

# Interim Report for Q1 2018

The interim report has been prepared in accordance with the requirements set by the Bank of Lithuania for quarterly reporting by financial institutions.

**LUMINOR BANK AB Lithuania**



## TABLE OF CONTENTS

1. MANAGEMENT REPORT .....	3
1.1 Overview .....	3
1.2 Activities .....	3
1.3 Financial results .....	4
1.4 Macroeconomic overview .....	5
1.5 Statement of the Management Board .....	6
2. CONSOLIDATED FINANCIAL STATEMENTS .....	7
2.1 Funding and liquidity .....	9
3. CAPITAL .....	10
4. GENERAL INFORMATION .....	12
5. GLOSSARY .....	13

## 1. MANAGEMENT REPORT

### 1.1. Overview

Luminor was established on 1 October 2017 after merging DNB Bank ASA (Commercial Register number 984 851 006) and Nordea Bank AB (Swedish Commercial Register number 516406-0120) operations in the Baltic countries to create a new-generation financial services provider for local businesses and way of life.

Luminor is the 3rd position largest player in the Baltic financial market with 1.3 million clients and ca 3,000 employees, 16% market share in deposits and 23% in lending. Luminor is capitalized at 17% Common Equity Tier 1 capital in the amount of 1.6 billion EUR.

Luminor's ambition is to become the home bank for the financially active people with entrepreneurial mind-set as well as local companies, and eventually to become the best financial eco-system for our customers.

Luminor Bank AB (or "Luminor Lithuania") offers wide range of products and services to its customers in all channels, both digital and physical with headquarters in Vilnius, 38 representations all over the country, altogether with 368 ATMs, and employs 1300 full time employees in total. The consolidation group of Luminor Lithuania has ca 700 thousand private and corporate clients.

Luminor Lithuania altogether has seven subsidiaries: Luminor Investicijų valdymas, UAB, Luminor Būstas, UAB, Luminor Lizingas, UAB, Industrious, UAB, RECURSO, UAB, PROMANO, UAB, Intractus, UAB.

### 1.2. Activities

During Q1 2018 Luminor focused on the following initiatives as the main priority areas: post-merger integration projects, customer support and strengthening current business positions, right-sizing activities and new bank developments, including planning the new digital platforms as well as new products and offerings for Luminor's target customers.

In Q1 2018 Luminor continued with the further phases of the legal merger, which foresees full integration of the banks with the headquarter Luminor entity in Estonia and branches in Lithuania and Latvia, planned for January 2019.

At the end of Q1 Luminor has finished the rebranding of all digital (web page, internet banks) and physical premises (38 branches and 368 ATMs) and launched renewed design of credit cards.

#### Household segment

Luminor's brand value lies in its deep relationship with its customers and services. By the end of Q1 2018 Luminor Lithuania recorded ca 666 thousand household clients. Average lending and deposit volumes are recorded as stable. The main activities of Q1 were focused on improving customer service across all the bank network in Lithuania.

#### Business and corporate clients segments

Luminor Lithuania continued to serve its core customers in Corporate and Business customers segments and by the end of Q1 2018 reached ca 39 thousand clients. Business results were fuelled by overall good economic outlook and as well by marketing activities in agriculture sector. On 1 February 2018 new pricelist for Luminor services was introduced in order to simplify our customers daily banking at Luminor and align former Nordea and DNB pricing differences. Throughout the Q1 2018 Luminor strengthened its focus on target customers through initiatives such as customers events to support Luminor brand awareness and introduce Luminor as a new generation bank for local companies.

#### Leasing

Leasing services for private individuals and business clients financing vehicles, commercial transport and other equipment are provided through subsidiary Luminor Lizingas, UAB. In Q1 2018 total leasing portfolio remain in the same level total amount of 676 million EUR. During Q1 Luminor Leasing was leading the leasing market for financing of new vehicles and registered agriculture vehicles.

