ŠIAULIŲ BANKAS

# INDEPENDENT AUDITOR'S REPORT FINANCIAL STATEMENTS AND ANNUAL REPORT

31 December 2016

ŠIAULIŲ BANKAS

# CONFIRMATION FROM THE RESPONSIBLE PERSONS

We, Chief Executive Officer of Šiaulių bankas AB Vytautas Sinius and Chief Accountant Vita Adomaitytė, confirm hereby that the provided consolidated financial statements of Šiaulių bankas AB for 2016 are compiled in compliance with applicable accounting standards, correspond to the reality and correctly reveal the assets, liabilities, financial status, activity result and cash flows of Šiaulių bankas AB and its Group of Companies, moreover, we confirm that the review of the business development and activities, the status of the Bank and the Group, alongside with the description of the key risks and indeterminacies incurred, are correctly revealed in the consolidated annual report.

| | |
|---|---|
| Chief Executive Officer | Vytautas Sinius |
| Chief Accountant | Vita Adomaitytė |
| 8 March 2017 | |

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## Independent auditor's report

To the shareholders of Siauliu bankas AB

## Our opinion

In our opinion, the separate and consolidated financial statements present fairly, in all material respects, the separate and consolidated financial position of Siauliu bankas AB ("the Bank") and its subsidiaries ("the Group") as at 31 December 2016, and their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

*What we have audited*
The Bank's and Group's separate and consolidated financial statements comprise:

- the Group's and the Bank's statements of financial position as at 31 December 2016;
- the Group's and the Bank's income statements and statements of comprehensive income for the year then ended;
- the Group's and the Bank's statements of changes in equity for the year then ended;
- the Group's and the Bank's statements of cash flows for the year then ended; and
- the notes to the separate and consolidated financial statements, which include significant accounting policies.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*
We are independent of the Bank and Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the Law on Audit of the Republic of Lithuania that are relevant to our audit of the separate and consolidated financial statements in Republic of Lithuania. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Law on Audit of the Republic of Lithuania.

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## Our audit approach

### *Overview*


*Materiality*

- Overall Bank materiality is EUR 1,730 thousand,
- Overall Group materiality is EUR 1,850 thousand

*Audit scope*

- We conducted audit work at 4 reporting units, all of them are in Lithuania.
- Our full scope audit addressed substantially all of the Group's revenues and 97% of assets.

*Key audit matters*

- Impairment of loans and advances to customers
- Valuation of non-financial assets held by the subsidiaries of the Group

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate and consolidated financial statements (together "the financial statements"). In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### *Materiality*

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Bank and Group materiality for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

| | |
|---|---|
| ***Overall Bank materiality*** | EUR 1,730 thousand |
| ***Overall Group materiality*** | EUR 1,850 thousand |
| ***How we determined it*** | 5% of profit before tax, adjusted for one-off interest income and gain related to de-recognition of two financial assets |

| | |
|---|---|
| | items. These one-off adjustments impacted both the Bank and the Group profit before tax. |
| ***Rationale for the materiality benchmark applied*** | The use of profit before tax is considered appropriate as, in our view, profit is stakeholders' primary measurement benchmark and key performance indicator for Management and Supervisory Board. The adjusting items are excluded on the basis that they do not reflect the day-to-day operational performance of the Bank and the Group.<br>We chose 5%, which is within the range of acceptable quantitative materiality thresholds for this benchmark. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 86.5 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| **Impairment of loans and advances to customers** (refer to Part 1 "Credit risk" of note 'Financial risk management' on pages 30-48, note 7 "Impairment losses" on page 78 and note 13 'Loans and advances to customers' on pages 85-86 for further details).<br>We focused on this area because management makes complex and subjective judgements over both timing of recognition of impairment and the estimation of the size of any such impairment. Impairment loss on loans and advances to customers for the year ended 31 December 2016 amounted to EUR 7,451 thousand in Bank and EUR 7,185 thousand in Group.<br>The amount of impairment provision for Bank's and Group's loan portfolio is mainly based on the individual assessment by taking into consideration the internal credit rating of the customer and other known heightened risk factors. Individual impairment is calculated based on the exposure and taking into account estimated future cash-flows from the customer | We assessed whether the Group's accounting policies in relation to the impairment of loans and advances to customers are in compliance with IFRS.<br>We assessed the design and operating effectiveness of the controls over impairment data and calculations. These controls included those over the credit file periodic review and rating assessment and monitoring of collateral controls for loans issued by the Bank, and the calculation of the impairment provision for consumer financing loans issued by the Group entity SB Lizingas.<br>We determined that we could rely on these controls for the purposes of our audit.<br>We selected a sample of individually assessed loans and analysed customer financial information, collateral data and other available information to assess: if appropriate credit rating is applied to a customer; whether loss event is timely identified; whether the estimated future cash flow from customer and from realisation of collaterals is properly grounded for customers |

and discounted market value of the collateral at the balance sheet date.

The impairment provisions for consumer financing loans are based on analysis of the historical information for each homogenous group of clients and expert judgement.

For individually assessed loans for which loss event was not yet identified on individual basis, impairment for incurred but not reported losses (IBNR) is calculated on collective basis.

The most significant judgments made by Management in respect of impairment of loans and receivables and thus where we focused our audit efforts, relate to:

- Monitoring the credit rating of customers and timely identification of loss event.
- Estimate of future cash-flows from customers' activities and collaterals.
- Calculation of parameters used in determining the impairment provision for consumer financing loans.

with identified loss event. We also checked if the impairment amount is correctly calculated in applying these estimates and assumptions

We also performed detailed testing over:

- the completeness of individual impairment assessment and calculations.
- the assumptions applied in calculation of impairment for incurred but not reported (IBNR) losses;
- the assumptions used for critical inputs in assessment of impairment provision for consumer financing loans;

Based on available evidence we found management's assumptions to be reasonable and the disclosures to be appropriate.

**Valuation of non-financial assets held by the subsidiaries of the Group** (refer to note 'Accounting policies' on page 24 and 29, note 19 "Other assets" on page 96, and note 26 "Investment property" on page 101 for further details). Total investment property amount held by the subsidiaries of the Group is EUR 15,692 thousand, total inventory amount is EUR 24,936 thousand.

We focused on this area because some of the subsidiaries of the Group own real estate assets for rental income, further development or sale and the value of such assets is dependent on the uncertain future events. The management uses market value determined by the independent or internal appraisers and applies judgement to assess whether the value of the assets is not overstated.

We assessed whether the Group's accounting policies in relation to the valuation of non-financial assets are in compliance with IFRS.

We have obtained from the management the evidence on the values for all material real estate assets held for rental income or development and sale and tested the valuation assumptions to independent market data.

We have also enquired the management about the plans and inspected evidence of commitment to certain actions related to development or sale of the assets and assessed the impact of the actions on the value of the assets.

As a result of our work, we noted no significant exceptions to the assumptions applied in valuation of these assets that would require material adjustment to the value.

*How we tailored our Group audit scope*
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises a number of subsidiaries that operate in Lithuania (refer to note "General information" on page 15 of the Financial Statements). A full scope audit was performed by PwC Lithuania for the following Group entities covering substantially all of the Group's interest, fee and commission income and 97% of the Group's assets:

- Siauliu bankas AB
- Siauliu banko lizingas UAB
- SB lizingas UAB
- Bonum Publicum GD UAB

For other entities of the Group we have carried out audit work on the selected balances and transactions, which were assessed by us as material from the Group audit perspective.

## Other information

Management is responsible for the other information. The other information comprises the consolidated annual report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's and Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and Group's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and have communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor on the audit resulting in this independent auditor's report is Vytenis Lazauskas.

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
General manager

Vytenis Lazauskas
Auditor's Certificate No.000536

Vilnius, Republic of Lithuania
8 March 2017

(All amounts are in EUR thousand, unless otherwise stated)

# THE GROUP'S AND THE BANK'S INCOME STATEMENTS

| | | Year ended | | | |
|---|---|---|---|---|---|
| | | 31 December 2016 | | 31 December 2015 | |
| | Notes | Group | Bank | Group | Bank |
| *Continuing operations* | | | | | |
| *Interest and similar income* | 1 | 65,934 | 58,569 | 65,795 | 57,929 |
| *Interest expense and similar charges* | 1 | (12,013) | (12,019) | (16,976) | (16,981) |
| *Net interest income* | | 53,921 | 46,550 | 48,819 | 40,948 |
| *Fee and commission income* | 2 | 14,115 | 13,711 | 12,158 | 12,002 |
| *Fee and commission expense* | 2 | (4,702) | (4,364) | (4,119) | (3,743) |
| *Net fee and commission income* | | 9,413 | 9,347 | 8,039 | 8,259 |
| *Net gain from operations with securities* | 3 | 6,164 | 4,872 | 1,087 | 866 |
| *Net gain from foreign exchange and related derivatives* | 3 | 4,477 | 4,248 | 3,393 | 2,869 |
| *Net loss from other derivatives* | 3, 12 | (1,913) | (1,671) | (1,812) | (2,035) |
| *Net loss from changes in fair value of subordinated loan* | 30 | (1,644) | (1,644) | (1,165) | (1,165) |
| *Net gain from derecognition of financial assets* | 6 | 12,644 | 12,671 | 4,825 | 4,825 |
| *Net gain from disposal of tangible assets* | 6 | 612 | 656 | 2,690 | 2,765 |
| *Revenue related to other activities of Group companies* | 5 | 15,258 | - | 14,376 | - |
| *Other operating income* | 6 | 1,688 | 543 | 1,861 | 683 |
| *Salaries and related expenses* | | (18,340) | (15,558) | (16,644) | (13,292) |
| *Depreciation and amortization expenses* | | (1,773) | (1,339) | (1,595) | (1,140) |
| *Expenses related to other activities of Group companies* | 5 | (12,766) | - | (13,824) | - |
| *Other operating expenses* | 4 | (9,677) | (6,835) | (10,818) | (7,993) |
| *Operating profit before impairment losses* | | 58,064 | 51,840 | 39,232 | 35,590 |
| *Allowance for impairment losses on loans and finance lease receivables* | 7 | (7,185) | (7,451) | (16,087) | (16,362) |
| *Allowance for impairment losses on other assets* | 7 | (590) | (45) | (6,945) | (556) |
| *Allowance for impairment losses on investments in subsidiaries and loss on remeasurement of subsidiaries classified as held for sale* | 7, 20 | - | (6,060) | - | (15,163) |
| *Dividends from investments in subsidiaries and subsidiaries classified as held for sale* | 20, 29 | - | 9,632 | - | 18,374 |
| *Profit from continuing operations before income tax* | | 50,289 | 47,916 | 16,200 | 21,883 |
| *Income tax expense* | 8 | (6,658) | (6,239) | (1,019) | (953) |
| *Profit from continuing operations* | | 43,631 | 41,677 | 15,181 | 20,930 |
| *Profit from discontinued operations, net of tax* | 20 | 35 | - | 8,638 | 221 |
| *Net profit for the year* | | 43,666 | 41,677 | 23,819 | 21,151 |
| *Net profit attributable to:* | | | | | |
| *Owners of the Bank* | | 43,666 | 41,677 | 23,819 | 21,151 |
| *From continuing operations* | | *43,631* | *41,677* | *15,181* | *20,930* |
| *From discontinued operations* | | *35* | *-* | *8,638* | *221* |
| *Non-controlling interest* | | - | - | - | - |
| *Basic earnings per share (in EUR per share) attributable to owners of the Bank* | | 0.12 | | 0.07 | |
| *From continuing operations* | 9 | *0.12* | | *0.04* | |
| *From discontinued operations* | 9 | *0.00* | | *0.03* | |
| *Diluted earnings per share (in EUR per share) attributable to owners of the Bank* | | 0.12 | | 0.07 | |
| *From continuing operations* | 9 | *0.12* | | *0.04* | |
| *From discontinued operations* | 9 | *0.00* | | *0.03* | |

Chief Executive Officer — Vytautas Sinius

Chief accountant — Vita Adomaitytė

8 March 2017

The accounting policies and notes on pages 15 to 110 constitute an integral part of these financial statements.

(All amounts are in EUR thousand, unless otherwise stated)

# THE GROUP'S AND THE BANK'S STATEMENTS OF COMPREHENSIVE INCOME

| | | Year ended | | | |
|---|---|---|---|---|---|
| | | 31 December 2016 | | 31 December 2015 | |
| | Notes | Group | Bank | Group | Bank |
| *Net profit for the year* | | 43,666 | 41,677 | 23,819 | 21,151 |
| *Other comprehensive income (loss)* | | | | | |
| *Items that may be subsequently reclassified to profit or loss:* | | | | | |
| *Financial assets valuation gains taken to equity* | 15 | 1,479 | 1,458 | 790 | 868 |
| *Financial assets valuation result transferred to profit or loss* | 15 | (2,110) | (2,129) | (287) | (365) |
| *Amortisation of revaluation related to portfolio reclassified to held-to-maturity category* | 15 | (57) | (57) | (57) | (57) |
| *Deferred income tax on gain from revaluation of financial assets* | 8, 15 | 103 | 109 | (66) | (66) |
| *Other comprehensive income (loss), net of deferred tax* | | (585) | (619) | 380 | 380 |
| *Total comprehensive income for the year* | | 43,081 | 41,058 | 24,199 | 21,531 |
| *Total comprehensive income attributable to:* | | | | | |
| *Owners of the Bank* | | 43,081 | 41,058 | 24,199 | 21,531 |
| *From continuing operations* | | *43,046* | *41,058* | *15,561* | *21,310* |
| *From discontinued operations* | | *35* | *-* | *8,638* | *221* |
| *Non-controlling interest* | | - | - | - | - |
| | | 43,081 | 41,058 | 24,199 | 21,531 |

Chief Executive Officer — Vytautas Sinius

Chief accountant — Vita Adomaitytė

8 March 2017

The accounting policies and notes on pages 15 to 110 constitute an integral part of these financial statements.

(All amounts are in EUR thousand, unless otherwise stated)

# THE GROUP'S AND THE BANK'S STATEMENTS OF FINANCIAL POSITION

| | | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|---|
| | Notes | Group | Bank | Group | Bank |
| *ASSETS* | | | | | |
| *Cash and cash equivalents* | 10 | 153,867 | 152,111 | 105,012 | 104,286 |
| *Securities at fair value through profit or loss* | 12 | 57,427 | 26,103 | 71,116 | 42,726 |
| *Due from other banks* | 11 | 5,337 | 5,337 | 6,529 | 6,499 |
| *Derivative financial instruments* | 12 | 8,983 | 8,687 | 9,292 | 8,754 |
| *Loans to customers* | 13 | 953,609 | 994,155 | 851,296 | 912,669 |
| *Finance lease receivables* | 14 | 69,807 | 48,170 | 57,812 | 1,145 |
| *Investment securities:* | | | | | |
| *available-for-sale -* | 15 | 19,168 | 17,504 | 20,468 | 19,821 |
| *held-to-maturity -* | 15 | 524,054 | 524,054 | 494,645 | 494,645 |
| *Investments in subsidiaries* | 16 | - | 26,665 | - | 32,175 |
| *Intangible assets* | 17 | 4,180 | 1,210 | 3,770 | 798 |
| *Property, plant and equipment* | 18 | 11,469 | 10,532 | 10,946 | 10,023 |
| *Investment property* | 26 | 16,804 | 1,112 | 18,348 | 3,291 |
| *Current income tax prepayment* | | 70 | - | 46 | - |
| *Deferred income tax asset* | 8 | 665 | - | 1,385 | 46 |
| *Inventories* | 19 | 24,936 | - | 30,490 | - |
| *Other financial assets* | 19 | 4,136 | 3,078 | 2,551 | 2,169 |
| *Other non-financial assets* | 19 | 6,766 | 4,863 | 11,064 | 4,922 |
| *Assets classified as held for sale* | 20 | - | 58 | 270 | 13,888 |
| *Total assets* | | 1,861,278 | 1,823,639 | 1,695,040 | 1,657,857 |
| | | | | | |
| *LIABILITIES* | | | | | |
| *Due to other banks and financial institutions* | 21 | 89,793 | 92,079 | 50,376 | 53,383 |
| *Derivative financial instruments* | 12 | 175 | 175 | 136 | 136 |
| *Due to customers* | 22 | 1,495,087 | 1,495,478 | 1,436,388 | 1,436,712 |
| *Special and lending funds* | 23 | 28,326 | 28,326 | 8,191 | 8,191 |
| *Subordinated loan* | 30 | 22,064 | 22,064 | 20,457 | 20,457 |
| *Current income tax liabilities* | | 4,790 | 4,650 | 1,322 | 947 |
| *Deferred income tax liabilities* | 8 | 468 | 30 | 977 | - |
| *Liabilities related to insurance activities* | 24 | 25,515 | - | 23,515 | - |
| *Other financial liabilities* | 25 | 11,781 | 7,544 | 8,412 | 5,034 |
| *Other non-financial liabilities* | 25 | 3,758 | 350 | 4,673 | 484 |
| *Liabilities related to assets classified as held for sale* | 20 | 4 | - | 3,529 | - |
| *Total liabilities* | | 1,681,761 | 1,650,696 | 1,557,976 | 1,525,344 |
| | | | | | |
| *EQUITY* | | | | | |
| *Share capital* | 27 | 109,472 | 109,472 | 91,226 | 91,226 |
| *Reserve capital* | 27 | 756 | 756 | 756 | 756 |
| *Statutory reserve* | 27 | 4,157 | 4,157 | 2,468 | 2,290 |
| *Financial assets revaluation reserve* | | 311 | 277 | 896 | 896 |
| *Retained earnings* | | 64,821 | 58,281 | 41,718 | 37,345 |
| *Non-controlling interest* | | - | - | - | - |
| *Total equity* | | 179,517 | 172,943 | 137,064 | 132,513 |
| | | | | | |
| *Total liabilities and equity* | | 1,861,278 | 1,823,639 | 1,695,040 | 1,657,857 |

Chief Executive Officer — Vytautas Sinius

Chief accountant — Vita Adomaitytė

8 March 2017

The accounting policies and notes on pages 15 to 110 constitute an integral part of these financial statements.

(All amounts are in EUR thousand, unless otherwise stated)

# THE GROUP'S STATEMENT OF CHANGES IN EQUITY

| | Notes | Share capital | Share premium | Reserve capital | Financial assets revaluation reserve | Statutory reserve | Retained earnings | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to the owners of the Bank | | | | | | | | |
| *1 January 2015* | | 78,197 | 3,684 | 756 | 516 | 1,450 | 22,009 | 106,612 | - | 106,612 |
| *Transfer to statutory reserve* | | - | - | - | - | 1,018 | (1,018) | - | - | - |
| *Payment of dividends* | 29 | - | - | - | - | - | (196) | (196) | - | (196) |
| *Increase in share capital through bonus issue of shares* | 27 | 6,734 | (3,684) | - | - | - | (3,050) | - | - | - |
| *Increase in share capital on business combination* | | 6,192 | - | - | - | - | 257 | 6,449 | - | 6,449 |
| *Curency change of share capital* | 27 | 103 | - | - | - | - | (103) | - | - | - |
| *Total comprehensive income:* | | - | - | - | 380 | - | 23,819 | 24,199 | - | 24,199 |
| *Net profit* | | - | - | - | - | - | 23,819 | 23,819 | - | 23,819 |
| *Other comprehensive income* | | - | - | - | 380 | - | - | 380 | - | 380 |
| *31 December 2015* | | 91,226 | - | 756 | 896 | 2,468 | 41,718 | 137,064 | - | 137,064 |
| *Transfer to statutory reserve* | | - | - | - | - | 1,689 | (1,689) | - | - | - |
| *Payment of dividends* | 29 | - | - | - | - | - | (628) | (628) | - | (628) |
| *Increase in share capital through bonus issue of shares* | | 18,246 | - | - | - | - | (18,246) | - | - | - |
| *Total comprehensive income:* | | - | - | - | (585) | - | 43,666 | 43,081 | - | 43,081 |
| *Net profit* | | - | - | - | - | - | 43,666 | 43,666 | - | 43,666 |
| *Other comprehensive loss* | | - | - | - | (585) | - | - | (585) | - | (585) |
| *31 December 2016* | | 109,472 | - | 756 | 311 | 4,157 | 64,821 | 179,517 | - | 179,517 |

# THE BANK'S STATEMENT OF CHANGES IN EQUITY

| | Notes | Share capital | Share premium | Reserve capital | Financial assets revaluation | Statutory reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| *1 January 2015* | | 78,197 | 3,684 | 756 | 516 | 1,275 | 20,301 | 104,729 |
| *Transfer to statutory reserve* | | - | - | - | - | 1,015 | (1,015) | - |
| *Payment of dividends* | 29 | - | - | - | - | - | (196) | (196) |
| *Increase in share capital through bonus issue of shares* | 27 | 6,734 | (3,684) | - | - | - | (3,050) | - |
| *Increase in share capital on business combination* | | 6,192 | - | - | - | - | 257 | 6,449 |
| *Curency change of share capital* | 27 | 103 | - | - | - | - | (103) | - |
| *Total comprehensive income:* | | - | - | - | 380 | - | 21,151 | 21,531 |
| *Net profit* | | - | - | - | - | - | 21,151 | 21,151 |
| *Other comprehensive income* | | - | - | - | 380 | - | - | 380 |
| *31 December 2015* | | 91,226 | - | 756 | 896 | 2,290 | 37,345 | 132,513 |
| *Transfer to statutory reserve* | | - | - | - | - | 1,867 | (1,867) | - |
| *Payment of dividends* | 29 | - | - | - | - | - | (628) | (628) |
| *Increase in share capital through bonus issue of shares* | 27 | 18,246 | - | - | - | - | (18,246) | - |
| *Total comprehensive income:* | | - | - | - | (619) | - | 41,677 | 41,058 |
| *Net profit* | | - | - | - | - | - | 41,677 | 41,677 |
| *Other comprehensive loss* | | - | - | - | (619) | - | - | (619) |
| *31 December 2016* | | 109,472 | - | 756 | 277 | 4,157 | 58,281 | 172,943 |

The accounting policies and notes on pages 15 to 110 constitute an integral part of these financial statements.

(All amounts are in EUR thousand, unless otherwise stated)

# THE GROUP'S AND THE BANK'S STATEMENTS OF CASH FLOWS

| | | Year ended | | | |
|---|---|---|---|---|---|
| | | 31 December 2016 | | 31 December 2015 | |
| | Notes | Group | Bank | Group | Bank |
| *Operating activities* | | | | | |
| *Interest received on loans and advances* | | 53,682 | 46,835 | 49,937 | 41,700 |
| *Interest received on debt securities at fair value through profit or loss* | | 1,800 | 1,382 | 2,760 | 2,758 |
| *Interest paid* | | (13,106) | (13,112) | (19,087) | (19,092) |
| *Fees and commissions received* | | 14,115 | 13,711 | 12,158 | 12,002 |
| *Fees and commissions paid* | | (4,702) | (4,364) | (4,119) | (3,743) |
| *Net cash inflows from trade in securities at fair value through profit or loss* | | 14,915 | 16,558 | 26,150 | 52,027 |
| *Net inflows from foreign exchange operations* | | 4,812 | 4,583 | 3,437 | 2,914 |
| *Net inflows from derecognition of financial assets* | | 17,441 | 17,441 | 4,825 | 4,825 |
| *Cash inflows related to other activities of Group companies* | | 16,946 | 543 | 18,204 | 683 |
| *Cash outflows related to other activities of Group companies* | | (8,284) | - | (9,745) | - |
| *Recoveries on loans previously written off* | | 975 | 139 | 1,178 | 260 |
| *Salaries and related payments to and on behalf of employees* | | (18,190) | (15,408) | (16,661) | (13,263) |
| *Payments related to operating and other expenses* | | (7,800) | (4,750) | (10,265) | (6,953) |
| *Income tax paid* | *8* | (2,900) | (1,717) | (1,561) | (538) |
| *Net cash flow from operating activities before change in operating assets and liabilities* | | 69,704 | 61,841 | 57,211 | 73,580 |
| *Change in operating assets and liabilities:* | | | | | |
| *Decrease (increase) in due from other banks* | | 1,440 | 1,162 | (546) | (1,234) |
| *(Increase) in loans to customers and finance lease receivables* | | (129,184) | (140,921) | (110,645) | (133,359) |
| *Decrease (increase) in other assets* | | 5,601 | (4,044) | (3,157) | 2,951 |
| *Decrease (increase) in due to banks and financial institutions* | | 39,198 | 38,476 | (5,597) | (8,730) |
| *Increase (decrease) increase in due to customers* | | 59,975 | 59,984 | (37,916) | (32,108) |
| *Increase in special and lending funds* | | 20,135 | 20,135 | 5,692 | 5,692 |
| *Increase (decrease) in other liabilities* | | (3,059) | 195 | (3,587) | 2,006 |
| *Change* | | (5,894) | (25,013) | (155,756) | (164,782) |
| *Net cash flow from (used in) from operating activities* | | 63,810 | 36,828 | (98,545) | (91,202) |

| *Investing activities* | | | | | |
|---|---|---|---|---|---|
| *Acquisition of property, plant and equipment, investment property and intangible assets* | | (4,044) | (2,133) | (5,993) | (3,165) |
| *Disposal of property, plant and equipment, investment property and intangible assets* | | 2,692 | 2,740 | 10,282 | 10,515 |
| *Acquisition of held-to-maturity securities* | 15 | (87,659) | (87,659) | (165,939) | (165,939) |
| *Proceeds from redemption of held-to-maturity securities* | 15 | 55,794 | 55,794 | 118,516 | 118,977 |
| *Interest received on held-to-maturity securities* | 15 | 13,229 | 13,229 | 11,795 | 11,754 |
| *Dividends received* | 29 | 62 | 9,694 | 85 | 18,459 |
| *Acquisition of available-for-sale securities* | | (5,776) | (4,758) | (24,045) | (23,625) |
| *Sale or redemption of available-for-sale securities* | | 10,743 | 10,743 | 26,227 | 21,355 |
| *Interest received on available-for-sale securities* | | 628 | 580 | 1,056 | 1,056 |
| *Disposal of subsidiaries* | | - | - | - | 2,350 |
| *Inflows from subsidiaries held for sale* | 20 | - | 13,942 | 23,166 | - |
| *Business acquisition* | | 1 | - | 11,166 | 14,691 |
| *Instalments to cover losses and to strengthen the capital of subsidiaries* | 16 | - | (550) | - | (7,226) |
| *Net cash flow (used in) from investing activities* | | (14,330) | 11,622 | 6,316 | (798) |

| *Financing activities* | | | | | |
|---|---|---|---|---|---|
| *Payment of dividends* | 29 | (625) | (625) | (195) | (195) |
| *Net cash flow (used in) financing activities* | | (625) | (625) | (195) | (195) |

| | | | | | |
|---|---|---|---|---|---|
| *Net increase (decrease) in cash and cash equivalents* | | 48,855 | 47,825 | (92,424) | (92,195) |
| *Cash and cash equivalents at 1 January* | | 105,012 | 104,286 | 197,436 | 196,481 |
| *Cash and cash equivalents at 31 December* | 10 | 153,867 | 152,111 | 105,012 | 104,286 |

The accounting policies and notes on pages 15 to 110 constitute an integral part of these financial statements.

# GENERAL INFORMATION

Šiaulių Bankas AB was registered as a public company in the Enterprise Register of the Republic of Lithuania on 4 February 1992. The Bank is licensed by the Bank of Lithuania to perform all banking operations provided for in the Law on Banks of the Republic of Lithuania and the Charter of the Bank. In this document, Šiaulių Bankas AB is referred to as the Bank, Šiaulių Bankas AB and its subsidiaries - the Group.

The Head Office of the Bank is located in Šiauliai, Tilžės str. 149, LT-76348. At the end of the reporting period the Bank had 68 customer service outlets (2015: 70 outlets). As at 31 December 2016 the Bank had 722 employees (31 December 2015: 719). As at 31 December 2016 the Group (except subsidiaries held for sale) had 829 employees (31 December 2015: 861 employees).

The Bank accepts deposits, issues loans, makes money transfers and documentary settlements, exchanges currencies for its clients, issues and processes debit and credit cards, is engaged in trade finance and is investing and trading in securities, as well as performs other activities set forth in the Law on Banks of the Republic of Lithuania and the Charter of the Bank.

The Bank's shares are listed on the Baltic Main List of the NASDAQ Stock Exchange.

As of 31 December 2016 the Bank owned the following directly controlled subsidiaries:

1. Bonum Publicum GD UAB (life insurance activities),
2. Minera UAB (real estate management activities),
3. Pavasaris UAB (development of the area of multi-apartment residential houses),
4. SB Lizingas UAB (consumer financing activities),
5. SBTF UAB (real estate management activities),
6. Šiaulių Banko Investicijų Valdymas UAB (investment management activities),
7. Šiaulių Banko Lizingas UAB (finance and operating lease activities),
8. Šiaulių Banko Turto Fondas UAB (real estate management activities).

As of 31 December 2016 the Bank owned the following indirectly controlled subsidiaries:

9. Apželdinimas UAB (real estate management activities),
10. Sandworks UAB (real estate management activities).

As of 31 December 2015 the Bank owned directly controlled subsidiaries held for sale:

11-15. ŽSA 1 UAB, ŽSA 2 UAB, ŽSA 3 UAB , ŽSA 4 UAB , ŽSA 5 UAB (real estate management activities).

As of 31 December 2016 the Bank had the indirectly controlled subsidiary held for sale:

16. Žalgirio Sporto Arena UAB (real estate management activities).

As of 31 December 2015 the Bank owned the following directly controlled subsidiaries:

1. Bonum Publicum GD UAB (life insurance activities),
2. Minera UAB (real estate management activities),
3. Pavasaris UAB (development of the area of multi-apartment residential houses),
4. SB Lizingas UAB (consumer financing activities),
5. SBTF UAB (real estate management activities),
6. Šiaulių Banko Investicijų Valdymas UAB (investment management activities),
7. Šiaulių Banko Lizingas UAB (finance and operating lease activities),
8. Šiaulių Banko Turto Fondas UAB (real estate management activities).

As of 31 December 2015 the Bank owned the following indirectly controlled subsidiaries:

9. Sandworks UAB (real estate management activities),

As of 31 December 2015 the Bank owned directly controlled subsidiaries held for sale:

10. Investicinio Turto Valdymas UAB (real estate management activities),
11. Trade Project UAB (real estate management activities),

12.-16. ŽSA 1 UAB, ŽSA 2 UAB, ŽSA 3 UAB , ŽSA 4 UAB , ŽSA 5 UAB (real estate management activities).

As of 31 December 2015 the Bank had the indirectly controlled subsidiary held for sale:

17. Žalgirio Sporto Arena UAB (real estate management activities).

Investments in subsidiaries are described in more detail in Note 16 *Investments in subsidiaries*.

Investments in subsidiaries held for sale are described in more detail in Note 20 *Assets classified as held for sale.*

The Bank's shareholders structure is disclosed in Note 27 *Share capital*.

## ACQUISITION OF FINASTA

On 17 July 2015 the Bank acquired 100% shares of bank Finasta AB and brokerage firm Finasta AB and gained control over these entities. In settlement for the shares, the Bank presented 21.35 million new shares with a total nominal value of EUR 6.19 million to AB Invalda INVL for subscription. The new issue was registered and Invalda INVL AB obtained ownership rights to the shares of the new issue only after permission was received from the Bank of Lithuania. The procedures were finalised and the registration procedures of the amendments of the Bank's Charter were finalised on 14 September 2015.

(All amounts are in EUR thousand, unless otherwise stated)

# GENERAL INFORMATION (continued)

The fair values of the consideration paid and assets and liabilities acquired on the date of acquisition are presented in the table below:

| | |
|---|---|
| *Fair value of net assets acquired:* | |
| Cash and funds with the central bank | 11,166 |
| Financial assets at fair value through profit or loss | 41,461 |
| Loans and receivables | 15,102 |
| Available-for-sale securities | 342 |
| Property, plant and equipment | 41 |
| Intangible assets | 74 |
| Deferred tax assets | 233 |
| Other assets | 684 |
| Financial liabilities at fair value through profit or loss | (636) |
| Financial liabilities carried at amortised cost | (61,182) |
| Provisions | (43) |
| Other liabilities | (793) |
| **Total identifiable net assets acquired** | **6,449** |
| | |
| **Fair value of the consideration paid in issued shares** | **6,449** |

Acquisition-related costs (EUR 105 thousand) are included in the operating expenses of year 2015.

The following valuation techniques were used in establishing fair values of assets and liabilities acquired:

- Fair values of securities were established using market price quotations (Level I in fair value measurements hierarchy);
- Fair values of derivatives were obtained using valuation techniques that maximise the use of observable market data where it is available and rely on as little as possible on entity specific estimates (Level II in fair value measurement hierarchy);
- Fair values of other items of assets and liabilities were derived using valuation techniques attributable to Level III in the fair value measurement hierarchy (discounted cash flows was the valuation technique used the most).

Had bank Finasta AB and brokerage firm Finasta AB been consolidated in the Group from the beginning of the year, the Group's net profit for the year 2015 would have been EUR 24,077 thousand.

On December 21 2015 the bank Finasta AB and brokerage firm Finasta AB were merged with the Bank. The amended Charter of the Bank was registered at the Register of Legal Entities, and the bank Finasta AB and brokerage firm Finasta AB were deregistered from the Register of Legal Entities, therefore the reorganization of the bank Finasta AB and brokerage firm Finasta AB by merge with the Bank was closed. The licenses of the bank Finasta and brokerage firm Finasta were revoked, the Bank took over all assets, rights and liabilities of the bank Finasta AB and brokerage firm Finasta AB.

# ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

## Basis of preparation

The financial statements of the Group and the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. The financial statements have been prepared under the historical cost convention as modified for the revaluation of available-for-sale investment securities, financial assets and financial liabilities held for trading, all derivative financial instruments and investment properties.

The preparation of financial statements in conformity with International Financial Reporting Standards require the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

These financial statements combine the consolidated financial statements for the Group and stand-alone financial statements of the Bank. Such format of reporting was adopted to ensure consistency of presentation with the format prescribed by the Bank of Lithuania and applied for statutory reporting.

Amounts shown in these financial statements are presented in the national currency the euro (EUR), which is the Bank's and Group's functional and presentation currency. Until 31 December 2014, the currency of the Republic of Lithuania was the litas (LTL). The litas was pegged to the euro at the exchange rate of LTL 3.4528 to EUR 1. With effect from 1 January 2015, Lithuania joined the euro area and the euro became its national currency. The euro replaced the litas at the exchange rate of LTL 3.4528 to EUR 1. The conversion of the authorised share capital is disclosed in Note 27.

Amendments to existing standards and interpretations effective in 2016

Defined Benefit Plans: Employee Contributions - Amendments to IAS 19 (effective for annual periods beginning on or after 1 February 2015). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment did not have any impact on the Bank's and the Group's financial statements.

Annual Improvements to IFRSs 2012 (effective for annual periods beginning on or after 1 February 2015). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The amendments did not have a material impact on the Bank's and the Group's financial statements.

Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (effective for annual periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendment did not have any impact on the Bank's and the Group's financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (effective for annual periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment did not have any impact on the Bank's and the Group's financial statements.

Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (effective for annual periods beginning on or after 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The amendment did not have any impact on the Bank's and the Group's financial statements.

Equity Method in Separate Financial Statements - Amendments to IAS 27(effective for annual periods beginning on or after 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Group did not introduce the alternative accounting treatment of the amendments to its separate financial statements.

Annual Improvements to IFRSs 2014 (effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale ore distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The amendments did not have a material impact on the Bank's and the Group's financial statements.

Disclosure Initiative – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2016). The standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The amendment did not have a material impact on the Bank's and the Group's financial statements.

Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28 (effective for annual periods beginning on or after 1 January 2016). The standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements. The amendments did not have any impact on the Bank's and the Group's financial statements.

<u>Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Bank and the Group</u>

IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements. Preliminary analysis shows that the impact of IFRS 15 adoption will not be very material to the Group as the majority of Group's revenues are out of scope of IFRS 15 regulations.

Revenue from Contracts with Customers - Amendments to IFRS 15 (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard. The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 14, Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016; not yet adopted by the EU). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. The Group is not eligible to apply the standard.

Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2017; not yet adopted by the EU). The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Group is currently assessing the impact of the amendments on its financial statements.

Disclosure Initiative - Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017; not yet adopted by the EU). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of the amendment on its financial statements.

Annual Improvements to IFRSs 2014–2016 Cycle (effective for annual periods beginning on or after 1 January 2017 (changes to IFRS 12) or 2018 (changes to IFRS 1 and IAS 28)); not yet adopted by the EU). The improvements impact three standards. The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. IFRS 1 was amended to delete some of the short-term exemptions from IFRSs after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that venture capital organisations or similar entities have an investment-by- investment choice for measuring investees at fair value. Additionally, the amendment clarifies that if an investor that is not an investment entity has an associate or joint venture that is an investment entity, the investor can choose on an investment-by-investment basis to retain or reverse the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The Group is currently assessing the impact of the amendments on its financial statements.

## ACCOUNTING POLICIES (continued)

IFRS 9, Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group expects the new standard to have a material impact on its financial statements and currently is actively preparing for the introduction of this new reporting standard. In 2016, the Board of the Bank appointed a workgroup and a steering committee responsible for the IFRS9 implementation. The Group performed a preliminary IFRS9 introduction impact assessment which is taken into account in Group's strategic planning process. The Group anticipates that the transition to IFRS9 will not result in breaches of any regulatory ratios including capital adequacy. The management considers that at this moment it is still inapropriate to present any quantitative IFRS9 impact disclosures since the IFRS9 model to be implemented by the Group is not finalised yet. At the end of 2016, the model for the calculation of impairment losses according to IFRS9 principles was in the final stages of design (main decisions regarding the model and its parameters including algorithm for calculations were made; assessment of macroeconomic overlay is to be included in the model), changes in IT systems were initiated. The Group plans to finalize and validate its model in 2017, and to run parallel calculations from the middle of 2017. Other remaining IFRS9 implementation works for 2017 include taking decisions on classification of securities, documenting the changes, organizing internal trainings.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply overlay approach; not yet adopted by the EU). The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches. (1) The amended standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued ('overlay approach'). In addition, the amended standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard - IAS 39. The amendments to IFRS 4 supplement existing options in the standard that can already be used to address the temporary volatility. The Group is currently assessing the impact of the amendments on its financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (effective date to be determined by the IASB; not yet adopted by the EU). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary and the shares of the subsidiary are transferred during the transaction. The Group does not expect the amendments to have an impact on its financial statements.

