Luminor

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

LUMINOR ESTONIA GROUP

INTRODUCTION

Risk Management and Capital Adequacy (Pillar 3) Disclosure report is prepared according to Capital Requirements Regulation (CRR) 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. Templates recommended by the EBA's guidelines on disclosure requirements under Part Eight of the Regulation have been used as relevant. According to the Regulation, information specified in articles 437, 438, 440, 442, 450, 451 and 453 shall be disclosed for material subsidiaries. Information on full requirements specified in part eight of the Regulation will be disclosed on consolidated situation of Luminor Group AB. Pillar 3 report has not been audited, however it includes information contained in the AS Luminor Estonia (the "Bank") Annual report for 2017. Pillar 3 complements Pillar 1 (minimum capital requirements) and Pillar 2 (internal capital adequacy assessment process and supervisory review process) with the aim to improve market discipline through disclosure of information regarding risks, risk management and capital.

Together with the Annual Report, this report provides information on AS Luminor Estonia material risks as part of the Pillar 3 framework, including details on the Bank's risk profile and business volumes by customer categories and risk classes, which form the basis for the calculation of the capital requirement. The Pillar 3 report complements the Annual Report with additional information, and is intended to be read in conjunction with the Annual Report, in particular the Notes to the Consolidated Financial Statements, including Risk Policy and Management section within it, where the Bank's risk and capital management policies and practices are described.

AS Luminor Estonia is a subsidiary of the consolidated group of Luminor Group AB (publ) (hereinafter - Luminor Group) that is registered in Sweden. AS Luminor Estonia consists of AS Luminor Liising, AS Luminor Pensions Estonia, OÜ Promano Est, OÜ Uus Sadama 11 and OÜ Luminor Kindlustusmaakler. The report is based on the Bank's consolidated situation as of 31 December 2017.

On 1 October 2017 Nordea Bank AB (Sweden) and DNB Bank ASA (Norway) after all regulatory approvals and competition clearance were received, have combined their Baltic business into a jointly owned bank, Luminor. By business transfer Nordea Bank AB Lithuania branch, Nordea Bank AB Latvia branch and Nordea Bank AB Estonia branch assets and liabilities, including shares of leasing, pension and distressed assets companies in Baltics were transferred to Luminor Bank AB (prev. AB DNB bankas), Luminor Bank AS in Latvia (prev. DNB banka AS) and Luminor Bank AS in Estonia (prev. Aktsiaselts DNB Pank). 2017 full year result for Luminor Group in Estonia consists of 9 months DNB Group result plus 3 months Luminor Group result. More information on the merger is available in Luminor Bank AS consolidated annual report for the year ended 31 December 2017.

CONSOLIDATION GROUP

Luminor Bank AS, registration number 11315936. The following subsidiaries of Luminor Bank AS are included in the consolidation group in Estonia:

Company name	Share capital, TEUR	Bank's share (%)	Country	Consolidation method
Luminor Liising AS	3 834	100%	Estonia	Full consolidation
Promano Est OÜ*	10 000	100%	Estonia	Full consolidation
Uus-Sadama 11 OÜ*	3	100%	Estonia	Full consolidation
Luminor Pensions Estonia AS	3 000	100%	Estonia	Full consolidation
Luminor Kindlustusmaakler OÜ	3	100%	Estonia	Neither consolidated nor deducted

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

OWN FUNDS AND CAPITAL REQUIREMENTS

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

TEUR	31.12.2017
Total own funds for solvency purposes	**442 214**
Tier 1: Original own funds	**442 214**
Paid up capital	9 377
Share premium	402 141
Reserves	34 950
Valuation differences to eligible as original own funds	(28)
Other deductions from Original Own Funds	(4 226)

MINIMUM CAPITAL REQUIREMENTS

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

TEUR	31.12.2017
Capital requirements for credit risk, standardised approach	**185 762**
Central governments or central banks	-
Regional governments or local authorities	703
Institutions	4 316
Corporates	92 931
Retail	40 710
Secured by mortgages on immovable property	29 668
Exposures in default	6 297
Equity	119
Other items	11 019
Capital requirements for market risk, standardised approach	**-**
Traded debt instruments	-
Equities	-
Foreign exchange	-
Commodities	-
Capital requirements for operational risk, basic indicator approach	**15 465**
Capital requirements for credit valuation adjustment risk	**139**
Total capital requirements	**201 366**

The Group has no trading book. Debt securities (mainly those of Estonian central government or related with it) are purchased in limited amounts and only for liquidity purposes. The Group has no securitisation exposures.

