Interim Report for Q2 2018

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

LUMINOR BANK AB Lithuania

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1. MANAGEMENT REPORT

1.1 Overview

Luminor was established on October 1, 2017 after the merger of 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 the local way of life and businesses.

Luminor is the 3rd position largest player in the Baltic financial market with 1,3 million clients and ca 3000 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, 37 representations all over the country, altogether with 370 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, Industrius, UAB, Recurso, UAB, Promano, UAB, Intractus, UAB.

1.2 Activities

During Q2 2018 Luminor continued to focus on the following initiatives as the main priority areas: post-merger integration projects, customer support and strengthening of current business positions, right-sizing activities and new bank developments, including planning new digital platforms as well as new products and offerings for Luminor's target customers.

In Q2 2018 Luminor continued with the next phases of the legal merger, which foresee full integration of the banks, continuing operations in all Baltic countries through Estonian bank and its registered branches in Latvia and Lithuania. In May Luminor received confirmation from European Central Bank that the branches in Latvia and Lithuania may be established and commence their activities. On 28 June 2018 Luminor received regulatory approvals from European Central Bank to carry out with the cross-border merger. The cross-border merger and legal change is expected to take place 2 January 2019.

Luminor has successfully incorporated General data protection regulation requirements in internal and external bank procedures, informed clients and employees about the changes in regulation of their rights regarding personal data and new EU regulation. Service delivery and customer information procedures were reviewed, new processes to secure proper managing of the personal data and raising the awareness of customers and employees were implemented, extensive training for employees was provided.

Household segment

Luminor Lithuania continued to digitalize its services to household customers and first in the market introduced online onboarding possibility for remote clients during Q2. Now becoming a new client of Luminor Lithuania does not require a visit to bank premises. Overall active customer base is increasing, so quality and speed of the customer service is remaining our top priority. Average lending and deposit volumes from private customers stood stable during the quarter. The main marketing activities were focused on increasing card usage and promoting travel insurance sales, as well as savings feature on Luminor mobile app.

Private Banking segment

During Q2 the spectrum of products and services of private banking was reviewed, at the same time Luminor was working on raising awareness among the private banking customers, as well as introducing reviewed services to the market through customer events and communication activities. Private banking deposits and assets under management have exceeded 180 million EUR at the end of Q2.

Business and corporate clients segments

Corporate and business active customer base has increased by 4 % during Q2 due to proactive communication with potential and current customers, participation in targeted events as well as marketing activities in farmers segment. These efforts has resulted in new financing projects in agriculture, wholesale and retail trade, manufacturing, real estate and other sectors, which contributed to long term goal to maintain well balanced lending portfolio.

Increased deposits by 4 % in Q2 and higher lending for small and medium enterprises also indicates growing business share with core customers, as well as overall good economic outlook.

Leasing

Luminor Lithuania's leasing service provider Luminor Lizingas during the period has put a focus on financing passenger cars, commercial transport and agricultural equipment for existing and new customers, and this has resulted in increased new leasing sales significantly during Q2 2018. Total leasing portfolio grew up by 9 %. Luminor Lizingas was leader in leasing market for financing of new passenger cars and light commercial vehicles also registered agriculture equipment.

Pension funds management

Luminor Lithuania continued to provide 2nd and 3rd pillar pension funds management services for its customers through its subsidiary Luminor investicijų valdymas, UAB. During Q2 assets under management has reached 378 million EUR, the number of clients remained stable, with slight increase in customer numbers in 3nd pillar pension funds.

Corporate social responsibility

We are creating a new-generation bank because we are determined to build a better tomorrow – for families and businesses and for the communities and countries in which we live and operate. We believe in contributing to the development of local communities in which we operate.

We are committed to take into account the corporate governance, social conditions and environment in all of our activities, including product and service development, advisory services and sales, investment and credit decisions, and other operations. We do not contribute to the infringement of human or labour rights, corruption, serious environmental harm or other actions that could be regarded as unethical.

During Q2 Luminor Lithuania was active in startup and Fintech environment by actively participated in the biggest technology festival "Login", where the largest conversation between makers and visionaries happened. Luminor Lithuania was one of the main sponsors of the event and fueled discussion about Fintech impact on banking sector. At Luminor we think that technology and digital development, especially of small and medium business is the key factor for country success so we will continue support startup and fintech culture in Lithuania.