## ACCOUNTING POLICIES (continued)

Share-based Payments -Amendments to IFRS 2 (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety. Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. The Group is currently assessing the impact of the amendments on its financial statements.

Transfers of Investment Property - Amendments to IAS 40 (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The amendment clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence; a change in intention, in isolation, is not enough to support a transfer. The Group is currently assessing the impact of the amendments on its financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The interpretation clarifies that the date of transaction, i.e the date when the exchange rate is determined, is the date on which the entity initially recognises the non-monetary asset or liability from advance consideration. However, the entity needs to apply judgement in determining whether the prepayment is monetary or non-monetary asset or liability based on guidance in IAS 21, IAS 32 and the Conceptual Framework. The Group is currently assessing the impact of the interpretation on its financial statements.

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements.

### Consolidation of subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

## ACCOUNTING POLICIES (continued)

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

If the total of consideration transferred, non-controlling interest recognised and eviously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between the Group companies (including subsidiaries classified as held for sale) are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Bank.

Subsidiaries in the stand-alone financial statements are accounted for at cost less impairment. Dividend from a subsidiary is recognised in profit or loss in when the Bank's right to receive the dividend is established.

The Group's share of post-acquisition profit or loss is recognised in the statement of comprehensive income, and its share of post acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

### Foreign currency translation

*(a) Functional and presentation currency*
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in the euro, which is the Bank's functional and presentation currency. Euro also is functional and presentation currency of all the subsidiaries of the Bank included in the consolidated financial statements.

*(b) Transactions and balances*
All monetary assets and liabilities denominated in foreign currencies are translated into the euro (EUR) at the official daily euro foreign exchange reference rates (published by the European Central Bank) prevailing at the end of the reporting period. Gains and losses arising from this translation are included in the statement of comprehensive income for the reporting period. All non-monetary liabilities and assets are translated using the exchange rate prevailing on the date of acquisition.

Foreign currency transactions are recorded in the euro using the exchange rate ruling on the date of the transaction. Exchange differences arising from the settlement of transactions denominated in foreign currency are charged to the statement of comprehensive income at the time of transaction using the exchange rate ruling at that date.

### Off-setting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### Recognition of income and expenses

Interest income and expense are recognised in the statement of comprehensive income on all debt instruments on an accrual basis using the effective interest method based on the actual purchase price. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Loan origination fees are accounted for as an adjustment to the effective interest rate calculation for each issued loan separately. Other commission fees and other similar income and expenses are recognised as gained or incurred.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### Dividend income

Dividends are recognised in the statement of comprehensive income when the Bank's or Group's right to receive payments is established.

## ACCOUNTING POLICIES (continued)

### Taxation

*a) Income tax*

In accordance with the Lithuanian Law on Corporate Profit Tax, taxable profit for 2016 and 2015 period is subject to income tax at a rate of 15%. Expenses related to taxation charges and included in these financial statements are based on calculations made by the management in accordance with the Lithuanian regulatory legislation on taxes.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from taxable losses deferred for future periods, revaluation of securities, difference between net book value and tax base of tangible fixed assets and accrued charges. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

*b) Other taxes*

Real estate tax rate is up to 1% on the tax value of tangible fixed assets and foreclosed assets. The Bank is also obliged to pay land and land lease taxes, make payments to guarantee fund and social security contributions. These taxes are included in other expenses in the statement of comprehensive income.

### Discontinued operations

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. The result of discontinued operations is presented separately from the result of continuing operations in the statement of comprehensive income. Assets and liabilities attributable to a disposal group classified as held for sale or non-current asset classified as held for sale are presented separately from other assets and liabilities in the statement of financial position. The disclosures in for prior periods presented in the financial statements are restated so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

### Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with the Bank of Lithuania, treasury bills and other eligible bills, amounts due from banks and financial institutions and short-term government securities.

### Financial assets

Financial assets are classified into 4 categories: financial assets at fair value through profit and loss (the Group and the Bank have two subcategories – held for trading and designated at initial recognition), investments held to maturity, loans and receivables, financial assets available for sale. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

*Securities at fair value through profit or loss*

Trading securities are securities which were acquired either for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists.

Financial assets are designated at fair value through profit or loss when certain investments, that are managed and evaluated on a fair value basis in accordance with a documented risk strategy management and reported to key management on that basis, are designated at fair value through profit or loss. The Group's subsidiary involved in life insurance activities has designated at fair value through profit or loss its investment portfolio which is managed on behalf of customers.

## ACCOUNTING POLICIES (continued)

Securities at fair value through profit or loss are initially recognised at fair value, which is based on transaction priceand are subsequently measured at fair value based on quoted bid prices or derived from a discounted cash flow model if market price is unreliable measure. All related realised and unrealised gains and losses are included in net trading income. Interest earned is reported as interest income. Dividends received are included in dividend income. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

All purchases and sales of securities at fair value through profit or loss that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at settlement date, which is the date when payment is made for assets purchased or sold. Otherwise such transactions are treated as derivatives until settlement occurs.

*Securities available for sale*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss. Management determines the appropriate classification of its investments at the time of the purchase.

Available-for-sale securities are measured at fair value based on quoted bid prices or amounts derived from discounted cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are recognised directly in other comprehensive income through the Statement of comprehensive income except for impairment losses and foreign exchange gains or losses. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is recognised in the statement of comprehensive income. However, interest calculated using the effective interest rate is recognised in the statement of comprehensive income.

*Securities held to maturity*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective yield method, less any provision for impairment. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

If the Group were to sell other than an insignificant amount of held-to–maturity assets, the entire category would be reclassified as available for sale.

Interest earned whilst holding securities is reported as interest income.

Dividends receivable related to equity securities classified as trading or available for sale are included separately in dividend income when the Bank's right to receive payments is established.

All regular way purchases and sales of securities are recognised at settlement date, which is the date when payment is made for assets purchased or sold**.** All other purchases and sales are recognised as derivative forward transactions until settlement.

*Loans*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the bank upon initial recognition designates as at fair value through profit or loss; (b) those that the bank upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Loans are carried at amortised cost. All loans and advances are recognised when cash is advanced to borrowers. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of comprehensive income as 'Allowance for impairment losses'.

Impairment of financial assets

The Group assesses whether objective evidence of impairment exists individually for financial assets that are individually significant as well as for those that are not individually significant. Losses on loan and held-to-maturity investment impairment are established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the impairment losses is the difference between the carrying amount and the recoverable amount, being the present value of future expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

When a loan is uncollectible, it is written off against the related provision for loan impairment after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the Statement of comprehensive income in impairment charge for credit losses.

In the case of investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income – is removed from other comprehensive income and recognised in the statement of comprehensive income.

### Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested for impairment at least annually. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### Reverse repurchase transactions

Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers, as appropriate. The difference between purchase and repurchase price is treated as interest and accrued over the life of agreement using the effective interest method. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

Reverse repurchase agreements are classified as loans and receivables and are accounted for using the amortised cost method.

### Intangible assets

Intangible assets are stated at cost less accumulated amortisation. Intangible assets are amortised using the straight-line method over their estimated useful life (see note 17).

### Property, plant and equipment

Tangible fixed assets are stated at historical cost less accumulated depreciation. Depreciation is provided on a straight-line basis to write off proportionally the cost of each asset over its estimated useful life.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals of fixed assets are determined by reference to their carrying amount and are charged to the Statement of comprehensive income.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Asset maintenance costs are charged to the statement of comprehensive income when they are incurred. Significant improvements of assets are capitalised and depreciated over the remaining useful life period of the improved asset. Borrowing costs that are directly attributable to the acquisition or construction of assets requiring substantial amount of time to get ready for their usage are capitalized. Useful lives of property, plant and equipment are disclosed in note 18.

### Leases

*a) Group company is the lessee*

Operating leases

Leases where a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. The total payments made under operating leases are charged to the Statement of comprehensive income on a straight-line basis over the period of lease.

*b) Group company is the lessor*

Operating leases

Assets leased out under operating leases are included in tangible fixed assets in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned fixed assets. Rental income is recognised on a straight-line basis over the lease term.

Finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

## Inventories

Inventories of the Group consist mainly of apartments held for sale and property for development. They are stated at the lower of cost and net realizable value. Net realizable value for apartments held for sale are calculated as based on market value of apartments less costs to sell. Net realizable value of property for development are calculated as discounted cash inflows to be received from developed property less discounted cash outflows related to the development and selling of a property.

## Financial liabilities

The Group's financial liabilities consist of those designated at fair value and those carried at amortised cost. Financial liabilities are derecognised when extinguished.

*Financial liabilities at fair value through profit or loss*

The group designated certain debt securities upon initial recognition as at fair value through profit or loss (fair value option); this designation cannot be changed subsequently. According to IAS 39, the fair value option is applied, as the debt securities consists of debt host and embedded derivatives that must otherwise be separated. The Group has designated as a financial liability at fair value through profit or loss its subordinated debt with embedded option. This financial liability is presented in the *Subordinated debt* line in the Statement of Financial Position.

*Other liabilities measured at amortised cost*

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers, debt securities in issue, liabilities to special and lending funds as well as other various financial liabilities. Initially they are recognised at fair value, and subsequently stated at amortised cost, with any difference between net proceeds and the redemption value recognised in the Income statement over their period using the effective interest method.

## Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be reliably estimated.

## Technical provisions

Technical provisions are computed in accordance with Lithuanian insurance supervisory authority (Bank of Lithuania) requirements and are based on assumptions and estimates, the adequacy of which is evaluated based on observations of historical and current data and the use of projection methods that consider developing trends in experience and that adjust for changes in circumstances.

*a) Unearned premiums reserve*

Unearned premiums reserve represents the part of premiums written which relates to the period of risk subsequent to the accounting period. Unearned premiums reserve is calculated for every contract separately by proportionate distribution of the written premium throughout the risk period. The part of unearned premiums reserve attributable to the reinsurers is calculated by the same method.

*b) Outstanding claims reserve*

Outstanding claims reserve represents amounts payable for claims outstanding. Provision covers all anticipatory payments for claims reported but not settled, claims incurred but not reported, claims reported, settled but not paid, including amounts required for claims settlement according to all above mentioned claims as of the financial statement date.

Base for calculation of provision for claims reported but not settled is an individual evaluation of every reported claim, according to the information available at the moment of calculation of this technical provision.

The part of provision for claims incurred, not reported is calculated using "Chain-ladder", Bornhuetter – Ferguson or Loss-ratio methods for insurance products separately.

The part of outstanding claims reserve attributable to the reinsurers is calculated under reinsurance contracts.

*c) Life insurance mathematical provision*

Life insurance mathematical provision is calculated individually for every policy applying an actuarial conservative perspective assessment. Life insurance mathematical provision is a difference of the actuarially discounted value of the future policy benefits less the discounted value of the future premium payments.

The method of assessment can be described as prospective net premium method. For the calculations Zillmer adjustment method is applied. Thus deferred acquisition costs reduce life insurance mathematical technical reserve.

When computing the life insurance mathematical technical provision mortality tables of general population of Lithuania for the years 1993 – 1996, that were modified in year 2007 according the situation of the population of Lithuania are applied. Guaranteed interest rate is applied according to agreements but no more than 3.5%.

According to the profit (surplus) sharing rules, the contract of the endowment, pure endowment, pension and scholarship insurance, valid more than three years, participates in the profit (surplus) sharing of the insurer. The insurers profit share calculated for the insurance agreement is not paid at once but increases the claims in case of death or/and survival till the end of insurance period, also the surrender values are increased respectively. The profit (surplus) calculated for insurance product, is ascribed to the mathematical technical provision.

*d) Technical provision for unit-linked life insurance policies*

Technical provision for unit-linked life insurance policies is calculated using retrospective method. Technical provision is calculated by adding invested premiums less charges applied to the policy holder to cover expenses and the risk assumed. The technical provision is expressed in investment units which are reprised in accordance with changes in market values of related investments.

Insurance contracts

Bank's subsidiary Bonum Publicum (the company) is engaged in life insurance activities and offers various insurance contracts, main categories of which include:

*a) Long-term insurance contracts with fixed and guaranteed terms*

These contracts insure events associated with human life (for example death or survival) over a long duration. Premiums are recognized as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission.

Benefits are recorded as expenses when they are incurred.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognized. Life insurance mathematical provision for these insurance contracts is calculated as described in accounting policies above.

The liabilities are recalculated at each balance sheet date using the assumptions established at inception of the contract.

*b) Long-term insurance contracts without fixed terms – unit-linked*

These contracts insure human life events (for example death or survival) over a long duration. The company does not unbundle deposit component separately from insurance component as:

- deposit element is not clearly identifiable from the terms of the contract;
- contracts of this kind are a single product, regulated as insurance business by insurance supervisory authority and should be treated in a similar way for financial reporting;
- the information about gross premium inflows is considered to be important as an aid to economic decisions.

(All amounts are in EUR thousand, unless otherwise stated)

Gross insurance premiums are recognized as revenue when they are received from the policyholder and the respective liability is recognized. Technical provision for unit-linked life insurance policies and mathematical provision for these insurance contracts is calculated is described in accounting policies above.

A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract to units of an internal investment fund set up by the company with the consideration received from the contract holders. This embedded derivative meets the definition of an insurance contract and is not therefore accounted for separately from the host insurance contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

*c) Liability adequacy test*

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off deferred acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

As mentioned above, long-term insurance contracts with fixed terms are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margin for adverse deviation) are used for the subsequent measurement of these liabilities.

Any deferred acquisition costs written off as a result of this test cannot subsequently be reinstated.

For the years ended 31 December 2016 and 2015 the liability adequacy test and the changes were as follows:

| | Technical provisions | Deferred acquisition cost | Best estimate of future cash flows | Adequacy of technical provisions |
|---|---|---|---|---|
| At 31 December 2015 | 23,541 | 586 | 15,858 | 7,097 |
| Change for the period | 1,974 | 57 | 2,405 | (488) |
| At 31 December 2016 | 25,515 | 643 | 18,263 | 6,609 |

## Dividends

Dividends on the Bank's shares are recorded in equity in the period in which they are declared.

## Employee benefits

a) *Social security contributions*

The Group companies pay social security contributions to the state Social Security Fund (the Fund) on behalf of their employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs. Social security contributions each year are allocated by the Fund for pension, health, sickness, maternity and unemployment payments.

*b) Termination benefits*

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it can no longer withdraw the offer of those benefits; or when recognises costs for a restructuring that involves the payment of termination benefits. Benefits falling due more than 12 months after balance sheet date are discounted to present value. Termination benefits are included within staff costs in the Statement of comprehensive income and within other liabilities in the balance sheet.

## ACCOUNTING POLICIES (continued)

### Segment information

Operating segments are reported in accordance with the information analysed by the Executive Board (the chief operating decision-maker) of the Group, which is responsible for allocating resources to the reportable segments and assesses its performance.

The Group has four main business segments:

- Traditional banking operations and lending – includes traditional retail and corporate banking operations such as issuing loans and providing banking services to the customers and finance, operating lease and consumer financing services provided to customers of the Group (includes financial information of the Bank allocated to this segment and financial information of Šiaulių Banko Lizingas UAB and SB Lizingas UAB);
- Treasury – includes banking treasury operations such as managing securities and liquidity portfolio, currency exchange etc. (includes financial information of the Bank allocated to this segment);
- Non-core banking activities - includes other banking operations not included in traditional lending and treasury segments such as lending to subsidiaries (except for lending to leasing and consumer financing subsidiaries), revenues/expenses related to investment in subsidiaries (dividends, impairment of investment in subsidiaries), engagement in one-off projects, managing problem loans (includes financial information of the Bank allocated to this segment);
- Other activities – includes other activities performed by Group companies not included in previous segments – i.e. real estate operations, life insurance, investment management (includes financial information of the subsiaries not mentioned above).

In 2016, the Group changed the definition of segments in its financial statements because its management believes that the integration of activities of Šiaulių Banko Lizingas UAB to the Bank (in 2016, new finance lease contracts were issued by the Bank; some of the old finance lease contracts have been transfered from the leasing company to the Bank, and some remained at the leasing company while in 2015 the whole finance lease activity was within finance lease segment) makes the segment reporting using financial information of the Group's previously reported segments incomparable and misleading.

As the Group's segment operations, except for real estate development are all financial with a majority of revenues deriving from interest and the Group Executive Board relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments is presented on a net basis. Also all other main items of the statement of comprehensive income are analysed by the management of the Group on segment basis therefore they are presented in the segment reporting.

Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the Group Executive Board is measured in a manner consistent with that in the consolidated statement of comprehensive income. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments.

The Group's management reporting is based on a measure of profit before taxes comprising net interest income, net fee and commission income, loan impairment charges, operating expenses, amortization and depreciation expenses and other net income.

### Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

### Fair value of assets and liabilities

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

### Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the Statement of comprehensive income the fee income earned on a straight-line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. Any increase in the liability relating to guarantees is taken to the Statement of comprehensive income under other operating expenses.

### Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

## Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

## Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the entities in the consolidated group, are classified as investment properties. Investment properties comprise buildings for commercial activities and land plots for undetermined future use.

Some properties may be partially occupied by the Group, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Group can be sold separately, the Group accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40. When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. The Group considers the owner-occupied portion as insignificant when the property is more than 95% held to earn rental income or capital appreciation. In order to determine the percentage of the portions, the Group uses the size of the property measured in square meters.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured at cost less less accumulated depreciation. Depreciation is provided on a straight-line basis to write off proportionally the cost of each asset over its estimated useful life . All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

In addition, impairment properties are tested for impairment. These valuations are performed annually by external or internal appraisers.

## Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets (for example, for exchange-traded options), including recent market transactions, and valuation techniques (for example for non-traded options), including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as interest rate floor in a loan granted, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the profit or loss.

# FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Bank's and the Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers and borrows from other financial institutions at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

Strategic decisions related to financing and investing activities of the Bank and the Group is made by the Board of the Bank. Operating financing and investment decisions are made on division level. Divisions of the Group are presented in Segment information. Decisions on risk management are made by the Risk Management Committee of the Bank. Risk Management Policy is approved and monitored by the Board of the Bank.

The Bank and the Group also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-balance sheet loans and advances but the Group also enters into guarantees and other commitments such as letters of credit and other guarantees.

The Group analyses, evaluates, accepts and manages the risk or combination of risks it is exposed to. Risk management at the Group aims at ensuring a sufficient return on equity following the conservative risk management policy. While implementing an advanced risk management policy the Group focuses not only on minimising potential risk but also on improving pricing and achieving efficient capital allocation.

The Risk Management Policy approved by the Council of the Bank as well as by the procedures to manage different types of risks prepared on its basis ensures the integrity of the risk management process in the Group.

The purpose of risk management policy is to define the risks as well as their management principles in the Group's activities. Due to the fact that various risks experienced by the Group are interdependent their management is centralized. Organization and coordination of the experienced risk management system is one of the main goals of the Bank's Risk Management Committee.

The Group reviews its risk management procedures and systems to reflect changes in markets, products and emerging best practice on regular basis, at least annually.

The Group performs self assessment each year. This process analyses types of risks that could potentially arise from banking activities and have material impact to the Group. The most important types of risk the Group is exposed to are credit risk, market risk, liquidity risk, concentration risk, operational risk, IT risk and compliance risk. Market risk includes currency risk, interest rate and securities price risk. Other types of risk are considered immaterial by the Group and, therefore, are not assessed.

In order to avoid a conflict of interest the Bank's subdivisions that implement risk management functions are separated from those subdivisions the direct activities of which are connected with the up rise of various types of banking risks.

1. Credit risk

Credit risk is defined as the risk for the Group to incur losses due to the Group's customers' failure to fulfil their financial obligations towards the Group. Credit exposures arise principally in lending activities and it is the most significant risk in the Group's banking activities.

There is also credit risk in investment activities that arise from debt securities and in the Group's asset portfolio as well as in the off-balance sheet financial instruments, such as loan commitments, guarantees and letters of credit.

The Bank regularly reviews its credit risk management policies which include lending policies, credit risk limit control, other credit risk mitigation measures as well as the internal control and internal audit of credit risk management.

The Bank's Board has approved the credit risk management policies and procedures which lay down the principles for credit risk management, establish an acceptable level of credit risk and credit risk's structure and determine credit risk mitigation measures and their interaction. This ensures a uniform understanding of the principles for taking on exposure to credit risk and allows achieving consistency with the nature and complexity of the Bank's lending policy and the requirements of the Bank of Lithuania.

The Bank takes risks only in the fields, which are well known to it and where it has long-term experience, trying to avoid excessive risk in transactions that can have negative influence to the big portion of shareholders' equity but seeks the sufficient profitability which, in terms of increasing competition, would ensure the stable Bank's position in the market and would increase the Bank's value. In assessing exposure to credit risk, the Bank adheres to the principle of prudence.

The Bank's lending policy is focused on small and medium-size business clients, seeking to provide them with the better funding terms and long-term support, at the same time paying attention to Bank's potential to grow.

Large entities are defined as entities employing more than 250 employees. Small and medium size entities are defined as entities employing less than 250 employees and the balance sheet total does not exceed EUR 43 million or annual turnover does not exceed EUR 50 million.

New types of activities or products are launched only after the assessment of the arising risk. All lending products and processes at the Bank are regulated and documented pursuant to the requirements of risk assessment and internal control policy. Special procedures are established with respect to each lending product.

The aim of the Bank's credit risk management policy is to ensure that the conflict between interests of staff or structural units is avoided. With respect to provision of credits to clients, the principle stating that profit should not be earned at the expense of excessive credit risk is observed.

The Bank's credit risk management policy is based on the best practice in risk management of other banks. Therefore, the Bank's employees continuously enhance their knowledge of credit risk management systems of Lithuanian and foreign banks and the results of their application.

1.1. Credit risk measurement

*(a) Loans and receivables*

The Bank applies credit risk management measures, which could relevantly be divided into two types:
1) Measures that help to avoid decisions to grant unsecured loans;
2) Measures ensuring the effective monitoring system of the Bank's asset quality.

Measures that help to avoid decisions to grant unwarrantably risky credits include:
1) Multi-stage decision-making and its approval system;
2) Risk allocation among structural levels – limit establishment;
3) Security measures for credit repayment (collateral).

Multi-stage decision-making and its approval system has an aim not to make one-man decisions regarding credit granting by authorized persons but to make them be discussed by the collegial bodies of the Bank and, as the case may be, by the Bank's Loan Committee, the Bank's Board or Council. There are certain limits to authorized persons established regarding credit granting implementation as well as approval limits to collegial bodies. Limit establishment depends on the authorized persons' qualification, experience and the effectiveness of their managed branches; while in the Branch Committees and the Bank Loan Committee the attention is paid to the Committee members' qualification, experience and economic activity of the region, where the branch is located, the quality of loan portfolio and other factors.

It is very important to precisely analyse all the information about the customer before granting the credit. The goal of credit analysis is to do the best in evaluating the customer's status and prospects in the field where he/she provides his/her goods or services. The repayment of credits granted by the Bank must be enough secure in order to minimize possible credit repayment risks. A security measure has to be chosen in accordance with the credit type. Providing credit first of all the Bank analyses the borrower's financial capacity and credit repayment possibilities from the borrower's cash flows.

Credit administration and constant credit monitoring is the main principle in the Bank's security and reliability maintenance. The proper credit administration includes the timely updating of the borrower's credit file, providing with the latest financial information, the timely introduction of latest financial information to the database and preparation of the various documents and their amendments.

The Bank's Credit Risk Department collects and, if necessary, provides to responsible managerial personnel information on external conditions, the growth of the credit portfolio and fulfilment of targeted profit, expenses associated with risks, the largest amounts due from clients, distribution of credits by the type of economic activity, repayment terms past due, the largest clients with default possibilities, analysis of the credit portfolio by risk groups, changes in risk groups over a certain time period.

The Bank establishes and implements the procedures, improves information systems for monitoring separate credits as well as loan portfolio. These procedures include the criteria for early indication of potentially impaired loans and other transactions.

*(b) Debt securities*

Credit risk exposures with respect to debt securities are managed by carrying out counterparty analysis when decision for acquisition of securities is made. The concentration risk together with lending exposure arising from debt securities portfolio is analysed and monitored on a regular basis by the Risk Management Committee of the Bank.

*(c) Credit-related commitments*

Other credit-related commitments assumed by the Group include guarantees, letters of documentary credit, commitments to grant a credit which expose the Group to the same credit risk as the loans do. The key aim of these instruments is to ensure that funds are available to a customer as required. The above guarantees and letters of documentary credit are usually collateralised by clients' funds in the Bank accounts. With regards to commitments to grant credit the Bank is exposed to loss equal to the unused commitment amount.

## FINANCIAL RISK MANAGEMENT (continued)

### 1.2. Risk limit control and mitigation policies

*(a) Concentrations*

The Group manages, limits and controls concentration of credit risk – in particular, to individual counterparties and groups of the associated counterparties as well as to economic sectors.

In addition to the supervisory requirements to limit the exposures to a single borrower and large exposures, the Group also sets exposure requirement, which to a single borrower may not exceed 15 percent of the Bank's capital. The Bank's Council must approve the higher limits. The maximum exposure requirement to a single borrower established by the Bank of Lithuania is 25 percent. Concentration of credit risk of the Bank is disclosed in Section 1.8. of Financial Risk Management disclosure.

The Group also sets limits to industry segments, i.e. a possible concentration in certain industries at the Group's level is restricted by the internal lending limits. The percentage and volume of lending limits are set for individual industries to ensure that the Group is not overly exposed to any particular economic sector in the country.

The geographical concentration risk is not recognised in the Group's business since the principle of focusing on domestic customers is followed.

Some other specific control and mitigation measures are outlined below.

*b) Collateral*

The Group mitigates credit risk by taking security for loans granted. The types of collateral considered by the Group as the most acceptable for loans and advances are the following:

- Real estate (mainly residential properties, commercial and industrial real estate);
- Business assets (equipment, inventory, transport vehicles);
- Property rights over financial instruments (debt securities, equities);
- Third party guarantees.

Long-term financing and lending to corporate entities are generally secured; revolving facilities and consumer loans to private individuals are generally unsecured. In order to minimize the credit loss as the impairment indicators for the relevant individual loans and advances are noticed the Group seeks for additional collateral from the counterparty.

While calculating a decrease in value for the loan the repayment of which is secured by the collateral, a cash flow from the security measure is also included into the loan cash flow. Taking into consideration the historical data, facts and probability to sell the object of the security measures and the expenses of its sales, the discount ratios applied at the Bank are provided. If several loans are insured with the same security measure (collateral), such security measure (collateral) is divided to every loan pro rata.

Debt securities, treasury and other eligible bills are generally unsecured.

For finance lease receivables the lender remains the owner of the leased object. Therefore, in case of customer's default the lender is able to gain control on the risk mitigation measures and realize them in rather short period.

### 1.3. Impairment and provisioning policies

Upon assessing impairment losses on loans, available-for-sale assets and other assets the Group follows the requirements of IAS 39 Financial Instruments: Recognition and Measurement. Impairment losses are recognized for financial reporting purposes only for those exposures that have been impaired at the balance sheet date based on objective evidence of impairment.

The Group and the Bank carries out valuation of assets on a monthly basis, based on valuation policies approved by the Board of the Bank. The amount of impairment provision for loans that are individually impaired is based on the individual assessment of specific assets using discounted cash flow method and effective interest rates. Collateral is also taken into consideration when estimating an impairment provision. The impairment rates for consumer financing loans are based on analysis of the historical information for each homogenous group of clients and expert judgement. These methodologies enable an assessment of the incurred losses of a high number of the impaired small exposures and at the same time provide a possibility to focus on the individual assessment of the Group's largest impaired borrowers under the discounted cash flow method.

The following loss events are considered by the Group and the Bank when estimating individual impairment. Events that may cause loss in future cannot be recognized as a loss event on the loan evaluation day.

(All amounts are in EUR thousand, unless otherwise stated)

# FINANCIAL RISK MANAGEMENT (continued)

The list of loss events:

1) significant financial difficulties of the debtor or issuer, i.e. the borrower's financial status is evaluated as poor or bad;
2) violation of the loan agreement (non-payment of the periodic loan payments (the part of the loan or interest)) for more than 30 days;
3) the loan is being recovered;
4) funds granted to the borrower are used not according to the loan purpose, the implementation terms of investment project are violated or decrease in collateral value, when repayment terms of the evaluated loans directly depend on the value of the object of security measure;
5) third parties related to the borrower do not fulfil their obligations, which impacts the borrower's ability to fulfil its financial obligations;
6) other loss events (termination or cancellation of the licence validity of the borrower or issuer engaged in licensed activity; the death of the borrower or issuer).

Loans for which loss event is not identified individually are assessed on collective basis for incurred but not reported (IBNR) loss. The IBNR impairment amount is calculated based on available historical information on the incurred but not reported losses of the Bank and the Group.

Loans and receivables are written-off from the balance sheet when the total loan balance or a part of it is considered as uncollectible under the most optimistic scenario. 100% impairment provision against the carrying amount of the exposure must be recognized before an uncollectible exposure (or part of it that is considered to be uncollectible) can be written-off. Written-off exposures are accounted for as off-balance sheet claims ("accumulated write-offs") until the legal right to claim the amounts from the borrower expires. The accumulated write-offs, including any amount constituting legal claims to the borrowers even if those amounts were never recognized on the balance sheet (the most common example of such cases is the difference between gross value and acquisition value of credit-impaired loans acquired by the Group) amounted to: 31 December 2016 – the Group EUR 155,315 thousand; the Bank EUR 143,578 thousand; 31 December 2015 – the Group EUR 80,345 thousand; the Bank EUR 68,186 thousand.

## 1.4. Maximum exposure to credit risk before collateral held or other credit enhancements

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Loans and advances to banks* | 5,337 | 5,337 | 6,529 | 6,499 |
| *Loans and advances to customers:* | 953,609 | 994,156 | 851,296 | 912,669 |
| *Loans and advances to financial institutions* | 17 | 58,862 | 27 | 98,986 |
| *Loans to individuals (Retail):* | 116,564 | 67,458 | 110,019 | 61,528 |
| *Consumer loans* | *59,207* | *10,322* | *55,580* | *7,487* |
| *Mortgages* | *36,562* | *36,562* | *31,380* | *31,380* |
| *Credit cards* | *1,312* | *1,113* | *1,327* | *931* |
| *Other (reverse repurchase agreements, other loans backed by securities, other)* | *19,483* | *19,461* | *21,732* | *21,730* |
| *Loans to business customers:* | 837,028 | 867,836 | 741,250 | 752,155 |
| *Large corporates* | *55,842* | *55,842* | *45,263* | *45,263* |
| *SME* | *591,194* | *622,001* | *499,598* | *510,503* |
| *Central and local authorities, administrative bodies and other* | *189,992* | *189,992* | *196,389* | *196,389* |
| *Finance lease receivables* | 69,808 | 48,170 | 57,812 | 1,145 |
| *Individuals* | 12,111 | 7,319 | 8,328 | - |
| *Business customers* | 57,697 | 40,851 | 49,484 | 1,145 |
| | | | | |
| *Securities at fair value through profit or loss:* | 39,785 | 25,658 | 55,730 | 42,388 |
| *Debt securities* | 39,785 | 25,658 | 55,730 | 42,388 |
| | | | | |
| *Derivative financial instruments* | 8,983 | 8,687 | 9,292 | 8,754 |
| | | | | |
| *Securities available for sale* | 17,034 | 16,631 | 18,014 | 17,612 |
| *Debt securities* | 17,034 | 16,631 | 18,014 | 17,612 |
| | | | | |
| *Investment securities held to maturity* | 524,054 | 524,054 | 494,645 | 494,645 |
| *Debt securities* | 524,054 | 524,054 | 494,645 | 494,645 |
| | | | | |
| *Other financial assets* | 4,136 | 3,078 | 2,551 | 2,169 |
| *Credit risk exposures relating to off –balance sheet items are as follows:* | | | | |
| *Financial guarantees* | 21,253 | 21,320 | 22,255 | 22,282 |
| *Letters of credit* | 2,185 | 2,185 | 5,929 | 5,929 |
| *Loan commitments and other credit related liabilities* | 116,403 | 140,416 | 111,967 | 116,259 |
| *At 31 December* | 1,762,587 | 1,789,692 | 1,636,020 | 1,630,351 |

The table above represents a worst case scenario of credit risk exposure at 31 December 2016 and 2015, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures presented above are net carrying amount as reported in the balance sheet.

(All amounts are in EUR thousand, unless otherwise stated)

# FINANCIAL RISK MANAGEMENT (continued)

## 1.5. Loans and advances

Loans and advances are summarised as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Loans to business customers* | 885,074 | 974,736 | 849,105 | 958,899 |
| *Loans to individuals* | 123,939 | 70,461 | 117,765 | 64,618 |
| *Subtract: Difference between acquisition value and gross value ** | (18,602) | (18,602) | (72,908) | (72,908) |
| *Gross* | **990,411** | **1,026,595** | **893,962** | **950,609** |
| *Subtract: Allowance for impairment* | (36,802) | (32,440) | (42,666) | (37,940) |
| *of which: for individually assessed loans* | *(35,435)* | *(31,500)* | *(41,395)* | *(37,000)* |
| *of which:collective allowances for incurrred but not reported losses* | *(1,367)* | *(940)* | *(1,271)* | *(940)* |
| *Net* | **953,609** | **994,155** | **851,296** | **912,669** |

* Difference between acquisition value and gross value is the difference between the acquisition value of the loans acquired under the transaction transfer of assets, rights, transactions and liabilities of Ūkio Bankas and the gross value of the above-mentioned loans.

*31 December 2016*

| | Group | | Bank | |
|---|---|---|---|---|
| | Loans and advances to customers | Loans and advances to financial institutions | Loans and advances to customers | Loans and advances to financial institutions |
| *Neither past due nor individually impaired* | 871,460 | 20 | 863,772 | 58,865 |
| *Past due but not individually impaired* | 60,372 | - | 52,930 | - |
| *Individually impaired* | 58,559 | - | 51,028 | - |
| *Gross* | **990,391** | **20** | **967,730** | **58,865** |
| *Less: allowance for impairment* | (36,799) | (3) | (32,437) | (3) |
| *of which: for individually assessed loans* | *(35,435)* | *-* | *(31,500)* | *-* |
| *of which: collective allowances for incurrred but not reported losses* | *(1,364)* | *(3)* | *(937)* | *(3)* |
| *Net* | **953,592** | **17** | **935,293** | **58,862** |

*31 December 2015*

| | Group | | Bank | |
|---|---|---|---|---|
| | Loans and advances to customers | Loans and advances to financial institutions | Loans and advances to customers | Loans and advances to financial institutions |
| *Neither past due nor individually impaired* | 720,888 | 27 | 689,316 | 98,986 |
| *Past due but not individually impaired* | 105,111 | - | 102,409 | - |
| *Individually impaired* | 67,936 | - | 59,898 | - |
| *Gross* | **893,935** | **27** | **851,623** | **98,986** |
| *Less: allowance for impairment* | (42,666) | - | (37,940) | - |
| *of which: for individually assessed loans* | *(41,395)* | *-* | *(37,000)* | *-* |
| *of which: collective allowances for incurrred but not reported losses* | *(1,271)* | *-* | *(940)* | *-* |
| *Net* | **851,269** | **27** | **813,683** | **98,986** |

During the year ended 31 December 2016, the Group's gross loans and advances increased by 11%. The Group's total impairment provision for loans and advances amounts to EUR 36,802 thousand (2015: EUR 42,666 thousand) and it accounts for 3.72% of the respective portfolio (2015: 4.77%).The Group's impaired loans and advances to customers comprise 5.91% of the total portfolio (2015: 7.60%).

Impaired loan - is a loan to which a loss event is recognized and allowance for impairment is made. The list of loss events is presented in Impairment and provisioning policies section above.

(All amounts are in EUR thousand, unless otherwise stated)

# FINANCIAL RISK MANAGEMENT (continued)

*a) Loans and advances neither past due nor individually impaired*

All loans and advances to financial institutions are considered as standard exposures for the purpose of credit quality analysis. There were neither past due nor impaired loans and advances to financial institutions. Standard loan is a loan when its repayment is not past due and the borrower's financial performance is either very good or good. Watch loan is a loan when its repayment is not past due and the borrower's financial performance is satisfactory. Substandard loan is a loan when its repayment is not past due and the borrower's financial performance is poor or bad.