CAPITAL ADEQUACY

TEUR	31.12.2017
Total own funds for solvency purposes*	442 214
Capital requirements	201 366
Surplus of own funds	240 848
Risk weighted assets	2 517 074
Solvency ratio of Tier 1 capital (%)	17,57%

* not including audited profit of 2017

EU OV1 – OVERVIEW OF RISK WEIGHTED ASSETS (RWa)

TEUR		RWAs 31.12.2017	Minimum capital requirements 31.12.2017
1	Credit risk (excluding CCR)	2 322 026	186 762
2	of which the standardised approach	2 322 026	186 762
6	CCR	1 740	139
7	of which mark to market	-	-
12	of which CVA	1 740	139
13	Settlement risk	-	-
23	Operational risk	193 307	15 465
24	of which basic indicator approach	193 307	15 465
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-
29	**Total**	**2 517 074**	**201 366**

In accordance to guideline EBA/GL/2016/11, the template OV1 shall also disclose RWAs amount reported quarter ago, i.e. 30.09.2017. However, as the Luminor Bank AS inception date was October 1st, such information is not yet feasible.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

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

[1] EBA Final Report - Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013, version 2 as of 14 Dec 2016.

capital assessment process a planning period of three years is used similarly as for annual financial and strategic planning process, therefore the financial forecasts are integrated in the capital adequacy assessment.

For the internal capital adequacy assessment, at first minimum regulatory capital requirements are analysed according to the Regulation and after that internal capital add-ons are calculated to cover other risks as well as the amount of capital buffer is estimated.

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

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

ICAAP is aligned with the uniform guidelines pan-Baltic level for the Luminor Group AB. Baltic level ICAAP Report and local annexes are prepared as the result of ICAAP process in Luminor Group AB that incorporates ILAAP as well. Regular monitoring and control of capital adequacy has been carried out in the Group.

The material risks, for which additional capital needs are assessed during ICAAP, were identified during the internal risks Self-assessment process:

- credit risk, including name concentration risk, economic sector concentration risk and residual risk;
- interest rate risk arising from the Banking Book as part of market risk;
- foreign exchange risk;
- operational risk, including money laundering and terrorism financing risk;
- business risk;
- reputational risk.

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)	ISIN EE3100086117
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 411 million
9	Nominal amount of instrument	EUR 9 million
9.a	Issue price	share nominal value EUR 10
9.b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	16.11.2006 perpetual
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.a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20.b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	Non-cumulative
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 ACCORDING TO COMMISSION IMPLEMENTATION REGULATION (EU) NO 1423/2013

(A) Amount at Disclosure Date, thousand EUR
(B) Regulation (EU) No 575/2013 Article Reference
(C) Amount Subject to pre-Regulation (EU) No 575/2013 Treatment or Prescribed Residual Amount of Regulation (EU) No 575/2013

		(A)	(B)	(C)
Common Equity Tier 1 capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	411 518	26 (1), 27, 28, 29, EBA list 26 (3)	-
	Of which: ordinary shares	411 518	EBA list 26 (3)	-
2	Retained earnings	34 004	26 (1) (c)	-
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	947	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	446 468		-
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	(25)	34, 105	-
8	Intangible assets (net of related tax liability) (negative amount)	(4 226)	36 (1) (b), 37, 472 (4)	-