In June Luminor Lithuania has supported one of the biggest leadership events "CEO of the Year", focusing on acknowledgment of the prominent leadership of best enterprises in Lithuania. Executives participating at the event become a role model for other businesses. The concept "CEO of the year" corresponds well with Luminor philosophy – this includes successful operations at the market, attractive employer, social responsibility and attitude to business sustainability.

1.3 Financial Results

The merger of the Baltic businesses of DNB and Nordea had a significant impact on the financial results of the Group. The indicators for Q2 2018 cannot be directly compared to Q2 2017, as they include the results of the two merged banks and have therefore changed significantly.

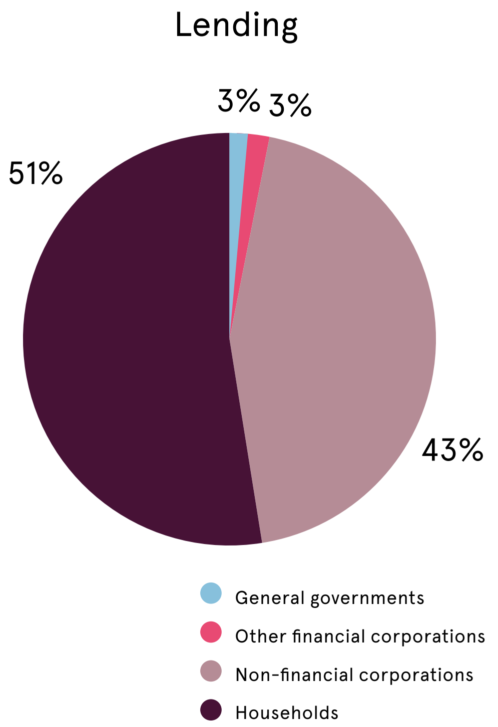
KEY FIGURES*

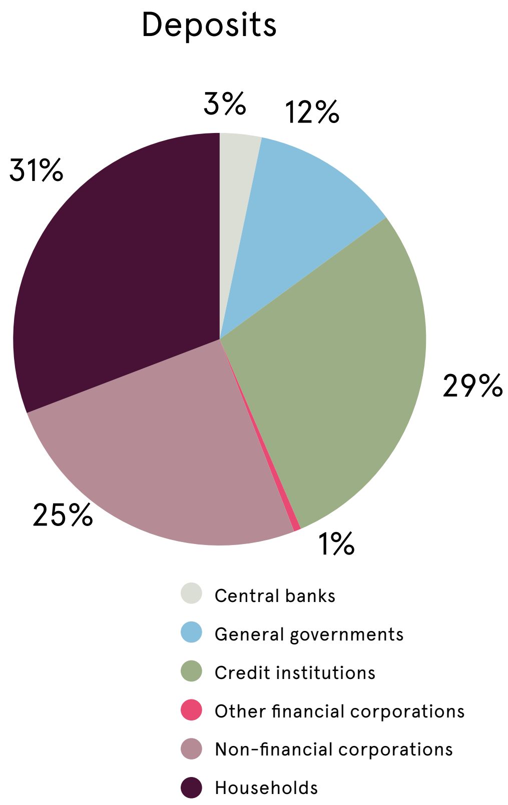
T EUR	Q2 2018	Q1 2018
Net profit	**15 509**	14 804
Average equity	**732 693**	725 732
Return on equity (ROE), %	**8,5%**	8,1%
Average assets	**6 435 532**	6 651 971
Return on assets (ROA), %	**1,0%**	0,9%
Net interest income	**26 198**	26 373
AVERAGE INTEREST EARNING ASSETS	**6 232 208**	6 448 839
Net interest margin (NIM) %	**1,7%**	1,6%
Cost / Income ratio, %	**55,5%**	64,3%

*Quarterly ratios (ROE, ROA, NIM, C/I) have been expressed on an annualized basis

*explanation of ratios in Glossary

Net profit earned during Q2 2018 was 15,5 million EUR, which was 0,7 million EUR higher compared to Q1 2018 driven both by higher income and lower expenses during the period. Return on equity was 8,5 % during Q2 2018 compared to 8,1 % during Q1 2018. Net fees and commission income growth was 10 % Q2 vs Q1 2018. Cost/income ratio improved from 64,3 % to 55,5 % and return on assets increased from 0,9 % to 1,0 % as compared Q1 to Q2 2018.





Loans to customers totalled 5,3 billion EUR at 30 June 2018, increasing 5 % from 31 March 2018. The increase mainly relates to corporate customers.