*31 December 2016*

| | *Group loans to individuals (retail)* | | | | |
|---|---|---|---|---|---|
| | Consumer loans | Mortgages | Credit cards | Other | Total |
| *Standard* | 49,586 | 25,686 | 1,164 | 11,687 | 88,123 |
| *Watch* | 30 | 3,727 | 13 | 3,937 | 7,707 |
| *Substandard* | 1 | 3,171 | - | 1,363 | 4,535 |
| ***Gross*** | **49,617** | **32,584** | **1,177** | **16,987** | **100,365** |
| *Collective allowances for incurrred but not reported losses* | (213) | (35) | (1) | (17) | (266) |
| ***Net*** | **49,404** | **32,549** | **1,176** | **16,970** | **100,099** |

| | *Group loans to business customers* | | | | |
|---|---|---|---|---|---|
| | SME | Large corporates | Financial institutions | Central and local authorities and other | Total |
| *Standard* | 276,018 | 46,353 | 20 | 120,796 | 443,187 |
| *Watch* | 230,092 | 9,064 | - | 64,481 | 303,637 |
| *Substandard* | 23,548 | - | - | 743 | 24,291 |
| ***Total*** | **529,658** | **55,417** | **20** | **186,020** | **771,115** |
| *Collective allowances for incurrred but not reported losses* | (548) | (9) | (3) | (65) | (625) |
| ***Net*** | **529,110** | **55,408** | **17** | **185,955** | **770,490** |

*31 December 2015*

| | *Group loans to individuals (retail)* | | | | |
|---|---|---|---|---|---|
| | Consumer loans | Mortgages | Credit cards | Other | Total |
| *Standard* | 49,222 | 20,293 | 1,102 | 12,761 | 83,378 |
| *Watch* | 50 | 4,110 | 20 | 4,095 | 8,275 |
| *Substandard* | 2 | 3,201 | 4 | 2,500 | 5,707 |
| ***Gross*** | **49,274** | **27,604** | **1,126** | **19,356** | **97,360** |
| *Collective allowances for incurrred but not reported losses* | (273) | (28) | (1) | (20) | (322) |
| ***Net*** | **49,001** | **27,576** | **1,125** | **19,336** | **97,038** |

| | *Group loans to business customers* | | | | |
|---|---|---|---|---|---|
| | SME | Large corporates | Financial institutions | Central and local authorities and other | Total |
| *Standard* | 253,128 | 36,253 | 27 | 80,694 | 370,102 |
| *Watch* | 165,675 | 7,058 | - | 60,274 | 233,007 |
| *Substandard* | 20,162 | - | - | 283 | 20,445 |
| ***Total*** | **438,965** | **43,311** | **27** | **141,251** | **623,554** |
| *Collective allowances for incurrred but not reported losses* | (565) | (45) | - | (145) | (755) |
| ***Net*** | **438,400** | **43,266** | **27** | **141,106** | **622,799** |

*31 December 2016*

| | *Bank loans to individuals (retail)* | | | | |
|---|---|---|---|---|---|
| | Consumer loans | Mortgages | Credit cards | Other | Total |
| *Standard* | 9,816 | 25,686 | 1,082 | 11,637 | 48,221 |
| *Watch* | 30 | 3,727 | 13 | 3,937 | 7,707 |
| *Substandard* | 1 | 3,171 | - | 1,363 | 4,535 |
| ***Total*** | **9,847** | **32,584** | **1,095** | **16,937** | **60,463** |
| *Collective allowances for incurrred but not reported losses* | (11) | (35) | (1) | (17) | (64) |
| ***Net*** | **9,836** | **32,549** | **1,094** | **16,920** | **60,399** |

| | *Bank loans to business customers* | | | | |
|---|---|---|---|---|---|
| | SME | Large corporates | Financial institutions | Central and local authorities and other | Total |
| *Standard* | 272,668 | 46,353 | 37,198 | 120,795 | 477,014 |
| *Watch* | 265,650 | 9,064 | 21,667 | 64,481 | 360,862 |
| *Substandard* | 23,556 | - | - | 743 | 24,299 |
| ***Total*** | **561,874** | **55,417** | **58,865** | **186,019** | **862,175** |
| *Collective allowances for incurrred but not reported losses* | (548) | (9) | (3) | (65) | (625) |
| ***Net*** | **561,326** | **55,408** | **58,862** | **185,954** | **861,550** |

(All amounts are in EUR thousand, unless otherwise stated)

## FINANCIAL RISK MANAGEMENT (continued)

*31 December 2015*

| | *Bank loans to individuals (retail)* | | | | |
|---|---|---|---|---|---|
| | Consumer loans | Mortgages | Credit cards | Other | Total |
| *Standard* | 6,900 | 20,293 | 907 | 12,761 | 40,861 |
| *Watch* | 50 | 4,110 | 15 | 4,095 | 8,270 |
| *Substandard* | 2 | 3,201 | - | 2,500 | 5,703 |
| *Total* | 6,952 | 27,604 | 922 | 19,356 | 54,834 |
| *Collective allowances for incurrred but not reported losses* | (7) | (28) | (1) | (20) | (56) |
| *Net* | 6,945 | 27,576 | 921 | 19,336 | 54,778 |

| | *Bank loans to business customers* | | | | |
|---|---|---|---|---|---|
| | SME | Large corporates | Financial institutions | Central and local authorities and other | Total |
| *Standard* | 261,249 | 36,253 | 98,986 | 80,694 | 477,182 |
| *Watch* | 170,838 | 7,058 | - | 60,274 | 238,170 |
| *Substandard* | 17,833 | - | - | 283 | 18,116 |
| *Total* | 449,920 | 43,311 | 98,986 | 141,251 | 733,468 |
| *Collective allowances for incurrred but not reported losses* | (565) | (45) | - | (145) | (755) |
| *Net* | 449,355 | 43,266 | 98,986 | 141,106 | 732,713 |

Other loans to individuals (retail) are secured loans, which are not classified as consumer or mortgage credits and which are assigned e.g. for various personal expenses of the natural entities, for acquisition of real estate, movables or securities.

Loans and advances neither past due nor impaired are loans which are not impaired and payments of which are not past due.

The Group and the Bank examines the potential borrower's financial performance before issuing a loan and monitors any development in financial performance during the whole loan service period. The Group and the Bank evaluates the borrower's financial performance at least quarterly.

For analysis of debt securities according to the credit quality see Notes 12 and 15.

*b) Loans and advances past due but not individually impaired*

Past due but not individually impaired loans are loans for which principal or interest is past due but no individual allowance for impairment is recognized.

*31 December 2016*

| | *Group loans to individuals (retail)* | | | | |
|---|---|---|---|---|---|
| | Consumer loans | Mortgages | Credit cards | Other | Total |
| *Past due up to 30 days* | 6,381 | 1,762 | 16 | 1,219 | 9,378 |
| *Past due 30-60 days* | 10 | 364 | - | 184 | 558 |
| *Past due 60-90 days* | 2 | 80 | - | 35 | 117 |
| *Past due more than 90 days* | 7 | 405 | - | 416 | 828 |
| *Gross* | 6,400 | 2,611 | 16 | 1,854 | 10,881 |
| *Collective allowances for incurrred but not reported losses* | (225) | (2) | - | (2) | (229) |
| *Net* | 6,175 | 2,609 | 16 | 1,852 | 10,652 |
| | | | | | |
| *Fair value of collateral* | 27 | 2,583 | - | 1,831 | 4,441 |

| | *Group loans to business customers* | | | |
|---|---|---|---|---|
| | SME | Large corporates | Central and local authorities and other | Total |
| *Past due up to 30 days* | 28,532 | - | 3,031 | 31,563 |
| *Past due 30-60 days* | 2,248 | - | 6 | 2,254 |
| *Past due 60-90 days* | 660 | - | - | 660 |
| *Past due more than 90 days* | 14,744 | 270 | - | 15,014 |
| *Gross* | 46,184 | 270 | 3,037 | 49,491 |
| *Collective allowances for incurrred but not reported losses* | (47) | - | (3) | (50) |
| *Net* | 46,137 | 270 | 3,034 | 49,441 |
| | | | | |
| *Fair value of collateral* | 44,054 | 270 | 47 | 44,371 |

(All amounts are in EUR thousand, unless otherwise stated)

## FINANCIAL RISK MANAGEMENT (continued)

*31 December 2015*

| | Group loans to individuals (retail) | | | | |
|---|---|---|---|---|---|
| | Consumer loans | Mortgages | Credit cards | Other | Total |
| *Past due up to 30 days* | 3,071 | 1,743 | 13 | 1,113 | 5,940 |
| *Past due 30-60 days* | 8 | 203 | - | 314 | 525 |
| *Past due 60-90 days* | 4 | 196 | - | 104 | 304 |
| *Past due more than 90 days* | 11 | 848 | - | 443 | 1,302 |
| *Gross* | 3,094 | 2,990 | 13 | 1,974 | 8,071 |
| *Collective allowances for incurrred but not reported losses* | (65) | (3) | - | (2) | (70) |
| *Net* | 3,029 | 2,987 | 13 | 1,972 | 8,001 |
| | | | | | |
| *Fair value of collateral* | 106 | 2,890 | - | 1,779 | 4,775 |

| | Group loans to business customers | | | |
|---|---|---|---|---|
| | SME | Large corporates | Central and local authorities and other | Total |
| *Past due up to 30 days* | 19,267 | 1,696 | 54,015 | 74,978 |
| *Past due 30-60 days* | 1,632 | 18 | - | 1,650 |
| *Past due 60-90 days* | 1,201 | - | 68 | 1,269 |
| *Past due more than 90 days* | 18,858 | 285 | - | 19,143 |
| *Gross* | 40,958 | 1,999 | 54,083 | 97,040 |
| *Collective allowances for incurrred but not reported losses* | (42) | (2) | (57) | (101) |
| *Net* | 40,916 | 1,997 | 54,026 | 96,939 |
| | | | | |
| *Fair value of collateral* | 39,970 | 1,996 | 99 | 42,065 |

*31 December 2016*

| | Bank loans to individuals (retail) | | | | |
|---|---|---|---|---|---|
| | Consumer loans | Mortgages | Credit cards | Other | Total |
| *Past due up to 30 days* | 325 | 1,762 | 11 | 1,219 | 3,317 |
| *Past due 30-60 days* | 1 | 364 | - | 184 | 549 |
| *Past due 60-90 days* | - | 80 | - | 35 | 115 |
| *Past due more than 90 days* | 2 | 405 | - | 416 | 823 |
| *Gross* | 328 | 2,611 | 11 | 1,854 | 4,804 |
| *Collective allowances for incurrred but not reported losses* | - | (2) | - | (2) | (4) |
| *Net* | 328 | 2,609 | 11 | 1,852 | 4,800 |
| | | | | | |
| *Fair value of collateral* | 27 | 2,583 | - | 1,831 | 4,441 |

| | Bank loans to business customers | | | |
|---|---|---|---|---|
| | SME | Large corporates | Central and local authorities and other | Total |
| *Past due up to 30 days* | 28,532 | - | 3,031 | 31,563 |
| *Past due 30-60 days* | 2,248 | - | 6 | 2,254 |
| *Past due 60-90 days* | 660 | - | - | 660 |
| *Past due more than 90 days* | 13,379 | 270 | - | 13,649 |
| *Gross* | 44,819 | 270 | 3,037 | 48,126 |
| *Collective allowances for incurrred but not reported losses* | (47) | - | (3) | (50) |
| *Net* | 44,772 | 270 | 3,034 | 48,076 |
| | | | | |
| *Fair value of collateral* | 44,054 | 270 | 47 | - |

(All amounts are in EUR thousand, unless otherwise stated)

# FINANCIAL RISK MANAGEMENT (continued)

*31 December 2015*

| | *Bank loans to individuals (retail)* | | | | |
|---|---|---|---|---|---|
| | Consumer loans | Mortgages | Credit cards | Other | Total |
| *Past due up to 30 days* | 392 | 1,743 | 5 | 1,113 | 3,253 |
| *Past due 30-60 days* | 3 | 203 | - | 314 | 520 |
| *Past due 60-90 days* | - | 196 | - | 104 | 300 |
| *Past due more than 90 days* | 7 | 848 | - | 441 | 1,296 |
| *Gross* | **402** | **2,990** | **5** | **1,972** | **5,369** |
| *Collective allowances for incurrred but not reported losses* | - | (3) | - | (2) | (5) |
| *Net* | **402** | **2,987** | **5** | **1,970** | **5,364** |
| | | | | | |
| *Fair value of collateral* | 106 | 2,890 | - | 1,779 | 4,775 |

| | *Bank loans to business customers* | | | |
|---|---|---|---|---|
| | SME | Large corporates | Central and local authorities and other | Total |
| *Past due up to 30 days* | 19,267 | 1,696 | 54,015 | 74,978 |
| *Past due 30-60 days* | 1,632 | 18 | - | 1,650 |
| *Past due 60-90 days* | 1,201 | - | 68 | 1,269 |
| *Past due more than 90 days* | 18,858 | 285 | - | 19,143 |
| *Gross* | **40,958** | **1,999** | **54,083** | **97,040** |
| *Collective allowances for incurrred but not reported losses* | (42) | (2) | (57) | (101) |
| *Net* | **40,916** | **1,997** | **54,026** | **96,939** |
| | | | | |
| *Fair value of collateral* | 39,970 | 1,996 | 99 | 42,065 |

*c) Loans and advances individually impaired*

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Group and the Bank as security is as follows:

*31 December 2016*

| | *Group loans to individuals (retail)* | | | | |
|---|---|---|---|---|---|
| | Consumer loans | Mortgages | Credit cards | Other | Total |
| *Impaired loans* | 7,413 | 2,498 | 391 | 1,508 | 11,810 |
| *Allowance for impairment of individually assessed loans* | (3,785) | (1,093) | (271) | (846) | (5,995) |
| *Collective allowances for incurrred but not reported losses* | - | (1) | - | (1) | (2) |
| *Net* | **3,628** | **1,404** | **120** | **661** | **5,813** |
| | | | | | |
| *Fair value of collateral* | 28 | 1,819 | - | 772 | 2,619 |

| | *Group loans to business customers* | | | |
|---|---|---|---|---|
| | SME | Large corporates | Central and local authorities and other | Total |
| *Impaired loans* | 44,839 | 185 | 1,725 | 46,749 |
| *Allowance for impairment of individually assessed loans* | (28,698) | (21) | (721) | (29,440) |
| *Collective allowances for incurrred but not reported losses* | (194) | - | (1) | (195) |
| *Net* | **15,947** | **164** | **1,003** | **17,114** |
| | | | | |
| *Fair value of collateral* | 31,581 | 185 | 1,725 | 33,491 |

(All amounts are in EUR thousand, unless otherwise stated)

# FINANCIAL RISK MANAGEMENT (continued)

*31 December 2015*

| | Group loans to individuals (retail) | | | | |
|---|---|---|---|---|---|
| | Consumer loans | Mortgages | Credit cards | Other | Total |
| *Impaired loans* | 7,571 | 1,822 | 639 | 1,280 | 11,312 |
| *Allowance for impairment of individually assessed loans* | (4,021) | (1,004) | (450) | (856) | (6,331) |
| *Collective allowances for incurrred but not reported losses* | - | (1) | - | - | (1) |
| *Net* | **3,550** | **817** | **189** | **424** | **4,980** |
| | | | | | |
| *Fair value of collateral* | 70 | 1,061 | - | 569 | 1,700 |

| | Group loans to business customers | | | |
|---|---|---|---|---|
| | SME | Large corporates | Central and local authorities and other | Total |
| *Impaired loans* | 54,699 | - | 1,925 | 56,624 |
| *Allowance for impairment of individually assessed loans* | (34,397) | - | (667) | (35,064) |
| *Collective allowances for incurrred but not reported losses* | (21) | - | (1) | (22) |
| *Net* | **20,281** | **-** | **1,257** | **21,538** |
| | | | | |
| *Fair value of collateral* | 37,716 | - | 1,889 | 39,605 |

*31 December 2016*

| | Bank loans to individuals (retail) | | | | |
|---|---|---|---|---|---|
| | Consumer loans | Mortgages | Credit cards | Other | Total |
| *Impaired loans* | 279 | 2,498 | 26 | 1,507 | 4,310 |
| *Allowance for impairment of individually assessed loans* | (121) | (1,093) | (18) | (817) | (2,049) |
| *Collective allowances for incurrred but not reported losses* | - | (1) | - | (1) | (2) |
| *Net* | **158** | **1,404** | **8** | **689** | **2,259** |
| | | | | | |
| *Fair value of collateral* | 28 | 1,819 | - | 772 | 2,619 |

| | Bank loans to business customers | | | |
|---|---|---|---|---|
| | SME | Large corporates | Central and local authorities and other | Total |
| *Impaired loans* | 44,807 | 185 | 1,726 | 46,718 |
| *Allowance for impairment of individually assessed loans* | (28,709) | (21) | (721) | (29,451) |
| *Collective allowances for incurrred but not reported losses* | (194) | - | (1) | (195) |
| *Net* | **15,904** | **164** | **1,004** | **17,072** |
| | | | | |
| *Fair value of collateral* | 31,581 | 185 | 1,726 | 33,492 |

*31 December 2015*

| | Bank loans to individuals (retail) | | | | |
|---|---|---|---|---|---|
| | Consumer loans | Mortgages | Credit cards | Other | Total |
| *Impaired loans* | 292 | 1,822 | 27 | 1,252 | 3,393 |
| *Allowance for impairment of individually assessed loans* | (152) | (1,004) | (22) | (828) | (2,006) |
| *Collective allowances for incurrred but not reported losses* | - | (1) | - | - | (1) |
| *Net* | **140** | **817** | **5** | **424** | **1,386** |
| | | | | | |
| *Fair value of collateral* | 70 | 1,061 | - | 569 | 1,700 |

| | Bank loans to business customers | | | |
|---|---|---|---|---|
| | SME | Large corporates | Central and local authorities and other | Total |
| *Impaired loans* | 54,580 | - | 1,925 | 56,505 |
| *Allowance for impairment of individually assessed loans* | (34,327) | - | (667) | (34,994) |
| *Collective allowances for incurrred but not reported losses* | (21) | - | (1) | (22) |
| *Net* | **20,232** | **-** | **1,257** | **21,489** |
| | | | | |
| *Fair value of collateral* | 37,716 | - | 1889 | 39,605 |

During 2016 the Bank's estimated interest income on individually impaired loans amounted to EUR 2,244 thousand (2015: EUR 1,060 thousand).

Impairment loss by class of financial assets for loans is disclosed in Note 13.

(All amounts are in EUR thousand, unless otherwise stated)

*d) Loans and advances renegotiated*

Loans and advances that are not past due or individually impaired at year end and which at the time of their renegotiation were of a substandard risk as at 31 December 2016 amounted to EUR 17.5 million (2015: EUR 13.6 million).

Renegotiated loans by the class of financial assets:

*31 December 2016*

| | *Bank loans to individuals (retail)* | | | | |
|---|---|---|---|---|---|
| | Consumer loans | Mortgages | Credit cards | Other | Total |
| *Renegotiated loans* | 2 | 72 | - | 288 | 362 |

| | *Bank loans to business customers* | | | |
|---|---|---|---|---|
| | SME | Large corporates | Central and local authorities and other | Total |
| *Renegotiated loans* | 16,427 | - | 743 | 17,170 |

*31 December 2015*

| | *Bank loans to individuals (retail)* | | | | |
|---|---|---|---|---|---|
| | Consumer loans | Mortgages | Credit cards | Other | Total |
| *Renegotiated loans* | 2 | 195 | - | 908 | 1,105 |

| | *Bank loans to business customers* | | | |
|---|---|---|---|---|
| | SME | Large corporates | Central and local authorities and other | Total |
| *Renegotiated loans* | 12,194 | - | 277 | 12,471 |

*e) Information about loan collateral*

The method for collateral valuation is selected by the Group and the Bank based on specifics of collateral and existing market conditions on the day of valuation. Based on collateral characteristics and the purpose of its valuation the following valuation methods are used: comparable sales price method or income capitalisation method. Fair values of the collateral are updated regularly in line with the Bank's procedures.

If loan is secured by several different types of collateral, priority in their recognition is based on their liquidity. Cash deposits are treated as having the highest liquidity followed by guarantees, residential real estate and then other real estate. Securities and other assets are treated as having the lowest liquidity.

Unsecured loans also include loans secured by other types of collateral (e.g. future inflow of funds into the borrowers' Bank accounts (controlled by the Bank), third party warrantees, bills of exchange, etc.). The total amount of loans to individuals and business customers secured by the above security measure, but disclosed as unsecured as at 31 December 2016 amounted to EUR 78 million (2015: EUR 75 million). Totally unsecured loans comprise only consumer loans, credit cards and loans issued by the Bank to its subsidiaries.

For the purpose of calculation of impairment, fair values of the collateral are reduced by multiplying them with the certain discount rate dependant on the type of collateral.

(All amounts are in EUR thousand, unless otherwise stated)

## FINANCIAL RISK MANAGEMENT (continued)

Following tables present the lower of loan and collateral amount per agreement.

*31 December 2016*

| | Group loans to individuals (retail) | | | | |
|---|---|---|---|---|---|
| | Consumer loans | Mortgages | Credit cards | Other | Total |
| *Unsecured loans* | 63,248 | 2,208 | 1,584 | 4,959 | 71,999 |
| *Loans collateralised by:* | 182 | 35,485 | - | 15,390 | 51,057 |
| *residential real estate -* | 1 | 32,610 | - | 6,313 | 38,924 |
| *other real estate -* | - | 2,102 | - | 6,787 | 8,889 |
| *securities -* | - | 26 | - | 734 | 760 |
| *guarantees -* | 181 | 747 | - | 1,333 | 2,261 |
| *cash deposits -* | - | - | - | 203 | 203 |
| *other assets -* | - | - | - | 20 | 20 |
| *Total* | 63,430 | 37,693 | 1,584 | 20,349 | 123,056 |

| | Group loans to business customers | | | | |
|---|---|---|---|---|---|
| | SME | Large corporates | Financial institutions | Central and local authorities and other | Total |
| *Unsecured loans* | 52,696 | 1,331 | 16 | 179,439 | 233,482 |
| *Loans collateralised by:* | 567,985 | 54,541 | 4 | 11,343 | 633,873 |
| *residential real estate -* | 26,010 | 79 | - | 629 | 26,718 |
| *other real estate -* | 400,544 | 49,316 | 4 | 10,363 | 460,227 |
| *securities -* | 20,388 | - | - | 90 | 20,478 |
| *guarantees -* | 84,880 | 651 | - | 261 | 85,792 |
| *cash deposits -* | 1,002 | - | - | - | 1,002 |
| *other assets -* | 35,161 | 4,495 | - | - | 39,656 |
| *Total* | 620,681 | 55,872 | 20 | 190,782 | 867,355 |

*31 December 2015*

| | Group loans to individuals (retail) | | | | |
|---|---|---|---|---|---|
| | Consumer loans | Mortgages | Credit cards | Other | Total |
| *Unsecured loans* | 59,247 | 1,326 | 1,778 | 6,188 | 68,539 |
| *Loans collateralised by:* | 692 | 31,090 | - | 16,422 | 48,204 |
| *residential real estate -* | 1 | 28,064 | - | 6,577 | 34,642 |
| *other real estate -* | - | 2,063 | - | 6,378 | 8,441 |
| *securities -* | - | 33 | - | 2,176 | 2,209 |
| *guarantees -* | 691 | 907 | - | 1,238 | 2,836 |
| *cash deposits -* | - | 23 | - | 37 | 60 |
| *other assets -* | - | - | - | 16 | 16 |
| *Total* | 59,939 | 32,416 | 1,778 | 22,610 | 116,743 |

| | Group loans to business customers | | | | |
|---|---|---|---|---|---|
| | SME | Large corporates | Financial institutions | Central and local authorities and other | Total |
| *Unsecured loans* | 70,395 | 627 | 22 | 187,853 | 258,897 |
| *Loans collateralised by:* | 464,228 | 44,683 | 5 | 9,406 | 518,322 |
| *residential real estate -* | 23,801 | 66 | - | 693 | 24,560 |
| *other real estate -* | 315,098 | 36,588 | 5 | 8,149 | 359,840 |
| *securities -* | 5,124 | - | - | 90 | 5,214 |
| *guarantees -* | 77,711 | 2,896 | - | 448 | 81,055 |
| *cash deposits -* | 1,124 | - | - | 4 | 1,128 |
| *other assets -* | 41,370 | 5,133 | - | 22 | 46,525 |
| *Total* | 534,623 | 45,310 | 27 | 197,259 | 777,219 |

(All amounts are in EUR thousand, unless otherwise stated)

# FINANCIAL RISK MANAGEMENT (continued)

*31 December 2016*

| | *Bank loans to individuals (retail)* | | | | |
|---|---|---|---|---|---|
| | Consumer loans | Mortgages | Credit cards | Other | Total |
| *Unsecured loans* | 10,272 | 2,208 | 1,132 | 4,958 | 18,570 |
| *Loans collateralised by:* | 182 | 35,485 | - | 15,340 | 51,007 |
| *residential real estate -* | 1 | 32,610 | - | 6,313 | 38,924 |
| *other real estate -* | - | 2,102 | - | 6,787 | 8,889 |
| *securities -* | - | 26 | - | 734 | 760 |
| *guarantees -* | 181 | 747 | - | 1,283 | 2,211 |
| *cash deposits -* | - | - | - | 203 | 203 |
| *other assets -* | - | - | - | 20 | 20 |
| *Total* | 10,454 | 37,693 | 1,132 | 20,298 | 69,577 |

| | *Bank loans to business customers* | | | | |
|---|---|---|---|---|---|
| | SME | Large corporates | Financial institutions | Central and local authorities and other | Total |
| *Unsecured loans* | 84,319 | 1,331 | 58,861 | 179,439 | 323,950 |
| *Loans collateralised by:* | 567,181 | 54,541 | 4 | 11,343 | 633,069 |
| *residential real estate -* | 25,982 | 79 | - | 629 | 26,690 |
| *other real estate -* | 405,214 | 49,316 | 4 | 10,363 | 464,897 |
| *securities -* | 14,942 | - | - | 90 | 15,032 |
| *guarantees -* | 84,880 | 651 | - | 261 | 85,792 |
| *cash deposits -* | 1,002 | - | - | - | 1,002 |
| *other assets -* | 35,161 | 4,495 | - | - | 39,656 |
| *Total* | 651,500 | 55,872 | 58,865 | 190,782 | 957,019 |

*31 December 2015*

| | *Bank loans to individuals (retail)* | | | | |
|---|---|---|---|---|---|
| | Consumer loans | Mortgages | Credit cards | Other | Total |
| *Unsecured loans* | 6,954 | 1,326 | 954 | 6,158 | 15,392 |
| *Loans collateralised by:* | 692 | 31,090 | - | 16,422 | 48,204 |
| *residential real estate -* | 1 | 28,064 | - | 6,577 | 34,642 |
| *other real estate -* | - | 2,063 | - | 6,378 | 8,441 |
| *securities -* | - | 33 | - | 2,176 | 2,209 |
| *guarantees -* | 691 | 907 | - | 1,238 | 2,836 |
| *cash deposits -* | - | 23 | - | 37 | 60 |
| *other assets -* | - | - | - | 16 | 16 |
| *Total* | 7,646 | 32,416 | 954 | 22,580 | 63,596 |

| | *Bank loans to business customers* | | | | |
|---|---|---|---|---|---|
| | SME | Large corporates | Financial institutions | Central and local authorities and other | Total |
| *Unsecured loans* | 82,709 | 627 | 98,981 | 187,853 | 370,170 |
| *Loans collateralised by:* | 462,749 | 44,683 | 5 | 9,406 | 516,843 |
| *residential real estate -* | 23,271 | 66 | 0 | 693 | 24,030 |
| *other real estate -* | 314,128 | 36,588 | 5 | 8,149 | 358,870 |
| *securities -* | 5,124 | 0 | 0 | 90 | 5,214 |
| *guarantees -* | 77,711 | 2,896 | 0 | 448 | 81,055 |
| *cash deposits -* | 1,124 | 0 | 0 | 4 | 1,128 |
| *other assets -* | 41,391 | 5,133 | 0 | 22 | 46,546 |
| *Total* | 545,458 | 45,310 | 98,986 | 197,259 | 887,013 |

(All amounts are in EUR thousand, unless otherwise stated)

### 1.6. Finance lease receivables

Finance lease receivables are summarised as follows:

| | *2016* | | | *2015* |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Business customers* | 59,401 | 41,541 | 61,281 | 11,759 |
| *Individuals* | 12,211 | 7,327 | 8,533 | - |
| *Subtract: Difference between acquisition value and gross value ** | (497) | (497) | (10,552) | (10,552) |
| ***Gross*** | **71,115** | **48,371** | **59,262** | **1,207** |
| *Subtract: Allowance for impairment* | (1,308) | (201) | (1,450) | (62) |
| *of which: for individually assessed finance lease receivables* | (1,256) | (150) | (1,447) | (61) |
| *of which: collective allowances for incurrred but not reported losses* | (52) | (51) | (3) | (1) |
| ***Net*** | **69,807** | **48,170** | **57,812** | **1,145** |

* Difference between acquisition value and gross value is the difference between the acquisition value of the finance lease receivables acquired under the transaction transfer of assets, rights, transactions and liabilities of Ūkio Bankas and the gross value of the above-mentioned receivables.

| | *The Group* | | | | | |
|---|---|---|---|---|---|---|
| | | | 2016 | | | 2015 |
| | Individuals | Business customers | Total | Individuals | Business customers | Total |
| *Neither past due nor individually impaired* | 9,594 | 43,510 | 53,104 | 6,341 | 37,984 | 44,325 |
| *Past due but not individually impaired* | 2,487 | 13,701 | 16,188 | 1,937 | 10,204 | 12,141 |
| *Individually impaired* | 130 | 1,693 | 1,823 | 255 | 2,541 | 2,796 |
| ***Gross*** | **12,211** | **58,904** | **71,115** | **8,533** | **50,729** | **59,262** |
| *Less: allowance for impairment* | (98) | (1,210) | (1,308) | (205) | (1,245) | (1,450) |
| *of which: for individually assessed finance lease receivables* | (90) | (1,166) | (1,256) | (203) | (1,244) | (1,447) |
| *of which: collective allowances for incurrred but not reported losses* | (8) | (44) | (52) | (2) | (1) | (3) |
| ***Net*** | **12,113** | **57,694** | **69,807** | **8,328** | **49,484** | **57,812** |

| | *The Bank* | | | | | |
|---|---|---|---|---|---|---|
| | | | 2016 | | | 2015 |
| | Individuals | Business customers | Total | Individuals | Business customers | Total |
| *Neither past due nor impaired* | 5,818 | 29,843 | 35,661 | - | 1,095 | 1,095 |
| *Past due but not impaired* | 1,509 | 10,960 | 12,469 | - | 1 | 1 |
| *Impaired* | - | 241 | 241 | - | 111 | 111 |
| ***Gross*** | **7,327** | **41,044** | **48,371** | **-** | **1,207** | **1,207** |
| *Less: allowance for impairment* | (8) | (193) | (201) | - | (62) | (62) |
| *of which: for individually assessed finance lease receivables* | - | (150) | (150) | - | (61) | (61) |
| *of which: collective allowances for incurrred but not reported losses* | (8) | (43) | (51) | - | (1) | (1) |
| ***Net*** | **7,319** | **40,851** | **48,170** | **-** | **1,145** | **1,145** |

During the year ended 31 December 2016, finance lease receivables portfolio of the Group increased by 20%. Total impairment provisions for finance lease receivables of the Group amount to EUR 1,308 thousand (2015: EUR 1.450 thousand) and account for 1.84% of the respective portfolio (2015: 2.45%).

(All amounts are in EUR thousand, unless otherwise stated)

## FINANCIAL RISK MANAGEMENT (continued)

*a) Finance lease receivables neither past due nor individually impaired*

Finance lease receivables from individuals are assessed based on application scorings when decision is made. After the loans are granted they are monitored based on their past due status. All loans to individuals, which are neither past due nor impaired are considered as standard loans from credit risk management view.

The Group

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Individuals | Business customers | Total | Individuals | Business customers | Total |
| *Standard* | 9,442 | 23,440 | 32,882 | 6,218 | 24,666 | 30,884 |
| *Watch* | 144 | 16,701 | 16,845 | 88 | 12,058 | 12,146 |
| *Substandard* | 8 | 3,369 | 3,377 | 35 | 1,260 | 1,295 |
| *Total* | 9,594 | 43,510 | 53,104 | 6,341 | 37,984 | 44,325 |
| *Collective allowances for incurrred but not reported losses* | (6) | (33) | (39) | (2) | (1) | (3) |
| *Net* | 9,588 | 43,477 | 53,065 | 6,339 | 37,983 | 44,322 |

The Bank

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Individuals | Business customers | Total | Individuals | Business customers | Total |
| *Standard* | 5,718 | 16,224 | 21,942 | - | 898 | 898 |
| *Watch* | 100 | 13,097 | 13,197 | - | 8 | 8 |
| *Substandard* | - | 522 | 522 | - | 189 | 189 |
| *Total* | 5,818 | 29,843 | 35,661 | - | 1,095 | 1,095 |
| *Collective allowances for incurrred but not reported losses* | (6) | (32) | (38) | - | (1) | (1) |
| *Net* | 5,812 | 29,811 | 35,623 | - | 1,094 | 1,094 |

Standard lease receivable is a receivable when its repayment is not past due and the borrower's financial performance is either very good or good. Watch lease receivable is a receivable when its repayment is not past due and the borrower's financial performance is satisfactory. Substandard lease receivable is a receivable when its repayment is not past due and the borrower's financial performance is poor or bad.

*b) Finance lease receivables past due but not individually impaired*

The Group

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Individuals | Business customers | Total | Individuals | Business customers | Total |
| *Past due up to 3 days* | 839 | 8,263 | 9,102 | 721 | 1,606 | 2,327 |
| *Past due 4-40 days* | 1,447 | 4,628 | 6,075 | 1,016 | 4,037 | 5,053 |
| *Past due 41-90 days* | 153 | 246 | 399 | 100 | 123 | 223 |
| *Past due more than 90 days* | 48 | 564 | 612 | 100 | 4,438 | 4,538 |
| *Gross* | 2,487 | 13,701 | 16,188 | 1,937 | 10,204 | 12,141 |
| *Collective allowances for incurrred but not reported losses* | (2) | (11) | (13) | - | - | - |
| *Net* | 2,485 | 13,690 | 16,175 | 1,937 | 10,204 | 12,141 |
| *Fair value of the collateral* | 2,481 | 13,692 | 16,173 | 1,908 | 9,004 | 10,912 |

The Bank

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Individuals | Business customers | Total | Individuals | Business customers | Total |
| *Past due up to 3 days* | 736 | 7,345 | 8,081 | - | - | - |
| *Past due 4-40 days* | 731 | 3,435 | 4,166 | - | - | - |
| *Past due 41-90 days* | 42 | 136 | 178 | - | - | - |
| *Past due more than 90 days* | - | 44 | 44 | - | 1 | 1 |
| *Total* | 1,509 | 10,960 | 12,469 | - | 1 | 1 |
| *Collective allowances for incurrred but not reported losses* | (2) | (11) | (13) | - | - | - |
| *Net* | 1,507 | 10,949 | 12,456 | - | 1 | 1 |
| *Fair value of the collateral* | 1,507 | 10,958 | 12,465 | - | 1 | 1 |

(All amounts are in EUR thousand, unless otherwise stated)

# FINANCIAL RISK MANAGEMENT (continued)

*c) Finance lease receivables individually impaired*

| | The Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | Individuals | Business customers | Total | Individuals | Business customers | Total |
| *31 December 2016* | | | | | | |
| *Individually impaired* | 130 | 1,693 | 1,823 | - | 241 | 241 |
| *Allowance for impairment of individually assessed finance lease receivables* | (90) | (1,166) | (1,256) | - | (150) | (150) |
| *Net* | 40 | 527 | 567 | - | 91 | 91 |
| *Fair value of collateral* | 51 | 1,182 | 1,233 | - | 191 | 191 |
| *31 December 2015* | | | | | | |
| *Individually impaired* | 255 | 2,541 | 2,796 | - | 111 | 111 |
| *Allowance for impairment of individually assessed finance lease receivables* | (203) | (1,244) | (1,447) | - | (61) | (61) |
| *Net* | 52 | 1,297 | 1,349 | - | 50 | 50 |
| *Fair value of collateral* | 71 | 1,880 | 1,951 | - | 82 | 82 |

*d) Information about risk mitigation measures for finance lease receivables*

Upon initial recognition of financial lease receivables, the fair value of risk mitigation measures is based on valuation approaches commonly used for the corresponding types of assets. Market values are used for real estate and movable assets serving as risk mitigation measures. In subsequent periods, the fair value of risk mitigation measures is updated based on their depreciation rates.

If exposure is secured by several different types of risk mitigation measures, priority in their recognition is based on their liquidity. Transport vehicles are treated as having highest liquidity followed by residential real estate and then other real estate. Equipment and other assets are treated as having lowest liquidity.

The lender remains the owner of the leased object. Therefore, in case of customer default it is able to gain control on the risk mitigation measures and realize them in rather short period.

Following tables present the lower of lease receivable and collateral amount per agreement.

*The Group*

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Individuals | Business customers | Total | Individuals | Business customers | Total |
| *Unsecured finance lease receivables* | 346 | 3,453 | 3,799 | 441 | 2,355 | 2,796 |
| *Finance lease receivables secured by:* | | | | | | |
| *transport vehicles -* | 10,924 | 23,729 | 34,653 | 7,056 | 16,947 | 24,003 |
| *real estate -* | 820 | 24,047 | 24,867 | 870 | 23,030 | 23,900 |
| *airplanes -* | - | 625 | 625 | - | 1,157 | 1,157 |
| *production equipment -* | - | 1,437 | 1,437 | - | 2,147 | 2,147 |
| *other equipment -* | 55 | 5,569 | 5,624 | 79 | 4,951 | 5,030 |
| *other assets -* | 66 | 44 | 110 | 87 | 142 | 229 |
| *Total* | 12,211 | 58,904 | 71,115 | 8,533 | 50,729 | 59,262 |

*The Bank*

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Individuals | Business customers | Total | Individuals | Business customers | Total |
| *Unsecured finance lease receivables* | 125 | 2,585 | 2,710 | - | 28 | 28 |
| *Finance lease receivables secured by:* | | | | | | |
| *transport vehicles -* | 6,501 | 18,014 | 24,515 | - | 29 | 29 |
| *real estate -* | 682 | 16,463 | 17,145 | - | 1,011 | 1,011 |
| *airplanes -* | - | - | - | - | - | - |
| *production equipment -* | - | - | - | - | 131 | 131 |
| *other equipment -* | 19 | 3,982 | 4,001 | - | 8 | 8 |
| *other assets -* | - | - | - | - | - | - |
| *Total* | 7,327 | 41,044 | 48,371 | - | 1,207 | 1,207 |

(All amounts are in EUR thousand, unless otherwise stated)

### 1.7. Other financial assets

Other financial assets consist of amounts receivable.