		(A)	(B)	(C)
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, 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)	(2)	36 (1) (l)	-
28	Total regulatory adjustments to Common equity Tier 1 (CET1)	(4 254)		-
29	Common Equity Tier 1 (CET1) capital	442 214		-
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)	442 214		-
Tier 2 (T2) capital: instruments and provisions				
51	Tier 2 (T2) capital before regulatory adjustments	-		-
Tier 2 (T2) capital: regulatory adjustments				
57	Total regulatory adjustments to Tier 2 (T2) capital	-		-
58	Tier 2 (T2) capital	-		-
59	Total capital (TC = T1 + T2)	442 214		-
60	Total risk weighted assets	2 517 074		-
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	17,57%	92 (2) (a), 465	-
62	Tier 1 (as a percentage of risk exposure amount)	17,57%	92 (2) (b), 465	-
63	Total capital (as a percentage of risk exposure amount)	17,57%	92 (2) (c)	-
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	8,00%	CRD 128, 129, 130	-
65	of which: capital conservation buffer requirement	2,50%		-
67	of which: systemic risk buffer requirement	1,00%		-
67.a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0,00%	CRD 131	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	9,57%	CRD 128	-

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

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

TEUR	General credit exposure	Own funds requirements	Total	Own funds requirement weights	Countercyclical capital buffer rate
	060	070	100	110	120
Breakdown by country (010):					
Estonia	3 140 013,09	170 966,52	170 966,52	94,59%	0,00%
Latvia	54 557,34	4 347,12	4 347,12	2,40%	0,00%
Lithuania	869,95	50,12	50,12	0,03%	0,00%

TEUR	General credit exposure	Own funds requirements	Total	Own funds requirement weights	Countercyclical capital buffer rate
Other EU countries: CC buffer 0%	51 073,31	2 559,38	2 559,38	1,42%	0,00%
Other countries: CC buffer 0%	42 708,13	2 819,90	2 819,90	1,56%	0,00%
Total (020)	**3 289 221,82**	**180 743,05**	**180 743,05**	**100,00%**	**0,00%**

CC buffer – countercyclical buffer rate

Amount of institution-specific countercyclical capital buffer.

TEUR Row		Column 010
010	Total risk exposure amount, TEUR	4 165 272,18
020	Institution specific countercyclical buffer rate	0,00%
030	Institution specific countercyclical buffer requirement	-

CREDIT RISK

The Group uses the following definitions for accounting purposes:

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

The amount of those more than 90 days past due exposures which are not classified as impaired as at 31 December 2017 was EUR 19,8 million due to sufficient collateral values why there is no reason to establish individual allowances for impairment or due to collective assessment of impairment for exposures which were not delayed more than 90 days at the moment of impairment assessment

The institution has implemented the definition of forborne exposures defined in Annex V of the Commission Implementing Regulation (EU) No 680/2014.

Information regarding impairment policy is disclosed in “Loans and receivables and allowances for loan impairment” in Luminor Bank AS Consolidated financial statements for the year ended 31 December 2017. Considerable changes, that are made in 2018 with implementation of the approach and methodology in compliance with International Financial Reporting Standard 9, are disclosed in “IFRS 9: Financial instruments” in the aforementioned report.

EU CRB-B — TOTAL AND AVERAGE NET AMOUNT OF EXPOSURES

TEUR		Net value of exposures 31.12.2017
16	Central governments or central banks	311 114
17	Regional governments or local authorities	43 943
18	Public sector entities	-
19	Multilateral development banks	-
20	International organisations	-
21	Institutions	183 070
22	Corporates	1 303 375
23	*of which: SMEs*	324 923
24	Retail	846 485
25	*of which: SMEs*	536 012
26	Secured by mortgages on immovable property	1 062 127
27	*of which: SMEs*	10 778
28	Exposures in default	63 277
29	Items associated with particularly high risk	-
30	Covered bonds	-

TEUR		Net value of exposures 31.12.2017
31	Claims on institutions and corporates with a short-term credit assessment	-
32	Collective investments undertakings	-
33	Equity exposures	1 482
34	Other exposures	144 988
35	**Total (standardised approach)**	**3 959 860**

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. However, as the Luminor Bank AS inception date was October 1st, quarterly average is not yet feasible.