Deposits from customers totalled 3,8 billion EUR at 30 June 2018, increasing 4 % from 31 March 2018.

Lending-to-deposit ratio stood at 137 % at 30 June 2018.

ASSET QUALITY in Q2

M EUR	Household	Corporate	Total
Gross Loans	2 724	2 311	5 035
Provisions	-39	-45	-84
Net Loans	2 685	2 266	4 951
Impaired Loans	91	130	221
Impairment ratio %	1,43%	1,95%	1,67%
Impaired Loans vs Gross Loans %	3,34%	5,63%	4,39%
Provisions vs Impaired Loans %	42,86%	34,62%	38,01%

*explanation of ratios in Glossary

1.4 Macroeconomic overview

Lithuanian economic growth remains strong and broad-based, supported by private consumption, investments and exports. Growth pace continues to be slightly above our forecasts (3,3 % for 2018) driven primarily by stronger-than-expected domestic demand and investment growth figures. Export growth, however, continues to moderate due to slowing growth in the eurozone, depreciation of currencies of key trading partners (PLN, SEK, NOK, GBP & RUB), slowdown in Russia & base effects (growth was exceptionally fast in 2017 reaching 13,6 %). Yet, given a substantial influx of FDI's into export-oriented service and manufacturing sectors, export growth is expected to remain in positive territory in 2018-2020.

Domestic consumption, on the other hand, is picking-up speed again due to moderating inflationary pressures (annual inflation fell below 3 % in March-May 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. Improving net-migration statistics should also give boost to domestic consumption growth as the number of immigrants doubled compared to last year as a result of higher wages and falling unemployment. 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 with accelerating wage and inflation 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 Q2 2018 consists of the following parts and reports:

Management Report;

Stand-alone and Consolidated Financial Statements;

Funding and Liquidity;

Capital.

The data and additional information presented in the interim report of Luminor Bank AB for Q2 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 financial group.

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

The Financial Statements for Q2 2018 have not been audited.

Andrius Načajus

Chairman of the Board

Vilnius, 21 August 2018

2. CONSOLIDATED FINANCIAL STATEMENTS

2.1 Financial Group and Bank Income Statement

T EUR	Bank	Financial group
Interest income	53 566	59 011
Interest expense	-6 439	-6 440
Net interest income	**47 127**	**52 571**
Fees and commission income	24 448	26 816
Fees and commission expense	-5 659	-5 872
Net fees and commission income	**18 789**	**20 944**
Net gain on operations with securities, derivative financial instruments and foreign exchange	7 298	4 798
Share of profit of an associate	0	173
Impairment and derecognition gain/loss of financial assets	-650	-444
Other income	2 806	3 204
Personnel expenses	**-19 157**	**-20 331**
Depreciation and amortisation	**-1 773**	**-1 790**
Other administrative expenses	-25 895	-26 721
Profit (loss) before taxes	28 545	32 404
Income tax	-1 202	-2 091
Profit (loss) for the period	**27 343**	**30 313**
Profit attributable to:		
Equity holders of the Bank	27 343	30 313
Profit (loss) for the period	**27 343**	**30 313**
Other comprehensive income (expenses) to be reclassified to profit or loss in subsequent periods :	33	30
Available for sale assets revaluation		
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)	33	30
Total comprehensive income(expenses) for the period, net of tax	27 376	30 343
Attributable to:		
Equity holders of the parent		