*The Group*

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Individuals | Business customers | Total | Individuals | Business customers | Total |
| *Neither past due nor impaired* | 103 | 4,033 | 4,136 | 121 | 2,408 | 2,529 |
| *Past due but not impaired* | - | - | - | - | - | - |
| *Impaired* | 7 | 23 | 30 | 7 | 45 | 52 |
| *Gross* | 110 | 4,056 | 4,166 | 128 | 2,453 | 2,581 |
| *Less: allowance for impairment* | (7) | (23) | (30) | (7) | (23) | (30) |
| *Net* | 103 | 4,033 | 4,136 | 121 | 2,430 | 2,551 |

*The Bank*

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Individuals | Business customers | Total | Individuals | Business customers | Total |
| *Neither past due nor impaired* | 79 | 2,999 | 3,078 | 97 | 2,050 | 2,147 |
| *Past due but not impaired* | - | - | - | - | - | - |
| *Impaired* | 7 | 8 | 15 | 7 | 45 | 52 |
| *Gross* | 86 | 3,007 | 3,093 | 104 | 2,095 | 2,199 |
| *Less: allowance for impairment* | (7) | (8) | (15) | (7) | (23) | (30) |
| *Net* | 79 | 2,999 | 3,078 | 97 | 2,072 | 2,169 |

*a) Amounts receivable neither past due nor impaired*

*The Group*

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Individuals | Business customers | Total | Individuals | Business customers | Total |
| *Standard* | 79 | 4,057 | 4,136 | 97 | 2,432 | 2,529 |
| *Watch* | - | - | - | - | - | - |
| *Sub-standard* | - | - | - | - | - | - |
| *Total* | 79 | 4,057 | 4,136 | 97 | 2,432 | 2,529 |

*The Bank*

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Individuals | Business customers | Total | Individuals | Business customers | Total |
| *Standard* | 79 | 2,999 | 3,078 | 97 | 2,050 | 2,147 |
| *Watch* | - | - | - | - | - | - |
| *Sub-standard* | - | - | - | - | - | - |
| *Total* | 79 | 2,999 | 3,078 | 97 | 2,050 | 2,147 |

*b) Impaired amounts receivable*

100% provision for impairment is recognized for other financial assets that are impaired unless there are collaterals available.

(All amounts are in EUR thousand, unless otherwise stated)

### 1.8. Concentration of risks of financial assets with credit risk exposure

*Industry sectors*

The Group and the Bank established lending limits for loans granted to a particular industry, which are reviewed on a regular basis based on the Bank's decision. The following limits have been approved by the Board of the Bank: wholesale and retail –15% (Group – 17%) of the total loan portfolio, loans to individuals – 12% (Group – 17%), manufacturing – 18%, construction – 20%, real estate and rent – 20%, agriculture, hunting and forestry – 15%, transport, storage and communication – 8% (Group – 10%), hotels and restaurants – 7%(Group – 8%), health and social work – 8%. As at 31 December 2016 the Group and the Bank were compliant with the above limits.

The following table breaks down the main credit exposures at their carrying amounts, as categorized by the industry sectors of our counterparties.

Group

| | Financial intermediation | Wholesale and retail | Manufacturing | Real estate and rent | Construction | Agriculture, hunting and forestry | Public administration and defence, compulsory social security | Transport, storage and communication | Health and social work | Loans to individuals | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Loans and advances to banks* | 5,337 | - | - | - | - | - | - | - | - | - | - | 5,337 |
| *Loans and advances to customers:* | 4,543 | 112,420 | 95,255 | 110,815 | 81,845 | 95,311 | 125,020 | 25,833 | 31,510 | 116,564 | 154,493 | 953,609 |
| *Loans and advances to financial institutions* | 17 | - | - | - | - | - | - | - | - | - | - | 17 |
| *Loans to individuals (Retail):* | - | - | - | - | - | - | - | - | - | 116,564 | - | 116,564 |
| *Consumer loans -* | - | - | - | - | - | - | - | - | - | 59,207 | - | 59,207 |
| *Mortgages -* | - | - | - | - | - | - | - | - | - | 36,562 | - | 36,562 |
| *Credit cards -* | - | - | - | - | - | - | - | - | - | 1,312 | - | 1,312 |
| *Other -* | - | - | - | - | - | - | - | - | - | 19,483 | - | 19,483 |
| *Loans to business customers:* | 4,526 | 112,420 | 95,255 | 110,815 | 81,845 | 95,311 | 125,020 | 25,833 | 31,510 | - | 154,493 | 837,028 |
| *Large corporates -* | - | 598 | 28,475 | - | 10,044 | - | - | - | 16,617 | - | 108 | 55,842 |
| *SME -* | 4,526 | 111,822 | 66,780 | 110,815 | 71,586 | 95,311 | 121 | 20,785 | 12,190 | - | 97,258 | 591,194 |
| *Central and local authorities, administrative bodies and other -* | - | - | - | - | 215 | - | 124,899 | 5,048 | 2,703 | - | 57,127 | 189,992 |
| *Finance lease receivables:* | 2,540 | 10,237 | 5,341 | 6,316 | 3,371 | 2,870 | 728 | 7,762 | 750 | 12,111 | 17,782 | 69,808 |
| *Individuals -* | - | - | - | - | - | - | - | - | - | 12,111 | - | 12,111 |
| *Business customers -* | 2,540 | 10,237 | 5,341 | 6,316 | 3,371 | 2,870 | 728 | 7,762 | 750 | - | 17,782 | 57,697 |
| *Securities at fair value through profit or loss:* | 23,102 | 141 | 1,224 | 255 | - | 411 | 27,089 | 230 | 383 | - | 4,592 | 57,427 |
| *Debt securities -* | 5,800 | 122 | 1,201 | 227 | - | 411 | 27,089 | 208 | 374 | - | 4,353 | 39,785 |
| *Equity securities -* | 17,302 | 19 | 23 | 28 | - | - | - | 22 | 9 | - | 239 | 17,642 |
| *Derivative financial instruments* | 2,628 | 457 | 290 | 524 | 1,258 | 987 | 13 | 128 | 104 | 1,270 | 1,324 | 8,983 |
| *Securities available for sale:* | 9,244 | - | - | 213 | - | - | - | 1,011 | 119 | - | 8,581 | 19,168 |
| *Equity securities -* | 1,481 | - | - | 213 | - | - | - | - | 119 | - | 321 | 2,134 |
| *Debt securities -* | 7,763 | - | - | - | - | - | - | 1,011 | - | - | 8,260 | 17,034 |
| *Investment securities held-to-maturity:* | 53,033 | 1,326 | 13,846 | - | - | - | 420,755 | - | 539 | - | 34,555 | 524,054 |
| *Debt securities -* | 53,033 | 1,326 | 13,846 | - | - | - | 420,755 | - | 539 | - | 34,555 | 524,054 |
| *Other financial assets* | 301 | 13 | 9 | - | 4 | 6 | - | 2 | 5 | 103 | 3,693 | 4,136 |
| *Credit risk exposures relating to off –balance sheet items are as follows:* | | | | | | | | | | | | |
| *Financial guarantees -* | 1,116 | 6,501 | 2,089 | 1,055 | 3,129 | 66 | - | 250 | 30 | - | 7,017 | 21,253 |
| *Letters of credit -* | - | 1,433 | 194 | - | - | 558 | - | - | - | - | - | 2,185 |
| *Loan commitments and other credit related liabilities -* | - | 16,281 | 30,541 | 10,706 | 17,903 | 10,654 | 8,205 | 1,327 | 3,570 | 4,098 | 13,118 | 116,403 |
| *At 31 December 2016* | 101,844 | 148,809 | 148,789 | 129,884 | 107,510 | 110,863 | 581,810 | 36,543 | 37,010 | 134,146 | 245,155 | 1,782,363 |
| *At 31 December 2015* | 116,243 | 125,645 | 124,433 | 116,386 | 92,893 | 87,547 | 567,244 | 42,851 | 37,973 | 123,290 | 219,355 | 1,653,860 |

(All amounts are in EUR thousand, unless otherwise stated)

# FINANCIAL RISK MANAGEMENT (continued)

Bank

| | Financial intermediation | Wholesale and retail | Manufacturing | Real estate and rent | Construction | Agriculture, hunting and forestry | Public administration and defence, compulsory social security | Transport, storage and communication | Health and social work | Loans to individuals | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Loans and advances to banks* | 5,337 | - | - | - | - | - | - | - | - | - | - | 5,337 |
| *Loans and advances to customers:* | 63,388 | 112,420 | 95,255 | 131,239 | 93,146 | 95,300 | 125,020 | 25,833 | 31,510 | 67,458 | 153,586 | 994,155 |
| *Loans and advances to financial institutions* | 58,862 | - | - | - | - | - | - | - | - | - | - | 58,862 |
| *Loans to individuals (Retail):* | - | - | - | - | - | - | - | - | - | 67,458 | - | 67,458 |
| *Consumer loans -* | - | - | - | - | - | - | - | - | - | 10,322 | - | 10,322 |
| *Mortgages -* | - | - | - | - | - | - | - | - | - | 36,562 | - | 36,562 |
| *Credit cards -* | - | - | - | - | - | - | - | - | - | 1,113 | - | 1,113 |
| *Other -* | - | - | - | - | - | - | - | - | - | 19,461 | - | 19,461 |
| *Loans to business customers:* | 4,526 | 112,420 | 95,255 | 131,239 | 93,146 | 95,300 | 125,020 | 25,833 | 31,510 | - | 153,586 | 867,835 |
| *Large corporates -* | - | 598 | 28,475 | - | 10,044 | - | - | - | 16,617 | - | 108 | 55,842 |
| *SME -* | 4,526 | 111,822 | 66,780 | 131,239 | 82,887 | 95,300 | 121 | 20,785 | 12,190 | - | 96,351 | 622,001 |
| *Central and local authorities, administrative bodies and other -* | - | - | - | - | 215 | - | 124,899 | 5,048 | 2,703 | - | 57,127 | 189,992 |
| *Finance lease receivables:* | 190 | 4,527 | 3,692 | 5,965 | 2,274 | 2,100 | 428 | 6,420 | 647 | 7,319 | 14,608 | 48,170 |
| *Individuals -* | - | - | - | - | - | - | - | - | - | 7,319 | - | 7,319 |
| *Business customers -* | 190 | 4,527 | 3,692 | 5,965 | 2,274 | 2,100 | 428 | 6,420 | 647 | - | 14,608 | 40,851 |
| *Securities at fair value through profit or loss:* | 4,280 | 19 | 1,224 | 28 | - | - | 18,131 | 22 | 383 | - | 2,016 | 26,103 |
| *Debt securities -* | 4,175 | - | 1,201 | - | - | - | 18,131 | - | 374 | - | 1,777 | 25,658 |
| *Equity securities -* | 105 | 19 | 23 | 28 | - | - | - | 22 | 9 | - | 239 | 445 |
| *Derivative financial instruments* | 2,606 | 415 | 255 | 521 | 1,239 | 974 | 13 | 104 | 103 | 1,185 | 1,272 | 8,687 |
| *Securities available for sale:* | 7,901 | - | - | 11 | - | - | - | 1,011 | - | - | 8,581 | 17,504 |
| *Equity securities -* | 541 | - | - | 11 | - | - | - | - | - | - | 321 | 873 |
| *Debt securities -* | 7,360 | - | - | - | - | - | - | 1,011 | - | - | 8,260 | 16,631 |
| *Investment securities held-to-maturity:* | 53,033 | 1,326 | 13,846 | - | - | - | 420,755 | - | 539 | - | 34,555 | 524,054 |
| *debt securities -* | 53,033 | 1,326 | 13,846 | - | - | - | 420,755 | - | 539 | - | 34,555 | 524,054 |
| *Other financial assets* | 301 | 13 | 9 | - | 4 | 6 | - | 2 | 5 | 79 | 2,659 | 3,078 |
| *Credit risk exposures relating to off –balance sheet items are as follows:* | | | | | | | | | | | | |
| *Financial guarantees -* | 1,183 | 6,501 | 2,089 | 1,055 | 3,129 | 66 | - | 250 | 30 | - | 7,017 | 21,320 |
| *Letters of credit -* | - | 1,433 | 194 | - | - | 558 | - | - | - | - | - | 2,185 |
| *Loan commitments and other credit related liabilities -* | 21,436 | 16,281 | 30,541 | 13,225 | 18,192 | 10,654 | 7,975 | 1,327 | 3,570 | 4,097 | 13,118 | 140,416 |
| *At 31 December 2016* | 159,655 | 142,935 | 147,105 | 152,044 | 117,984 | 109,658 | 572,322 | 34,969 | 36,787 | 80,138 | 237,412 | 1,791,009 |
| *At 31 December 2015* | 195,809 | 115,370 | 120,327 | 118,392 | 97,239 | 85,263 | 558,896 | 35,008 | 37,321 | 66,255 | 203,018 | 1,632,898 |

*Concentration exposure*

As at 31 December 2016, the largest single exposure comprising loans to several related borrowers treated as a single borrower not secured by the Lithuanian Government guarantees, amounted to EUR 20.7 million, i.e. 12.18% of the Bank's calculated capital (2015: EUR 20.7 million or 14.56% of the Bank's calculated capital).

## 2. Market risk

The Group takes on exposure to market risk, which means the risk for the Group to incur losses due to the adverse fluctuations in the market parameters such as currency exchange rates (foreign currency risk), interest rates (interest rate risk) or securities prices (securities risk). Securities and interest rate risks are the most significant market risks for the Group while other market risks are of lower significance.

### 2.1. Foreign exchange risk

The management of the currency exchange risk is regulated by the "Currency Exchange Risk Management Procedures" which specify the principles allowing the Group to reduce the incurred foreign currency fluctuation risk to minimum. The Group is not engaged in any speculative transactions through which it could expect to earn profit from the open currency positions after changes in currency rate. The Board of the Bank approves and reviews on regular basis the maximum limits set to the open currency positions at the level of the Bank's subsidiary companies and the Bank. The Market and Treasury Department of the Bank bears responsibility for the Group's compliance with the Currency Exchange Risk Management Procedures.

The Group and the Bank monitors the foreign currency risk by calculating open currency position. Open currency position (OCP) is equal to assets in the balance sheet and off-balance sheet less balance sheet and off-balance sheet liabilities in a single currency. There are two types of OCP, i.e. long and short. Long position means that Group's assets exceed liabilities in given currency, whereas short position means that liabilities exceed assets. The Group also calculates Overall net open position (ONOP), which is the higher of the total short or total long positions. As at 31 December 2016 the Group's ONOP to capital ratio was 0.17% (2015: 0.37%), the Bank's ONOP to capital ratio was 0.10% (2015: 0.36%).

(All amounts are in EUR thousand, unless otherwise stated)

## FINANCIAL RISK MANAGEMENT (continued)

### Open positions

The Group's open positions of prevailing currencies as at 31 December 2016 were as follows:

| | USD | Other currencies | Total currencies | EUR | Total |
|---|---|---|---|---|---|
| *Assets* | | | | | |
| *Cash and cash equivalents* | 11,963 | 9,416 | 21,379 | 132,488 | 153,867 |
| *Due from other banks* | 2,670 | - | 2,670 | 2,667 | 5,337 |
| *Securities at fair value through profit or loss* | 12,104 | - | 12,104 | 45,323 | 57,427 |
| *Derivative financial instruments* | 61 | - | 61 | 8,922 | 8,983 |
| *Loans granted to customers, finance lease receivables* | 10,572 | 15 | 10,587 | 1,012,829 | 1,023,416 |
| *Investment securities* | | | | | |
| *available-for-sale securities -* | 9,716 | - | 9,716 | 9,452 | 19,168 |
| *held-to-maturity securities -* | 9,233 | - | 9,233 | 514,821 | 524,054 |
| *Intangible assets* | - | - | - | 4,180 | 4,180 |
| *Property, plant and equipment and investment property* | - | - | - | 28,273 | 28,273 |
| *Other assets* | 88 | 3 | 91 | 36,482 | 36,573 |
| | | | | | |
| *Total assets* | 56,407 | 9,434 | 65,841 | 1,795,437 | 1,861,278 |
| | | | | | |
| *Liabilities and shareholders' equity* | | | | | |
| *Due to other banks and financial institutions* | 235 | - | 235 | 89,558 | 89,793 |
| *Due to customers* | 102,713 | 13,146 | 115,859 | 1,379,228 | 1,495,087 |
| *Special and lending funds* | - | - | - | 28,326 | 28,326 |
| *Subordinated loan* | - | - | - | 22,064 | 22,064 |
| *Liabilities related to insurance activities* | 6,649 | - | 6,649 | 18,866 | 25,515 |
| *Other liabilities* | 8 | 6 | 14 | 20,962 | 20,976 |
| *Shareholders' equity* | 306 | - | 306 | 179,211 | 179,517 |
| | | | | | |
| *Total liabilities and shareholders' equity* | 109,911 | 13,152 | 123,063 | 1,738,215 | 1,861,278 |
| | | | | | |
| *Net balance sheet position* | (53,504) | (3,718) | (57,222) | 57,222 | - |
| | | | | | |
| *Open currency exchange transactions* | 53,624 | 3,860 | 57,484 | (54,089) | 3,395 |
| | | | | | |
| *Net open position* | 120 | 142 | 262 | 3,133 | 3,395 |

The Group's open positions of prevailing currencies as at 31 December 2015 were as follows:

| | USD | Other currencies | Total currencies | EUR | Total |
|---|---|---|---|---|---|
| *Assets* | 80,384 | 13,542 | 93,926 | 1,601,114 | 1,695,040 |
| *Liabilities and shareholders' equity* | 97,022 | 12,083 | 109,105 | 1,585,935 | 1,695,040 |
| *Net balance sheet position* | (16,638) | 1,459 | (15,179) | 15,179 | - |
| *Open currency exchange transactions* | 16,539 | (1,108) | 15,431 | (14,411) | 1,020 |
| *Net open position* | (99) | 351 | 252 | 768 | 1,020 |

(All amounts are in EUR thousand, unless otherwise stated)

## FINANCIAL RISK MANAGEMENT (continued)

The Bank's open positions of prevailing currencies as at 31 December 2016 were as follows:

| | USD | Other currencies | Total currencies | EUR | Total |
|---|---|---|---|---|---|
| *Assets* | | | | | |
| *Cash and cash equivalents* | 11,725 | 9,416 | 21,141 | 130,970 | 152,111 |
| *Due from other banks* | 2,670 | - | 2,670 | 2,667 | 5,337 |
| *Securities at fair value through profit or loss* | 5,524 | - | 5,524 | 20,579 | 26,103 |
| *Derivative financial instruments* | 61 | - | 61 | 8,626 | 8,687 |
| *Loans granted to customers, finance lease receivables* | 10,572 | 15 | 10,587 | 1,031,738 | 1,042,325 |
| *Investment securities* | | | | | |
| *available-for-sale securities -* | 9,716 | - | 9,716 | 7,788 | 17,504 |
| *held-to-maturity securities -* | 9,233 | - | 9,233 | 514,821 | 524,054 |
| *Investments in subsidiaries* | - | - | - | 26,665 | 26,665 |
| *Intangible assets* | - | - | - | 1,210 | 1,210 |
| *Property, plant and equipment and investment property* | - | - | - | 11,644 | 11,644 |
| *Other assets* | 88 | 3 | 91 | 7,908 | 7,999 |
| | | | | | |
| *Total assets* | 49,589 | 9,434 | 59,023 | 1,764,616 | 1,823,639 |
| | | | | | |
| *Liabilities and shareholders' equity* | | | | | |
| *Due to other banks and financial institutions* | 235 | - | 235 | 91,844 | 92,079 |
| *Due to customers* | 102,713 | 13,146 | 115,859 | 1,379,619 | 1,495,478 |
| *Special and lending funds* | - | - | - | 28,326 | 28,326 |
| *Subordinated loan* | - | - | - | 22,064 | 22,064 |
| *Other liabilities* | 8 | 6 | 14 | 12,735 | 12,749 |
| *Shareholders' equity* | 306 | - | 306 | 172,637 | 172,943 |
| | | | | | |
| *Total liabilities and shareholders' equity* | 103,262 | 13,152 | 116,414 | 1,707,225 | 1,823,639 |
| | | | | | |
| *Net balance sheet position* | (53,673) | (3,718) | (57,391) | 57,391 | - |
| | | | | | |
| *Open currency exchange transactions* | 53,624 | 3,860 | 57,484 | (54,089) | 3,395 |
| | | | | | |
| *Net open position* | (49) | 142 | 93 | 3,302 | 3,395 |

The Bank's open positions of prevailing currencies as at 31 December 2015 were as follows:

| | USD | Other currencies | Total currencies | EUR | Total |
|---|---|---|---|---|---|
| *Assets* | 73,355 | 13,361 | 86,716 | 1,571,141 | 1,657,857 |
| *Liabilities and shareholders' equity* | 90,160 | 11,899 | 102,059 | 1,555,798 | 1,657,857 |
| *Net balance sheet position* | (16,805) | 1,462 | (15,343) | 15,343 | - |
| *Open currency exchange transactions* | 16,539 | (1,108) | 15,431 | (14,411) | 1,020 |
| *Net open position* | (266) | 354 | 88 | 932 | 1,020 |

The Bank has also granted loans in foreign currency. Although they are usually financed in the same currency, depending on the main currency of the debtor's cash flows, the strengthening of foreign currency against the local currency may adversely affect the debtors' ability to repay the loans, which increases the probability of future losses from loans.

(All amounts are in EUR thousand, unless otherwise stated)

## FINANCIAL RISK MANAGEMENT (continued)

### Sensitivity of foreign exchange risk

Foreign exchange (FX) risk is limited by amounts of open FX positions. For calculation of sensitivity to FX risk all exposures shall be converted into possible loss, i.e. open FX position is multiplied by possible FX rate change. The FX risk parameters for the Group (Bank) have been established in view of the maximum fluctuations of currency exchange rate in 2015 and forecast that exchange rate fluctuations will have the same trends in 2016.

| *Currency* | Annual reasonable shift, 2017 | Annual reasonable shift, 2016 |
|---|---|---|
| *CHF* | 2.5% | 10% |
| *DKK* | 0.5% | 0.5% |
| *GBP* | 15% | 6% |
| *SEK* | 5% | 3% |
| *USD* | 6% | 7% |
| *Other currencies* | 4% | 5.5% |
| *CIS countries currencies* | 10% | 24% |

The following table presents Group (Bank) sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant:

| | *31 December 2016* | | *31 December 2015* | |
|---|---|---|---|---|
| *Impact on profit or loss and equity* | Group | Bank | Group | Bank |
| *USD* | 7 | 3 | 7 | 19 |
| *GBP* | 6 | 6 | 7 | 7 |
| *CHF* | - | - | 12 | 12 |
| *DKK* | - | - | - | - |
| *SEK* | - | - | 1 | 1 |
| *Other currencies* | 5 | 5 | 19 | 19 |
| *CIS countries currencies* | 1 | 1 | 2 | 2 |
| *Total* | 19 | 15 | 48 | 60 |

The impact of presumable FX rate change on the Group's / Bank's profit for the year is at acceptable level. In 2016 for the Group and for the Bank it equals to EUR 19 thousand (2015: EUR 48 thousand) and EUR 15 thousand (2015: EUR 60 thousand) respectively.

(All amounts are in EUR thousand, unless otherwise stated)

# FINANCIAL RISK MANAGEMENT (continued)

## 2.2. Interest rate risk

An interest rate risk is a risk to incur losses because of the mismatch of re-evaluation possibility between the Bank's and the Group's assets and liabilities.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank and the Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

The risk management is regulated by the Procedures for Interest Rate Risk Management which establish methods of risk measurement and set up measures for risk management. These procedures are approved by the Board of the Bank and define that:

- the Bank observes the principle to avoid the speculation with future interest rates;
- the risk size is evaluated applying a pattern of interest rate gap (GAP);
- Risk Management and Reporting Department provides the information on regular basis to Risk Management Committee about compliance with relative gap limits.

### Analysis of assets and liabilities by the contractual repricing or maturity dates

The tables below summarize the Group's and the Bank's interest rate risks. Assets and liabilities shown at their carrying amounts categorized by the earlier of contractual repricing or maturity dates.

Details of the Group's interest rate risk as at 31 December 2016 are presented below:

| | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | More than 1 year | Non interest bearing or maturity undefined | Total |
|---|---|---|---|---|---|---|---|
| *Assets* | | | | | | | |
| *Cash and cash equivalents* | - | - | - | - | - | 153,867 | 153,867 |
| *Due from other banks* | - | 122 | 2,391 | - | - | 2,824 | 5,337 |
| *Securities at fair value through profit or loss* | 22 | 454 | 1,243 | 1,745 | 36,321 | 17,642 | 57,427 |
| *Derivative financial instruments* | - | - | - | - | - | 8,983 | 8,983 |
| *Loans to customers, finance lease receivables* | 197,262 | 249,464 | 384,687 | 33,804 | 95,724 | 62,475 | 1,023,416 |
| *Investment securities* | | | | | | | |
| *available-for-sale securities -* | 13 | 107 | 32 | 12 | 16,467 | 2,537 | 19,168 |
| *held-to-maturity securities -* | 2,407 | 19,137 | 11,433 | 59,194 | 431,883 | - | 524,054 |
| *Intangible assets* | - | - | - | - | - | 4,180 | 4,180 |
| *Property, plant and equipment and investment property* | - | - | - | - | - | 28,273 | 28,273 |
| *Other assets* | - | - | - | - | - | 36,573 | 36,573 |
| *Total assets* | 199,704 | 269,284 | 399,786 | 94,755 | 580,395 | 317,354 | 1,861,278 |
| | | | | | | | |
| *Due to other banks and financial institutions* | 19,637 | 1,934 | 1,180 | 49,457 | - | 17,585 | 89,793 |
| *Due to customers, special and lending funds* | 102,026 | 134,294 | 187,974 | 303,362 | 150,077 | 645,680 | 1,523,413 |
| *Subordinated loan* | - | 20,000 | - | - | - | 2,064 | 22,064 |
| *Liabilities related to insurance activities* | - | - | - | - | - | 25,515 | 25,515 |
| *Other liabilities* | - | - | - | - | - | 20,976 | 20,976 |
| *Shareholders' equity* | - | - | - | - | - | 179,517 | 179,517 |
| *Total liabilities and shareholders' equity* | 121,663 | 156,228 | 189,154 | 352,819 | 150,077 | 891,337 | 1,861,278 |
| | | | | | | | |
| *Interest rate sensitivity gap* | 78,041 | 113,056 | 210,632 | (258,064) | 430,318 | (573,983) | - |

Details of the Group's interest rate risk as at 31 December 2015 are presented below:

| | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | More than 1 year | Non interest bearing or maturity undefined | Total |
|---|---|---|---|---|---|---|---|
| *Total assets* | 234,917 | 248,996 | 388,850 | 41,553 | 554,353 | 226,371 | 1,695,040 |
| *Total liabilities and shareholders' equity* | 143,261 | 169,961 | 209,612 | 339,125 | 145,887 | 687,194 | 1,695,040 |
| | | | | | | | |
| *Interest rate sensitivity gap* | 91,656 | 79,035 | 179,238 | (297,572) | 408,466 | (460,823) | - |

(All amounts are in EUR thousand, unless otherwise stated)

## FINANCIAL RISK MANAGEMENT (continued)

Details of the Bank's interest rate risk as at 31 December 2016 are presented below:

| | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | More than 1 year | Non interest bearing or maturity undefined | Total |
|---|---|---|---|---|---|---|---|
| *Assets* | | | | | | | |
| *Cash and cash equivalents* | - | - | - | - | - | 152,111 | 152,111 |
| *Due from other banks* | - | 122 | 2,391 | - | - | 2,824 | 5,337 |
| *Securities at fair value through profit or loss* | 16 | 283 | 1,144 | 1,373 | 22,842 | 445 | 26,103 |
| *Derivative financial instruments* | - | - | - | - | - | 8,687 | 8,687 |
| *Loans to customers, finance lease receivables* | 189,603 | 274,489 | 391,446 | 48,330 | 80,566 | 57,891 | 1,042,325 |
| *Investment securities* | | | | | | | |
| *- available-for-sale securities* | 13 | 107 | 32 | 12 | 16,467 | 873 | 17,504 |
| *- held-to-maturity securities* | 2,407 | 19,137 | 11,433 | 59,194 | 431,883 | - | 524,054 |
| *Investments in subsidiaries* | - | - | - | - | - | 26,665 | 26,665 |
| *Intangible assets* | - | - | - | - | - | 1,210 | 1,210 |
| *Property, plant and equipment and investment property* | - | - | - | - | - | 11,644 | 11,644 |
| *Other assets* | - | - | - | - | - | 7,999 | 7,999 |
| *Total assets* | 192,039 | 294,138 | 406,446 | 108,909 | 551,758 | 270,349 | 1,823,639 |
| | | | | | | | |
| *Due to other banks and financial institutions* | 19,637 | 1,936 | 1,220 | 49,457 | 600 | 19,229 | 92,079 |
| *Due to customers, special and lending funds* | 102,026 | 134,294 | 187,974 | 303,362 | 150,077 | 646,071 | 1,523,804 |
| *Subordinated loan* | - | 20,000 | - | - | - | 2,064 | 22,064 |
| *Other liabilities* | - | - | - | - | - | 12,749 | 12,749 |
| *Shareholders' equity* | - | - | - | - | - | 172,943 | 172,943 |
| *Total liabilities and shareholders' equity* | 121,663 | 156,230 | 189,194 | 352,819 | 150,677 | 853,056 | 1,823,639 |
| | | | | | | | |
| *Interest rate sensitivity gap* | 70,376 | 137,908 | 217,252 | (243,910) | 401,081 | (582,707) | - |

Details of the Bank's interest rate risk as at 31 December 2015 are given below:

| | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | More than 1 year | Non interest bearing or maturity undefined | Total |
|---|---|---|---|---|---|---|---|
| *Total assets* | 235,395 | 260,523 | 369,794 | 69,345 | 527,214 | 195,586 | 1,657,857 |
| *Total liabilities and shareholders' equity* | 143,052 | 169,916 | 209,490 | 338,759 | 123,114 | 673,526 | 1,657,857 |
| | | | | | | | |
| *Interest rate sensitivity gap* | 92,343 | 90,607 | 160,304 | (269,414) | 404,100 | (477,940) | - |

### Sensitivity of interest rate risk

The table below summarises Group's interest rates sensitive assets and liabilities based on reprising dates based on which cash flow interest rate risk is estimated.

| Group | Up to 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | More than 1 year | Non interest bearing or maturity undefined | Total |
|---|---|---|---|---|---|---|---|
| *31 December 2016* | | | | | | | |
| *Total interest rate sensitive assets* | 199,704 | 269,284 | 399,786 | 94,755 | 580,395 | 252,464 | 1,796,388 |
| *Total interest rate sensitive liabilities* | 121,663 | 156,228 | 189,154 | 352,819 | 150,077 | 677,285 | 1,647,226 |
| | | | | | | | |
| *Net interest sensitivity gap at 31 December 2016* | 78,041 | 113,056 | 210,632 | (258,064) | 430,318 | (424,821) | 149,162 |
| | | | | | | | |
| *31 December 2015* | | | | | | | |
| *Total interest rate sensitive assets* | 234,917 | 248,996 | 388,850 | 41,553 | 554,353 | 150,052 | 1,618,721 |
| *Total interest rate sensitive liabilities* | 143,052 | 169,916 | 209,490 | 338,701 | 123,114 | 539,688 | 1,523,961 |
| | | | | | | | |
| *Net interest sensitivity gap at 31 December 2015* | 91,865 | 79,080 | 179,360 | (297,148) | 431,239 | (389,636) | 94,760 |

Assessing the sensitivity of the Group's profit and other comprehensive income towards the change of interest rates, it has been assumed that interest is to change by 1 percentage point.

(All amounts are in EUR thousand, unless otherwise stated)

The table below summarises the effect on the Group's profit and other comprehensive income of interest rate risk, except for effects on derivative financial instruments, as at 31 December 2016 and 31 December 2015.

| | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| | Increase (decrease) in profit | Increase (decrease) in other comprehensive income | Increase (decrease) in profit | Increase (decrease) in other comprehensive income |
| *Interest rate increase by 1p.p.* | 552 | (661) | (1,937) | (864) |
| *Interest rate decrease by 1p.p.* | (552) | 661 | 1,937 | 864 |

The shift of yield curve according to above mentioned parameters creates significant impact on Group's total comprehensive income and makes EUR 109 thousand in 2016 (2015: EUR 2,801 thousand) higher/lower impact on comprehensive income.

The table below summarises the Bank's interest rates sensitive assets and liabilities based on reprising dates based on which cash flow interest rate risk is estimated.

| Bank | Up to 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | More than 1 year | Non interest bearing or maturity undefined | Total |
|---|---|---|---|---|---|---|---|
| *31 December 2016* | | | | | | | |
| *Total interest rate sensitive assets* | 192,039 | 294,138 | 406,446 | 108,909 | 551,758 | 225,909 | 1,779,199 |
| *Total interest rate sensitive liabilities* | 121,663 | 156,230 | 189,194 | 352,819 | 150,677 | 675,083 | 1,645,666 |
| | | | | | | | |
| *Net interest sensitivity gap at 31 December 2016* | 70,376 | 137,908 | 217,252 | (243,910) | 401,081 | (449,174) | 133,533 |
| | | | | | | | |
| *31 December 2015* | | | | | | | |
| *Total interest rate sensitive assets* | 235,395 | 260,523 | 369,794 | 69,345 | 527,214 | 130,443 | 1,592,714 |
| *Total interest rate sensitive liabilities* | 143,052 | 169,916 | 209,490 | 338,701 | 123,114 | 539,641 | 1,523,914 |
| | | | | | | | |
| *Net interest sensitivity gap at 31 December 2015* | 92,343 | 90,607 | 160,304 | (269,356) | 404,100 | (409,198) | 68,800 |

Assessing the sensitivity of the Bank's profit and other comprehensive income towards the change of interest rates, it has been assumed that interest is to change by 1 percentage point.

The table below summarises the effect on the Bank's profit and other comprehensive income of interest rate risk, except for effects on derivative financial instruments, as at 31 December 2016 and 31 December 2015.

| | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| | Increase (decrease) in profit | Increase (decrease) in other comprehensive income | Increase (decrease) in profit | Increase (decrease) in other comprehensive income |
| *Interest rate increase by 1p.p.* | 1,116 | (661) | (1,520) | (864) |
| *Interest rate decrease by 1p.p.* | (1,116) | 661 | 1,520 | 864 |

The shift of yield curve according to above mentioned parameters creates significant impact on Bank's total comprehensive income and makes EUR 455 thousand in 2016 (2015: EUR 2,384 thousand) higher/lower impact on comprehensive income.

### 2.3. Securities risk

Securities risk is the risk to incur losses from the investment in securities.

The management of the securities risk is regulated by the Investment in Securities Limits Procedure. In order to properly manage the debt securities portfolio risk, the Bank uses an internal limit system that combines maturity/rating limits, geographical region limits imposed on total debt securities portfolio, VaR ratio limits imposed on held-to-maturity debt securities portfolio, and VaR and capital requirements amount limits imposed on available-for-sale and trading debt securities portfolios. For the equity portfolio risk management, a limit system that combines decision taking limits, issuer limits, portfolio limits is used. The compliance with limits must be checked before taking the investment decisions, monthly reports on the compliance with the limits set are submitted to the Bank's Risk Management Committee.