EU CRB-C — GEOGRAPHICAL BREAKDOWN OF EXPOSURES

TEUR		Net value						
		Baltic countries total	Estonia	Latvia	Lithuania	Finland	Other countries	Total
7	Central governments or central banks	311 114	311 114	-	-	-	-	**311 114**
8	Regional governments or local authorities	43 943	43 943	-	-	-	-	**43 943**
12	Institutions	60 092	32 562	26 675	855	79 397	43 581	**183 070**
13	Corporates	1 225 133	1 171 300	53 832	-	6 069	72 173	**1 303 375**
14	Retail	836 102	835 449	313	339	8 592	1 791	**846 485**
15	Secured by mortgages on immovable property	1 039 910	1 039 598	145	167	11 717	10 500	**1 062 127**
16	Exposures in default	63 060	63 060	-	-	167	50	**63 277**
21	Equity exposures	1 482	1 482	-	-	-	-	**1 482**
22	Other exposures	144 611	143 965	277	369	280	97	**144 988**
23	**Total (standardised approach)**	**3 725 444**	**3 642 473**	**81 242**	**1 730**	**106 224**	**128 192**	**3 959 860**

In accordance to guideline EBA/GL/2016/11, the columns of template CRB-C shall disclose separately significant geographical areas in which the Bank has exposures. The Bank break down exposures within each significant geographical area in significant countries of exposures. Exposures that are not deemed material are aggregated and reported in the *Other countries* column.

The Bank considers Latvia and Lithuania as significant geographical area (aggregated in column Baltic countries total including the Bank exposure). Other countries are deemed material when the Bank's total net exposure value of specific country exceed or is equal to the 2% threshold (TEUR 79 197) of the Bank's total net exposure value in all countries in which the Bank has exposures (TEUR 3 959 860).

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
7	Central governments or central banks	-	-	-	-	-	-	-	-	-	3 398	-	-	-	101 830	13 861	-	20	192 005	**311 114**
8	Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	5	-	-	43 824	14	16	8	76	**43 943**
12	Institutions	48	-	-	23	463	-	795	156	-	49	-	16 649	27	-	-	-	-	164 860	**183 070**
13	Corporates	53 219	8 781	230 089	68 036	829	66 359	389 276	122 216	7 472	4 716	222 294	35 765	59 691	-	10 688	7 930	3 406	12 607	**1 303 375**
14	Retail	62 370	3 123	81 772	2 440	2 013	60 173	74 438	79 245	4 214	9 478	32 486	30 989	29 523	4	2 910	4 184	4 304	362 817	**846 485**
15	Secured by mortgages on immovable property	1 471	-	1 022	-	-	2 499	3 319	400	103	160	7 857	5 112	349	-	257	-	195	1 039 382	**1 062 127**
16	Exposures in default	2 207	1	11 031	-	-	3 555	3 105	3 468	-	193	4 137	22 617	269	3	68	-	-	12 624	**63 277**
21	Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1 482	**1 482**
22	Other exposures	6 553	1 215	6 248	126	241	6 399	16 456	8 124	747	1 603	1 757	5 950	10 487	1509	658	773	732	75 410	**144 988**
23	**Total (standardised approach)**	**125 868**	**13 120**	**330 161**	**70 625**	**3 545**	**138 986**	**487 389**	**213 608**	**12 536**	**19 597**	**268 535**	**117 082**	**100 346**	**147171**	**28 456**	**12 903**	**8 665**	**1 861 264**	**3 959 860**

EUR 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	192 005	693	1 074	117 342	-	311 114
8	Regional governments or local authorities	-	457	12 111	31 374	-	43 943
12	Institutions	101 649	37 670	37 636	6 116	-	183 070
13	Corporates	110 332	416 337	658 132	118 574	-	1 303 375
14	Retail	24 168	116 530	578 951	126 835	-	846 485
15	Secured by mortgages on immovable property	1 864	10 941	45 791	1 003 530	-	1 062 127
16	Exposures in default	6 338	3 155	47 327	6 457	-	63 277
21	Equity exposures	-	-	1 482	-	-	1 482
22	Other exposures	-	38 787	105 793	408	-	144 988
23	**Total (standardised approach)**	**436 356**	**624 571**	**1 488 298**	**1 410 636**	**-**	**3 959 860**