#### Pension funds management

Luminor continued to provide 2nd and 3rd pillar pension funds management services for its customers through its subsidiary Luminor investicijų valdymas, UAB. During the first Q1 assets under management has reached 354 million EUR, the number of clients remained stable.

## 1.3. Financial Results

The merger of DNB and Nordea had a significant impact on the financial results of the Group. The indicators for Q1 2018 cannot be directly compared to Q1 2017, as they include the results of the two merged banks and have therefore changed significantly.

### KEY FIGURES (annualized)

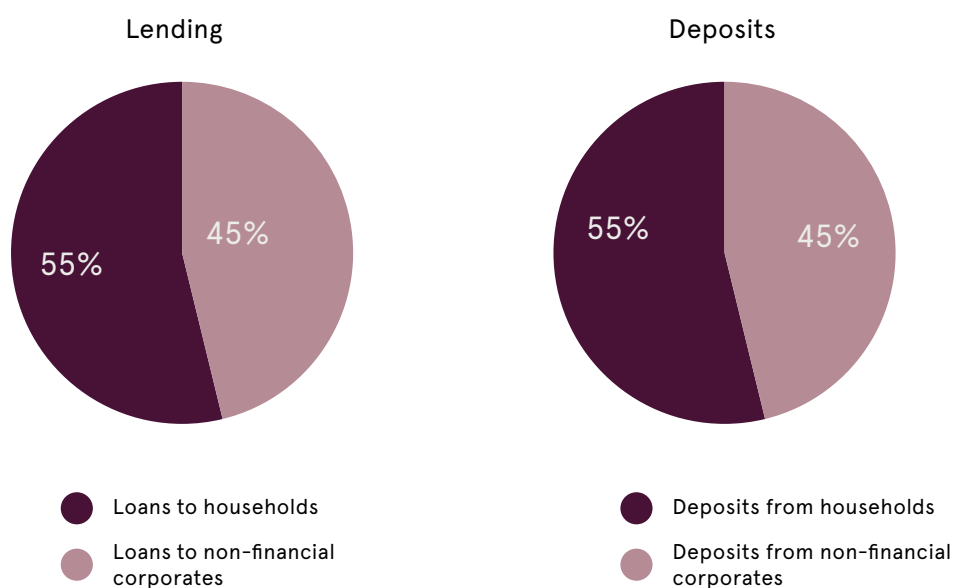
T EUR	Q1 2018	Q4 2017
Net profit	14804	11327
Average equity	725 732	719 147
Return on equity (ROE), %	8,1%	6,4%
Average assets	6 651 971	6 853 097
Return on assets (ROA), %	0,9%	0,7%
Net interest income	26 373	25 218
AVERAGE INTEREST EARNING ASSETS	6 448 839	6 615 505
Net interest margin (NIM) %	1,6%	1,5%
Cost / Income ratio, %	64,3%	53,3%

Net profit earned during Q1 2018 was 14.8 million euros, which was 3.5 million euros higher compared to Q4 2017 mainly due to change of net impairment losses on loans and receivables. Accordingly return on equity improved from 6.4% to 8.1%. Net interest income slightly increased driven by net interest margin, which is up from 1.5% in Q4 2017 to 1.6% in Q1 2018. Cost/Income ratio increased from 53.3% to 64.3% mainly due to change in net gain on operations with securities, which in 2017 comprise sale of one investment for which unrealized loss was reported in 2016.

Loans to customers totaled 5.0 billion euros at 31 March 2018, decreasing 1.5% from 31 December 2017. The decrease relates to corporate and general government customers.

Deposits from customers totaled 3.7 billion euros at 31 March 2018, decreasing 4.0% from 31 December 2017. The decrease mainly relates to corporate customers.

Lending-to-deposit ratio stood at 135% at 31 March 2018.



## 1.4. Macroeconomic overview

Lithuanian economy continues expanding at a robust pace with annual growth rate of 3.6% in 2018 Q1 i.e. only marginally lower compared to 2017 (3.9%) and slightly above our forecasts of 3.3% for 2018. Growth continues to be broad-based with exports, domestic consumption and investments all contributing positively.