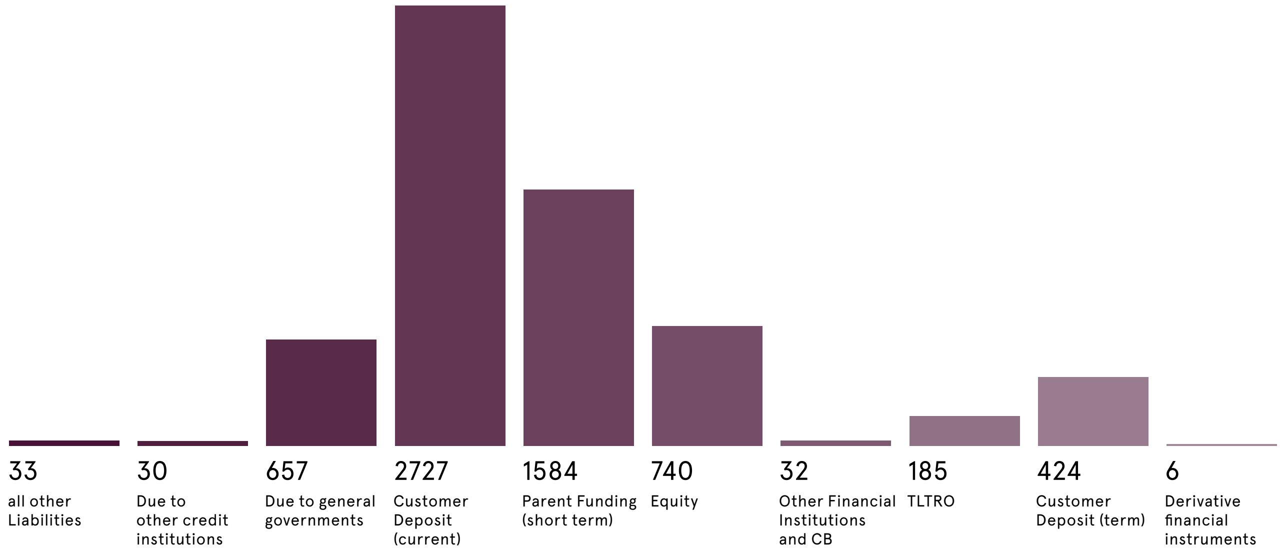
2.2 Balance Sheet

T EUR	Bank	Financial Group
Assets		
Cash and balances with central banks	974 520	974 520
Due from banks and other credit institutions	43 139	43 139
Financial assets held for trading	6 118	6 118
Financial assets designated at fair value through profit or loss	75 153	75 153
Derivative financial instruments	9 666	9 666
Financial assets at fair value through other comprehensive income	3 377	4 643
Loans and advances to customers	5 052 150	4 558 134
Finance lease receivables	154 502	695 970
Investments in subsidiaries	92 922	892
Investment in an associate	0	1 831
Investment property	0	12 893
Property, plant and equipment	11 261	11 624
Intangible assets	2 808	2 852
Current tax assets	527	239
Deferred tax asset	907	1 374
Other assets	17 689	19 532
Non-current assets and disposal groups held for sale	**29**	**119**
Total assets	6 444 768	6 418 699
Liabilities		
Due to banks and other credit institutions	1 799 166	1 799 166
Derivative financial instruments	6 202	6 202
Due to customers	3 873 166	3 839 970
Provisions	2 174	2 151
Other liabilities	24 742	30 713
Total liabilities	**5 705 450**	**5 678 202**
Equity		
Ordinary shares	190 205	190 205
Share premium	81 942	81 942
Retained earnings	85 344	86 275
Reserves	381 827	382 075
Total shareholder's equity	**739 318**	**740 497**
Total liabilities and shareholder's equity	**6 444 768**	**6 418 699**

3. Funding and liquidity

3.1 Funding

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 Q2 Lithuania had utilised funding from parents 1,58 billion EUR.



M EUR

Parent funding amounts to 4,13 billion EUR 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 was committed for 6 years (4+2) and short-term funding is in the form of revolving credit of 364 days, beginning from 1 October 2017 when Luminor was established. In addition to the current term funding, there is also a committed credit line of 0,76 billion EUR 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.

3.2 Liquidity

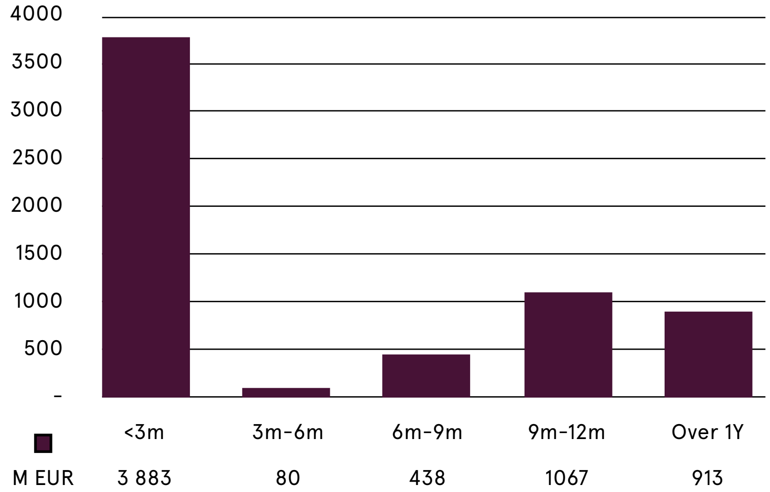
Short-term liquidity risk is measured using several metrics and the Liquidity Coverage Ratio (LCR) is one such metric. The LCR for the Luminor LT was, according to the Delegated Act LCR definition, 119,5% at the end of the second quarter. The liquidity buffer is composed of highly liquid central bank eligible securities and cash.

