RISK MANAGEMENT AND CAPITAL ADEQUACY (PILLAR 3) DISCLOSURE

Interim report for Q2 2018

LUMINOR LITHUANIA

INTRODUCTION

Risk Management and Capital Adequacy (Pillar 3) Disclosure report is prepared according to EU Regulation No 575/2013 (hereinafter referred to as the “CRR”) part eight, European Commission implementing regulations as well as European Banking Authority’s guidelines (hereinafter – EBA). Luminor Bank AB in Lithuania (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 Bank AB Financial Group in Lithuania (hereinafter referred to as the “Financial Group”) as of 30 June 2018. According to the local legislation, the Bank is required to prepare the Financial group’s consolidated financial information. The Financial Group includes the Bank and its subsidiaries engaged in financial service activities, that is Luminor Investicijų Valdymas UAB, Luminor Lizingas UAB, Industrius UAB, RECURSO UAB, PROMANO LIT UAB, and Intractus UAB with its subsidiary Gėlužės Projektai UAB. Information on relevant requirements specified in part eight of the Regulation will be disclosed on consolidated situation of Luminor Group AB. Pillar 3 complements Pillar 1 (minimum capital requirements) and Pillar 2 (internal capital adequacy assessment process and supervisory review process) with the aim to improve market discipline through disclosure of information regarding risks, risk management and capital.

On 1 October 2017 Nordea Bank AB (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. On 29th of March, 2018 merger agreement for merging Luminor Banks in Lithuania and Latvia to Luminor bank in Estonia was signed. The merger foresees full integration of the banks with headquarters in Estonia and branches in Latvia and Lithuania.

On 28th of June, 2018 Luminor Bank AB (Lithuania), Luminor Bank AS (Latvia) and Luminor Bank AS (Estonia) received the European Central Bank’s approval for the cross-border merger of Luminor in the Baltics. The cross-border merger and legal change is expected to take place on 2nd of January 2019.

As of 30 November 2017, the Bank of Lithuania recognized Luminor Bank AB as a systemically important financial institution in Lithuania (same as AB DNB Bankas) and left unchanged Other systemically important institution (O-SII) buffer of 2 % (same as in 2016 set to AB DNB Bankas). .

OVERVIEW OF RISK WEIGHTED ASSETS (RWA)

TABLE 1. EU OV1 – OVERVIEW OF RISK WEIGHTED ASSETS (RWA)

	TEUR	RWAs 30.06.2018	RWAs 31.03.2018	Minimum capital requirements 30.06.2018
1	Credit risk (excluding CCR)	3 868 415	3 784 735	309 473
2	of which the standardized approach	3 868 415	3 784 735	309 473
6	CCR	12 803	9 967	1 024
7	of which mark to market	8 188	6 249	655
12	of which CVA	4 615	3 718	369
13	Settlement risk	0	0	0
19	Market risk	62 811	68 018	5 025
20	of which mark to market	62 811	68 018	5 025
22	Large exposures			
23	Operational risk	276 698	276 698	22 136
25	of which the standardized approach	276 698	276 698	22 136
29	**Total**	**4 220 727**	**4 139 418**	**337 658**

CAPITAL INSTRUMENTS' MAIN FEATURES

TABLE 2. CAPITAL INSTRUMENTS' MAIN FEATURES TEMPLATE ACCORDING TO COMMISSION IMPLEMENTING REGULATION (EU) NO 1423/2013

1	Issuer	Luminor Bank AB
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	LT0000100174
3	Governing law(s) of the instrument	Lithuania
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo and (Sub-) Consolidated
7	Instrument type	Ordinary share
8	Amount recognised in regulatory capital	EUR 272 million
9	Nominal amount of instrument	EUR 33,31
10	Accounting classification	Shareholders' equity
11	Original date of issuance	2001
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)	Tier 1
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