#### Securities concentrations

Sector concentration of the securities portfolio is disclosed in Financial Risk Management disclosure, section 1.8. Maturities concentration of securities portfolio is disclosed in Financial Risk Management disclosure, section 3.2. Credit quality of the securities portolio is disclosed in Notes 12 and Note 15. Geographical concentration of the debt securities portfolio is presented in tables below, which contain Top 20 countries in which the Group and the Bank have exposures:

(All amounts are in EUR thousand, unless otherwise stated)

## FINANCIAL RISK MANAGEMENT (continued)

*Top 20 countries in which the Group has debt security exposures:*

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Name of the country | Sovereign | Corporate | Total | Name of the country | Sovereign | Corporate | Total |
| *1.* | Lithuania | 340,524 | 617 | 341,141 | Lithuania | 334,391 | 730 | 335,121 |
| *2.* | Romania | 26,039 | - | 26,039 | Romania | 24,242 | - | 24,242 |
| *3.* | Poland | 24,321 | - | 24,321 | Netherlands | - | 21,171 | 21,171 |
| *4.* | USA | - | 18,045 | 18,045 | USA | - | 15,339 | 15,339 |
| *5.* | Netherlands | - | 16,581 | 16,581 | Italy | 9,265 | 5,589 | 14,854 |
| *6.* | Italy | 8,354 | 4,638 | 12,992 | France | 2,352 | 10,885 | 13,237 |
| *7.* | Bulgaria | 10,654 | 549 | 11,203 | Ireland | 4,242 | 6,873 | 11,115 |
| *8.* | France | - | 10,207 | 10,207 | Latvia | 7,414 | 2,310 | 9,724 |
| *9.* | Spain | 7,935 | 1,291 | 9,226 | Sweden | 6,497 | 2,765 | 9,262 |
| *10.* | Ireland | 4,005 | 4,029 | 8,034 | Poland | - | 8,694 | 8,694 |
| *11.* | Slovenia | 7,274 | - | 7,274 | Slovenia | 6,724 | 1,416 | 8,140 |
| *12.* | Latvia | 4,511 | 2,310 | 6,821 | Spain | 6,020 | 1,543 | 7,563 |
| *13.* | Mexico | 1,373 | 5,132 | 6,505 | Estonia | - | 6,820 | 6,820 |
| *14.* | Sweden | - | 6,494 | 6,494 | Great Britain | - | 6,579 | 6,579 |
| *15.* | Great Britain | - | 6,279 | 6,279 | British Virgin Islands | 1,162 | 4,928 | 6,090 |
| *16.* | Czech Republic | 1,041 | 4,858 | 5,899 | Czech Republic | - | 6,016 | 6,016 |
| *17.* | Luxembourg | - | 5,334 | 5,334 | Bulgaria | 5,628 | 86 | 5,714 |
| *18.* | Turkey | 1,982 | 2,362 | 4,344 | Turkey | 3,250 | 2,362 | 5,612 |
| *19.* | Chile | 157 | 4,080 | 4,237 | Luxembourg | - | 4,305 | 4,305 |
| *20.* | Germany | - | 4,155 | 4,155 | Austria | - | 4,150 | 4,150 |
| | Other countries | 9,675 | 36,067 | 45,742 | Other countries | 8,609 | 36,032 | 44,641 |
| | Total | **447,845** | **133,028** | **580,873** | Total | **419,796** | **148,593** | **568,389** |

*Top 20 countries in which the Bank has debt security exposures:*

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Name of the country | Sovereign | Corporate | Total | Name of the country | Sovereign | Corporate | Total |
| *1.* | Lithuania | 340,247 | 214 | 340,461 | Lithuania | 332,812 | 328 | 333,140 |
| *2.* | Romania | 25,335 | - | 25,335 | Romania | 23,865 | - | 23,865 |
| *3.* | Poland | 23,195 | - | 23,195 | Netherlands | - | 20,245 | 20,245 |
| *4.* | USA | - | 17,735 | 17,735 | USA | - | 15,027 | 15,027 |
| *5.* | Netherlands | - | 15,977 | 15,977 | Italy | 8,655 | 5,436 | 14,091 |
| *6.* | Italy | 7,491 | 4,488 | 11,979 | France | 2,352 | 10,770 | 13,122 |
| *7.* | Bulgaria | 10,139 | 549 | 10,688 | Ireland | 4,113 | 6,763 | 10,876 |
| *8.* | France | - | 10,000 | 10,000 | Latvia | 6,974 | 2,310 | 9,284 |
| *9.* | Spain | 7,935 | 1,070 | 9,005 | Sweden | - | 8,694 | 8,694 |
| *10.* | Ireland | 4,005 | 4,029 | 8,034 | Poland | 6,075 | 2,555 | 8,630 |
| *11.* | Slovenia | 7,010 | 0 | 7,010 | Slovenia | 6,317 | 1,416 | 7,733 |
| *12.* | Sweden | - | 6,494 | 6,494 | Spain | 5,966 | 1,102 | 7,068 |
| *13.* | Latvia | 4,144 | 2,310 | 6,454 | Estonia | - | 6,532 | 6,532 |
| *14.* | Great Britain | - | 5,705 | 5,705 | Great Britain | - | 6,055 | 6,055 |
| *15.* | Luxembourg | - | 5,334 | 5,334 | British Virgin Islands | - | 6,016 | 6,016 |
| *16.* | Mexico | 196 | 5,132 | 5,328 | Czech Republic | 1,038 | 4,345 | 5,383 |
| *17.* | Czech Republic | 1,041 | 4,271 | 5,312 | Bulgaria | 5,136 | 86 | 5,222 |
| *18.* | Chile | - | 4,080 | 4,080 | Turkey | 2,238 | 2,117 | 4,355 |
| *19.* | Finland | - | 3,717 | 3,717 | Luxembourg | - | 4,305 | 4,305 |
| *20.* | Germany | - | 3,681 | 3,681 | Austria | - | 4,150 | 4,150 |
| | Other countries | 8,148 | 32,671 | 40,819 | Other countries | 6,292 | 34,560 | 40,852 |
| | Total | **438,886** | **127,457** | **566,343** | Total | **411,833** | **142,812** | **554,645** |

### Sensitivity of securities risk

The sensitivity of debt securities portfolio (at fair value through profit or loss and available-for-sale) to parallel shift of the interest rate curve by 1 percentage point is presented in the table below:

| | *31 December 2016* | | *31 December 2015* | |
|---|---|---|---|---|
| | Increase (decrease) in profit | Increase (decrease) in other comprehensive income | Increase (decrease) in profit | Increase (decrease) in other comprehensive income |
| *Group:* | | | | |
| *Interest rate increase by 1p.p.* | (1,809) | (661) | (3,855) | (864) |
| *Interest rate decrease by 1p.p.* | 1,809 | 661 | 3,855 | 864 |
| | | | | |
| Bank: | | | | |
| *Interest rate increase by 1p.p.* | (1,456) | (661) | (3,489) | (864) |
| *Interest rate decrease by 1p.p.* | 1,456 | 661 | 3,489 | 864 |

# FINANCIAL RISK MANAGEMENT (continued)

## 3. Liquidity risk

Liquidity risk means the risk that the Bank is unable to meet its financial obligations in time or that it will not manage to receive financial resources during a short time by borrowing or selling the assets.

### 3.1. Liquidity risk management process

The liquidity risk management depends on the Bank's ability to cover the cash shortage by borrowing from the market; and the liquidity of the market itself. The Bank seeks not to depend on the ability to borrow in the market in case of liquidity problems and constructs its liquidity strategy based on hypothetical scenario it does not have access to market funding. Due to that fact the Bank possesses a significant debt securities portfolio, which is highly liquid and can be used either as collateral for borrowing by repos, or sold.

Liquidity risk management is regulated by the Procedures for Liquidity Risk Management approved by the Bank's Board. Liquidity risk is evaluated by analysing the dynamics of various liquidity ratios. A list of these ratios as well as recommended limits to their change are defined in the above-mentioned procedures. Decisions regarding liquidity management issues are made by the Bank's Risk Management Committee with reference to the information submitted by the Bank's Risk Management and Reporting Department or by the Bank's Board with reference to the information submitted by the Risk Management Committee. Current liquidity (up to 7 days) risk management is based on short-term cash flow analysis and projections. The Market and Treasury Department is responsible for this.

The Group controls short-term and long-term liquidity risk through established ratios and limits.

Starting from 2015, the Bank is subject to regulatory Liquidity coverage ratio (LCR). The Bank complied with this ratio with a substantial cushion (requirement for the LCR ratio aggregate for all currencies, for EUR and for foreign currencies that comprise over 5% of total liabilities is set at 100%). As of 31 December 2016, Bank's LCR ratio (aggregate for all currencies) stood at 324% (31 December 2015: 943%).

Internal liquidity limit system was updated in 2015. It includes such ratios as internal liquidity ratio, minimum negative liquidity gap ratio, liquid assets requirement. As 31 December 2016, the Bank complied with all the internal liquidity ratios. As at 31 December 2015, the Bank was also compliant to all the regulatory and internal liquidity limits and ratios to which it was subject.

(All amounts are in EUR thousand, unless otherwise stated)

3.2. Structure of assets and liabilities by maturity

The structure of the Group's assets and liabilities by maturity as at 31 December 2016 was as follows:

| | On demand | Less than 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | 1 to 3 years | More than 3 years | Maturity undefined | Total |
|---|---|---|---|---|---|---|---|---|---|
| *Assets* | | | | | | | | | |
| *Cash and cash equivalents* | 153,867 | - | - | - | - | - | - | - | 153,867 |
| *Due from other banks* | - | - | 265 | 2,496 | 877 | 638 | 250 | 811 | 5,337 |
| *Securities at fair value through profit or loss* | - | 21 | 453 | 1,243 | 1,746 | 6,981 | 29,341 | 17,642 | 57,427 |
| *Derivative financial instruments* | - | 1,392 | 2,098 | 1,048 | 838 | 2,107 | 1,500 | - | 8,983 |
| *Loans to customers, finance lease receivables* | - | 27,501 | 43,315 | 63,970 | 139,249 | 316,448 | 394,176 | 38,757 | 1,023,416 |
| *Investment securities* | | | | | | | | | |
| *available-for-sale securities -* | - | 13 | 107 | 32 | 12 | 4,956 | 11,511 | 2,537 | 19,168 |
| *held-to-maturity securities -* | - | 2,408 | 19,138 | 11,432 | 59,193 | 176,055 | 255,828 | - | 524,054 |
| *Intangible assets* | - | - | - | - | - | - | - | 4,180 | 4,180 |
| *Property, plant and equipment and investment property* | - | - | - | - | - | - | - | 11,469 | 11,469 |
| *Other assets* | 586 | 5,333 | 850 | 345 | 6,448 | 14,918 | 4,562 | 20,335 | 53,377 |
| ***Total assets*** | **154,453** | **36,668** | **66,226** | **80,566** | **208,363** | **522,103** | **697,168** | **95,731** | **1,861,278** |
| | | | | | | | | | |
| *Due to other banks and financial institutions* | 8,066 | 7,514 | 5,339 | 2,763 | 51,735 | 4,097 | 10,279 | - | 89,793 |
| *Due to customers* | 585,995 | 120,336 | 136,983 | 191,510 | 305,114 | 135,919 | 19,230 | - | 1,495,087 |
| *Special and lending funds* | 28,326 | - | - | - | - | - | - | - | 28,326 |
| *Subordinated loan* | - | - | 74 | - | - | - | 21,990 | - | 22,064 |
| *Liabilities related to insurance activities* | - | 344 | 159 | 99 | 539 | 1,205 | 23,169 | - | 25,515 |
| *Other liabilities* | 7,077 | 5,911 | 1,239 | 4,958 | 681 | 1,110 | - | - | 20,976 |
| *Shareholders' equity* | - | - | - | - | - | - | - | 179,517 | 179,517 |
| | | | | | | | | | |
| ***Total liabilities and shareholders' equity*** | **629,464** | **134,105** | **143,794** | **199,330** | **358,069** | **142,331** | **74,668** | **179,517** | **1,861,278** |
| | | | | | | | | | |
| ***Net liquidity gap*** | **(475,011)** | **(97,437)** | **(77,568)** | **(118,764)** | **(149,706)** | **379,772** | **622,500** | **(83,786)** | **-** |

The structure of the Group's assets and liabilities by remaining maturity as at 31 December 2015 was as follows:

| | On demand | Less than 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | 1 to 3 years | More than 3 years | Maturity undefined | Total |
|---|---|---|---|---|---|---|---|---|---|
| *Total assets* | 80,998 | 54,647 | 79,750 | 71,495 | 126,336 | 480,448 | 679,559 | 121,807 | 1,695,040 |
| | | | | | | | | | |
| *Total liabilities and shareholders' equity* | 502,104 | 141,252 | 153,935 | 215,501 | 362,608 | 118,057 | 56,047 | 145,536 | 1,695,040 |
| | | | | | | | | | |
| *Net liquidity gap* | (421,106) | (86,605) | (74,185) | (144,006) | (236,272) | 362,391 | 623,512 | (23,729) | - |

(All amounts are in EUR thousand, unless otherwise stated)

## FINANCIAL RISK MANAGEMENT (continued)

The structure of the Bank's assets and liabilities by maturity as at 31 December 2016 was as follows:

| | On demand | Less than 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | 1 to 3 years | More than 3 years | Maturity undefined | Total |
|---|---|---|---|---|---|---|---|---|---|
| *Assets* | | | | | | | | | |
| *Cash and cash equivalents* | 152,111 | - | | - | - | - | - | - | 152,111 |
| *Due from other banks* | - | - | 265 | 2,496 | 877 | 638 | 250 | 811 | 5,337 |
| *Securities at fair value through profit or loss* | - | 16 | 282 | 1,144 | 1,374 | 3,837 | 19,005 | 445 | 26,103 |
| *Derivative financial instruments* | - | 1,382 | 2,080 | 1,023 | 791 | 1,977 | 1,434 | - | 8,687 |
| *Loans granted to customers, finance lease receivables* | - | 21,423 | 75,391 | 78,545 | 149,768 | 297,172 | 384,569 | 35,457 | 1,042,325 |
| *Investment securities* | | | | | | | | | |
| *available-for-sale securities -* | - | 13 | 107 | 32 | 12 | 4,956 | 11,511 | 873 | 17,504 |
| *held-to-maturity securities -* | - | 2,408 | 19,138 | 11,432 | 59,193 | 176,055 | 255,828 | - | 524,054 |
| *Investments in subsidiaries* | - | - | - | - | - | - | - | 26,665 | 26,665 |
| *Intangible assets* | - | - | - | - | - | - | - | 1,210 | 1,210 |
| *Property, plant and equipment and investment property* | - | - | - | - | - | - | - | 10,532 | 10,532 |
| *Other assets* | 580 | 4,434 | 208 | 166 | 126 | 48 | 36 | 3,513 | 9,111 |
| ***Total assets*** | **152,691** | **29,676** | **97,471** | **94,838** | **212,141** | **484,683** | **672,633** | **79,506** | **1,823,639** |
| | | | | | | | | | |
| *Due to other banks and financial institutions* | 9,685 | 7,514 | 5,340 | 2,803 | 51,735 | 4,702 | 10,300 | - | 92,079 |
| *Due to customers* | 586,386 | 120,336 | 136,983 | 191,510 | 305,114 | 135,918 | 19,231 | - | 1,495,478 |
| *Special and lending funds* | 28,326 | - | - | - | - | - | - | - | 28,326 |
| *Subordinated loan* | - | - | 74 | - | - | - | 21,990 | - | 22,064 |
| *Other liabilities* | 5,922 | 906 | 73 | 5,375 | 46 | 427 | - | - | 12,749 |
| *Shareholders' equity* | - | - | - | - | - | - | - | 172,943 | 172,943 |
| | | | | | | | | | |
| ***Total liabilities and shareholders' equity*** | **630,319** | **128,756** | **142,470** | **199,688** | **356,895** | **141,047** | **51,521** | **172,943** | **1,823,639** |
| | | | | | | | | | |
| ***Net liquidity gap*** | **(477,628)** | **(99,080)** | **(44,999)** | **(104,850)** | **(144,754)** | **343,636** | **621,112** | **(93,437)** | **-** |

The structure of the Bank's assets and liabilities by maturity as at 31 December 2015 was as follows:

| | On demand | Less than 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | 1 to 3 years | More than 3 years | Maturity undefined | Total |
|---|---|---|---|---|---|---|---|---|---|
| *Total assets* | 79,941 | 59,249 | 106,110 | 75,678 | 140,714 | 434,628 | 634,506 | 127,031 | 1,657,857 |
| | | | | | | | | | |
| *Total liabilities and shareholders' equity* | 504,560 | 136,961 | 153,591 | 215,282 | 361,495 | 116,573 | 34,519 | 134,876 | 1,657,857 |
| | | | | | | | | | |
| *Net liquidity gap* | (424,619) | (77,712) | (47,481) | (139,604) | (220,781) | 318,055 | 599,987 | (7,845) | - |

Loans and receivables with undefined maturity consist of overdue exposures, which were not repaid at their contractual maturity.

(All amounts are in EUR thousand, unless otherwise stated)

3.3. Non - derivative cash flows

Undiscounted cash flows in the table below describe contractual liability side outflows which are stated including nominal contract amounts together with interest till the end of the contract.

Group

| 31 December 2016 | Maturity undefined | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| *Liabilities* | | | | | | | |
| *Due to banks* | - | 15,647 | 5,272 | 54,722 | 14,082 | 310 | 90,033 |
| *Due to customers* | - | 706,385 | 137,101 | 498,224 | 155,278 | 2,655 | 1,499,643 |
| *Subordinated loan* | - | - | 250 | 754 | 4,007 | 21,818 | 26,829 |
| *Special and lending funds* | - | 28,326 | - | - | - | - | 28,326 |
| *Liabilities related to insurance activities* | - | 344 | 159 | 638 | 2,307 | 22,067 | 25,515 |
| *Total liabilities (contractual maturity dates)* | - | 750,702 | 142,782 | 554,338 | 175,674 | 46,850 | 1,670,346 |

Group

| 31 December 2015 | Maturity undefined | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| *Liabilities* | | | | | | | |
| *Due to banks* | - | 11,361 | 5,313 | 21,715 | 11,673 | 426 | 50,488 |
| *Due to customers* | - | 628,111 | 148,038 | 553,378 | 115,956 | 2,386 | 1,447,869 |
| *Subordinated loan* | - | - | 361 | 1,094 | 5,784 | 23,813 | 31,052 |
| *Special and lending funds* | - | 8,191 | - | - | - | - | 8,191 |
| *Liabilities related to insurance activities* | - | 208 | 45 | 488 | 2,150 | 20,624 | 23,515 |
| *Total liabilities (contractual maturity dates)* | - | 647,871 | 153,757 | 576,675 | 135,563 | 47,249 | 1,561,115 |

Bank

| 31 December 2016 | Maturity undefined | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| *Liabilities* | | | | | | | |
| *Due to banks* | - | 17,265 | 5,274 | 54,762 | 14,708 | 310 | 92,319 |
| *Due to customers* | - | 706,777 | 137,101 | 498,224 | 155,278 | 2,655 | 1,500,035 |
| *Subordinated loan* | - | - | 250 | 754 | 4,007 | 21,818 | 26,829 |
| *Special and lending funds* | - | 28,326 | - | - | - | - | 28,326 |
| *Total liabilities (contractual maturity dates)* | - | 752,368 | 142,625 | 553,740 | 173,993 | 24,783 | 1,647,509 |

Bank

| 31 December 2015 | Maturity undefined | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| *Liabilities* | | | | | | | |
| *Due to banks* | - | 14,278 | 5,315 | 21,714 | 11,694 | 426 | 53,427 |
| *Due to customers* | - | 629,182 | 148,038 | 553,379 | 115,956 | 2,386 | 1,448,941 |
| *Subordinated loan* | - | - | 361 | 1,094 | 5,784 | 23,813 | 31,052 |
| *Special and lending funds* | - | 8,191 | - | - | - | - | 8,191 |
| *Total liabilities (contractual maturity dates)* | - | 651,651 | 153,714 | 576,187 | 133,434 | 26,625 | 1,541,611 |

(All amounts are in EUR thousand, unless otherwise stated)

### 3.4. Remaining contractual maturity off - balance sheet items

Analysis of off-balance sheet items by the remaining maturity is as follows:

Group

| At 31 December 2016 | Up to one month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| *Loan commitments* | 115,758 | - | - | - | - | - | 115,758 |
| *Guarantees* | 21,253 | - | - | - | - | - | 21,253 |
| *Operating lease commitments* | 93 | 186 | 261 | 464 | 1,341 | 168 | 2,513 |
| *Other commitments* | 977 | 178 | 1,434 | 241 | - | - | 2,830 |
| ***Total*** | **138,081** | **364** | **1,695** | **705** | **1,341** | **168** | **142,354** |

Group

| At 31 December 2015 | Up to one month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| *Loan commitments* | 109,625 | - | - | - | - | - | 109,625 |
| *Guarantees* | 22,255 | - | - | - | - | - | 22,255 |
| *Operating lease commitments* | 96 | 188 | 265 | 494 | 1,362 | 439 | 2,844 |
| *Other commitments* | 1,731 | 6,192 | 81 | 203 | 64 | - | 8,271 |
| ***Total*** | **133,707** | **6,380** | **346** | **697** | **1,426** | **439** | **142,995** |

Bank

| At 31 December 2016 | Up to one month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| *Loan commitments* | 140,001 | - | - | - | - | - | 140,001 |
| *Guarantees* | 21,320 | - | - | - | - | - | 21,320 |
| *Operating lease commitments* | 102 | 204 | 289 | 514 | 1,506 | 215 | 2,830 |
| *Other commitments* | 977 | 178 | 1,434 | 11 | - | - | 2,600 |
| ***Total*** | **162,400** | **382** | **1,723** | **525** | **1,506** | **215** | **166,751** |

Bank

| At 31 December 2015 | Up to one month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| *Loan commitments* | 114,165 | - | - | - | - | - | 114,165 |
| *Guarantees* | 22,282 | - | - | - | - | - | 22,282 |
| *Operating lease commitments* | 109 | 214 | 303 | 568 | 1,586 | 480 | 3,260 |
| *Other commitments* | 1,731 | 6,185 | 81 | - | 26 | - | 8,023 |
| ***Total*** | **138,287** | **6,399** | **384** | **568** | **1,612** | **480** | **147,730** |

## 4. Fair value of financial assets and liabilities

### 4.1. Financial assets and liabilities not measured at fair value

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's and Group's balance sheets at their fair value. The valuation methods for the assets and liabilities are summarized below.

*a) Loans and advances to banks*

The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value.

The fair value of fixed interest bearing deposits is estimated using valuation technique attributable to Level 3 in the fair value hierarchy, based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

*b) Loans and advances to customers and finance lease receivables*

Loans and advances and finance lease receivables are net of charges for impairment. The fair value of loans and advances to customers and finance lease receivables is estimated using valuation technique attributable to Level 3 in the fair value hierarchy. The estimated fair value of loans, advances and finance lease receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates (average interest rates on outstanding loans published by the Bank of Lithuania) to determine fair value.

*c) Investment securities*

The fair value for held-to-maturity assets is based on market prices or broker/dealer price quotations – i.e. it is estimated using valuation technique attributable to Level 1 in the fair value hierarchy. The estimated fair value of unlisted securities is estimated using valuation technique attributable to Level 3 in the fair value hierarchy, it represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. Listed securities priced on market quotations represent over 99% of the investment securities held-to-maturity portfolio of the Group.

*d) Deposits from banks and due to customers and special lending funds*

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The fair value of fixed interest-bearing deposits and special and lending funds not quoted in an active market is estimated using valuation technique attributable to Level 3 in the fair value hierarchy based on discounted cash flows using interest rates for new debts with similar remaining maturity. Interest rates for new deposits of Šiaulių bankas are used for calculation purposes as discount rates.

*e) Other financial assets and other financial liabilities*

The estimated fair value of other assets and other liabilities is similar to the carrying value due to short maturities of these assets and liabilities.

(All amounts are in EUR thousand, unless otherwise stated)

# FINANCIAL RISK MANAGEMENT (continued)

Group

| | As of 31 December 2016 | | As of 31 December 2015 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| *Assets* | | | | |
| *Due from other banks* | 5,337 | 5,339 | 6,529 | 6,520 |
| *Loans* | 953,609 | 971,648 | 851,296 | 868,562 |
| *Loans to individuals:* | 116,564 | 119,725 | 110,019 | 112,526 |
| *Consumer loans -* | 59,207 | 61,135 | 55,580 | 56,729 |
| *Mortgages -* | 36,562 | 37,807 | 31,380 | 32,670 |
| *Credit cards -* | 1,312 | 1,300 | 1,327 | 1,309 |
| *Other -* | 19,483 | 19,483 | 21,732 | 21,818 |
| *Loans to business customers* | 837,028 | 851,906 | 741,250 | 756,009 |
| *Central and other authorities -* | 189,992 | 190,527 | 196,389 | 196,479 |
| *Large corporates -* | 55,842 | 55,663 | 45,263 | 46,018 |
| *SME -* | 591,194 | 605,716 | 499,598 | 513,512 |
| *Loans and advances to financial institutions* | 17 | 17 | 27 | 27 |
| *Finance lease receivables* | 69,807 | 71,068 | 57,812 | 52,798 |
| *Investment securities held-to-maturity* | 524,054 | 555,368 | 494,645 | 523,599 |
| *Government bonds -* | 420,755 | 448,376 | 381,943 | 410,714 |
| *Corporate bonds -* | 103,299 | 106,992 | 112,702 | 112,885 |
| *Other financial assets* | 4,189 | 4,189 | 2,551 | 2,551 |
| *Liabilities* | | | | |
| *Due to other banks and financial institutions* | 89,793 | 90,031 | 50,376 | 50,406 |
| *Due to customers* | 1,495,087 | 1,503,174 | 1,436,388 | 1,448,459 |
| *Due to individuals* | 1,123,634 | 1,131,431 | 1,142,654 | 1,154,344 |
| *Due to private companies* | 267,905 | 268,151 | 214,125 | 214,474 |
| *Due to other enterprises* | 103,548 | 103,592 | 79,609 | 79,641 |
| *Special and lending funds* | 28,326 | 28,326 | 8,191 | 8,191 |

Bank

| | As of 31 December 2016 | | As of 31 December 2015 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| *Assets* | | | | |
| *Due from other banks* | 5,337 | 5,339 | 6,499 | 6,490 |
| *Loans* | 994,155 | 1,011,032 | 912,669 | 929,563 |
| *Loans to individuals:* | 67,458 | 69,427 | 61,528 | 63,494 |
| *Consumer loans -* | 10,322 | 11,253 | 7,487 | 8,083 |
| *Mortgages -* | 36,562 | 37,807 | 31,380 | 32,670 |
| *Credit cards -* | 1,113 | 1,106 | 931 | 925 |
| *Other -* | 19,461 | 19,261 | 21,730 | 21,816 |
| *Loans to business customers* | 867,835 | 882,662 | 752,155 | 766,992 |
| *Central and other authorities -* | 189,992 | 190,527 | 196,389 | 196,479 |
| *Large corporates -* | 55,842 | 55,663 | 45,263 | 46,018 |
| *SME -* | 622,001 | 636,472 | 510,503 | 524,495 |
| *Loans and advances to financial institutions* | 58,862 | 58,943 | 98,986 | 99,077 |
| *Finance lease receivables* | 48,170 | 49,894 | 1,145 | 1,158 |
| *Investment securities held-to-maturity* | 524,054 | 555,368 | 494,645 | 523,599 |
| *Government bonds -* | 420,755 | 448,376 | 381,943 | 410,714 |
| *Corporate bonds -* | 103,299 | 106,992 | 112,702 | 112,885 |
| *Other financial assets* | 3,078 | 3,078 | 2,169 | 2,169 |
| *Liabilities* | | | | |
| *Due to other banks and financial institutions* | 92,079 | 92,317 | 53,383 | 53,413 |
| *Due to customers* | 1,495,478 | 1,503,565 | 1,436,712 | 1,448,783 |
| *Due to individuals* | 1,123,634 | 1,131,431 | 1,142,654 | 1,154,344 |
| *Due to private companies* | 268,281 | 268,527 | 214,449 | 214,798 |
| *Other* | 103,563 | 103,607 | 79,609 | 79,641 |
| *Special and lending funds* | 28,326 | 28,326 | 8,191 | 8,191 |

(All amounts are in EUR thousand, unless otherwise stated)

4.2. Financial assets and liabilities measured at fair value

a) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, NASDAQ Stock Exchange, London Stock Exchange, Frankfurt Stock Exchange) or public price quotations (for example, for Lithuanian government bonds denominated in Litas, average price quotations for these securities from the most active banks that participate in the primary placement auctions of the Lithuanian Government securities are used).

- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The Group uses fair value calculated based on Level 2 inputs for accounting of currency derivatives and derivatives related to prices of equity instruments.

- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes Group's investments into unlisted equity securities, derivatives related to interest rate floor in variable rate loan contracts and liabilities designated at fair value through profit or loss. Details on fair value measurement of these instruments are described in subsection "Details on the main models used in valuation of Level III instruments" (Financial Risk Management disclosure, section 4.2.b), below.

b) Measurement of financial assets and liabilities according to the fair value hierarchy

| | | 2016 | | 2015 |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *LEVEL I* | | | | |
| *Financial assets at fair value through profit or loss* | | | | |
| *Listed equity securities* | 409 | 409 | 301 | 301 |
| *Units of investment funds* | 17,228 | 31 | 15,078 | 30 |
| *Government bonds* | 27,040 | 18,081 | 37,597 | 29,634 |
| *Corporate bonds* | 12,695 | 7,527 | 18,115 | 12,736 |
| *Available for sale financial assets* | | | | |
| *Government bonds* | - | - | 256 | 256 |
| *Corporate bonds* | 17,034 | 16,631 | 17,758 | 17,356 |
| *Investment fund units* | 1,047 | 107 | 140 | 140 |
| *Total Level I financial assets* | 75,453 | 42,786 | 89,245 | 60,453 |
| *LEVEL II* | | | | |
| *Financial assets at fair value through profit or loss* | | | | |
| *Derivative financial instruments* | 3,417 | 3,417 | 1,109 | 1,109 |
| *Total Level II financial assets* | 3,417 | 3,417 | 1,109 | 1,109 |
| *Financial liabilities at fair value through profit or loss* | | | | |
| *Derivative financial instruments* | (175) | (175) | (136) | (136) |
| *Total Level II financial liabilities* | (175) | (175) | (136) | (136) |
| *LEVEL III* | | | | |
| *Financial assets at fair value through profit or loss* | | | | |
| *Derivative financial instruments* | 5,566 | 5,270 | 8,183 | 7,645 |
| *Corporate bonds* | 50 | 50 | 18 | 18 |
| *Unlisted equity securities* | 5 | 5 | 7 | 7 |
| *Available for sale financial assets* | | | | |
| *Unlisted equity securities* | 1,087 | 766 | 2,314 | 2,069 |
| *Total Level III financial assets* | 6,708 | 6,091 | 10,522 | 9,739 |
| *Financial liabilities at fair value through profit or loss* | | | | |
| *Subordinated loans* | 22,064 | 22,064 | 20,457 | 20,457 |
| *Total Level III financial liabilities* | 22,064 | 22,064 | 20,457 | 20,457 |

There were no transfers between fair value hierarchy levels during 2016 and 2015.

(All amounts are in EUR thousand, unless otherwise stated)

## FINANCIAL RISK MANAGEMENT (continued)

The following table presents the changes in Level III instruments during 2016 and 2015:

The Group

| | *Unlisted securities at fair value through profit or loss* | | *Unlisted equities available for sale* | | *Derivatives* | | *Financial liabilities at fair value through profit or loss* | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| *Value as of 1 January* | 25 | - | 2,314 | 677 | 8,183 | 7,097 | 20,457 | 19,295 |
| *Additions / Recognition* | 50 | 23 | 655 | 69 | - | 2,675 | - | - |
| *Disposals* | - | - | (1,821) | (74) | - | - | - | - |
| *Redemptions* | (18) | - | - | - | - | - | - | - |
| *Derecognition* | - | - | - | - | (699) | - | - | - |
| *Changes due to interest accrued/paid* | (2) | 2 | - | - | - | - | (37) | (3) |
| *Revaluations through other comprehensive income* | - | - | (61) | 1,642 | - | - | - | - |
| *Revaluations through profit or loss* | - | - | - | - | (1,918) | (1,589) | 1,644 | 1,165 |
| *Value as of 31 December* | 55 | 25 | 1,087 | 2,314 | 5,566 | 8,183 | 22,064 | 20,457 |

The Bank

| | *Unlisted securities at fair value through profit or loss* | | *Unlisted equities available for sale* | | *Derivatives* | | *Financial liabilities at fair value through profit or loss* | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| *Value as of 1 January* | 25 | 28,962 | 2,069 | 403 | 7,645 | 6,650 | 20,457 | 19,295 |
| *Additions / Recognition* | 50 | 23 | 400 | 24 | - | 2,807 | - | - |
| *Disposals* | - | - | (1,642) | - | - | - | - | - |
| *Redemptions* | (18) | (28,962) | - | - | - | - | - | - |
| *Derecognition* | - | - | - | - | (699) | - | - | - |
| *Changes due to interest accrued/paid* | (2) | 2 | - | - | - | - | (37) | (3) |
| *Revaluations through other comprehensive income* | - | - | (61) | 1,642 | - | - | - | - |
| *Revaluations through profit or loss* | - | - | - | - | (1,676) | (1,812) | 1,644 | 1,165 |
| *Value as of 31 December* | 55 | 25 | 766 | 2,069 | 5,270 | 7,645 | 22,064 | 20,457 |

| | *2016* | | *2015* | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Total result from revaluation of Level III instruments included in the income statement* | (3,562) | (3,320) | (2,754) | (2,977) |

Details on the main models used in valuation of Level III instruments:

*Derivatives related to interest rate floor in variable rate loan contracts* (see also Note 12): The Bank uses Black-Scholes model to price options. Some inputs are derived from the market (e.g. EURIBOR, EURIBOR forward curves, EURIBOR spot curves), and some imputs (e.g. estimated volatility of EURIBOR rates) are based on the expert judgement of Group's employees.

The shift of yield curve up by 1p.p. would cause decrease in value of derivative financial instruments by EUR 3,077 thousand for the Group and EUR 2,980 thousand for the Bank (2015: EUR 4,796 thousand for the Group and EUR 4,274 thousand for the Bank), the decrease would be accounted in profit (loss). The shift of yield curve down by 1 p.p. would cause increase in value of derivative financial instruments by EUR 5,037 thousand for the Group and EUR 4,876 thousand for the Bank (2015: EUR 7,465 thousand for the Group and EUR 6,789 thousand for the Bank), the increase would be accounted in profit (loss). The increase in volatility of EURIBOR rates by 1 p.p. would cause increase in value of derivative financial instruments by EUR 88 thousand for the Group and EUR 85 thousand for the Bank (2015: EUR 168 thousand for the Group and EUR 157 thousand for the Bank). The decrease in volatility of EURIBOR rates by 1 p.p. would cause decrease in value of derivative financial instruments by EUR 68 thousand for the Group and EUR 66 thousand for the Bank (2015: EUR 152 thousand for the Group and EUR 142 thousand for the Bank).

The valuation is performed monthly by the employees of the Group, the data for inputs such as spot curves and forward curves is obtained directly from the publicly available sources (Bloomberg, Reuters), the data for estimated volatility of EURIBOR rates is based on the expert judgement of Group's employees, which take into account actual historical data and make expert assumptions on the expected trends.

*Financial liabilities at fair value through profit or loss* (see also Note 30): the derivative part of the financial liability at fair value through profit or loss was priced using Black-Scholes model at initial recognition, and fair valued using this model at each balance sheet date. Various inputs to the model were used such as risk-free rate (market yield of Lithuanian government bonds with similar maturity), current market price and historical volatility of the market price of shares of the Bank for the period equal to number of days until the conversion option can be carried out, projected book value per share at the date of expected maturity (in book value per share projections, data of budgeted activity results and planned capital increases were used). The debt part of the financial liability at fair value through profit or loss was priced using the net present value of estimated future cash flows, the discount rate of 6.70% (i.e. input calculated based on expert judgement of Group's employees) was used for the calculation.

(All amounts are in EUR thousand, unless otherwise stated)

## FINANCIAL RISK MANAGEMENT (continued)

Sensitivity of the valuation model to changes in various inputs is presented in the table below:

| | Change in factor | Impact on fair value of the liability |
|---|---|---|
| *Risk-free rate* | Increase by 50 bps | Increase by EUR 67 thousand |
| | Decrease by 50 bps | Decrease by EUR 67 thousand |
| *Current price of shares* | Increase by 10% | Increase by EUR 1,601 thousand |
| | Decrease by 10% | Decrease by EUR 1,286 thousand |
| *Projected BV* per share* | Increase by 10% | Decrease by EUR 1,178 thousand |
| | Decrease by 10% | Increase by EUR 1,784 thousand |
| *Discount rate used to discount the future cash flows of the debt part* | Increase by 100 bps | Decrease by EUR 909 thousand |
| | Decrease by 100 bps | Increase by EUR 969 thousand |
| *Part of the revaluation attributable to own credit risk* | Credit rating increased by 1 notch (from Ba2 to Ba1) | Increase by EUR 343 thousand |

**book value*

The valuation is performed quarterly by the employees of the Group. The data for the inputs such as risk-free rate, market price is obtained from the publicly available sources (Bank of Lithuania, Bloomberg, stock exchanges); data for some inputs such as market volatility calculated from the data obtained from publicly available sources (Bloomberg, stock exchanges); data of some inputs used to calculate projected book value per share is obtained from publicly unavailable internal documents of the Group; data of inputs for calculation of fair value of the debt part of the financial liability (i.e. discount rate) is based on expert judgement of Group's employees.

*Unlisted equity securities*. Most commonly used fair value measures in the Group are: valuations from external independent certified appraisers or assessment of discounted cash flows from the security carried out by employees of the Group. The principles for the assessment of fair value of unlisted equity securities are stipulated in the Instruction for Accounting of Securities.

### 4.3. Offsetting financial assets and financial liabilities

As of 31 December 2016 and 31 December 2015, only currency derivative instruments were subject to master netting arrangements and similar arrangements. As of 31 December 2016, derivative financial instruments classified as assets in amount of EUR 3,270 thousand and derivative financial instruments classified as liabilities in amount of EUR 29 thousand were subject to those agreements. As of 31 December 2015, derivative financial instruments classified as assets in amount of EUR 1,033 thousand and derivative financial instruments classified as liabilities in amount of EUR 99 thousand were subject to those agreements.