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

TEUR		Gross carrying values of		Specific credit risk adjustment	Net values
		Defaulted exposures	Non-defaulted exposures		
16	Central governments or central banks		311 114	-	311 114
17	Regional governments or local authorities		43 943	-	43 943
21	Institutions		183 070	-	183 070
22	Corporates		1 316 197	12 822	1 303 375
23	*Of which: SMEs*		337 041	12 118	324 923
24	Retail		847 872	1 386	846 485
25	*Of which: SMEs*		536 962	951	536 012
26	Secured by mortgages on immovable property		1 062 159	32	1 062 127
27	*Of which: SMEs*		10 778	-	10 778
28	Exposures in default	87 027		23 750	63 277
33	Equity exposures		1 482	-	1 482
34	Other exposures		144 988	-	144 988
35	**Total (standardised approach)**	**87 027**	**3 910 823**	**37 990**	**3 959 860**
37	Of which: Loans	78 073	2 856 696	24 361	2 910 408
38	Of which: Debt securities	-	34 354	-	34 354
39	Of which: Off-balance-sheet exposures	1 178	545 158	-	546 336

EU CR1-B — CREDIT QUALITY OF EXPOSURES BY INDUSTRY

TEUR		Gross carrying values of		Specific credit risk adjustment	Net values
		Defaulted exposures	Non-defaulted exposures		
1	Agriculture, forestry and fishing	2 777	124 151	1 059	125 868
2	Mining and quarrying	1	13 119	-	13 120
3	Manufacturing	15 155	321 612	6 605	330 161
4	Electricity, gas, steam and air conditioning supply	-	70 625	-	70 625
5	Water supply; sewerage; waste management and	-	3 551	5	3 545

	TEUR	Gross carrying values of Defaulted exposures	Gross carrying values of Non-defaulted exposures	Specific credit risk adjustment	Net values
	remediation activities				
6	Construction	4 818	136 322	2 153	138 986
7	Wholesale and retail trade; repair of motor vehicles and motorcycles	3 243	485 147	1 001	487 389
8	Transporting and storage	3 753	210 416	561	213 608
9	Accommodation and food service activities	-	12 536	-	12 536
10	Information and communication	593	19 601	597	19 597
11	Real estate activities	4 550	264 630	644	268 535
12	Professional, scientific and technical activities	37 271	101 434	21 623	117 082
13	Administrative and support service activities	269	100 088	11	100 346
14	Public administration and defence; compulsory social security	3	147 168	-	147 171
15	Education	69	28 392	6	28 456
16	Human health and social work activities	-	12 915	12	12 903
17	Arts, entertainment and recreation	-	8 705	40	8 665
18	Other services	14 526	1 850 412	3 674	1 861 264
19	**Total**	**87 027**	**3 910 823**	**37 990**	**3 959 860**

EU CR1-C — CREDIT QUALITY OF EXPOSURES BY GEOGRAPHY

	TEUR	Gross carrying values of Defaulted exposures	Gross carrying values of Non-defaulted exposures	Specific credit risk adjustment	Net values
1	Baltic countries total	86 771	3 676 576	37 903	3 725 444
2	Estonia	86 771	3 593 604	37 903	3 642 473
3	Latvia	-	81 242	-	81 242
4	Lithuania	-	1 729	-	1 730
5	Finland	173	106 105	55	106 224
6	Other countries	82	128 142	32	128 192
7	**Total**	**87 027**	**3 910 823**	**37 990**	**3 959 860**

In accordance to guideline EBA/GL/2016/11, the rows of template CR1-C shall disclose separately significant geographical areas in which the Bank has exposures. The Bank shall break down exposures within each significant geographical area in significant countries of exposures. Exposures that are not deemed material are aggregated and reported in the *Other countries* row.

The Bank considers Latvia and Lithuania as significant geographical area. Other countries are deemed material when the Bank's total net exposure value of specific country exceed or is equal to the 2% threshold (TEUR 79 197) of the Bank's total net exposure value in all countries in which the Bank has exposures (TEUR 3 959 860).