N/A – not applicable

OWN FUNDS DISCLOSURE

TABLE 3. OWN FUNDS DISCLOSURE ACCORDING TO COMMISSION IMPLEMENTATION REGULATION (EU) NO 1423/2013

		(A)	(B)
(A) Amount at Disclosure Date, thousand EUR **(B) Regulation (EU) No 575/2013 Article Reference**			
Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	272 147	26 (1), 27, 28, 29
	Of which: ordinary shares	272 147	EBA list 26 (3)
2	Retained earnings	55 962	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	363 760	26 (1)
3.a	Funds for general banking risk	17 035	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	708 904	Sum of rows 1 to 5a
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(376)	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(2 852)	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)	(1 374)	36 (1) (c), 38
25.a	Losses for the current financial year (negative amount)		36 (1) (a)
25.b	Foreseeable tax charges relating to CET1 items (negative amount)	(173)	36 (1) (l)
28	Total regulatory adjustments to Common equity Tier 1 (CET1)	(4 774)	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	Common Equity Tier 1 (CET1) capital	704 129	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)	704 129	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)	704 129	Sum of row 45 and row 58
60	Total risk weighted assets	4 220 727	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	16,68%	92 (2) (a)

		(A)	(B)
62	Tier 1 (as a percentage of risk exposure amount)	16,68%	92 (2) (b)
63	Total capital (as a percentage of risk exposure amount)	16,68%	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)	9,00%	CRD 128, 129, 130 , 131, 133
65	of which: capital conservation buffer requirement	2,50%	
66	of which: countercyclical buffer requirement	0,00%	
67	of which: systemic risk buffer requirement	0,00%	
67. a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	2,00%	CRD 131
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	8,68%	CRD 128

CREDIT RISK

The Group uses the following definitions for accounting purposes:

- Neither past due nor impaired – are exposures that are not due and for which no individual allowances for impairment are made.
- Past due but not impaired loans and advances mean loans and advances that are past due but have no individual allowances for impairment.
- Impaired loans and advances mean loans and advances that have individual allowances for impairment.

Past-due exposures (more than 90 days) that are not considered to be impaired amounted to EUR 19.5 million mainly due to sufficient collateral values why there is no reason to establish individual allowances for impairment.

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 under 1.3. IMPAIRMENT POLICIES in Luminor Bank AB Consolidated Annual Report 2017, Luminor Bank AB, Group Consolidated Annual Report for the year ended 31 December. Considerable changes that are made in 2018 with implementation of the approach and methodology in compliance with International Financial Reporting Standard 9 are disclosed under IFRS 9 Financial Instruments in the aforementioned report.

CREDIT QUALITY OF EXPOSURES BY EXPOSURE CLASS AND INSTRUMENT

Table 4 covers exposures subject to credit risk. 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 (referred further to as “gross COREP original exposure”). Table contains also net COREP original exposure calculated as sum of gross COREP original exposure and specific credit risk adjustment (in negative values).

TABLE 4. EU CR1-A — CREDIT QUALITY OF EXPOSURES BY EXPOSURE CLASS AND INSTRUMENT

TEUR		Gross carrying values of Defaulted exposures	Gross carrying values of Non-defaulted exposures	Specific credit risk adjustment	Net values
16	Central governments or central banks	-	841 201	-	841 201
17	Regional governments or local authorities	-	137 162	(2)	137 160
18	Public sector entities	-	39 978	(20)	39 958
21	Institutions	-	59 804	(149)	59 655
22	Corporates	-	2 722 770	(8 068)	2 714 702
23	*Of which: SMEs*	-	74 239	(795)	73 444
24	Retail	-	841 192	(3 617)	837 575
25	*Of which: SMEs*	-	444 546	(1 510)	443 036
26	Secured by mortgages on immovable property	-	2 115 736	(6 837)	2 108 899

TEUR		Gross carrying values of Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Net values
27	*Of which: SMEs*	-	8 674	(33)	8 641
28	Exposures in default	281 081		(74 559)	206 522
29	Items associated with particularly high risk	-	62 178	(16 378)	45 800
33	Equity exposures	-	6 081	-	6 081
34	Other exposures	-	177 731	-	177 731
35	**Total (standardised approach)**	281 081	7 003 833	(109 630)	7 175 284
37	Of which: Loans	312 172	3 875 228	(92 642)	4 094 758
38	Of which: Debt securities	-		-	-
39	Of which: Off-balance-sheet exposures	6 807	848 106	(1 881)	853 032

CREDIT QUALITY OF EXPOSURES BY INDUSTRY

Table 55 covers exposures to non-financial corporations and non-physical persons which are subject to credit risk. The basis for division by industry is the NACE classification 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.