(All amounts are in EUR thousand, unless otherwise stated)

# FINANCIAL RISK MANAGEMENT (continued)

## 4.4. Classes of financial instruments

A table below provides reconciliation of items of financial assets and liabilities as presented in Statement of Financial Position to classes of financial instruments:

| | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *FINANCIAL ASSETS* | | | | |
| *Financial assets mandatorily measured at fair value through profit or loss:* | | | | |
| *Trading securities* | 38,759 | 26,103 | 54,453 | 42,726 |
| *government bonds -* | *25,619* | *18,131* | *35,982* | *29,634* |
| *corporate bonds -* | *12,695* | *7,527* | *18,133* | *12,754* |
| *equities -* | *445* | *445* | *338* | *338* |
| *Securities at fair value through profit or loss,designated as such upon initial recognition* | 18,668 | - | 16,663 | - |
| *government bonds -* | *1,471* | *-* | *1,615* | *-* |
| *corporate bonds -* | *-* | *-* | *-* | *-* |
| *equities -* | *17,197* | *-* | *15,048* | *-* |
| *Derivative financial instruments* | 8,983 | 8,687 | 9,292 | 8,754 |
| *Financial assets measured at fair value through other comprehensive income:* | | | | |
| *Investment securities available-for-sale* | 19,168 | 17,504 | 20,468 | 19,821 |
| *government bonds -* | *-* | *-* | *256* | *256* |
| *corporate bonds -* | *17,034* | *16,631* | *17,758* | *17,356* |
| *equities -* | *2,134* | *873* | *2,454* | *2,209* |
| *Financial assets measured at amortized cost:* | | | | |
| *Cash and cash equivalents* | 153,867 | 152,111 | 105,012 | 104,286 |
| *Due from other banks* | 5,337 | 5,337 | 6,529 | 6,499 |
| *Loans to customers* | 953,609 | 994,155 | 851,296 | 912,669 |
| *loans to financial institutions -* | *17* | *58,862* | *27* | *98,986* |
| *loans to individuals (retail): consumer loans -* | *59,207* | *10,322* | *55,580* | *7,487* |
| *loans to individuals (retail): mortgages -* | *36,562* | *36,562* | *31,380* | *31,380* |
| *loans to individuals (retail): credit cards -* | *1,312* | *1,113* | *1,327* | *931* |
| *loans to individuals (retail): other -* | *19,483* | *19,461* | *21,732* | *21,730* |
| *loans to business customers: SME -* | *591,194* | *622,001* | *499,598* | *510,503* |
| *loans to business customers: large corporates -* | *55,842* | *55,842* | *45,263* | *45,263* |
| *loans to business customers: central and local authorities and other -* | *189,992* | *189,992* | *196,389* | *196,389* |
| *Finance lease receivables* | 69,807 | 48,170 | 57,812 | 1,145 |
| *individuals -* | *12,113* | *7,319* | *8,328* | *-* |
| *business customers -* | *57,694* | *40,851* | *49,484* | *1,145* |
| *Investment securities held-to-maturity* | 524,054 | 524,054 | 494,645 | 494,645 |
| *government bonds -* | *420,755* | *420,755* | *381,943* | *381,943* |
| *corporate bonds -* | *103,299* | *103,299* | *112,702* | *112,702* |
| *Other financial assets* | 4,189 | 3,078 | 2,551 | 2,169 |
| ***Total financial assets*** | **1,796,441** | **1,779,199** | **1,618,721** | **1,592,714** |
| | | | | |
| *FINANCIAL LIABILITIES* | | | | |
| *Financial liabilities mandatorily measured at fair value through profit or loss:* | | | | |
| *Derivative financial instruments* | 175 | 175 | 136 | 136 |
| *Financial liabilities at fair value through profit or loss, designated as such upon initial recognition:* | | | | |
| *Subordinated loan* | 22,064 | 22,064 | 20,457 | 20,457 |
| *Financial liabilities measured at amortised cost:* | | | | |
| *Due to banks and financial institutions* | 89,793 | 92,079 | 50,376 | 53,383 |
| *Due to customers* | 1,495,087 | 1,495,478 | 1,436,388 | 1,436,712 |
| *due to individuals -* | *1,123,634* | *1,123,634* | *1,142,654* | *1,142,654* |
| *due to private companies -* | *267,905* | *268,281* | *214,125* | *214,449* |
| *other -* | *103,548* | *103,563* | *79,609* | *79,609* |
| *Special and lending funds* | 28,326 | 28,326 | 8,191 | 8,191 |
| *Other financial liabilities* | 11,781 | 7,544 | 8,412 | 5,034 |
| ***Total financial liabilities*** | **1,647,226** | **1,645,666** | **1,523,960** | **1,523,913** |

(All amounts are in EUR thousand, unless otherwise stated)

## FINANCIAL RISK MANAGEMENT (continued)

5. The risk inherent in insurance activities

The Bank's subsidiary Bonum Publicum (the company) is engaged in life insurance business.

*Insurance risk*

The insurance risk occurs from the uncertainty in estimation of the probability and timing of the insurance events used for the calculation of the insurance premium. This risk is random and therefore unpredictable.

For the portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

The company issues the contracts with mortality, morbidity, survival, casualty risks.

The company manages acceptable insurance risk by valuating the health of the insured person, habits of living, and the history of the health of his family. The company uses a system of several levels of risk to ensure that the payable premium would conform to the state of health of the insured person.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

At present, these risks do not vary significantly in relation to the location of the risk insured by the company. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

Concentration of risk is measured by the insurance amount of the accepted risks:

| | 2016 | 2015 |
|---|---|---|
| *Maturity* | 4.81% | 5.57% |
| *Death* | 29.73% | 29.41% |
| *Critical illness* | 10.94% | 10.82% |
| *Death in case of accident* | 11.96% | 11.31% |
| *Trauma* | 42.56% | 42.89% |

The company manages these risks through its underwriting strategy and reinsurance arrangements.

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits.

The company follows the principles of conservatism and prudence to settle the price for insurance risk therefore the increase in loss rate of any insurance risk would not impact the result of the Group significantly.

*Mortality, survival, casualty and morbidity risks*
Mortality, morbidity, survival, casualty risks occur because the frequency or severity of claims and benefits are greater than estimated, that will cause that future premiums will not be sufficient to cover the future claims in case of death, illnesses or trauma. For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics (such as AIDS or SARS) or wide spread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

The survival insurance risk appears due to the longer life time than planned. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

The most significant factor that could increase the casualty insurance risk is the departure from occupational safety, use of obsolete equipment, increasing rate of accidents.

As the company started its operations recently and it does not have enough statistics on mortality, morbidity and casualty, for valuation of the mortality and casualty insurance risks the company uses statistics on mortality and casualty of the population of Lithuania. For valuation of the morbidity insurance risk the company uses morbidity tables of the reinsurance company that has a broad experience of similar activities.

(All amounts are in EUR thousand, unless otherwise stated)

## FINANCIAL RISK MANAGEMENT (continued)

Profit or loss and insurance liabilities are mainly sensitive to changes in mortality, disability/morbidity, lapse rates, expense rates, discount rates which are estimated for calculating adequate value of insurance liabilities during the liability adequacy test.

Changes in variables represent reasonably possible changes in variables mentioned which could have occurred and would have led to significant changes in insurance liabilities as at the end of the reporting period. These reasonably possible changes represent neither expected changes in variables nor worst-case scenarios.

The analysis was prepared for a change in variables with all other assumptions remaining constant and ignores changes in the values of the related assets.

Sensitivity was calculated for the worse direction in movement; therefore, sensitivity to changes was calculated for a 10% increase in mortality, longevity, disability and morbidity, lapse rates and expense rates. Hence changes in discount rates are stated in 100 basis points for both directions.

The Company's sensitivity to the changes in key variables that have a material impact, 31 December 2016

| Variable | *Change in variable* | *Change in profit/loss* | *Change in insurance liability* |
|---|---|---|---|
| *Mortality* | 10% | (417) | 417 |
| *Longevity* | 10% | (12) | 12 |
| *Disability/Morbidity* | 10% | (277) | 277 |
| *Lapse rate* | 10% | (230) | 230 |
| *Expense rate* | 10% | (680) | 680 |
| *Discount rate* | 100 bp | 1,134 | (1,134) |
| | (100 bp) | (1,482) | 1,482 |

The Company's sensitivity to the changes in key variables that have a material impact, 31 December 2015

| Variable | *Change in variable* | *Change in profit/loss* | *Change in insurance liability* |
|---|---|---|---|
| *Mortality* | 10% | (410) | 410 |
| *Longevity* | 10% | (15) | 15 |
| *Disability/Morbidity* | 10% | (274) | 274 |
| *Lapse rate* | 10% | (245) | 245 |
| *Expense rate* | 10% | (627) | 627 |
| *Discount rate* | 100 bp | 717 | (717) |
| | (100 bp) | (1,027) | 1,027 |

Loss rate according to insurance groups:

| | 2016 (%) | 2015 (%) |
|---|---|---|
| *Non–life insurance* | | |
| *Casualty insurance* | (598.5) | (236.4) |
| | | |
| *Life insurance* | | |
| *Unit-linked insurance* | 14.4 | 10.7 |
| *Term life insurance* | (24.6) | 402.1 |
| *Endowment insurance* | 10.9 | 8.1 |
| *Scholarship insurance* | 50.6 | 106.3 |
| *Pension insurance* | 11.6 | 9.8 |
| | | |
| *Overall loss rate* | 13.7 | 11.9 |

Loss rates by insurance groups were calculated by dividing total claims costs (including change in outstanding claims reserve) per insurance group by gross earned premiums.

*Claims lag risk*

Claims lag risk occurs when the event is incurred but not yet reported to the Company. If the part of incurred but not reported claims would increase or decrease by 10% during the reporting year, the profit of the Company would decrease or increase by EUR 11 thousand (2015 – EUR 13 thousand).

*Cancellation risk*
Cancellation risk is a risk, when the insurance contract is terminated on the initiative of the policyholder earlier than the contract expires. The surrender value, paid to the policyholder, in case of the contract cancellation, consisted of share from the total mathematical technical provision (2016: 5.8%, 2015: 5.4%), except unearned premium technical provision for the end of the reporting year. Due to the fact that technical provision for every contract is not less than the surrender amount in case of the contract cancellation, therefore, increased number of cancellations shall not affect the results of the Company in the long run. Immediate profits in the current year are netted by decrease in the future income of the Company.

The company manages such risk through the prevention of the cancellation, by notifying the policyholder of possible cancellation due payment delay of a periodical insurance premium, by proposing to change the terms of the contract according to the present situation.

*Technical provisions inadequacy risk*
Technical provisions inadequacy risk is a risk that calculated insurance technical provisions will be insufficient to reflect (cover) company's underwriting insurance liabilities. In order to reduce the technical provisions inadequacy risk the company periodically tests technical provisions adequacy and ensures compliance with set limits.

## 6. Operational risk

The Bank defines operational risk as the risk to incur losses due to inadequate internal control processes or incorrect process implementation, errors and(or) illegal actions of employees, malfunctioning of information systems or external incidents.

The principles for management operational risk in the Bank: proper identification and assessment of operational risk; preventing larger operational risk and losses by implementation of efficient internal control; proper organisation and supervision of internal control environment by continuous revision of applicable control methods; concentration of resources and time towards idenfication and management of main sources of operational risk in all the areas of Bank's activity.

Bank's operational risk management procedure, which is an integral part of the Bank's risk management policy, defines the principles of operational risk management applicable to the Bank and its subsidiaries.

The operational risk management methods are implemented in the Bank – the system for registration of operational risk events in the administrative information system (AIS), functioning of which is regulated by the Instruction for registration of Operational risk events; the system of operational risk indicators and monitoring of limits of these indicators; operational risk self assessment performed by the Bank annually; evaluation of new products.

In 2016, the Bank continued to develop systems of operational risk management, prepared regulations on the principles for reliable and appropriate internal control system, improved the process for conducting investigations on very important operational risk events. The spectre of operational risk indicators was expanded, their use for the Bank was increased, the risk indicators used were supplemented with the registers to trace continuous monitoring and control actions. The Guidelines for Business Continuity Organization, which regulate the business continuity plans and measures and protect Bank's activity from adverse impact of the incidents were introduced. Employees perception of operational risk was strengthened by organizing operational risk training of new employees. In 2016, the Bank intends to continue development of operational risk management system and improving internal control system and its components.

## 7. IT risk

The importance of IT risk management increases as the Bank's activity becomes more and more dependant on the IT solutions. The Bank manages its IT risk by identifying potential problems, measuring their impact and taking corrective actions where necessary. For identification of problems, a service management system was introduced in 2015 and IT risk indicator system was introduced in 2016. These systems help to sustain proper functioning of banking systems, provides tools for workload management of IT specialists and IT risk management. Significant efforts are devoted towards proper process documentation, establishment of efficient procedures for IT risk management and ensuring the continuity of system functioning in case of problems or disasters.

## 8. Compliance risk

Compliance risk is the risk that the Bank's activities do not comply with the requirements set forth in the national legal acts, the EBA (European Banking Authority), the ESMA (European Security and Markets Authority) guidelines and positions, also the regulations of the Bank of Lithuania. The compliance function areas were established by the Bank taking into consideration the volume of operations, the complexity of the activities, transactions executed and the risk level of consequences possible for noncompliance. The compliance function performs compliance risk self assessment using risk-based approach on a regular basis. The compliance function was active in areas of anti-money laundering and terrorist financing prevention and investment services provision during 2016. Considering the changes in regulations (new MiFID II implementation as well as new wording of the Law on Money Laundering and Terrorist Financing Prevention of the Republic of Lithuania related to EU the Fourth Anti-Money Laundering Directive) compliance function will be focused on related areas in the Bank in 2017.

# FINANCIAL RISK MANAGEMENT (continued)

9. Stress tests

Besides the regular assessment of the risks and the capital requirement calculation, the Group also performs stress tests which are a part of Internal Capital Adequacy Assessment Process (ICAAP). During this process it is determined if the Bank's capital is sufficient to cover the possible losses which may occur because of the financial status deterioration. Stress testing for all of the risks is performed once a year in accordance with the requirements set by the Bank of Lithuania.

10. Capital management

The capital of the Group is calculated and allocated for the risk coverage following the Capital requirements regulation and directive – CRR/CRD IV. The Group's objectives when managing own funds are as follows:

1) to comply with the own funds requirements set by the European Parliament and the Council of the European Union as well as the higher target capital requirements set by the major shareholder;
2) to safeguard the Bank's and the Group's ability to continue as a going concern so that it can provide returns for shareholders and benefits for other stakeholders;
3) to support the development of the Group's business with the help of the strong capital base.

Information regarding capital adequacy is submitted to the supervising authority quarterly in accordance with the CRR/CRD IV requirements.

Institutions shall at all times satisfy the following own funds requirements:
1) A Common Equity Tier 1 (CET1) capital ratio of 4.5%. CET1 capital ratio is the Common Equity Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount.
2) A Tier 1 capital ratio of 6%. The Tier 1 capital ratio is the Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount.
3) A total capital ratio of 8%. The total capital ratio is the own funds of the institution expressed as a percentage of the total risk exposure amount.

At 31 December 2016 and 31 December 2015, institutions operating in Lithuania are subject to capital buffers, which are added to the capital ratios mentioned above:
- Countercyclical capital buffer: rate currently applied in Lithuania is 0%. The countercyclical capital buffer may be increased under conditions of the unsustainable credit growth in Lithuania;
- Capital conservation buffer: rate of 2.5% is applied.

An other systemically important institution buffer (O-SII) of 0.5% applies to the Bank starting from 31 December 2016. The buffer will remain unchanged in 2017.

Additional capital requirement of 1.9% (31 December 2015: 2.0%) is alocated for the risks that are identified as material in the process of self-assessment using stress tests and internal capital adequacy assessment (Pillar II). This requirement is subject to annual review in the process of supervisory review and evaluation (SREP).

Therefore, at 31 December 2016 the Bank is subject to a CET1 ratio of 9.4%, Tier1 capital ratio of 10.9% and total capital ratio of 12.9% (at 31 December 2015: CET1 ratio of 9.0%, Tier1 capital ratio of 10.5% and total capital ratio of 12.5%).

The Group's own funds are divided into two tiers:
1) Tier 1 capital consists of the share capital, reserve capital (share premium), additional reserve capital, retained earnings of the previous financial year, other reserves and funds for general banking risk less the loss of the current financial year, the goodwill, the intangible assets and part of financial assets revaluation reserve;
2) Tier 2 capital consists of part of financial assets revaluation reserve and additional Tier 2 capital comprised of subordinated loans with a certain term to maturity that are compliant with the regulations of the CRR/CRD IV requirements.

The risk-weighted assets are measured under a standardised approach using risk weights classified according to the nature of each assets and counterpart, taking into account collaterals and guarantees eligible for risk mitigation.A similar treatment with some adjustments is adopted for the off-balance sheet exposures. Capital requirements for operational risk are calculated using the Basic Indicator Approach.

(All amounts are in EUR thousand, unless otherwise stated)

## FINANCIAL RISK MANAGEMENT (continued)

The table below summarizes the composition of regulatory capital and the ratios of the Bank and Group for the years ended 31 December. During those two years, the Bank and the Group complied with capital requirements to which it is subject.

| | | 2016 | | 2015 |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Common equity tier 1 capital eligible as CET1 Capital* | | | | |
| *Paid up capital instruments* | 109,472 | 109,472 | 91,226 | 91,226 |
| *Share premium* | - | - | - | - |
| *Previous years retained earnings* | 21,155 | 16,604 | 18,874 | 16,194 |
| *Interim profit eligible for inclusion* | 24,811 | 27,176 | 7,996 | 11,708 |
| *Current year loss* | - | - | - | - |
| *Statutory reserve* | 4,157 | 4,157 | 2,468 | 2,290 |
| *Other reserves* | 756 | 756 | 756 | 756 |
| *Part of financial assets revaluation reserve* | 187 | 166 | 358 | 358 |
| *(-) Goodwill* | (2,752) | - | (2,752) | - |
| *(-) Intangible assets* | (1,428) | (1,210) | (1,018) | (798) |
| *(-) Deferred tax assets that rely on future profitability* | (87) | - | (179) | (161) |
| *(-) Value adjustements due to requirements for prudent valuation* | (67) | (52) | (382) | (368) |
| *(-) Other deductions from CET1 capital* | (3,470) | (7,535) | - | - |
| | | | | |
| *TIER 1 CAPITAL* | 152,734 | 149,534 | 117,347 | 121,205 |
| | | | | |
| *Capital instruments and subordinated loans eligible as T2 Capital* | | | | |
| *Subordinated loan capital* | 20,000 | 20,000 | 20,000 | 20,000 |
| *Part of financial assets revaluation reserve* | 124 | 111 | 538 | 538 |
| | | | | |
| *TIER 2 CAPITAL* | 20,124 | 20,111 | 20,538 | 20,538 |
| | | | | |
| *OWN FUNDS* | 172,858 | 169,645 | 137,885 | 141,743 |
| *Own funds requirements for:* | | | | |
| *Risk weighted exposure amount for credit risk under the Standardised Approach* | 839,425 | 872,393 | 815,386 | 845,174 |
| *Risk weighted exposure amount for the trading book instruments* | 31,814 | 21,818 | 36,313 | 27,539 |
| *Operational risk under the Basic Indicator Approach* | 143,577 | 110,372 | 115,907 | 98,442 |
| *Other capital requirements (credit value adjustment risk)* | 63 | 63 | 425 | 425 |
| *Total risk exposure amount* | 1,014,879 | 1,004,646 | 968,031 | 971,580 |
| | | | | |
| *CET1 Capital ratio* | 15.05% | 14.88% | 12.18% | 12.53% |
| *T1 Capital ratio* | 15.05% | 14.88% | 12.12% | 12.48% |
| *Total capital ratio* | 17.03% | 16.89% | 14.24% | 14.59% |

The profit of the current year is not included in Tier 1 capital until it is verified by independent auditors. Interim profit eligible for inclusion represent the portion of half-year profits, which, after the verification by auditors and deduction of certain amounts subject to supervisory rules, the Bank was granted a permission to include in own funds. If the whole profit for the year 2016 was included in Owns funds of the Group and the Bank as of 31 December 2016, it would cause the Total capital ratio to increase to 19,23% and 19.08%, respectively.

During the years ended 31 December 2016 and 31 December 2015, the Group and the Bank complied with prudential requirements to which it was subject.

# CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

*Impairment losses on loans and finance lease receivables (except for consumer lending).* The Bank and the Group review their loan and finance lease portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss for loans to business customers should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of an individual debtor. When making this estimate the Bank and the Group analyse financial information received from a client and client's performance in servicing its loans. In addition to this, the Bank and the Group take into account estimated value of pledged assets. The decrease in the estimated discounted market value of pledged assets by 5 per cent (other factors held constant) would result in additional impairment loss of EUR 249 thousand for the Group and EUR 241 thousand for the Bank. The decrease in estimated cash flows by 5 per cent (other factors held constant) would result in additional impairment loss of EUR 554 thousand for the Group and EUR 522 thousand for the Bank. The methodology and assumptions used (the credit rating of the client; the recoverability ratio applied; discounted market value of pledged assets) for assessment of client's ability to service debt and estimating both the amount and timing of future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience. In order to reduce the influence of time lag between the occurrence of loss events and time when the Group receives the relevant information in its financial statements, the Group calculates impairment allowances for incurred but not reported losses, which amounted to EUR 1,419 thousand at 31 December 2016 (2015: EUR 1,274 thousand). However due to inherent limitations of the methodology, the calculated impairment loss as at 31 December 2015 may be inadequate to reflect the losses of the loan portfolio.

*Impairment losses on consumer financing loans.* The Group review their consumer financing portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss for loans should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of a homogenous group of clients. The estimate is based on the analysis of the historical information for each homogenous group. The recovery rate for each group is determined and impairment provision is calculated based on the recovery rate. The assumptions used (the time period to calculate the recovery rate; application of discount rate; and other) are reviewed regularly (at least once a year) to reduce any difference between the loss estimates and actual loss experience. However due to inherent limitations of methodology and assumptions used, the calculated impairment loss as at 31 December 2016 may be inadequate to reflect the losses of the loan portfolio. The decrease in recovery rates used in calculations of the impairment of consumer financing loans as of 31 December 2016 by 5 percentage points (other factors held constant) would result in additional impairment expense of EUR 325 thousand (2015: EUR 309 thousand).

*Impairment losses on investments in subsidiaries.* The Bank tests investments in its subsidiaries for impairment when impairment indicators are identified. The Bank establishes recoverable amount of investments in subsidiary companies based on discounted future estimated net cash flows to be earned by a subsidiary. Future net cash flows to be earned by investment management and real estate development subsidiaries are based on estimated inflow from sales of financial and other assets held by these subsidiaries less estimated cash outflow related to management and development costs. Future net cash flows from subsidiary involved in leasing operations are estimated based on future expected interest income to be earned on lease portfolio less cash outflows related to financing activities and administration costs. Discount rates are based on current cost of capital used for investments in these subsidiaries. The Group's management applies judgement in estimating cash flows and discount rates used in impairment testing.

*Impairment of goodwill.* Goodwill is tested for impairment annually. In order to determine if the value of goodwill has been impaired, the cash-generating unit to which goodwill has been allocated is valued using present value techniques, which are further described in Note 17. The Group's management applies judgement in estimating cash flows and discount rates used in impairment testing, changes in these judgements and estimates can significantly affect the assessed value of goodwill. Increase of discount rate used in impairment testing by 2% (other factors held constant) would decrease the net present value of cash generating unit by EUR 2,201 thousand (although it would not result in goodwill impairment). Decrease of estimated cash flows by 20% (other factors held constant) would decrease the net present value of cash-generating unit by EUR 2,243 thousand (although it would not result in goodwill impairment).

*Inventories.* Net realizable value of apartments held for sale and property for development is based either on current estimated sales price of an asset or on expected discounted future cash flows from future development and realization of an asset based on the Group's management plans with respect to a certain asset. Inputs in estimating sales price and future cash flows from development of an asset are based on current market prices. The Group's management applies judgement in estimating cash flows and discount rates used in impairment testing.

*Held-to-maturity financial assets.* Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than for certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost.

*Fair value of derivatives and subordinated loan.* The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select valuation methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The sensitivity of the value of above-mentioned financial instruments to changes in underlying factors is presented in Financial Risk Management section 4.2. "Financial assets and liabilities measured at fair value".

*Liabilities related to insurance activities.* The value of liabilities related to insurance activities (technical insurance provisions) is determined by making assumptions and estimates that have impact on the reported amounts. These estimates and assumptions are regularly reviewed and based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The change of the principles used in technical insurance provisions calculation resulted in a gain of EUR 1,509 thousand for the year ended 31 December 2016 which is included in the income statement line "Expenses related to other activities of Group companies".

(All amounts are in EUR thousand, unless otherwise stated)

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

*Taxes.* The tax authorities have carried out a full-scope tax audit at the Bank for the years 1998 to 2001 (income tax audit was done for the period from 1998 to 2000). There were no significant remarks or disputes. The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Bank's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

The deferred tax assets recognised at 31 December 2016 have been based on future profitability assumptions of the Bank over a five year horizon. In the event of changes to these profitability assumptions, the tax assets recognised may be adjusted.

*Finance leases and derecognition of financial assets.* Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

## SEGMENT INFORMATION

A summary of major indicators for the main business segments of the Group included in the Statement of financial position as at 31 December 2016 and in the Statement of comprehensive income for the year then ended is presented in the table below. Indicators of subsidiaries held for sale (see Note 20 for details) are included in the column "Eliminations".

| | *Traditional banking operations and lending* | *Treasury* | *Non-core banking activities* | *Other activities* | *Eliminations* | *Total* |
|---|---|---|---|---|---|---|
| *Continuing operations* | | | | | | |
| *Internal* | (714) | - | 1,419 | (775) | 70 | - |
| *External* | 42,026 | 7,443 | 3,637 | 815 | - | 53,921 |
| **Net interest income** | **41,312** | **7,443** | **5,056** | **40** | **70** | **53,921** |
| *Internal* | 215 | - | - | (116) | (99) | - |
| *External* | 9,435 | - | - | (22) | - | 9,413 |
| **Net fee and commission income** | **9,650** | **-** | **-** | **(138)** | **(99)** | **9,413** |
| *Internal* | (499) | - | 1,419 | (891) | (29) | - |
| *External* | 51,461 | 7,443 | 3,637 | 793 | - | 63,334 |
| **Net interest, fee and commissions income** | **50,962** | **7,443** | **5,056** | **(98)** | **(29)** | **63,334** |
| *Internal* | (349) | (19) | - | (33) | 401 | - |
| *External* | (23,010) | (2,220) | - | (15,553) | - | (40,783) |
| **Operating expenses** | **(23,359)** | **(2,239)** | **-** | **(15,586)** | **401** | **(40,783)** |
| *Amortisation charges* | (309) | (28) | - | (30) | - | (367) |
| *Depreciation charges* | (1,068) | (106) | - | (232) | - | (1,406) |
| *Internal* | - | - | (6,065) | - | 6,065 | - |
| *External* | (7,227) | - | (341) | (207) | - | (7,775) |
| **Impairment expenses** | **(7,227)** | **-** | **(6,406)** | **(207)** | **6,065** | **(7,775)** |
| *Internal* | 28 | - | 9,882 | 35 | (9,945) | - |
| *External* | 2,579 | 4,871 | 11,977 | 17,859 | - | 37,286 |
| **Net other income** | **2,607** | **4,871** | **21,859** | **17,894** | **(9,945)** | **37,286** |
| **Profit (loss) from continuing operations before tax** | **21,606** | **9,941** | **20,509** | **1,741** | **(3,508)** | **50,289** |
| *Profit (loss) from discontinued operations* | - | - | - | - | 35 | 35 |
| *Income tax* | (5,894) | (624) | - | (140) | - | (6,658) |
| **Profit (loss) per segment after tax** | **15,712** | **9,317** | **20,509** | **1,601** | **(3,473)** | **43,666** |
| *Non-controlling interest* | - | - | - | - | - | - |
| *Profit (loss) for the year attributable to the owners of the Bank* | 15,712 | 9,317 | 20,509 | 1,601 | (3,473) | 43,666 |
| *Total segment assets* | 1,110,651 | 725,129 | 64,464 | 84,367 | (123,333) | 1,861,278 |
| *Total segment liabilities* | 1,000,006 | 656,362 | 58,351 | 66,322 | (99,280) | 1,681,761 |
| *Net segment assets (shareholders' equity)* | 110,645 | 68,767 | 6,113 | 18,045 | (24,053) | 179,517 |

(All amounts are in EUR thousand, unless otherwise stated)

## SEGMENT INFORMATION (continued)

A summary of major indicators for the main business segments of the Group included in the Statement of financial position as at 31 December 2015 and in the statement of comprehensive income for the year then ended is presented below:

| | Traditional banking operations and lending | Treasury | Non-core banking activities | Other activities | Eliminations | Total |
|---|---|---|---|---|---|---|
| *Continuing operations* | | | | | | |
| *Internal* | (378) | - | 1,470 | (882) | (210) | - |
| *External* | 42,150 | 5,407 | 90 | 1,172 | - | 48,819 |
| *Net interest income* | 41,772 | 5,407 | 1,560 | 290 | (210) | 48,819 |
| *Internal* | 136 | - | - | (197) | 61 | - |
| *External* | 8,069 | - | - | (30) | - | 8,039 |
| *Net fee and commission income* | 8,205 | - | - | (227) | 61 | 8,039 |
| *Internal* | (242) | - | 1,470 | (1,079) | (149) | - |
| *External* | 50,219 | 5,407 | 90 | 1,142 | - | 56,858 |
| *Net interest, fee and commissions income* | 49,977 | 5,407 | 1,560 | 63 | (149) | 56,858 |
| *Internal* | (501) | (45) | - | (72) | 618 | - |
| *External* | (22,724) | (2,083) | - | (16,479) | - | (41,286) |
| *Operating expenses* | (23,225) | (2,128) | - | (16,551) | 618 | (41,286) |
| *Amortisation charges* | (235) | (22) | - | (21) | - | (278) |
| *Depreciation charges* | (1,010) | (92) | - | (215) | - | (1,317) |
| *Internal* | - | - | (15,163) | - | 15,163 | - |
| *External* | (16,907) | - | (1,497) | (4,628) | - | (23,032) |
| *Impairment expenses* | (16,907) | - | (16,660) | (4,628) | 15,163 | (23,032) |
| *Internal* | - | - | 18,518 | 2,434 | (20,952) | - |
| *External* | 1,343 | 866 | 6,965 | 16,081 | - | 25,255 |
| *Net other income* | 1,343 | 866 | 25,483 | 18,515 | (20,952) | 25,255 |
| *Profit (loss) from continuing operations before tax* | 9,943 | 4,031 | 10,383 | (2,837) | (5,320) | 16,200 |
| *Profit (loss) from discontinued operations* | - | - | 221 | (656) | 9,073 | 8,638 |
| *Income tax* | (1,104) | (95) | - | 180 | - | (1,019) |
| *Profit (loss) per segment after tax* | 8,839 | 3,936 | 10,604 | (3,313) | 3,753 | 23,819 |
| *Non-controlling interest* | - | - | - | - | - | - |
| *Profit (loss) for the year attributable to the owners of the Bank* | 8,839 | 3,936 | 10,604 | (3,313) | 3,753 | 23,819 |
| *Total segment assets* | 1,038,827 | 667,977 | 66,298 | 87,692 | (165,754) | 1,695,040 |
| *Total segment liabilities* | 953,532 | 614,585 | 61,000 | 63,518 | (134,659) | 1,557,976 |
| *Net segment assets (shareholders' equity)* | 85,295 | 53,392 | 5,298 | 24,174 | (31,095) | 137,064 |

### Distribution of the Group's assets and revenue according to geographical segmentation

All Bank's and Group's non-current assets other than financial instruments are located in Lithuania. No material revenue is earned by the Group in foreign countries.

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 1
# NET INTEREST INCOME

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Interest income:* | | | | |
| *on loans to other banks and financial institutions and placements with credit institutions* | 523 | 3,911 | 593 | 3,877 |
| *on loans to customers* | 49,118 | 41,388 | 48,130 | 40,081 |
| *on debt securities* | 12,550 | 12,066 | 13,422 | 13,376 |
| *held to maturity -* | *11,209* | *11,209* | *11,587* | *11,546* |
| *available for sale -* | *448* | *430* | *722* | *719* |
| *at fair value through profit or loss -* | *893* | *427* | *1,113* | *1,111* |
| *on finance leases* | 3,743 | 1,204 | 3,650 | 595 |
| *Total interest income* | 65,934 | 58,569 | 65,795 | 57,929 |
| *Interest expense:* | | | | |
| *on financial liabilities designated at fair value through profit or loss* | (1,394) | (1,394) | (1,486) | (1,486) |
| *on financial liabilities measured at amortised cost* | (10,597) | (10,603) | (15,479) | (15,484) |
| *on other liabilities* | (22) | (22) | (11) | (11) |
| *Total interest expense* | (12,013) | (12,019) | (16,976) | (16,981) |
| *Net interest income* | 53,921 | 46,550 | 48,819 | 40,948 |

# NOTE 2
# NET FEE AND COMMISSION INCOME

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Fee and commission income:* | | | | |
| *for administration of loans of third parties* | 4,178 | 4,178 | 3,944 | 3,944 |
| *for settlement services* | 3,749 | 3,780 | 3,418 | 3,481 |
| *for cash operations* | 2,570 | 2,570 | 1,953 | 1,953 |
| *for account administration* | 1,058 | 1,058 | 921 | 921 |
| *for guarantees, letters of credit, documentary collection* | 388 | 388 | 485 | 485 |
| *for collection of utility and similar payments* | 420 | 440 | 343 | 343 |
| *for services related to securities* | 918 | 1,055 | 564 | 697 |
| *other fee and commission income* | 834 | 242 | 530 | 178 |
| *Total fee and commission income* | 14,115 | 13,711 | 12,158 | 12,002 |
| *Fee and commission expense:* | | | | |
| *for payment cards* | (2,645) | (2,645) | (2,486) | (2,486) |
| *for cash operations* | (797) | (797) | (747) | (747) |
| *for correspondent bank and payment system fees* | (526) | (203) | (430) | (178) |
| *for services of financial data vendors* | (183) | (183) | (113) | (113) |
| *for services related to securities* | (271) | (271) | (151) | (151) |
| *other fee and commission expenses* | (280) | (265) | (192) | (68) |
| *Total fee and commission expense* | (4,702) | (4,364) | (4,119) | (3,743) |
| *Net fee and commission income* | 9,413 | 9,347 | 8,039 | 8,259 |

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 3
# NET GAIN FROM OPERATIONS WITH SECURITIES, FOREIGN EXCHANGE AND DERIVATIVES

## NET GAIN FROM OPERATIONS WITH SECURITIES

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Securities at fair value through profit or loss:* | | | | |
| *Realised gain (loss) on equity securities* | (26) | 9 | 15 | (2) |
| *Unrealised gain (loss) on equity securities* | 1,253 | (15) | 576 | (12) |
| *Realised gain on debt securities* | 888 | 894 | 734 | 738 |
| *Unrealised gain (loss) on debt securities* | 86 | 2 | (610) | (308) |
| *Net gain on securities at fair value through profit or loss* | 2,201 | 890 | 715 | 416 |
| | | | | |
| *Realised gain (loss) on available-for-sale equities* | 1,852 | 1,871 | (78) | - |
| *Realised gain on available-for-sale debt securities* | 258 | 258 | 365 | 365 |
| *Realised gain on held-to-maturity debt securites* | 1,791 | 1,791 | - | - |
| *Dividend and other income from equity securities at fair value through profit or loss* | 8 | 8 | 8 | 8 |
| *Dividend and other income from available-for-sale equity securities* | 54 | 54 | 77 | 77 |
| | | | | |
| *Total* | 6,164 | 4,872 | 1,087 | 866 |

## NET GAIN FROM FOREIGN EXCHANGE AND RELATED DERIVATIVES

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Net gain from foreign exchange* | 1,507 | 1,278 | 3,213 | 2,689 |
| *Net gain from derivatives related with foreign exchange* | 2,970 | 2,970 | 180 | 180 |
| | | | | |
| *Total* | 4,477 | 4,248 | 3,393 | 2,869 |

## NET LOSS FROM OTHER DERIVATIVES

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Net loss from derivatives related with interest rate floor in the variable rate loan contracts* | (1,918) | (1,676) | (1,812) | (2,035) |
| *Net gain from derivatives related with prices of equity instruments* | 5 | 5 | - | - |
| | | | | |
| *Total* | (1,913) | (1,671) | (1,812) | (2,035) |

# NOTE 4
# OTHER OPERATING EXPENSES

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Rent of buildings and premises* | (1,442) | (1,239) | (1,383) | (1,220) |
| *Utility services for buildings and premises* | (727) | (665) | (754) | (692) |
| *Other expenses related to buildings and premises* | (366) | (353) | (433) | (409) |
| *Transportation expenses* | (408) | (441) | (467) | (544) |
| *Legal costs* | (47) | (47) | (134) | (134) |
| *Personnel and training expenses* | (246) | (222) | (154) | (135) |
| *IT and communication expenses* | (2,054) | (1,849) | (1,745) | (1,609) |
| *Marketing and charity expenses* | (1,381) | (452) | (1,815) | (641) |
| *Service organisation expenses* | (943) | (871) | (1,156) | (1,191) |
| *Non-income taxes, fines* | (780) | (96) | (988) | (212) |
| *Costs incurred due to debt recovery* | (361) | (193) | (853) | (716) |
| *Other expenses* | (922) | (407) | (936) | (490) |
| | | | | |
| *Total* | (9,677) | (6,835) | (10,818) | (7,993) |

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 5
# REVENUE AND EXPENSES RELATED TO OTHER ACTIVITIES OF GROUP COMPANIES

## REVENUE RELATED TO OTHER ACTIVITIES OF GROUP COMPANIES

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Revenue related to insurance activities* | 6,176 | - | 6,193 | - |
| *Revenue from sale of apartments* | 9,082 | - | 8,183 | - |
| | | | | |
| *Total* | 15,258 | - | 14,376 | - |

## EXPENSES RELATED TO OTHER ACTIVITIES OF GROUP COMPANIES

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Expenses related to insurance activities:* | (4,652) | - | (6,065) | - |
| *change of the technical insurance provisions that covers the result of investment of assets under unit-linked contracts** | (1,481) | - | (1,134) | - |
| *other changes of the technical insurance provisions*** | (502) | | (2,433) | - |
| *insurance benefits paid* | (2,306) | - | (2,122) | - |
| *commission expenses incurred and other* | (363) | - | (376) | - |
| *Cost of apartments sold* | (8,114) | - | (7,759) | - |
| | | - | | - |
| *Total* | (12,766) | - | (13,824) | - |

* The investment result of the insurance company assets under unit-linked contracts is included in the following income statement lines:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Interest and similar income* | 48 | - | 73 | - |
| *Net gain (loss) from operations with securities* | 1,211 | - | 544 | - |
| *Net gain (loss) from foreign exchange* | 222 | | 517 | - |
| | | - | | - |
| *Total* | 1,481 | - | 1,134 | - |

** in 2016, other changes of the technical insurance provisions include one-off impact of the change in estimates and assumptions used in calculation of the technical insurance provisions, which resulted in reduction in technical insurance provisions by EUR 1,509 thousand.

