060
2	(Asset amounts deducted in determining Tier 1 capital)	(1 379)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**4 404 680**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	31 684
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	28 410
{ES-5a}	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	**Total derivatives exposures (sum of lines 4 to 10)**	**60 094**
	SFT exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	0
{ES-14a}	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0

TEUR		CRR leverage ratio exposures
15	Agent transaction exposures	0
{ES-15a}	(Exempted CCP leg of client-cleared SFT exposure)	0
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**0**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	676 723
18	(Adjustments for conversion to credit equivalent amounts)	(451 841)
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**224 882**
	Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	
{ES-19a}	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
{ES-19b}	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
	Capital and total exposure measure	
20	**Tier 1 capital**	**503 971**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**4 689 657**
	Leverage ratio	
22	**Leverage ratio**	**10.75%**
	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	0

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

TEUR		CRR leverage ratio exposures
ES-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	4 406 060
ES-2	Trading book exposures	0
ES-3	Banking book exposures, of which:	4 406 060
ES-4	Covered bonds	0
ES-5	Exposures treated as sovereigns	809 093
ES-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	4 518
ES-7	Institutions	89 969
ES-8	Secured by mortgages of immovable properties	1 344 753
ES-9	Retail exposures	705 779
ES-10	Corporate	1 133 126
ES-11	Exposures in default	181 340
ES-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	137 483

Table LRQua: qualitative items

Row		
1.	Description of the processes used to manage the risk of excessive leverage	The Bank and the Group regularly evaluates the leverage risk. Every quarter the information on leverage ratio is included in the Risk report and presented to the Bank's Management Board and Supervisory Council Risk Committee that in case of necessity make decisions on appropriate actions in order to decrease the risk of excessive leverage. Such actions may include increase of own capital, sales of assets or lending limitation. In Q2 2018, the Supervisory Council approved the reviewed Risk Appetite framework where also the minimum level of leverage ratio is set. Neither the Bank, nor the Group are exposed to the risk of excessive leverage. As at 30 June 2018, the leverage ratio for the Bank was 10.62% and for the Group 10.75%.
2.	Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers	During the 1st half of 2018, the leverage ratio of the Bank and the Group slightly increased mainly due to decrease in total exposure.

REMUNERATION POLICY

Information about the Group's remuneration policy can be found in the Luminor Group AB Risk Management and Capital Adequacy Disclosure (Pillar 3) 2018 Q2 report in the Luminor website: https://www.luminor.lv/en/financial-reports.

REM1: AGGREGATE QUANTITATIVE INFORMATION ON REMUNERATION, BROKEN DOWN BY BUSINESS AREA

TEUR	LEM (Luminor Executive Management) members	Local Management Boards (excl. LEM members)*	Front office**	Back office***	Internal control and legal functions	Total
Total remuneration	351	249	443	366	338	**1 748**

* some of the local management board members are also LEM members, to avoid duplication their remuneration is reported under LEM members
** includes employees from the following business functions - household, corporate, business, markets, private banking, pensions, leasing
*** includes employees from the following support functions - finance, products, people & culture, IT

REM2: THE AMOUNTS OF REMUNERATION FOR DURING THE REPORTING PERIOD, SPLIT INTO FIXED AND VARIABLE REMUNERATION, AND THE NUMBER OF BENEFICIARIES

TEUR	Remuneration amount		Senior management	Identified staff
1	Fixed remuneration	Number of employees	9	39
2		**Total fixed remuneration**	502	1 077
3	Variable remuneration	Number of employees	9	35
4		**Total variable remuneration (5+7+9)**	98	70
5		Of which: cash-based	98	70
6		Of which: deferred	8	3
7		Of which: shares or other share-linked instruments	-	-
8		Of which: deferred	-	-
9		Of which: other forms	-	-
10		Of which: deferred	-	-
11	**Total remuneration (2+4)**		**600**	**1 148**

Luminor data only; the obligations taken over from ex-organizations prior the merger transaction regarding deferred amounts are not included

REM3: THE AMOUNTS OF OUTSTANDING DEFERRED REMUNERATION, SPLIT INTO VESTED AND UNVESTED PORTIONS

TEUR	Vested	Unvested
Senior management	-	8
Identified staff	-	3

Luminor data only; the obligations taken over from ex-organizations prior the merger transaction regarding deferred amounts are not included

REM4: THE AMOUNTS OF DEFERRED REMUNERATION AWARDED DURING THE REPORTING PERIOD, PAID OUT AND REDUCED THROUGH PERFORMANCE ADJUSTMENTS

TEUR	Deferred remuneration		
	awarded during period	paid-out during period	reduced through performance adjustment during period
Senior management	8	0	0
Identified staff	3	0	0

Luminor data only; the obligations taken over from ex-organizations prior the merger transaction regarding deferred amounts are not included

REM5: NEW SIGN-ON AND SEVERANCE PAYMENTS MADE DURING THE REPORTING PERIOD, THE NUMBER OF BENEFICIARIES OF SUCH PAYMENTS

TEUR	Senior management		Identified staff	
	Number of incumbents	Amount of payments	Number of incumbents	Amount of payments
New sign-on	3*	0*	0	0
Severance payments	0	0	4	**

* senior managers will receive their sign-on bonuses after one year employment, therefore there were no payments during the first half of 2018

** taking into consideration the data protection principles of natural persons, information on the amount of remuneration cannot be disclosed

REM6: THE AMOUNTS OF SEVERANCE PAYMENTS AWARDED DURING THE REPORTING PERIOD, NUMBER OF BENEFICIARIES AND HIGHEST SUCH AWARD TO A SINGLE PERSON

TEUR	Senior management			Identified staff		
	Number of incumbents	Amount of payments	Highest individual payout	Number of incumbents	Amount of payments	Highest individual payout
Payments related to the severance	0	0	0	4	**	**

** taking into consideration the data protection principles of natural persons, information on the amount of remuneration cannot be disclosed

Severance payments that were awarded during the first half of 2018, were also paid during this period, therefore data in REM 5 and REM 6 on severance payments is the same

In the first half of 2018, there were no individuals being remunerated 1 million euro or more.