TABLE 5. 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	11 680	345 431	(4 590)	352 521
2	Mining and quarrying	-	14 589	(11)	14 578
3	Manufacturing	23 175	634 289	(3 902)	653 562
4	Electricity, gas, steam and air conditioning supply	72	79 789	(181)	79 680
5	Water supply; sewerage; waste management and remediation activities	282	20 418	(204)	20 496
6	Construction	12 543	242 641	(9 385)	245 799
7	Wholesale and retail trade; repair of motor vehicles and motorcycles	22 053	668 804	(9 417)	681 440
8	Transporting and storage	4 831	217 700	(3 296)	219 235
9	Accommodation and food service activities	10 423	135 698	(3 717)	142 404
10	Information and communication	452	16 007	(337)	16 122
11	Real estate activities	84 463	450 468	(27 647)	507 284
12	Professional, scientific and technical activities	617	71 771	(517)	71 871
13	Administrative and support service activities	1 105	181 169	(1 010)	181 264
14	Public administration and defence; compulsory social security	-	167 417	(3)	167 414
15	Education	68	7 685	(51)	7 702
16	Human health and social work activities	52	10 805	(55)	10 802
17	Arts, entertainment and recreation	670	6 340	(201)	6 809
18	Other services	3 146	85 588	(1 284)	87 450
19	**Total**	175 632	3 356 609	(65 808)	3 466 433

CREDIT QUALITY OF EXPOSURES BY GEOGRAPHY

In Table 6, the Bank assumed that it is relevant to disclose separately exposure in home country and two other Baltic states and established the quantitative materiality threshold. Threshold has been set at the level of 2% of the exposure measure which is net COREP original exposure value. A reporting institution is mandated to set up materiality threshold with respect to geographical breakdown disclosure based on EBA's guidelines EBA/GL/2016/11 and EBA/GL/2014/14.

TABLE 6. 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	Lithuania	271 694	6 671 062	102 352	6 840 404
2	Latvia	490	7 245	240	7 495
3	Estonia	-	131 727	685	131 042
4	Other countries	9 002	209 945	6 353	212 594
5	**Total**	**281 186**	**7 019 979**	**109 630**	**7 191 535**

AGEING OF PAST-DUE EXPOSURES

Table 7 presents gross COREP original exposures which are at least 1 day past-due.

TABLE 7. EU CR1-D — AGEING OF PAST-DUE EXPOSURES

		Gross carrying values					
	TEUR	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans	274 965	43 453	26 859	13 610	14 538	104 491
2	Debt securities	-	-	-	-	-	-
3	**Total exposures**	**274 965**	**43 453**	**26 859**	**13 610**	**14 538**	**104 491**

NON-PERFORMING AND FORBORNE EXPOSURES

Table 8 reports gross COREP original exposures divided in accordance to performing/non-performing status, forbearance status and default definition.

Source of abovementioned status/definition is FINREP (financial reporting framework) therefore the total of defaulted exposure might differ with COREP defaulted class (as reported e.g. in Table 4 CR1-A).

TABLE 8. EU CR1-E — NON-PERFORMING AND FORBORNE EXPOSURES

		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	
	TEUR		performing but past due > 30 days and <= 90	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	-	-	-	-	-	-	-	-	-	-	-	-	-
020	Loans and advances	6 223 517	36 307	13 436	291 679	291 679	291 679	160 392	(15 557)	(114)	(69 516)	(57 744)	199 558	94 071
030	Off-balance sheet exposures	854 913	-	-	6 807	6 807	6 807	-	-	-	(1881)	-	1 404	-

CHANGES IN THE STOCK OF SPECIFIC CREDIT RISK ADJUSTMENTS

Table 9 reports changes in credit risk adjustment and has been reconciled with FINREP data.

TABLE 9. EU CR2-A — CHANGES IN THE STOCK OF SPECIFIC CREDIT RISK ADJUSTMENTS

TEUR		Accumulated specific credit risk adjustment
1	**Opening balance 31-12-2017**	**(107 832)**
2	Increases due to amounts set aside for estimated loan losses during the period	(5 133)
3	Decreases due to amounts reversed for estimated loan losses during the period	3 611
4	Decreases due to amounts taken against accumulated credit risk adjustments	14 148
5	Transfers between credit risk adjustments	1 906
6	Impact of exchange rate difference	(266)
7	Business combinations, including acquisitions and disposals of subsidiaries	-
8	Other adjustments	8 493
9	**Closing balance 30-06-2018**	**(85 073)**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	1 845
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	-

CHANGES IN THE STOCK OF DEFAULTED AND IMPAIRED LOANS

Table 10 contains year flows within default class exposures. The closing balance of 30-06-2018 has been reconciled with the COREP value of default class reported e.g. in Table 4 CR1-A. The definition of exposure value in Table 10 is gross COREP original exposure.