# NOTE 6
# OTHER INCOME

## NET GAIN (LOSS) FROM DISPOSAL OF TANGIBLE ASSETS

In 2016 net gain on disposal of tangible assets (mostly real estate) at the Group amounted to EUR 612 thousand (Bank: net gain of EUR 656 thousand). In 2015, net gain on disposal of tangible assets (mostly real estate) at the Group amounted to EUR 2,690 thousand (Bank: net gain of EUR 2,765 thousand).

## NET GAIN FROM DERECOGNITION OF FINANCIAL ASSETS

Net gain from derecognition of financial assets (for the year ended 31 December 2016: Group EUR 12,644 thousand, Bank EUR 12,671 thousand; for the year ended 31 December 2015: Group/Bank EUR 4,825 thousand) is mainly based on the difference between carrying value of the loans acquired under the transaction of transfer of assets, rights, transactions and liabilities of Ūkio Bankas and the proceeds from the derecognition (repayment or refinancing) of the above-mentioned loans which is charged to profit or loss.

## OTHER OPERATING INCOME

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Income from rent of investment property and other income from investment property* | 868 | 61 | 667 | 137 |
| *Income from rent of other assets* | 196 | 118 | 326 | 219 |
| *Other income* | 624 | 364 | 868 | 327 |
| | | | | |
| *Total* | 1,688 | 543 | 1,861 | 683 |

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 7
# IMPAIRMENT LOSSES

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Impairment losses on loans:* | | | | |
| *Impairment charge for the year* | 18,730 | 17,892 | 24,464 | 23,341 |
| *Reversal of impairment charge for the year* | (10,449) | (10,360) | (6,808) | (6,720) |
| *Recoveries of loans previously written off* | (831) | (139) | (936) | (259) |
| *Total impairment losses on loans* | 7,450 | 7,393 | 16,720 | 16,362 |
| | | | | |
| *Impairment losses on finance lease receivables:* | | | | |
| *Impairment charge for the year* | 117 | 100 | 212 | - |
| *Reversal of impairment charge for the year* | (238) | (42) | (677) | - |
| *Recovered previously written-off finance lease receivables* | (144) | - | (168) | - |
| *Total impairment losses (reversals) on finance lease receivables* | (265) | 58 | (633) | - |
| | | | | |
| *Total impairment losses on loans and finance lease receivables* | 7,185 | 7,451 | 16,087 | 16,362 |
| | | | | |
| *Impairment losses on other assets:* | | | | |
| *Other financial assets: impairment charge* | 27 | - | 273 | 14 |
| *Other financial assets: reversal of impairment charge* | (39) | - | - | - |
| *Provisions for pending legal issues: charge* | - | - | - | - |
| *Provisions for pending legal issues: reversal* | (58) | (14) | (28) | - |
| *Other non-financial assets: impairment charge* | 1,236 | 60 | 6,959 | 545 |
| *Other non-financial assets: reversal of impairment charge / reclassification* | (576) | (1) | (187) | (3) |
| *Other non-financial assets: recoveries of assets previously written-off* | - | - | (72) | - |
| | | | | |
| *Total impairment losses on other assets* | 590 | 45 | 6,945 | 556 |
| | | | | |
| *Impairment losses on subsidiaries:* | | | | |
| *Investments in subsidiaries: impairment charge* | - | 6,060 | - | 4,738 |
| *Investments in subsidiaries: reversal of impairment charge* | - | - | - | - |
| *Total impairment losses on subsidiaries* | - | 6,060 | - | 4,738 |
| | | | | |
| *Total* | 7,775 | 13,556 | 23,032 | 21,656 |

Bank's income statement line „Allowance for impairment losses on investments in subsidiaries and revaluation of assets classified as held for sale" for the year 2015 includes a loss resulting from remeasurement to fair value less cost to sell of subsidiaries held for sale amounting to EUR 10,425 thousand. See Note 20 for more details.

# NOTE 8
# INCOME TAX

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Current tax* | 6,967 | 6,043 | 2,003 | 944 |
| *Deferred taxes* | (320) | 185 | (981) | 12 |
| *Adjustment of previous year income tax* | 11 | 11 | (3) | (3) |
| | | | | |
| *Total* | 6,658 | 6,239 | 1,019 | 953 |

The tax on the Bank's and the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Profit before income tax from continuing operations* | 50,289 | 47,916 | 16,200 | 21,883 |
| | | | | |
| *Tax calculated at a tax rate of 15%* | 7,543 | 7,187 | 2,430 | 3,282 |
| *Income not subject to tax* | (3,034) | (2,082) | (3,019) | (3,357) |
| *Expenses not deductible for tax purposes* | 2,041 | 1,237 | 3,910 | 3,166 |
| *(Utilisation of) tax losses for which no deferred tax asset was recognized* | (98) | (103) | (2,302) | (2,138) |
| *Unrecognized deferred tax assets for recognized tax losses* | 206 | - | - | - |
| | | | | |
| *Income tax charge* | 6,658 | 6,239 | 1,019 | 953 |

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 8
# INCOME TAX (continued)

Deferred tax assets

| | *Group* | | | | *Bank* | | |
|---|---|---|---|---|---|---|---|
| | *Revaluation of financial instruments and other assets* | *Accruals* | *Tax losses carried forwardi* | *Total* | *Accruals* | *Tax losses carried forwardi* | *Total* |
| *At 1 January 2015* | (115) | (195) | (312) | (622) | (164) | (71) | (235) |
| | | | | | | | |
| *To be credited/(charged) to net profit* | (512) | (23) | 92 | (443) | (35) | (132) | (167) |
| *Reclassifications* | (254) | - | - | (254) | - | - | - |
| *To be credited/ (charged) to other comprehensive income* | (66) | - | - | (66) | - | - | - |
| *At 31 December 2015* | (947) | (218) | (220) | (1,385) | (199) | (203) | (402) |
| | | | | | | | |
| *To be credited/(charged) to net profit* | (70) | (12) | 128 | 46 | (19) | 198 | 179 |
| *Reclassifications* | 636 | (7) | 5 | 634 | (5) | 5 | - |
| *To be credited/ (charged) to other comprehensive income* | (103) | - | - | (103) | - | - | - |
| *At 31 December 2016* | (484) | (237) | (87) | (808) | (223) | - | (223) |

Deferred tax liabilities

| | *Group* | | | *Bank* |
|---|---|---|---|---|
| | Revaluation of investment property and inventories | Revaluation of financial instruments and other assets | Total | Revaluation of financial instruments and other assets |
| *At 1 January 2015* | 1,079 | 281 | 1,360 | 343 |
| | | | | |
| *To be credited/(charged) to net profit* | (637) | - | (637) | (53) |
| *Reclassification* | 535 | (281) | 254 | - |
| *To be credited/ (charged) to other comprehensive income* | - | - | - | 66 |
| *At 31 December 2015* | 977 | - | 977 | 356 |
| | | | | |
| *To be credited/(charged) to net profit* | (366) | - | (366) | 6 |
| *Reclassification* | - | - | - | - |
| *To be credited/ (charged) to other comprehensive income* | - | - | - | (109) |
| *At 31 December 2016* | 611 | - | 611 | 253 |

Taxable losses of the Group and the Bank are carried forward for indefinite term through the use of future taxable profits. Management of the Bank has estimated that future taxable profits of the Bank and the Group will be sufficient to realize the accumulated tax losses. Therefore deferred tax asset from the accumulated tax losses was recognized. Projected terms of expected utilization of deferred tax assets are presented in the table below:

| | *2016* | | *2015* | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Up to 1 year* | 320 | 197 | 840 | 372 |
| *2-5 years* | 488 | 26 | 545 | 30 |
| | | | | |
| *Total* | 808 | 233 | 1,385 | 402 |

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

| | *2016* | | *2015* | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Deferred tax assets* | (665) | - | (1,385) | (46) |
| *Deferred tax liabilities* | 468 | 30 | 977 | - |

# NOTE 9
# EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period by the weighted average number of ordinary shares in issue during the period. As of 31 December 2016 and 31 December 2015 the Group had no dilutive potential ordinary shares (potential ordinary shares resulting from subordinated loan obtained from a shareholder (see Note 30 for more details) had antidilutive effect), therefore diluted earnings per share are equal to basic earnings per share.

The number of shares in issue for the year ended 31 December 2016 was 377,488 thousand (2015, retrospectively adjusted by the new shares that were issued in 2016 as a result of bonus issue: 377,488 thousand). Weighted average number of shares in issue for the year ended 31 December 2016 was 377,488 thousand, for the year ended 31 December 2015 (retrospectively adjusted by the new shares that were issued in 2016 as a result of bonus issue) – 365,963 thousand.

Basic earnings per share

Group

| | *2016* | *2015* |
|---|---|---|
| *Net profit from continuing operations attributable to equity holders* | 43,631 | 15,181 |
| *Net profit (loss) from discontinued operations attributable to equity holders* | 35 | 8,638 |
| ***Net profit attributable to equity holders*** | **43,666** | **23,819** |
| | | |
| *Weighted average number of shares in issue during the period (thousand units)* | 377,488 | 365,963 |
| | | |
| ***Basic earnings per share (EUR)*** | 0.12 | 0.07 |
| *Basic earnings per share (EUR) from continuing operations* | 0.12 | 0.04 |
| *Basic earnings per share (EUR) from discontinued operations* | 0.00 | 0.03 |

# NOTE 10
# CASH AND CASH EQUIVALENTS

| | | *2016* | | *2015* |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Cash and other valuables* | 29,220 | 29,066 | 25,133 | 25,046 |
| | | | | |
| *Balances in bank deposit accounts* | - | - | 24,405 | 24,405 |
| | | | | |
| *Balances in bank correspondent accounts* | 36,023 | 34,421 | 28,540 | 27,901 |
| | | | | |
| *Placements with Central Bank:* | | | | |
| *Deposits in Central Bank* | - | - | - | - |
| *Correspondent account with Central Bank* | 74,624 | 74,624 | 14,020 | 14,020 |
| *Mandatory reserves in local currency* | 14,000 | 14,000 | 12,914 | 12,914 |
| | | | | |
| *Total placements with Central Bank* | 88,624 | 88,624 | 26,934 | 26,934 |
| | | | | |
| ***Total*** | **153,867** | **152,111** | **105,012** | **104,286** |

The compulsory reserves held in the Bank of Lithuania are estimated on a monthly basis based on the value of indicated liabilities using the established compulsory reserve rate. With effect from 1 January 2015, the compulsory reserve rate was set at 1%. The mandatory reserves are held with the Bank of Lithuania in the form of current deposits. The Bank is free to use the funds held in the current account with the Bank of Lithuania, the average monthly amount of which may be not less than the estimated compulsory reserves.

Breakdown of balances in bank correspondent and deposit accounts by credit rating is presented in the table below:

Rating *

| | | *2016* | | *2015* |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *From AA- to AA+* | 21,589 | 20,158 | 1,083 | 897 |
| *From A- to A+* | 5,540 | 5,370 | 45,207 | 44,756 |
| *From BBB- to BBB+* | 4,321 | 4,321 | 5,617 | 5,617 |
| *Lower than BBB-* | 865 | 865 | 55 | 55 |
| *No external credit rating (Standard internal rating)* | 3,708 | 3,707 | 983 | 981 |
| *Total* | **36,023** | **34,421** | **52,945** | **52,306** |

* for local banks that are subsidiaries of foreign banks, credit rating of the parent institution is used in case no credit rating of the local institution is available.

No cash and cash equivalents were pledged as of 31 December 2016 and 2015.

(All amounts are in EUR thousand, unless otherwise stated)

## NOTE 11
## DUE FROM OTHER BANKS

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Pledged deposits* | 814 | 814 | 732 | 732 |
| *Term deposits* | 2,004 | 2,004 | 1,927 | 1,897 |
| *Loans* | 2,519 | 2,519 | 3,870 | 3,870 |
| *Total* | 5,337 | 5,337 | 6,529 | 6,499 |
| *Breakdown due from other banks by the maturity:* | | | | |
| *Short-term (up to 1 year)* | 3,638 | 3,638 | 3,289 | 3,259 |
| *Long-term (over 1 year)* | 1,699 | 1,699 | 3,240 | 3,240 |
| *Total* | 5,337 | 5,337 | 6,529 | 6,499 |

Pledged deposits consisted of funds pledged for customers operations in the joint ATM network.

As of 31 December 2016, term deposits amounting to EUR 2,004 (31 December 2015: EUR 1,897) were pledged for the guarantees or letters of credit issued for the Bank's clients.

Breakdown of balances due from banks by credit rating is presented in the table below:

Rating *

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *From AA- to AA+* | 904 | 904 | 762 | 732 |
| *From A- to A+* | - | - | 20 | 20 |
| *From BBB- to BBB+* | 1,914 | 1,914 | 5,549 | 5,549 |
| *Lower than BBB-* | 2,397 | 2,397 | 141 | 141 |
| *No external credit rating (Standard internal rating)* | 122 | 122 | 57 | 57 |
| *Total* | 5,337 | 5,337 | 6,529 | 6,499 |

* for local banks that are subsidiaries of foreign banks, credit rating of the parent institution is used in case no credit rating of the local institution is available.

## NOTE 12
## FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Total balances of financial assets and liabilities at fair value through profit or loss are presented in the table below:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Assets:* | | | | |
| *Derivatives:* | 8,983 | 8,687 | 9,292 | 8,754 |
| *derivatives related to interest rate floor in variable rate loan contracts* | *5,566* | *5,270* | *8,183* | *7,645* |
| *currency derivatives* | *3,279* | *3,279* | *1,109* | *1,109* |
| *derivatives related to prices of equity instruments* | *138* | *138* | - | - |
| *Securities at fair value through profit or loss* | 57,629 | 26,103 | 71,116 | 42,726 |
| *Liabilities:* | | | | |
| *Derivatives:* | (175) | (175) | (136) | (136) |
| *currency derivatives* | *(37)* | *(37)* | *(136)* | *(136)* |
| *derivatives related to prices of equity instruments* | *(138)* | *(138)* | - | - |
| *Subordinated loan* | (22,064) | (22,064) | (20,457) | (20,457) |

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 12
# FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Derivative Financial Instruments – Derivatives Related to Interest Rate Floor in Variable Rate Loan Contracts

The Group granted certain loans to customers with variable interest rate, however, the floor for interest rate was also set in the agreements. The floor presents a put option issued by the client and thus is treated as a derivative embedded in the host contract (loan granted). Accounting standards mandate that if at the moment of granting the loan the floor interest rate is above the contractual variable interest rate, then the embedded derivative is not closely related with host contract and thus should be separated and accounted for separately.

Upon initial separation of the derivative, the related amount is credited to the loan balance and is amortized to profit (loss), whereas the embedded derivative is fair valued at each balance sheet date. The Bank uses Black-Scholes model to price options. Certain inputs are derived from the market (e.g. historical volatility of EURIBOR rates as well as EURIBOR forward curves). For more details on valuation see section 4.2. of the Financial Risk Management disclosure.

In case the loan contract is modified in a way that the modified contract does not include embedded derivative that is not closely related with the host contract, then the embedded derivative is derecognized.

Details of the derivatives related to interest rate floor in variable rate loan contracts are presented below:

| | | *2016* | | *2015* |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Initial recognition* | | | | |
| *Value of the embedded derivative* | - | - | 2,898 | 3,030 |
| *Credit to loans granted* | - | - | (2,898) | (3,030) |
| | | | | |
| *Subsequent measurement* | | | | |
| *Increase (decrease) in the fair value of the derivative (gain (loss) in profit or loss)* | (1,918) | (1,676) | (1,812) | (2,035) |
| | | | | |
| *Derecognition* | | | | |
| *Value of the embedded derivative on derecognition* | (699) | (699) | | |
| *Debit to loans granted* | 699 | 699 | | |
| | | | | |
| *Fair value of the derivative as of 1 January* | 8,183 | 7,645 | 7,097 | 6,650 |
| *Additions* | - | - | 2,898 | 3,030 |
| *Revaluations through profit or loss* | (1,918) | (1,676) | (1,812) | (2,035) |
| *Derecognition* | (699) | (699) | - | - |
| *Fair value of the derivative as of 31 December* | 5,566 | 5,270 | 8,183 | 7,645 |

Derivative Financial Instruments – Currency Derivatives

As of 31 December 2016 and 31 December 2015, the Group and the Bank had exposure to currency forwards, which represent commitments to purchase and/or sell foreign and local currency in the future at a fixed price.

| | | *2016* | | *2015* |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Currency forwards:* | | | | |
| *Assets* | 3,270 | 3,270 | 1,109 | 1,109 |
| *Liabilities* | (37) | (37) | (136) | (136) |
| *Notional amount* | 72,826 | 72,826 | 64,160 | 64,160 |
| | | | | |
| *Net gain from currency derivatives in profit or loss* | 2,970 | 2,970 | 180 | 180 |

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 12
# FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Derivative Financial Instruments – Derivatives Related to Prices of Equity Instruments

In 2016, the Bank launched a new savings product – fixed term deposit with additional interest that may be paid for the entire deposit term, if the value of the underlying assets (a group of equity instruments) linked with the deposit reaches the barrier. Deposit additional interest condition is a call option sold to the customer therefore it is treated as a derivative embedded in the host contract (deposit). The Bank uses call options bought from other counterparties to close the position resulting from embedded options in the deposit contracts. Details on the Bank's options related to prices of equity instruments are presented below:

| | | *2016* | | *2015* |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Options bought* | | | | |
| *Assets (carrying amount of the options bought)* | 138 | 138 | - | - |
| *Notional amount of the options bought* | 770 | 770 | - | - |
| *Revaluation of the options bought through profit or loss* | (14) | (14) | - | - |
| | | | | |
| *Options sold* | | | | |
| *Liabilities (carrying amount of the options sold)* | (138) | (138) | - | - |
| *Notional amount of the options sold* | 1,571 | 1,571 | - | - |
| *Revaluation of the options sold through profit or loss* | 19 | 19 | - | - |
| | | | | |
| *Net gain from derivatives related to prices of equity instruments in profit or loss* | 5 | 5 | - | - |

Securities at Fair Value through Profit or Loss

| | | *2016* | | *2015* |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Trading debt securities:* | | | | |
| *Government bonds* | 25,619 | 18,131 | 35,982 | 29,634 |
| *Corporate bonds* | 12,695 | 7,527 | 18,133 | 12,754 |
| *Debt securities designated at fair value through profit or loss at initial recognition:* | | | | |
| *Government bonds* | 1,471 | - | 1,615 | - |
| *Total debt securities* | 39,785 | 25,658 | 55,730 | 42,388 |
| | | | | |
| *Trading equity securities* | 445 | 445 | 338 | 338 |
| *Equity securities designated at fair value through profit or loss at initial recognition* | 17,197 | - | 15,048 | - |
| *Total equity securities* | 17,642 | 445 | 15,386 | 338 |
| | | | | |
| *Total securities at fair value through profit or loss* | 57,427 | 26,103 | 71,116 | 42,726 |
| | | | | |
| *Breakdown of debt securities by time remaining to maturity:* | | | | |
| *Short-term (up to 1 year)* | 3,464 | 2,816 | 4,057 | 2,472 |
| *Long-term (over 1 year)* | 36,321 | 22,842 | 51,673 | 39,916 |
| *Total* | 39,785 | 25,658 | 55,730 | 42,388 |

Securities at fair value through profit or loss have not been pledged as at 31 December 2016 and 2015.

All of the securities at fair value through profit or loss, except for unlisted securities, are accounted at fair value that is determined using level 1 requirements as described in fair value hierarchy in Section 4.2 of Financial Risk Management, i.e. fair value is based on quoted prices in active markets for identical assets and liabilities. Unlisted securities are accounted at fair value that is determined using level 3 requirements.

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 12
# FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Breakdown of the Group's securities at fair value through profit or loss as at 31 December 2016 and 2015:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Trading securities:* | | | | |
| *Debt securities* | 38,314 | 25,658 | 54,115 | 42,388 |
| *AAA* | - | - | - | - |
| *from AA- to AA+* | 4,356 | 4,356 | 1,733 | 1,733 |
| *from A- to A+* | 12,897 | 11,023 | 27,710 | 24,951 |
| *from BBB- to BBB+* | 15,231 | 7,580 | 20,591 | 13,179 |
| *from BB- to BB+* | 5,313 | 2,315 | 3,754 | 2,198 |
| *lower than BB-* | 253 | 120 | - | - |
| *no rating* | 264 | 264 | 327 | 327 |
| *Equities* | 445 | 445 | 338 | 338 |
| *listed* | 409 | 409 | 301 | 301 |
| *unlisted* | 5 | 5 | 7 | 7 |
| *units of investment funds* | 31 | 31 | 30 | 30 |
| *Total trading securities* | 38,759 | 26,103 | 54,453 | 42,726 |
| | | | | |
| *Securities designated at fair value through profit or loss at initial recognition:* | | | | |
| *Debt securities* | 1,471 | - | 1,615 | - |
| *AAA* | - | - | 181 | - |
| *from AA- to AA+* | 125 | - | 119 | - |
| *from A- to A+* | 430 | - | 573 | - |
| *from BBB- to BBB+* | 916 | - | 742 | - |
| *from BB- to BB+* | - | - | - | - |
| *lower than BB-* | - | - | - | - |
| *no rating* | - | - | - | - |
| *Equities* | 17,197 | - | 15,048 | - |
| *listed* | - | - | - | - |
| *unlisted* | - | - | - | - |
| *units of investment funds* | 17,197 | - | 15,048 | - |
| *Total securities designated at fair value through profit or loss at initial recognition* | 18,668 | - | 16,663 | - |
| | | | | |
| *TOTAL* | 57,427 | 26,103 | 71,116 | 42,726 |

## Subordinated Loan

The Group/Bank has a subordinated loan received, carrying value of which was EUR 22,064 thousand as of 31 December 2016 (31 December 2015: EUR 20,457 thousand). The agreement for the loan provides a conversion option to the loan issuer, which is an embedded derivative, therefore the Bank chose to account for the whole instrument as a financial liability at fair value through profit or loss. See Note 30 for more details on this liability.

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 13
# LOANS TO CUSTOMERS

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Gross loans to customers* | 990,411 | 1,026,595 | 893,962 | 950,609 |
| *Allowance for loan impairment* | (36,802) | (32,440) | (42,666) | (37,940) |
| *of which: for individually assessed loans* | (35,435) | (31,500) | (41,395) | (37,000) |
| *of which: collective allowances for incurrred but not reported losses* | (1,367) | (940) | (1,271) | (940) |
| | | | | |
| *NET LOANS TO CUSTOMERS* | 953,609 | 994,155 | 851,296 | 912,669 |
| *Breakdown of loans to customers according to maturity* | | | | |
| *Short-term (up to 1 year)* | 255,995 | 313,488 | 206,335 | 282,824 |
| *Long-term (over 1 year)* | 697,614 | 680,667 | 644,961 | 629,845 |
| | | | | |
| *Total* | 953,609 | 994,155 | 851,296 | 912,669 |

| | Group | Bank |
|---|---|---|
| *Allowance for loan impairment as at 1 January 2015* | 47,636 | 41,664 |
| | | |
| *Allowance for impairment of loans written off during the year as uncollectible* | (24,075) | (21,795) |
| *Allowance for impairment acquired in business combination* | 1,226 | 1,226 |
| *Currency translation differences and other adjustments* | 223 | 224 |
| *Increase in allowance for loan impairment (Note 7)* | 17,656 | 16,621 |
| | | |
| *Allowance for loan impairment as at 31 December 2015* | 42,666 | 37,940 |
| | | |
| *Allowance for impairment of loans written off during the year as uncollectible* | (14,098) | (13,031) |
| *Currency translation differences and other adjustments* | (47) | (1) |
| *Increase (decrease) in allowance for loan impairment (Note 7)* | 8,281 | 7,532 |
| | | |
| *Allowance for loan impairment as at 31 December 2016* | 36,802 | 32,440 |

Movements in allowance for loan impairment by separate class are provided below:

*Group:*

| | | | | | *Group loans to individuals (retail)* |
|---|---|---|---|---|---|
| | Consumer loans | Mortgages | Credit cards | Other | Total |
| *As at 1 January 2015* | 4,216 | 1,279 | 769 | 600 | 6,864 |
| *Change in allowance for loan impairment* | 223 | (215) | (301) | 331 | 38 |
| *Allowance for impairment acquired in business combination* | - | 117 | - | 23 | 140 |
| *Loans written off during the year* | (80) | (145) | (17) | (76) | (318) |
| *As at 31 December 2015* | 4,359 | 1,036 | 451 | 878 | 6,724 |
| *Change in allowance for loan impairment* | (64) | 212 | (134) | 71 | 85 |
| *Loans written off during the year* | (33) | (116) | (45) | (83) | (277) |
| *Other adjustments* | (39) | (1) | - | - | (40) |
| *As at 31 December 2016* | 4,223 | 1,131 | 272 | 866 | 6,492 |

| | | | | *Group loans to business customers* |
|---|---|---|---|---|
| | Large corporates | SME | Central and local authorities and other | Total |
| *As at 1 January 2015* | - | 40,437 | 335 | 40,772 |
| *Change in allowance for loan impairment* | (177) | 17,260 | 535 | 17,618 |
| *Allowance for impairment acquired in business combination* | - | 1,086 | - | 1,086 |
| *Loans written off during the year* | - | (23,757) | - | (23,757) |
| *Other adjustments* | 224 | (1) | - | 223 |
| *As at 31 December 2015* | 47 | 35,025 | 870 | 35,942 |
| *Change in allowance for loan impairment* | 21 | 7,868 | 307 | 8,196 |
| *Loans written off during the year* | - | (13,567) | (254) | (13,821) |
| *Other adjustments* | (38) | 161 | (130) | (7) |
| *As at 31 December 2016* | 30 | 29,487 | 793 | 30,310 |

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 13
# LOANS TO CUSTOMERS (continued)

*Bank:*

| | Consumer loans | Mortgages | Credit cards | Other | Total |
|---|---|---|---|---|---|
| | | | | | *Bank loans to individuals (retail)* |
| *As at 1 January 2015* | 243 | 1,279 | 32 | 546 | 2,100 |
| *Change in allowance for loan impairment* | (4) | (215) | 8 | 357 | 146 |
| *Allowance for impairment acquired in business combination* | - | 117 | - | 23 | 140 |
| *Loans written off during the year* | (80) | (145) | (17) | (76) | (318) |
| *As at 31 December 2015* | 159 | 1,036 | 23 | 850 | 2,068 |
| *Change in allowance for loan impairment* | 6 | 212 | 41 | 70 | 329 |
| *Loans written off during the year* | (33) | (116) | (45) | (83) | (277) |
| *Other adjustments* | - | (1) | - | - | (1) |
| *As at 31 December 2016* | 132 | 1,131 | 19 | 837 | 2,119 |

| | Large corporates | SME | Central and local authorities and other | Total |
|---|---|---|---|---|
| | | | | *Bank loans to business customers* |
| *As at 1 January 2015* | - | 39,229 | 335 | 39,564 |
| *Change in allowance for loan impairment* | (177) | 16,117 | 535 | 16,475 |
| *Allowance for impairment acquired in business combination* | - | 1,086 | - | 1,086 |
| *Loans written off during the year* | - | (21,477) | - | (21,477) |
| *Other adjustments* | 224 | - | - | 224 |
| *As at 31 December 2015* | 47 | 34,955 | 870 | 35,872 |
| *Change in allowance for loan impairment* | 21 | 6,875 | 307 | 7,203 |
| *Loans written off during the year* | - | (12,500) | (254) | (12,754) |
| *Other adjustments* | (38) | 168 | (130) | - |
| *As at 31 December 2016* | 30 | 29,498 | 793 | 30,321 |

# NOTE 14
# FINANCE LEASE RECEIVABLES

The Group

| | Up to 1 year | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| *Gross investments in leasing:* | | | | |
| *Balance at 31 December 2015* | 21,133 | 38,971 | 8,375 | 68,479 |
| *Change during 2016* | 1,408 | 9,472 | (781) | 10,099 |
| *Balance at 31 December 2016* | 22,541 | 48,443 | 7,594 | 78,578 |
| | | | | |
| *Unearned finance income on finance leases:* | | | | |
| *Balance at 31 December 2015* | (3,456) | (4,645) | (1,116) | (9,217) |
| *Change during 2016* | 649 | 257 | 848 | 1,754 |
| *Balance at 31 December 2016* | (2,807) | (4,388) | (268) | (7,463) |
| | | | | |
| *Net investments in leasing before provisions:* | | | | |
| *At 31 December 2015* | 17,677 | 34,326 | 7,259 | 59,262 |
| *At 31 December 2016* | 19,734 | 44,055 | 7,326 | 71,115 |
| | | | | |
| *Changes in provisions:* | | | | |
| *Balance at 1 January 2015* | (1,708) | (234) | - | (1,942) |
| *Provisions reversed / (additional provisions charged)* | 626 | (163) | - | 463 |
| *Provisions for finance lease debts written off* | 29 | - | - | 29 |
| *Balance at 31 December 2015* | (1,053) | (397) | - | (1,450) |
| | | | | |
| *Balance at 1 January 2016* | (1,053) | (397) | - | (1,450) |
| *Provisions reversed / (additional provisions charged)* | 220 | (42) | (57) | 121 |
| *Provisions for finance lease debts written off* | 21 | - | - | 21 |
| *Balance at 31 December 2016* | (812) | (439) | (57) | (1,308) |
| | | | | |
| *Net investments in leasing after provisions:* | | | | |
| *At 31 December 2015* | 16,624 | 33,929 | 7,259 | 57,812 |
| *At 31 December 2016* | 18,922 | 43,616 | 7,269 | 69,807 |

(All amounts are in EUR thousand, unless otherwise stated)

## NOTE 14
## FINANCE LEASE RECEIVABLES (continued)

The Bank

| | Up to 1 year | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| *Gross investments in leasing:* | | | | |
| *Balance at 31 December 2015* | 1,169 | 1,845 | 1,392 | 4,406 |
| *Change during 2016* | 12,333 | 31,488 | 5,598 | 49,419 |
| *Balance at 31 December 2016* | 13,502 | 33,333 | 6,990 | 53,825 |
| *Unearned finance income on finance leases:* | | | | |
| *Balance at 31 December 2015* | (891) | (1,330) | (978) | (3,199) |
| *Change during 2016* | (1,002) | (2,008) | 755 | (2,255) |
| *Balance at 31 December 2016* | (1,893) | (3,338) | (223) | (5,454) |
| *Net investments in leasing before provisions:* | | | | |
| *At 31 December 2015* | 278 | 515 | 414 | 1,207 |
| *At 31 December 2016* | 11,609 | 29,995 | 6,767 | 48,371 |
| *Changes in provisions:* | | | | |
| *Balance at 1 January 2015* | (23) | (38) | - | (61) |
| *Provisions reversed / (additional provisions charged)* | (38) | 37 | - | (1) |
| *Provisions for finance lease debts written off* | - | - | - | - |
| *Balance at 31 December 2015* | (61) | (1) | - | (62) |
| *Balance at 1 January 2016* | (61) | (1) | - | (62) |
| *Provisions reversed / (additional provisions charged)* | 30 | (31) | (57) | (58) |
| *Provisions for finance lease debts written off* | 19 | - | - | 19 |
| *Provisions for finance lease receivables transferred from the subsidiary* | (74) | (26) | - | (100) |
| *Balance at 31 December 2016* | (86) | (58) | (57) | (201) |
| *Net investments in leasing after provisions:* | | | | |
| *At 31 December 2015* | 217 | 514 | 414 | 1,145 |
| *At 31 December 2016* | 11,523 | 29,937 | 6,710 | 48,170 |

Movements in provision for impairment of finance lease receivables by class are as follows:

Group

| | *2016* | | | *2015* | | |
|---|---|---|---|---|---|---|
| | *Individuals* | *Business customers* | *Total* | *Individuals* | *Business customers* | *Total* |
| *As at 1 January* | 205 | 1,245 | 1,450 | 253 | 1,690 | 1,943 |
| *Change in allowance for finance lease impairment* | (105) | (16) | (121) | (34) | (430) | (464) |
| *Amounts written off during the year* | (2) | (19) | (21) | (14) | (15) | (29) |
| *As at 31 December* | 98 | 1,210 | 1,308 | 205 | 1,245 | 1,450 |

Bank

| | *2016* | | | *2015* | | |
|---|---|---|---|---|---|---|
| | *Individuals* | *Business customers* | *Total* | *Individuals* | *Business customers* | *Total* |
| *As at 1 January* | - | 62 | 62 | - | 62 | 62 |
| *Change in allowance for finance lease impairment* | 10 | 48 | 58 | - | - | - |
| *Amounts written off during the year* | - | (19) | (19) | - | - | - |
| *Provisions for finance lease receivables transferred from the subsidiary* | - | 100 | 100 | - | - | - |
| *As at 31 December* | 10 | 191 | 201 | - | 62 | 62 |

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 15
## INVESTMENT SECURITIES

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Securities available for sale:* | | | | |
| *Debt securities:* | 17,034 | 16,631 | 18,014 | 17,612 |
| *Government bonds* | - | - | 256 | 256 |
| *Corporate bonds* | 17,034 | 16,631 | 17,758 | 17,356 |
| *Equity securities* | 2,134 | 873 | 2,454 | 2,209 |
| *Total securities available for sale* | 19,168 | 17,504 | 20,468 | 19,821 |
| | | | | |
| *Held-to-maturity securities:* | | | | |
| *Debt securities:* | 524,054 | 524,054 | 494,645 | 494,645 |
| *Government bonds* | 420,755 | 420,755 | 381,943 | 381,943 |
| *Corporate bonds* | 103,299 | 103,299 | 112,702 | 112,702 |
| *Total held-to-maturity securities* | 524,054 | 524,054 | 494,645 | 494,645 |
| | | | | |
| *Breakdown of debt securities by time remaining to maturity:* | | | | |
| *Debt securities available for sale:* | | | | |
| *Short-term (up to 1 year)* | 567 | 164 | 621 | 621 |
| *Long-term (over 1 year)* | 16,467 | 16,467 | 17,393 | 16,991 |
| *Total debt securities available for sale* | 17,034 | 16,631 | 18,014 | 17,612 |
| *Held-to-maturity debt securities:* | | | | |
| *Short-term (up to 1 year)* | 92,171 | 92,171 | 54,542 | 54,542 |
| *Long-term (over 1 year)* | 431,883 | 431,883 | 440,103 | 440,103 |
| *Total held-to-maturity debt securities* | 524,054 | 524,054 | 494,645 | 494,645 |
| | | | | |
| *Credit quality of debt securities:* | | | | |
| *Debt securities available-for-sale* | 17,034 | 16,631 | 18,014 | 17,612 |
| *Neither past due nor individually impaired* | 17,034 | 16,631 | 18,014 | 17,612 |
| *Past due but not individually impaired* | - | - | - | - |
| *Individually impaired* | - | - | - | - |
| | | | | |
| *Held-to-maturity securities* | 524,054 | 524,054 | 494,645 | 494,645 |
| *Neither past due nor individually impaired* | 524,054 | 524,054 | 494,645 | 494,645 |
| *Past due but not individually impaired* | - | - | - | - |
| *Individually impaired* | - | - | - | - |
| *Individually impaired, gross value* | *1,022* | - | *1,035* | - |
| *Impairment provisions for individually impaired securities* | *(1,022)* | - | *(1,035)* | - |

Individually impaired debt securities consist of unrated corporate bonds.

As at 31 December 2016, held-to-maturity government bonds with a carrying value of EUR 5,178 thousand were pledged as collateral for currency forwards (Note 12), held-to-maturity government bonds with a carrying value of EUR 15,838 thousand were pledged to the Bank of Lithuania as a collateral for Eurosystem market operations (the Bank had no borrowings from Bank of Lithuania as at 31 December 2016 and 2015, this collateral was placed so that the Bank could borrow the funds immediately when needed). As at 31 December 2015, held-to-maturity government bonds with a carrying value of EUR 5,133 thousand were pledged as collateral for currency forwards (Note 12); available for sale government bonds with a carrying value of EUR 55 thousand were pledged as collateral for the certificates of deposits (Note 25).

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 15
# INVESTMENT SECURITIES (continued)

Breakdown of the Group's/Bank's investment securities as at 31 December 2016 and 2015:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Securities available for sale:* | | | | |
| *Debt securities* | 17,034 | 16,631 | 18,014 | 17,612 |
| *AAA* | - | - | - | - |
| *from AA- to AA+* | 483 | 483 | 463 | 463 |
| *from A- to A+* | 4,350 | 4,350 | 5,758 | 5,758 |
| *from BBB- to BBB+* | 9,715 | 9,715 | 11,250 | 11,250 |
| *from BB- to BB+* | 2,083 | 2,083 | 141 | 141 |
| *lower than BB-* | - | - | - | - |
| *no rating* | 403 | - | 402 | - |
| *Equities* | 2,134 | 873 | 2,454 | 2,209 |
| *listed* | - | - | - | - |
| *unlisted* | 1,087 | 766 | 2,314 | 2,069 |
| *units of investment funds* | 1,047 | 107 | 140 | 140 |
| *Total securities available for sale* | 19,168 | 17,504 | 20,468 | 19,821 |
| | | | | |
| *Held-to-maturity securities:* | | | | |
| *Debt securities* | 524,054 | 524,054 | 494,645 | 494,645 |
| *AAA* | - | - | 2,579 | 2,579 |
| *from AA- to AA+* | 10,349 | 10,349 | 12,628 | 12,628 |
| *from A- to A+* | 402,509 | 402,509 | 359,917 | 359,917 |
| *from BBB- to BBB+* | 100,236 | 100,236 | 109,431 | 109,431 |
| *from BB- to BB+* | 8,295 | 8,295 | 10,090 | 10,090 |
| *lower than BB-* | 2,665 | 2,665 | - | - |
| *no rating* | - | - | - | - |
| *Total held-to-maturity securities* | 524,054 | 524,054 | 494,645 | 494,645 |

In previous years, the Bank has reclassified a part of its available for sale debt securities portfolio to held-to-maturity securities (no material reclassifications were performed during 2015 and 2016). Management of the bank has assessed that it has an intention to hold these securities to their maturity. As of 31 December 2016, total book value of securities reclassified from available for sale to held-to-maturity portfolio was EUR 30,154 thousand (31 December 2015: EUR 34,316 thousand). During 2016 other comprehensive expenses recognized in relation to the amortisation of revaluation reserve of reclassified debt securities amounted to EUR 57 thousand (during 2015 - EUR 57 thousand). If the reclassification had not been performed, other comprehensive income recognized in 2016 in relation to these securities would be equal to EUR 284 thousand (in 2015 – other comprehensive loss of EUR 1,652 thousand).