The long-term liquidity risk is measured as Net Stable Funding Ratio (NSFR). At the end of the second quarter 2018, Luminor Lithuania NSFR was 124,4%.

Ratio	30 June 2018	31 March 2018
LCR	119,5%	134,1%
NSFR**	120,9%	112,0%

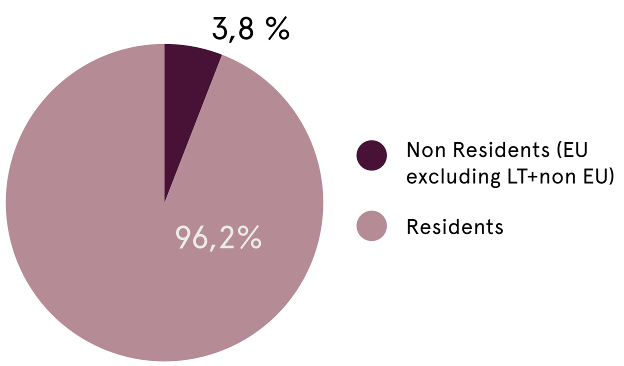
**mortgages that would qualify for 35% or lower risk weight are calculated with 85% RSF factor.

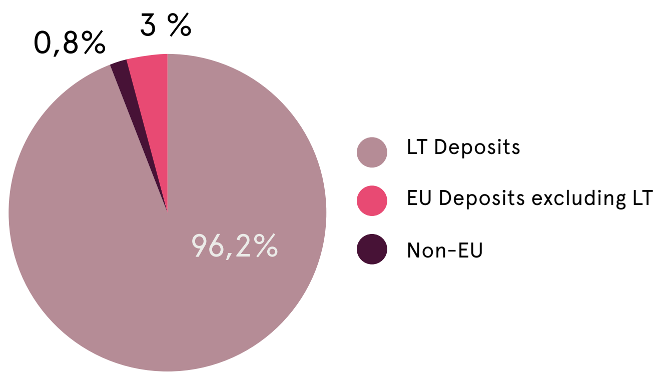
Maturity Structure***



***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.

3.3 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).

4. Capital

4.1 Performance Ratios

Position	Q2 2018	Q1 2018
	Financial Group	Financial Group
Capital adequacy<, %	16,7	17,0
Leverage Ratio, %	10,4	10,2
CET 1 Ratio, %	16,7	17,0
T1 Capital Ratio, %	16,7	17,0
Total Capital Ratio, %	16,7	17,0
ROE, %	8,5	8,1
ROA, %	1,0	0,9
Cost Income Ratio, %	55,5	64,3
Net Interest Margin (NIM), %	1,7	1,6

*explanation of ratios in Glossary

4.2 Asset quality

Impaired loans – bank only

M EUR	30 June 2018			31 March 2018		
	Loans total amount	Impaired loans	Specific provisions	Loans total amount	Impaired loans	Specific provisions
Material assessed loans	3 494	193	46	3 553	201	59
Immaterial assessed loans	2 687	90	15	2 662	82	10
Total	6 181	283	61	6 215	283	69

Impairment losses (specific provisions) for loans and other assets

M EUR	30 June 2018	31 March 2018
Specific provisions for loans	**74**	84
Gross loans to customers	**5 127**	4 906
Specific provisions to total loans granted to customers ratio	**1,5%**	1,7%
Specific provisions for other assets	**0**	0
Other assets	**19**	17
Specific provisions for other assets to all other assets	**0%**	0%

5. GENERAL INFORMATION

5.1 Contact details

Luminor Bank AB

Location and address	Konstitucijos Av, 21a
	Vilnius
	Lithuania
Registered country	Republic of Lithuania
Commercial Register code	11315936
Telephone	+370 5239 34 44
Website	www.luminor.lt
E-mail	info@luminor.lt
Balance sheet date	30 June 2018
Reporting period	01 April 2018– 30 June 2018
Reporting currency	Euro

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

Luminor

6. GLOSSARY

6.1 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