TABLE 10. EU CR2-B — CHANGES IN THE STOCK OF DEFAULTED AND IMPAIRED LOANS

TEUR		Gross carrying value defaulted exposures
1	**Opening balance 31-12-2017**	**268 783**
2	Loans and debt securities that have defaulted or impaired since the last reporting period	54 539
3	Returned to non-defaulted status	(19 826)
4	Amounts written off	(15 789)
5	Other changes	(6 521)
6	**Closing balance 30-06-2018**	**281 186**

CREDIT RISK MITIGATION

Credit risk mitigation is an integral part of the credit risk management process in Luminor Lithuania. Defined requirements for new customers, prudent evaluation of debt service capacity and collateral held as security are the main credit risk mitigation measures. However, other risk mitigation techniques, tools and processes are used in daily activities as well (e.g. different risk classification models, calculation of debt service capacity, transparent credit approval authorities, strict credit decision making rules and credit risk monitoring).

The Group periodically executes monitoring of all customers with credit obligations. The monitoring includes control of financial and non-financial covenants, control of payments and collateral position, analysis of business activities and financial data, update of a rating grade. In case a worsened financial situation, which can lead to insolvency, is identified for the customer during the monitoring process, special attention is paid to such customer by including it into the watch-list and devising an action plan (which has to be revised quarterly) and additional tools of control. The watch-list is the management tool for the business areas and consists of performing commitments that meet the following criteria: loss events have occurred, though no impairment losses have been recorded, or some financial covenants have been breached.

Qualitative disclosure on credit risk mitigation techniques is disclosed in 1.2. Risk limit control and mitigation policies in Luminor Bank AB Consolidated Annual Report 2017, Luminor Bank AB, Group Consolidated Annual Report for the year ended 31 December.

CRM TECHNIQUES – OVERVIEW

TABLE 21. 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	4 984 708	2 206 827	2 122 262	84 563
2	Total debt securities	-	-	-	-
3	**Total exposures**	**4 984 708**	**2 206 827**	**2 122 262**	**84 563**
4	Of which defaulted	140 870	65 757	62 107	3 650

STANDARDISED APPROACH – CREDIT RISK EXPOSURE AND CRM EFFECTS

TABLE 312 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	841 201	-	859 786	-	-	0,0%
2	Regional government or local authorities	135 769	1 391	138 796	676	-	0,0%
3	Public sector entities	39 118	841	61 981	288	4 669	0,1%
6	Institutions	56 215	3 440	66 215	1 006	20 969	0,6%
7	Corporates	2 051 582	663 120	2 032 555	267 251	2 287 809	59,1%
8	Retail	679 668	157 906	647 870	74 535	471 585	12,2%
9	Secured by mortgages on immovable property	2 105 584	3 315	2 105 584	1 020	736 623	19,0%
10	Exposures in default	199 715	6 807	196 065	4 010	240 234	6,2%
11	Exposures associated with particularly high risk	29 588	16 212	29 588	7 722	55 965	1,5%
15	Equity	6 081	-	6 081	-	6 081	0,2%
16	Other items	177 731	-	177 731	-	44 480	1,1%
17	**Total**	**6 322 252**	**853 032**	**6 322 252**	**356 508**	**3 868 415**	**100,0%**

LEVERAGE

QUALITATIVE DISCLOSURE

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 Financial Group was 10.37%. 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 134. LRQUA: QUALITATIVE ITEMS

Row		
1.	Description of the processes used to manage the risk of excessive leverage	The Bank and the Financial 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

Row		
		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 Financial Group are exposed to the risk of excessive leverage. As at 30 June 2018, the leverage ratio for the Bank was 10.36% and for the Financial Group 10.37%.
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 first half of 2018 both Tier 1 capital and total risk exposures slightly decreased, resulting in almost no change for the leverage ratio.

CRR LEVERAGE RATIO

Table 14514 begins with FINREP total assets and then discloses reconciliation between that amount and leverage ratio total exposure measure. Starting with FINREP total assets makes adjustment for prudential consolidation scope obsolete. Disclosure of the leverage ratio follows Commission Delegated Regulation (EU) No 2016/200.