Export growth, however, is moderating due to less favourable external environment (slowing growth in the euro-zone and depreciation of SEK, GBP and RUB), but is forecasted to remain in positive territory.

Domestic consumption, on the other hand, is picking-up speed again due to moderating inflationary pressures (annual inflation fell to 2.2% from the peak of 4.6% reached in September, 2017) and continued rise of wages and old-age pensions. These developments are reflected in post-crisis high consumer confidence. Economic sentiment in domestic trade and service sectors also reached post-crisis heights. Investments are also expected to sustain a robust growth driven by both: higher FDI inflows and higher public investments funded by EU structural aid.

The key risks remain tight labour market resulting in stable or even falling employment and excessive wage growth, which could harm international competitiveness in the longer term. In addition, stabilizing (in some segments – slightly falling) real estate prices may dampen real estate activity, which, in turn, would negatively affect booming construction and domestic consumption sectors. Yet, our baseline scenario is stabilisation/stagnation rather than outright correction due to sound fundamentals and an ongoing low interest rate environment.

## 1.5. Statement of the Management Board

The interim report of Luminor Bank AB for Q1 2018 consists of the following parts and reports:

Management Report;

Consolidated Financial Statements;

Capital.

The data and additional information presented in the interim report of Luminor Bank AB for Q1 2018 is true and complete. The Financial Statements present a fair and true view of the financial status and economic performance of the bank and group.

Luminor Bank AB and the bank's subsidiaries are going concerns.

The Financial Statements for Q1 2018 have not been audited.



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**Andrius Načajus**

Chairman of the Board

Vilnius, 21 May 2018

## 2. CONSOLIDATED FINANCIAL STATEMENTS

### Financial Group and Bank Income Statement 31 March 2018

T EUR	Bank	Financial group
Interest income	27063	30019
Interest expense	-3293	-3646
<b>Net interest income</b>	<b>23770</b>	<b>26373</b>
Fees and commission income	11498	12873
Fees and commission expense	-2730	-2896
<b>Net fees and commission income</b>	<b>8768</b>	<b>9977</b>
Net gain on operations with securities, derivative financial instruments and foreign exchange	4432	1931
Share of profit of an associate	0	75
Impairment and derecognition gain/loss of financial assets	744	1104
Other income	1114	1275
Personnel expenses	-9900	-10487
Depreciation and amortisation	-895	-903
Other administrative expenses	-13700	-14105
Profit (loss) before taxes	14333	15240
Income tax	-2	-436
<b>Net Profit for the quarter</b>	<b>14331</b>	<b>14804</b>
Profit attributable to:		
Equity holders of the parent	<b>14331</b>	<b>14804</b>
<b>Profit (loss) for the period</b>	<b>14331</b>	<b>14804</b>
Other comprehensive income (expenses) to be reclassified to profit or loss in subsequent periods :	<b>14331</b>	<b>14804</b>
Available for sale assets revaluation	-31	-31
Reclassification adjustments to the income statement		
Other comprehensive income (expenses) not to be reclassified to profit or loss in subsequent periods :		
Total other comprehensive income(expenses)	-31	-31
<b>Total comprehensive income(expenses) for the period, net of tax</b>	<b>14300</b>	<b>14773</b>
<b>Attributable to:</b>		
Equity holders of the parent	<b>14300</b>	<b>14773</b>

Financial group include the Bank and subsidiaries engaged in financial services activities: Luminor investiciju valdymas UAB, Luminor Bustas UAB, Luminor lizingas UAB, Insdustrius UAB, RECURSO UAB, PROMANO LIT UAB and Intractus UAB.