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	96 864	11 902	5 758	16 406	7 952	15 097
2	Debt securities	-	-	-	-	-	-
3	**Total exposures**	**96 864**	**11 902**	**5 758**	**16 406**	**7 952**	**15 097**

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	34 357	-	-	-	-	-	-	-	-	-	-	-	-
020 Loans and advances	3 379 080	21 033	82 541	155 970	-	121 085	41 868	(8 279)	(225)	(35 420)	(15 590)	91 321	-
030 Off-balance sheet exposures	546 336	-	-	-	1 178	-	-	(650)	-	-	-	-	-

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

	TEUR	Accumulated specific credit risk adjustment
1	**Opening balance**	**(19 867)**
2	Increases due to amounts set aside for estimated loan losses during the period	(27 310)
3	Decreases due to amounts reversed for estimated loan losses during the period	3 478
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	-
9	**Closing balance 31-12-2017**	**(43 699)**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	-
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	-

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

	TEUR	Gross carrying value defaulted exposures
1	**Opening balance 31-12-2016**	**5 783**
2	Loans and debt securities that have defaulted or impaired since the last reporting period	4 379
3	Returned to non-defaulted status	(479)
4	Amounts written off	(3 935)
5	Other changes	81 278
6	**Closing balance 31-12-2017**	**87 027**

CREDIT RISK MITIGATION

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

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

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

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

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

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

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	211 114	100 000	211 114	50 000	-	0,0%
2	Regional government or local authorities	43 943	-	43 943	-	8 789	0,4%
6	Institutions	140 301	42 769	140 290	39 092	53 950	2,3%
7	Corporates	1 032 568	270 806	1 032 568	185 926	1 161 641	50,0%
8	Retail	716 403	130 082	716 403	82 700	508 870	21,9%
9	Secured by mortgages on immovable property	1 060 627	1 500	1 060 627	1 500	370 846	16,0%
10	Exposures in default	62 099	1 178	62 099	928	78 707	3,4%
15	Equity	1 482	-	1 482	-	1 482	0,1%
16	Other items	144 988	-	144 988	-	137 743	5,9%
17	**Total**	**3 413 524**	**546 336**	**3 413 513**	**360 146**	**2 322 026**	**100,0%**

LEVERAGE

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

As of 31 December 2017, the leverage ratio of the Group was 11.72%. 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.

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 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 Bank was 10.82% and for the Group 11.72%.
2.	Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers	Due to the merger, in 2017 both Tier 1 capital and total risk exposure increased. As a result the leverage ratio has not changed substantially compared to the end of 2016.

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	3 599 491
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	1 464
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	360 146
7	Other adjustments	(187 430)
8	**Leverage ratio total exposure measure**	**3 773 671**

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)	3 417 751
2	(Asset amounts deducted in determining Tier 1 capital)	(4 226)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	3 413 524
	Derivative exposures	
{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)**	**-**
	SFT exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	-
{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)**	**-**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	546 336

TEUR		CRR leverage ratio exposures
18	(Adjustments for conversion to credit equivalent amounts)	(186 190)
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	360 146
	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**	**442 214**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**3 773 671**
	Leverage ratio	
22	**Leverage ratio**	**11.7%**
	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	-

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:	3 417 751
ES-3	Banking book exposures, of which:	3 417 751
ES-5	Exposures treated as sovereigns	211 114
ES-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	43 943
ES-7	Institutions	140 301
ES-8	Secured by mortgages of immovable properties	1 060 627
ES-9	Retail exposures	716 403
ES-10	Corporate	1 032 568
ES-11	Exposures in default	66 325
ES-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	146 470

REMUNERATION POLICY

Partial remuneration policy disclosure covering Article 450 of the Regulation is disclosed in the consolidated annual financial report part HUMAN RESOURCES AND REMUNERATION PRINCIPLES. More detailed information in accordance with the requirements of Article 450 is being prepared and will be published in the middle of 2018.