TABLE 145: LRSUM: SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

TEUR		Applicable amount
1	Total assets as per published financial statements	6 418 699
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	138
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	6 584
5	Adjustment for securities financing transactions (SFTs)	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	371 682
{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	(4 737)
8	**Leverage ratio total exposure measure**	**6 792 366**

TABLE 156. 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)	6 409 032
2	(Asset amounts deducted in determining Tier 1 capital)	(4 599)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**6 404 433**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	9 667

TEUR		CRR leverage ratio exposures
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	6 584
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)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivatives exposures (sum of lines 4 to 10)**	**16 251**
	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	854 913
18	(Adjustments for conversion to credit equivalent amounts)	(483 231)
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**371 682**
	Capital and total exposure measure	
20	**Tier 1 capital**	**704 129**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**6 792 366**
	Leverage ratio	
22	**Leverage ratio**	**10,37%**
	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 167 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:**	**6 409 032**
ES-2	Trading book exposures	82 555
ES-3	**Banking book exposures, of which:**	**6 326 477**
ES-5	Exposures treated as sovereigns	976 970
ES-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	39 118
ES-7	Institutions	56 215
ES-8	Secured by mortgages of immovable properties	2 105 584
ES-9	Retail exposures	679 668
ES-10	Corporate	2 051 581
ES-11	Exposures in default	199 715
ES-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	217 626

REMUNERATION POLICY

The information, regarding the remuneration policy and practices of the institution for those categories of staff whose professional activities have a material impact on its risk profile is disclosed in this part of disclosure.

The aggregate quantitative information on remuneration, broken down by business area is presented in the table below.

TABLE.17: REM1

TEUR	LEM (Luminor Executive Management) members	Local Management Boards (excl. LEM members)*	Front office**	Back office***	Internal control and legal functions****	Total
Total remuneration	311,6	219,1	569,0	455,2	327,0	1 881,9

*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.

Aggregate quantitative information on the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries are depicted. The amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types are presented in the table REM2. This data is for Luminor only; the obligations taken over from ex-organizations regarding deferred amounts are not included.

TABLE 18: REM2

TEUR	Remuneration amount	Senior management	Identified staff
Fixed remuneration	Number of employees	6	38
	Total fixed remuneration	481,4	1 304,5
Variable remuneration	Number of employees	6	35
	Total variable remuneration (5+7+9)	**49,4**	**46,7**
	Of which: cash-based	49,4	46,7
	Of which: deferred	51,5	31,4
	Of which: shares or other share-linked instruments	-	-
	Of which: deferred	-	-
	Of which: other forms	-	-
	Of which: deferred	-	-
Total remuneration (2+4)		**530,8**	**1 351,2**

The amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments are presented in the table REM3. This data is for Luminor only; the obligations taken over from ex-organizations regarding deferred amounts are not included.

TABLE 19: REM3

Outstanding deferred remuneration, TEUR	Vested	Unvested
Senior management	-	51,5
Identified staff	-	31,4

The amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments. This data is for Luminor only; the obligations taken over from ex-organizations regarding deferred amounts are not included.

TABLE 20: REM4

	Deferred remuneration		
TEUR	Awarded during period	Paid-out during period	Reduced through performance adjustment during period
Senior management	51,5	0	0
Identified staff	31,4	0	0

The new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments are shown in the table REM5.

TABLE 21: REM5

	Senior management		Identified staff	
	Number of incumbents	Amount of payments	Number of incumbents	Amount of payments
New sign-on	1*	0*	0	0
Severance payments	1	**	0	0

*senior managers will receive sign-on bonuses after one year employment, therefore there were no payments during the first half of 2018
**as there is one person only, the amount is not disclosed.

The amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person are shown in the table REM6.

TABLE 22: REM6

	Senior management					
	Number of incumbents	Amount of payments	Highest individual payout	Number of incumbents	Amount of payments	Highest individual payout
Payments related to the severance	1	**	**	0	0	0

**as there is one person only, the amount is not 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.

Disclosure of the number of individuals being remunerated EUR 1 million or more per financial year pursuant to Article 450 (EU) 575/2013 Paragraph 1 Sentence (i) includes no such persons as at 30 June 2018.