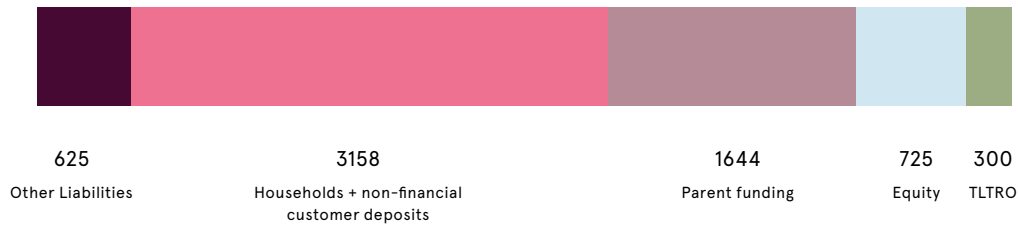
## Balance sheet Statement 31 March 2018

T EUR	Bank	Financial Group
<b>Assets</b>		
Cash and balances with central banks	943275	943275
Due from banks and other credit institutions	329876	329876
Financial assets held for trading	6622	6622
Financial assets designated at fair value through profit or loss	75275	76546
Derivative financial instruments	5536	5536
Financial assets at fair value through other comprehensive income	3196	3196
Loans and advances to customers	4821312	4371200
Finance lease receivables	165510	637589
Investments in subsidiaries	92922	892
Investment in an associate	0	1733
Investment property	812	15213
Property, plant and equipment	11725	12152
Intangible assets	3121	3168
Deferred tax asset	907	1366
Other assets	16395	43881
Non-current assets and disposal groups held for sale	29	120
<b>Total assets</b>	<b>6476513</b>	<b>6452365</b>
<b>Liabilities</b>		
Due to banks and other credit institutions	1985380	1985380
Derivative financial instruments	5168	5168
Due to customers	3735066	3701578
Provisions	1803	1956
Current income tax liabilities	1529	1614
Other liabilities	21325	31781
<b>Total liabilities</b>	<b>5750271</b>	<b>5727477</b>
<b>Equity</b>		
Ordinary shares	190205	190205
Share premium	81942	81942
Retained earnings	72332	70727
Reserves	381763	382014
<b>Total shareholders' equity</b>	<b>726242</b>	<b>724888</b>
<b>Total liabilities and shareholders' equity</b>	<b>6476513</b>	<b>6452365</b>



## 2.1 Funding and liquidity

Luminor Lithuania Financial Group has a strong and prudent liquidity risk profile. The funding base consists of large deposit base, TLTRO and funding from parent banks.



At the end of Q1 Lithuania had utilised funding from parents EUR 1,64 billion.

Parent funding amounts to EUR 4.15 billion on Luminor Group level and is provided by the two parent banks in the form of a syndicate, where each parent bank provides 50%. Long term funding is committed for 6 years (4+2) and short term funding is in the form a revolving credit of 364 days. In addition to the current term funding, there is also a committed credit line of EUR 0.74 billion in place (at present not utilized). When Luminor attracts wholesale long term funding externally (longer than one year), the intent is to amortize an equal amount of parent funding.

Short-term liquidity risk is measured using several metrics and the Liquidity Coverage Ratio (LCR) is one such metric. The LCR for the Luminor LT was, according to the Delegated Act LCR definition, 134,11% at the end of the first quarter. The liquidity buffer is composed of highly liquid central bank eligible securities and cash.

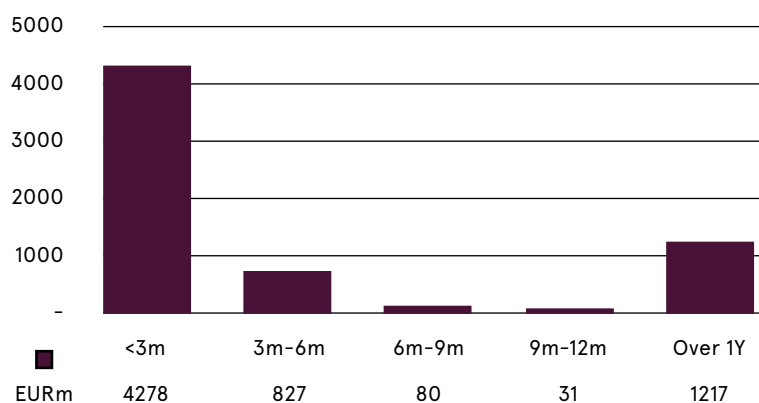
The long-term liquidity risk is measured as Net Stable Funding Ratio (NSFR). At the end of the first quarter 2018, Luminor Lithuania NSFR was 112%.

### Financial Group

Ratio	31 March 2018	31 December 2017
LCR	134,1%	157,7%
NSFR**	112,0%	132,9%

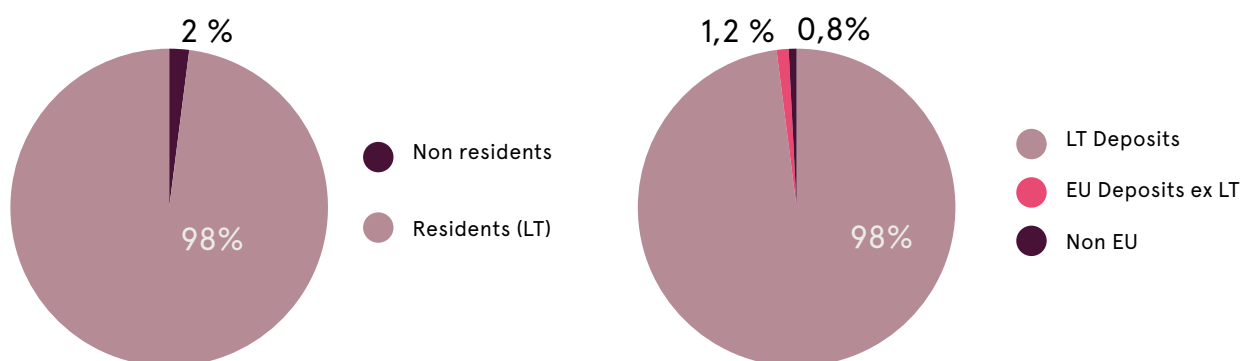
\*\*mortgages that would qualify for 35% or lower risk weight calculated with 85% RSF factor

### Maturity Structure\*\*\*



\*\*\*Based on Consolidated NSFR

## Deposit structure



Deposits are mainly from residents of Lithuania. In total 99,2% of all deposits from household and non-financial corporates are from EU residents.

## Rating

Luminor Lithuania does not have a rating. Luminor Estonia is in process to acquire rating.

Nordea Bank AB and DNB Bank ASA are ultimate owners of holding company Luminor Group AB. Nordea Bank AB owns 56,2% and DNB Bank ASA owns 43,6% of proprietary rights. DNB Bank ASA has a credit rating (Standard & Poor's A+, Moody's Aa2). Nordea Bank AB has a credit rating (Standard & Poor's AA-, Fitch AA-, Moody's Aa3).

## 3. Capital

### Performance Ratios

Position	Q1 2018	Q4 2017
	Financial Group	Financial Group
Capital adequacy	17,0%	17,1%
Leverage Ratio	10,2%	9,8%
CET 1 Ratio	17,0%	17,1%
T1 Capital Ratio	17,0%	17,1%
Total Capital Ratio	17,0%	17,1%
ROE	8,1%	6,4%
ROA	0,9%	0,7%
Cost Income Ratio%	64,3%	53,3%
Net Interest Margin (NIM)	1,6%	1,5%

## PILLAR 3 – Overview of Risk Weighted Assets

T EUR		RWAs 31 March 2018	RWAs 31 December 2017	Minimum capital requirements 31 March 2018	Minimum capital requirements 31 December 17
1	Credit risk (excluding CCR)	3784734	3811613	302779	304929
2	of which the standardised approach	3784734	3811613	302779	304929
6	CCR	9967	11725	797	938
7	of which mark to market	6249	8225	500	658
12	of which CVA	3718	3500	297	280
13	Settlement risk	0	0	0	0
14	Securitisation exposures in the banking book (after the cap)	0	0	0	0
19	Market risk	68018	65237	5441	5219
22	Large exposures	0	0	0	0
23	Operational risk	276698	276698	22136	22136
24	of which basic indicator approach	0	0	0	0
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	0	0	0	0
28	Floor adjustment	0	0	0	0
29	<b>Total</b>	<b>4139417</b>	<b>4165272</b>	<b>331153</b>	<b>333222</b>

## Asset quality

### Impaired loans - bank only

M EUR	31 March 2018			31 December 2017		
	Loans total amount	Impaired loans	Specific provisions	Loans total amount	Impaired loans	Specific provisions
Material assessed loans	3553	201	59	2659	227	84
Immaterial assessed loans*	2662	82	10	2653	47	7
Impaired loans	6215	283	69	5312	274	90

### Impairment losses (specific provisions) for loans and other assets

T EUR	31 March 2018	31 December 2017
Specific provisions for loans	84389	102517
Gross loans to customers	4905701	4960992
Specific provisions to total loans granted to customers ratio	1.7%	2.1%
Specific provisions for other assets	0	38
Other assets	17302	13770
Specific provisions for other assets to all other assets	0%	0.3%

## 4. GENERAL INFORMATION

### 4.1. Contact details

Luminor Bank AB

<b>Location and address</b>	Konstitucijos Av, 21a Vilnius Lithuania
<b>Registered country</b>	Republic of Lithuania
<b>Commercial Register code</b>	11315936
<b>Telephone</b>	+370 5239 34 44
<b>Website</b>	www.luminor.lt
<b>E-mail</b>	info@luminor.lt
<b>Balance sheet date</b>	31 March 2018
<b>Reporting period</b>	01.01.2018– 31.03.2018
<b>Reporting currency</b>	Euro, thousands

### Consolidation group

#### Luminor Lizingas UAB

Commercial Register code:	111667277
Location and address:	Lvovo str. 25 09320 Vilnius Lithuania
Registered country:	Republic of Lithuania

#### Industrius UAB

Commercial Register code:	302593805
Location and address:	Konstitucijos av. 21A 03601 Vilnius Lithuania
Registered country:	Republic of Lithuania

#### Luminor Būstas UAB

Commercial Register code:	300631876
Location and address:	Konstitucijos av. 21A 03601 Vilnius Lithuania
Registered country:	Republic of Lithuania

#### RECURSO UAB

Commercial Register code:	302784511
Location and address:	Seimyniškių str. 21B 09236 Vilnius Lithuania
Registered country:	Republic of Lithuania

#### Intractus UAB

Commercial Register code:	302424698
Location and address:	Konstitucijos av. 21A 03601 Vilnius Lithuania
Registered country:	Republic of Lithuania

#### PROMANO LIT UAB

Commercial Register code:	302423219
Location and address:	Seimyniškių str. 21B 09236 Vilnius Lithuania
Registered country:	Republic of Lithuania

## 5. GLOSSARY

### Ratios

- Average equity (belonging to owners of company) = (equity at end of reporting period + equity at end of previous period) / 2
- Return on equity (ROE) = Net profit / Average equity \* 100%
- Assets, average = (assets at end of reporting period + assets at end of previous period) / 2
- Return on assets (ROA) = Net profit / Assets, average \* 100
- Interest earning assets, average = (interest earning assets at end of reporting period + interest earning assets at end of previous period) / 2
- Net interest margin (NIM) = Net interest income / Interest earning assets, average \* 100
- Cost-benefit ratio = Total operating expenses / Total net income \* 100
- CET 1 = Common Equity Tier 1 Capital/ Risk-Weighted Assets
- Leverage ratio = Tier 1 Capital/ Total Exposure
- T1 ratio = Tier 1 Capital/ Risk-Weighted assets
- Total capital ratio = Total Capital/ Risk-Weighted asset

\*Average equity, assets and interest earning assets for 31st of December 2017 were calculated using average between 31 December 2017 and 2nd of October 2017 balances.