Movements in the financial assets revaluation reserve:

| | The Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | Financial assets revaluation reserve, before taxes | Deferred income tax asset (liabilities) | Financial assets revaluation reserve, after taxes | Financial assets revaluation reserve, before taxes | Deferred income tax asset (liabilities) | Financial assets revaluation reserve, after taxes |
| *1 January 2015* | 607 | (91) | 516 | 607 | (91) | 516 |
| *Revaluation* | 790 | - | 790 | 868 | - | 868 |
| *Sale or redemption* | (287) | - | (287) | (365) | - | (365) |
| *Amortisation of revaluation related to held-to-maturity investments* | (57) | - | (57) | (57) | - | (57) |
| *Deferred income tax* | - | (66) | (66) | - | (66) | (66) |
| *31 December 2015* | 1,053 | (157) | 896 | 1,053 | (157) | 896 |
| *Revaluation* | 1,479 | - | 1,479 | 1,458 | - | 1,458 |
| *Sale or redemption* | (2,110) | - | (2,110) | (2,129) | - | (2,129) |
| *Amortisation of revaluation related to held-to-maturity investments* | (57) | - | (57) | (57) | - | (57) |
| *Deferred income tax* | - | 103 | 103 | - | 109 | 109 |
| *31 December 2016* | 365 | (54) | 311 | 325 | (48) | 277 |

Bank's cash flows and other movements of held-to-maturity securities:

| | 2016 | 2015 |
|---|---|---|
| *As at 1 January* | 494,645 | 447,757 |
| *Acquisitions* | 91,492 | 170,446 |
| *Redemptions* | (54,003) | (118,977) |
| *Disposals* | (2,317) | - |
| *Accrued interest* | 11,257 | 11,674 |
| *Received coupon payment* | (13,229) | (11,754) |
| *Amortisation of revaluation reserve* | (57) | (57) |
| *Foreign currency exchange rate impact* | (3,776) | (4,444) |
| *Reclassifications* | 42 | - |
| *As at 31 December* | 524,054 | 494,645 |

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 16
# INVESTMENTS IN SUBSIDIARIES

2016

| | Share in equity | Acquisition cost | Impairment provision | Carrying amount |
|---|---|---|---|---|
| *Bank* | | | | |
| *Investments in consolidated directly controlled subsidiaries:* | | | | |
| *Bonum Publicum GD UAB* | 100.00% | 8,399 | - | 8,399 |
| *Minera UAB* | 100.00% | 5,165 | (2,599) | 2,566 |
| *Pavasaris UAB* | 100.00% | 10,456 | (7,372) | 3,084 |
| *SB Lizingas UAB* | 100.00% | 8,862 | - | 8,862 |
| *SBTF UAB* | 100.00% | 1,029 | (450) | 579 |
| *Šiaulių Banko Investicijų Valdymas UAB* | 100.00% | 5,044 | (4,732) | 312 |
| *Šiaulių Banko Lizingas UAB* | 100.00% | 4,460 | (4,391) | 69 |
| *Šiaulių Banko Turto Fondas UAB* | 100.00% | 3,999 | (1,205) | 2,794 |
| *Total* | | **47,414** | **(20,749)** | **26,665** |

| | *Share in equity* | *Acquisition cost* | *Impairment provision* | *Carrying amount* |
|---|---|---|---|---|
| *Investments in consolidated indirectly controlled subsidiaries:* | | | | |
| *Apželdinimas UAB** | 100.00% | 300 | - | 300 |
| *Sandworks UAB*** | 100.00% | 3 | - | 3 |

* Indirectly controlled by subsidiary Šiaulių Banko Turto Fondas UAB
** Indirectly controlled by subsidiary Šiaulių Banko Investicijų Valdymas UAB

2015

| | Share in equity | Acquisition cost | Impairment provision | Carrying amount |
|---|---|---|---|---|
| *Bank* | | | | |
| *Investments in consolidated directly controlled subsidiaries:* | | | | |
| *Bonum Publicum GD UAB* | 100.00% | 8,399 | - | 8,399 |
| *Minera UAB* | 100.00% | 5,165 | (2,599) | 2,566 |
| *Pavasaris UAB* | 100.00% | 10,456 | (2,622) | 7,834 |
| *SB Lizingas UAB* | 100.00% | 8,862 | - | 8,862 |
| *SBTF UAB* | 100.00% | 1,029 | (450) | 579 |
| *Šiaulių Banko Investicijų Valdymas UAB* | 100.00% | 5,044 | (4,732) | 312 |
| *Šiaulių Banko Lizingas UAB* | 100.00% | 3,910 | (3,841) | 69 |
| *Šiaulių Banko Turto Fondas UAB* | 100.00% | 3,999 | (445) | 3,554 |
| *Total* | | **46,864** | **(14,689)** | **32,175** |

| | *Share in equity* | *Acquisition cost* | *Impairment provision* | *Carrying amount* |
|---|---|---|---|---|
| *Investments in consolidated indirectly controlled subsidiaries:* | | | | |
| *Sandworks UAB** | 100.00% | 3 | - | 3 |

*Indirectly controlled by subsidiary Šiaulių Banko Investicijų Valdymas UAB

The management of the Group uses value-in-use (discounted cash flows) method and fair value less cost to sell method for testing investment in subsidiaries for impairment. Fair value less cost to sell method is applied for investment management and real estate management entities, where recoverable amount of investments in these entities is based on the fair value of net assets. Discount rates used in value in use calculations varied between 6.0%and 9.9%.

In 2016, the Bank recognized impairment losses to the following investments in subsidiaries: EUR 550 thousand investment in Šiaulių Banko Lizingas UAB (Bank covered losses of the subsidiary); EUR 760 thousand investment in Šiaulių Banko Turto Fondas UAB (Bank recognized a loss on investment in the subsidiary); EUR 4,750 thousand investment in Pavasaris UAB (value of the investment reduced after dividends (total amount EUR 5,500 thousand) were paid by Pavasaris UAB and recognised in the income statement of the Bank).

In 2015, the Bank recognized impairment losses to the following investments in subsidiaries: EUR 450 thousand investment in SBTF UAB (Bank covered losses of the subsidiary); EUR 800 thousand investment in Šiaulių Banko Lizingas UAB (Bank covered losses of the subsidiary); EUR 978 thousand investment in Šiaulių Banko Investicijų Valdymas UAB (Bank covered losses of the subsidiary); EUR 2,310 thousand investment in Minera UAB (Bank covered losses of the subsidiary); EUR 200 thousand investment in Šiaulių Banko Turto Fondas UAB; in addition, an remeasurement loss amounting to EUR 10,425 thousand attributable to subsidiaries held for sale was recognised in the Bank's income statement line „Allowance for impairment losses on investments in subsidiaries and loss on remeasurement of subsidiaries classified as held for sale" – see Note 20 for details on investment in subsidiaries held for sale.

In 2016, the Group acquired an indirectly controlled subsidiary Apželdinimas UAB. The details on acquisition are presented below in this note.

In 2015, the Group sold the indirectly controlled subsidiary Semelitas UAB. See Note 20 for more details.

(All amounts are in EUR thousand, unless otherwise stated)

## NOTE 16
## INVESTMENTS IN SUBSIDIARIES (continued)

*Acquisition of Apželdinimas UAB*

In November 2016, the Group acquired 100% shares in an indirectly controlled subsidiary Apželdinimas UAB. The entity owns investment property in Kaunas and was acquired with the aim to achieve the maximum value in the problem debt collection of certain borrowers. The fair values of the consideration paid and assets and liabilities acquired on the date of acquisition are presented in the table below (the data of the valuation is final):

| | *Acquisition of Apželdinimas UAB* |
|---|---|
| *Fair value of net assets of Apželdinimas UAB upon acquisition:* | |
| *Investment property* | 538 |
| *Cash* | 1 |
| *Total assets* | 539 |
| *Amounts payable* | (155) |
| *Total liabilities* | (155) |
| | |
| *Net assets upon acquisition* | 384 |
| | |
| *Fair value of consideration:* | |
| *Cash paid upon acquisition* | (300) |
| *Liabilities to Group's entities of the acquiree* | (150) |
| | |
| *Total consideration upon acquisition* | (450) |
| | |
| *Goodwill* | 66 |
| | |
| *Group's cash flow upon acquisition:* | |
| *Cash paid upon acquisition* | (300) |
| *Cash acquired upon acquisition* | 1 |
| | |
| *Net cash outflow* | (299) |
| | |
| *Contribution of the acquiree to the Group since acquisition:* | |
| *Goodwill impairment expenses* | (66) |
| *Operating loss* | (8) |
| | |
| *Total* | (74) |

Fair values of assets and liabilities were derived using valuation techniques attributable to Level III in the fair value measurement hierarchy (discounted cash flows was the valuation technique used the most).

The goodwill resulting from acquisition was immediately written-off. Had Apželdinimas UAB been consolidated in the Group from the beginning of the year, the Group's net profit for the year 2016 would have been EUR 43,650 thousand.

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 17
# INTANGIBLE ASSETS

*Software and licences*

| | Group | Bank |
|---|---|---|
| *As at 1 January 2015:* | | |
| *Cost* | 2,444 | 2,065 |
| *Accumulated amortisation* | (1,871) | (1,653) |
| | | |
| *Net book value* | 573 | 412 |
| | | |
| *Year ended 31 December 2015:* | | |
| *Net book value at 1 January* | 573 | 412 |
| *Acquisitions* | 723 | 602 |
| *Write-offs* | - | - |
| *Amortisation charge* | (278) | (216) |
| | | |
| *Net book value at 31 December* | 1,018 | 798 |
| | | |
| *As at 31 December 2015:* | | |
| *Cost* | 3,967 | 3,515 |
| *Accumulated amortisation* | (2,949) | (2,717) |
| | | |
| *Net book value* | 1,018 | 798 |
| | | |
| *Year ended 31 December 2016:* | | |
| *Net book value at 1 January* | 1,018 | 798 |
| *Acquisitions* | 785 | 700 |
| *Write-offs* | (8) | (6) |
| *Amortisation charge* | (367) | (282) |
| | | |
| *Net book value at 31 December* | 1,428 | 1,210 |
| | | |
| *As at 31 December 2016:* | | |
| *Cost* | 4,684 | 4,207 |
| *Accumulated amortisation* | (3,256) | (2,997) |
| | | |
| *Net book value* | 1,428 | 1,210 |
| | | |
| *Economic life (in years)* | 3 – 9 | 3 – 9 |

*Goodwill*

| | *2016* | *2015* |
|---|---|---|
| *Goodwill arising from acquisition of:* | | |
| *Bonum Publicum* | 2,686 | 2,686 |
| *Pavasaris* | 52 | 52 |
| *SB Lizingas* | 14 | 14 |
| | | |
| *Net book value* | 2,752 | 2,752 |

*Goodwill impairment test*

For the purpose of impairment testing, goodwill is allocated to one cash generating unit - subsidiary of the Bank Bonum Publicum. The recoverable amount of cash generating unit is determined by applying the value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates.

The main assumptions in assessing value in use are discount and growth rates. Assessing value in use, the management estimated pre-tax discount rates that reflect current market assessment of the time value of money and the risks related to cash generating unit. In calculating the value in use, the discount rate of 9.90% and the growth rate of 1.70% were used. Growth rates used are based on the expected long run economy growth rate.

No impairment loss for goodwill was identified in 2016 and 2015 as a result of the test.

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 18
# PROPERTY, PLANT AND EQUIPMENT

Group

| | Buildings, premises and land | Vehicles | Office equipment | Construction in progress | Total |
|---|---|---|---|---|---|
| *As at 1 January 2015:* | | | | | |
| *Cost* | 10,341 | 2,245 | 6,645 | 51 | 19,282 |
| *Accumulated depreciation* | (2,282) | (1,168) | (4,609) | - | (8,059) |
| *Net book value* | 8,059 | 1,077 | 2,036 | 51 | 11,223 |
| *Year ended 31 December 2015:* | | | | | |
| *Net book value at 1 January* | 8,059 | 1,077 | 2,036 | 51 | 11,223 |
| *Disposal of subsidiaries* | - | - | (7) | - | (7) |
| *Acquisitions* | - | 1,499 | 636 | 105 | 2,240 |
| *Reclassifications* | 148 | (3) | (259) | (43) | (157) |
| *Disposals and write-offs* | (27) | (606) | (100) | (25) | (758) |
| *Depreciation charge* | (191) | (277) | (637) | - | (1,105) |
| *Impairment charge* | (491) | - | - | - | (491) |
| *Net book value at 31 December* | 7,498 | 1,691 | 1,669 | 88 | 10,946 |
| *As at 31 December 2015:* | | | | | |
| *Cost* | 9,861 | 2,183 | 6,390 | 88 | 18,522 |
| *Accumulated depreciation* | (2,363) | (492) | (4,721) | - | (7,576) |
| *Net book value* | 7,498 | 1,691 | 1,669 | 88 | 10,946 |
| *Year ended 31 December 2016:* | | | | | |
| *Net book value at 1 January* | 7,498 | 1,691 | 1,669 | 88 | 10,946 |
| *Acquisitions* | 32 | 540 | 981 | 45 | 1,598 |
| *Reclassifications* | 217 | - | 9 | - | 226 |
| *Disposals and write-offs* | (1) | (41) | (45) | - | (87) |
| *Depreciation charge* | (198) | (345) | (671) | - | (1,214) |
| *Net book value at 31 December* | 7,548 | 1,845 | 1,943 | 133 | 11,469 |
| *As at 31 December 2016:* | | | | | |
| *Cost* | 10,175 | 2,491 | 6,763 | 133 | 19,562 |
| *Accumulated depreciation* | (2,627) | (646) | (4,820) | - | (8,093) |
| *Net book value* | 7,548 | 1,845 | 1,943 | 133 | 11,469 |
| *Economic life (in years)* | 15-50 | 5-12 | 3-20 | - | - |

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 18
## PROPERTY, PLANT AND EQUIPMENT (continued)

The total balance of the Group's assets in the table above includes assets leased under operating lease agreements as at 31 December 2016, as follows:

Group

| | Vehicles | Equipment | Total |
|---|---|---|---|
| *As at 1 January 2015:* | | | |
| *Cost* | 1,096 | 664 | 1,760 |
| *Accumulated depreciation* | (514) | (515) | (1,029) |
| | | | |
| *Net book value* | **582** | **149** | **731** |
| | | | |
| *Year ended 31 December 2015:* | | | |
| *Net book value at 1 January* | 582 | 149 | 731 |
| *Acquisitions* | 166 | 19 | 185 |
| *Disposals and write-offs* | (496) | (23) | (519) |
| *Reclassifications* | 15 | (10) | 5 |
| *Depreciation charge* | (39) | (72) | (111) |
| | | | |
| *Net book value at 31 December* | 228 | 63 | 291 |
| | | | |
| *As at 31 December 2015:* | | | |
| *Cost* | 269 | 627 | 896 |
| *Accumulated depreciation* | (41) | (564) | (605) |
| | | | |
| *Net book value* | **228** | **63** | **291** |
| | | | |
| *Year ended 31 December 2016:* | | | |
| *Net book value at 1 January* | 228 | 63 | 291 |
| *Disposals and write-offs* | - | (37) | (37) |
| *Depreciation charge* | (45) | (14) | (59) |
| | | | |
| *Net book value at 31 December* | 183 | 12 | 195 |
| | | | |
| *As at 31 December 2016:* | | | |
| *Cost* | 269 | 537 | 806 |
| *Accumulated depreciation* | (86) | (525) | (611) |
| | | | |
| *Net book value* | **183** | **12** | **195** |
| | | | |
| *Economic life (in years)* | 6-12 | 6-15 | - |

As at 31 December 2016 and 31 December 2015, there were no property, plant and equipment pledged to third parties.

Future minimum lease payments to be received under non-cancellable operating lease agreements for the Bank and the Group were as follows (this includes investment property disclosed in Note 26):

| | | | *2016* | | | *2015* |
|---|---|---|---|---|---|---|
| | *up to 1 year* | *1-5 years* | *over 5 years* | *up to 1 year* | *1-5 years* | *over 5 years* |
| *Bank* | 90 | 129 | - | 80 | 78 | - |
| *Group* | 466 | 61 | - | 679 | 486 | - |

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 18
## PROPERTY, PLANT AND EQUIPMENT (continued)

Bank

| | Buildings and premises | Vehicles | Office equipment | Construction in progress | Total |
|---|---|---|---|---|---|
| *As at 1 January 2015:* | | | | | |
| *Cost* | 9,746 | 453 | 6,134 | 51 | 16,384 |
| *Accumulated depreciation* | (1,841) | (260) | (4,200) | - | (6,301) |
| *Net book value* | 7,905 | 193 | 1,934 | 51 | 10,083 |
| *Year ended 31 December 2015:* | | | | | |
| *Net book value at 1 January* | 7,905 | 193 | 1,934 | 51 | 10,083 |
| *Acquisitions* | - | 1,083 | 579 | 26 | 1,688 |
| *Disposals and write-offs* | - | (133) | (95) | (25) | (253) |
| *Depreciation charge* | (185) | (87) | (589) | - | (861) |
| *Reclassification* | 159 | - | (259) | (43) | (143) |
| *Impairment* | (491) | - | - | - | (491) |
| *Net book value at 31 December* | 7,388 | 1,056 | 1,570 | 9 | 10,023 |
| *As at 31 December 2015:* | | | | | |
| *Cost* | 9,443 | 1,238 | 5,978 | 9 | 16,668 |
| *Accumulated depreciation* | (2,055) | (182) | (4,408) | - | (6,645) |
| *Net book value* | 7,388 | 1,056 | 1,570 | 9 | 10,023 |
| *Year ended 31 December 2016:* | | | | | |
| *Net book value at 1 January* | 7,388 | 1,056 | 1,570 | 9 | 10,023 |
| *Acquisitions* | 32 | 442 | 959 | - | 1,433 |
| *Disposals and write-offs* | - | (21) | (45) | - | (66) |
| *Depreciation charge* | (191) | (197) | (628) | - | (1,016) |
| *Reclassification* | 158 | - | - | - | 158 |
| *Net book value at 31 December* | 7,387 | 1,280 | 1,856 | 9 | 10,532 |
| *As at 31 December 2016:* | | | | | |
| *Cost* | 9,696 | 1,534 | 6,382 | 9 | 17,621 |
| *Accumulated depreciation* | (2,309) | (254) | (4,526) | - | (7,089) |
| *Net book value* | 7,387 | 1,280 | 1,856 | 9 | 10,532 |
| *Economic life (in years)* | 15-50 | 5-12 | 3-20 | - | - |

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 19
# OTHER ASSETS

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Financial assets:* | | | | |
| *Amounts receivable* | 4,136 | 3,078 | 2,551 | 2,169 |
| | | | | |
| *Breakdown of financial assets according to maturity* | | | | |
| *Short-term (up to 1 year)* | 2,305 | 1,613 | 2,551 | 2,169 |
| *Long-term (over 1 year)* | 1,831 | 1,465 | - | - |
| | | | | |
| *Non-financial assets:* | | | | |
| *Breakdown of non-financial assets according to maturity* | | | | |
| *Short-term (up to 1 year)* | 11,187 | 3,901 | 18,423 | 1,486 |
| *Long-term (over 1 year)* | 20,515 | 962 | 23,131 | 3,436 |
| | | | | |
| *Inventories* | 24,936 | - | 30,490 | - |
| *Deferred charges* | 615 | 539 | 793 | 711 |
| *Assets under reinsurance and insurance contracts* | 697 | - | 607 | - |
| *Prepayments* | 3,979 | 3,428 | 4,107 | 3,388 |
| *Foreclosed assets* | 989 | 628 | 4,081 | 603 |
| *Other* | 486 | 268 | 1,476 | 220 |
| | | | | |
| *TOTAL OTHER ASSETS* | 35,838 | 7,941 | 44,105 | 7,091 |

Inventories relate to real estate projects under development and real estate held for sale by the Bank's subsidiaries Šiaulių Banko Turto Fondas UAB, SBTF UAB, Minera UAB, Pavasaris UAB and Šiaulių Banko Investicijų Valdymas UAB.

Breakdown of inventories according to type:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Apartments held for sale* | 3,635 | - | 5,932 | - |
| *Property held for sale or development* | 21,301 | - | 24,558 | - |
| | | | | |
| *Total inventories* | 24,936 | - | 30,490 | - |

All inventories are accounted at lower of cost and net realisable value. Inventories are not pledged.

# NOTE 20
# ASSETS HELD FOR SALE AND LIABILITIES RELATED TO ASSETS HELD FOR SALE

Assets held for sale consist of:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Assets related to discontinued operations* | - | - | 238 | - |
| *Investments in subsidiaries held for sale* | - | 58 | - | 13,856 |
| *Real estate classified as held for sale* | - | - | 32 | 32 |
| *Total assets classified as held for sale* | - | 58 | 270 | 13,888 |
| *Liabilities attributable to subsidiaries classified as held for sale* | 4 | - | 3,529 | - |

Subsidiaries held for sale:

*Subsidiaries acquired under the agreement on the transfer of assets, rights, transactions and liabilities of Ūkio Bankas*

3 March 2013, under the agreement on the transfer of assets, rights, transactions and liabilities of Ūkio Bankas, based on which a part of assets, rights, transactions and liabilities of Ūkio Bankas was transferred to Šiaulių Bankas, Šiaulių Bankas AB acquired 100 % control over following subsidiaries engaged in real estate development activities: Eastern Europe Development Fund UAB, Sporto Klubų Investicijos UAB, Trade Project UAB, Investicinio Turto Valdymas UAB, ŽSA 1 UAB, ŽSA 2 UAB, ŽSA 3 UAB, ŽSA 4 UAB and ŽSA 5 UAB (ŽSA 1 UAB, ŽSA 2 UAB, ŽSA 3 UAB, ŽSA 4 UAB and ŽSA 5 UAB together own 100% shares of Žalgirio Sporto Arena UAB; Žalgirio Sporto Arena UAB owns 100% shares of Nacionalinis Futbolo Stadionas UAB). The agreement under which the subsidiaries were acquired until February 2014 provided the opportunity to the creditors of the Ūkio Bankas to sell these subsidiaries as a portfolio of assets. The option held by Ūkio Bankas expired on 2 February 2014, and was not executed.

Eastern Europe Development Fund UAB was sold in 2014. Nacionalinis Futbolo Stadionas UAB was liquidated in 2015. Sporto Klubų Investicijos UAB was sold in 2015.

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 20
# ASSETS HELD FOR SALE AND LIABILITIES RELATED TO ASSETS HELD FOR SALE (continued)

On 30 June 2015 investment properties consisting of real estate objects located in teritorry between Olimpiečių, Rinktinės and Šeimyniškių streets in Vilnius were sold. The properties were sold by Bank's subsidiaries held for sale Žalgirio Sporto Arena UAB, Investicinio Turto Valdymas UAB, Trade Project UAB, profit from the transaction is included in Group's result of discontinued operations. After the sale of properties, subsidiaries held for sale related to these assets which represented virtually all of the assets held by the entities (ŽSA1 UAB, ŽSA2 UAB, ŽSA3 UAB, ŽSA4 UAB, ŽSA5 UAB, Žalgirio Sporto Arena UAB, Investicinio Turto Valdymas UAB, Trade Project UAB) were planned to pay out dividends to the Bank and be liquidated. In 2015, these subsidiaries paid dividends to the Bank (total amount EUR 14,898 thousand, included in Bank's income statement line „Dividends from investments in subsidiaries and subsidiaries classified as held for sale"), the loss on measurement to fair value less cost to sell of investment to these subsidiaries was recognised (total amount EUR 10,425 thousand, included in Bank's income statement line „Allowance for impairment losses on investments in subsidiaries and loss on remeasurement of subsidiaries classified as held for sale"), and the preparation for liquidation process of these entities was started. During 2016, these subsidiaries paid dividends of EUR 832 thousand to the Bank (included in Bank's income statement line „Dividends from investments in subsidiaries and subsidiaries classified as held for sale") and their share capital was reduced by paying out the money to the Bank (the value of Bank's investments in subsidiaries held for sale reduced by EUR 13,798 thousand, no impact to the income statement). Investicinio Turto Valdymas UAB and Trade Project UAB were liquidated in 2016. At 31 December 2016, the remaining companies (Žalgirio Sporto Arena UAB, ŽSA1 UAB, ŽSA2 UAB, ŽSA3 UAB, ŽSA4 UAB, ŽSA5 UAB) performed no activity, their external assets were nil and external liabilities amounted to EUR 4 thousand. No result from dividends and remeasurement was included in the Group's income statement as they were eliminated in the process of consolidation.

Group's comparative financial information presented in Cash flow statement for the year 2015 was restated to reflect the impact of sale of the properties mentioned above in cash flow from investing activities instead of cash flow from operating activities (EUR 21,696 thousand inflow was deducted from the cash flow statement line "Decrease (increase) in other assets" and added to the cash flow statement line "Inflows from subsidiaries held for sale"). The restatement did not have an impact on total change in cash and cash equivalents and on Bank's comparative financial information.

| | *Disposal of entities acquired under the agreement on the transfer of assets, rights, transactions and liabilities of Ūkio Bankas* |
|---|---|
| *Net assets of on disposal:* | *Sporto Klubų Investicijos UAB (disposed of in 2015)* |
| *Total assets* | 2,615 |
| *Total liabilities* | (294) |
| *Total net assets on disposal* | 2,321 |
| | |
| *Consideration received* | 2,350 |
| | |
| *Net gain on disposal* | 29 |

*Kėdainių Oda UAB*

In 2014 this subsidiary was reclassified from consolidated subsidiaries to subsidiaries held for sale. It was sold in 2015.

Profit (loss) from Kėdainių Oda UAB included in the discontinued operations result consist of:

| | *2015 (until the moment of sale)* |
|---|---|
| *Profit (loss) attributable to discontinued operations:* | |
| *Net operating loss of the entity* | (97) |
| *of which - revenues* | *773* |
| *of which - expenses* | *(870)* |
| *of which – income tax* | - |
| *Impairment* | - |
| *Income tax* | - |
| *Gain from disposal of the entity* | 409 |
| *Profit (loss) for the year* | 312 |

The result of disposal of the entity:

| | *Disposal of Kėdainių Oda UAB* |
|---|---|
| *Net assets of Kėdainių Oda UAB on disposal:* | |
| *Long term assets, gross* | 2,491 |
| *Deferred income tax, gross* | 99 |
| *Short term assets, gross* | 693 |
| *Impairment* | (2,390) |
| *Total assets* | 893 |
| *Short term liabilities* | (461) |
| *Total liabilities* | (461) |
| | |
| *Net assets on disposal* | 432 |
| | |
| *Consideration received* | 841 |
| | |
| *Net gain on disposal of Kėdainių Oda UAB* | 409 |

(All amounts are in EUR thousand, unless otherwise stated)

## NOTE 20
## ASSETS HELD FOR SALE AND LIABILITIES RELATED TO ASSETS HELD FOR SALE (continued)

*Semelitas UAB*

In 2015, the Group sold the subsidiary Semelitas UAB.

Profit (loss) from Semelitas UAB included in the discontinued operations result consist of:

| | *2015 (until the moment of sale)* |
|---|---|
| *Profit (loss) attributable to discontinued operations:* | |
| *Net operating profit (loss) of the entity* | (32) |
| *of which – revenues* | *2* |
| *of which – expenses* | *(27)* |
| *of which – income tax* | *(7)* |
| *Gain from disposal of the entity* | 54 |
| *Profit for the year* | 22 |

The result of disposal of the entity:

| | *Disposal of Semelitas UAB* |
|---|---|
| *Net assets of Semelitas UAB on disposal:* | |
| *Property, plant and equipment* | 97 |
| *Investment property* | 1,846 |
| *Other assets* | 24 |
| *Total assets* | 1,967 |
| *Current income tax liabilities* | (5) |
| *Other liabilities* | (52) |
| *Total liabilities* | (57) |
| | |
| *Net assets on disposal* | 1,910 |
| | |
| *Consideration received* | 1,964 |
| | |
| *Net gain on disposal of Semelitas UAB* | 54 |

Investment in subsidiaries classified as held for sale, as of 31 December 2016 and result of discontinued operations in 2016:

| | Entities acquired under the agreement on the transfer of assets, rights, transactions and liabilities of Ūkio Bankas |
|---|---|
| *Assets held for sale attributable to entity/ group of entities* | - |
| *Liabilities attributable to assets held for sale attributable to entity/ group of entities* | 4 |
| *Profit (loss) of the year (recorded in Discontinued operations line of the income statement)* | 35 |
| *of which: gain on disposal of entities* | *-* |

Investment in subsidiaries classified as held for sale, as of 31 December 2015 and result of discontinued operations in 2015:

| | Entities acquired under the agreement on the transfer of assets, rights, transactions and liabilities of Ūkio Bankas | Kėdainių Oda UAB | Semelitas UAB | TOTAL |
|---|---|---|---|---|
| *Assets held for sale attributable to entity/ group of entities* | 238 | - | - | 238 |
| *Liabilities attributable to assets held for sale attributable to entity/ group of entities* | 3,529 | - | - | 3,529 |
| *Profit (loss) of the year (recorded in Discontinued operations line of the income statement)* | 8,304 | 312 | 22 | 8,638 |
| *of which: gain on disposal of entities* | *29* | *409* | *54* | *492* |

During the years ended 31 December 2016 and 2015, the Group did not incur any gain or loss related to the measurement to fair value less cost to sell of the subsidiaries held for sale. For details on Bank's losses related to the measurement to fair value less cost to sell of the subsidiaries held for sale, please refer to the description in the beginning of Note 20.

As all of the entities attributed to assets held for sale are 100%-owned, the whole amount of the profit (loss) from discontinued operations is attributable to equity owners of the Group.

Real estate held for sale:

In addition to the subsidiaries held for sale, real estate properties that are planned to be sold within one year are included in assets classified as held for sale. As of 31 December 2016, there were no such assets. As of 31 December 2015, such real estate assets consisted of one object in Klaipėda with a fair value of EUR 32 thousand. No income or expenses related to these properties were recorded in profit or loss of discontinued operations.

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 21
# DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Correspondent accounts and deposits of other banks and financial institutions:* | | | | |
| *Correspondent accounts and demand deposits* | 4,838 | 6,456 | 3,127 | 6,111 |
| *Time deposits* | 53,184 | 53,852 | 7,441 | 7,464 |
| *Total correspondent accounts and deposits of other banks and financial institutions* | 58,022 | 60,308 | 10,568 | 13,575 |
| *Loans received from:* | | | | |
| *Other banks* | 1,429 | 1,429 | 4,530 | 4,530 |
| *Other organisations* | 12,270 | 12,270 | 18,513 | 18,513 |
| *International organisations* | 18,072 | 18,072 | 16,765 | 16,765 |
| *Total loans received* | 31,771 | 31,771 | 39,808 | 39,808 |
| *Total* | 89,793 | 92,079 | 50,376 | 53,383 |
| *Breakdown of due to other banks and financial institutions according to maturity* | | | | |
| *Short-term (up to 1 year)* | 75,417 | 77,077 | 38,286 | 41,272 |
| *Long-term (over 1 year)* | 14,376 | 15,002 | 12,090 | 12,111 |
| *Total* | 89,793 | 92,079 | 50,376 | 53,383 |

# NOTE 22
# DUE TO CUSTOMERS

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Demand deposits:* | | | | |
| *National government institutions* | 10,543 | 10,543 | 9,541 | 9,541 |
| *Local government institutions* | 42,682 | 42,682 | 28,950 | 28,950 |
| *Governmental and municipal companies* | 5,780 | 5,780 | 5,993 | 5,993 |
| *Corporate entities* | 230,215 | 230,591 | 175,084 | 175,408 |
| *Non-profit organisations* | 10,602 | 10,602 | 10,102 | 10,102 |
| *Individuals* | 270,241 | 270,241 | 237,824 | 237,824 |
| *Unallocated amounts due to customers* | 29,445 | 29,460 | 20,531 | 20,531 |
| *Total demand deposits* | 599,508 | 599,899 | 488,025 | 488,349 |
| *Time deposits:* | | | | |
| *National government institutions* | 359 | 359 | 456 | 456 |
| *Local government institutions* | 1,067 | 1,067 | 531 | 531 |
| *Governmental and municipality companies* | 615 | 615 | 769 | 769 |
| *Corporate entities* | 37,690 | 37,690 | 39,041 | 39,041 |
| *Non-profit organisations* | 2,455 | 2,455 | 2,736 | 2,736 |
| *Individuals* | 853,393 | 853,393 | 904,830 | 904,830 |
| *Total time deposits* | 895,579 | 895,579 | 948,363 | 948,363 |
| *Total* | 1,495,087 | 1,495,478 | 1,436,388 | 1,436,712 |
| *Breakdown of due to customers according to maturity* | | | | |
| *Short-term (up to 1 year)* | 1,339,938 | 1,340,329 | 1,318,188 | 1,318,512 |
| *Long-term (over 1 year)* | 155,149 | 155,149 | 118,200 | 118,200 |
| *Total* | 1,495,087 | 1,495,478 | 1,436,388 | 1,436,712 |

(All amounts are in EUR thousand, unless otherwise stated)

## NOTE 23
## SPECIAL AND LENDING FUNDS

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Special funds* | 28,326 | 28,326 | 8,191 | 8,191 |
| *Lending funds* | - | - | - | - |
| | | | | |
| *Total* | **28,326** | **28,326** | **8,191** | **8,191** |
| | | | | |
| *Breakdown of special and lending funds according to maturity* | | | | |
| *Short-term (up to 1 year)* | 28,326 | 28,326 | 8,191 | 8,191 |
| *Long-term (over 1 year)* | - | - | - | - |
| | **28,326** | **28,326** | **8,191** | **8,191** |

The special funds consist of the funds from the mandatory social and health insurance funds. The special funds have to be returned to the institutions which have placed them upon the first requirement of the latter.

## NOTE 24
## LIABILITIES RELATED TO INSURANCE ACTIVITIES

Technical insurance provisions:

Bank's subsidiary Bonum Publicum GD UAB is engaged in life insurance business. For the years ended 31 December 2016 and 2015 the technical insurance provisions and their changes were as follows:

| | Unearned premiums | Claims outstanding | Loss cover (mathematical) | Unit-linked | Total |
|---|---|---|---|---|---|
| *Gross:* | | | | | |
| *At 1 January 2015* | 20 | 342 | 4,743 | 14,871 | 19,976 |
| *Change for the period* | (6) | (150) | 1,799 | 1,922 | 3,565 |
| *At 31 December 2015* | 14 | 192 | 6,542 | 16,793 | 23,541 |
| *Change for the period* | 1 | 3 | (169) | 2,139 | 1,974 |
| *At 31 December 2016* | 15 | 195 | 6,373 | 18,932 | 25,515 |
| | | | | | |
| *Reinsurance share:* | | | | | |
| *At 1 January 2015* | (15) | (7) | (9) | - | (31) |
| *Change for the period* | (1) | 7 | (1) | - | 5 |
| *At 31 December 2015* | (16) | - | (10) | - | (26) |
| *Change for the period* | (2) | - | - | - | (2) |
| *At 31 December 2016* | (18) | - | (10) | - | (28) |
| | | | | | |
| *Net value* | | | | | |
| ***At 31 December 2015*** | **(2)** | **192** | **6,532** | **16,793** | **23,515** |
| ***At 31 December 2016*** | **(3)** | **195** | **6,363** | **18,932** | **25,487** |

The presentation of reinsurance share was changed in the statement of financial position as of 31 December 2016 – it is included in the line „Other assets" (as of 31 December 2015, it was deducted from Liabilities related to insurance activities).

Liabilities under unit-linked insurance contracts are fully covered with assets: securities designated at fair value through profit or loss at initial recognition and cash (31 December 2016: securities EUR 18,668 thousand, cash EUR 264 thousand, 31 December 2015: securities EUR 16,664 thousand, cash EUR 129 thousand).

(All amounts are in EUR thousand, unless otherwise stated)

## NOTE 25
## OTHER LIABILITIES

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Financial liabilities:* | | | | |
| *Trade payables* | 4,054 | 483 | 2,531 | - |
| *Accrued charges* | 7,727 | 7,061 | 5,823 | 4,976 |
| *Debt securities in issue* | - | - | 58 | 58 |
| ***Total financial liabilities*** | **11,781** | **7,544** | **8,412** | **5,034** |
| | | | | |
| *Breakdown of other financial liabilities according to maturity* | | | | |
| *Short-term (up to 1 year)* | 6,975 | 2,807 | 8,358 | 5,034 |
| *Long-term (over 1 year)* | 4,806 | 4,737 | 54 | - |
| | | | | |
| *Non-financial liabilities:* | | | | |
| *Advance amounts received from the buyers of assets* | 2,648 | - | 1,832 | - |
| *Deferred income* | 404 | 157 | 1,078 | 209 |
| *Provisions* | 72 | - | 116 | - |
| *Other liabilities* | 634 | 193 | 1,647 | 275 |
| ***Total non-financial liabilities*** | **3,758** | **350** | **4,673** | **484** |
| | | | | |
| *Breakdown of other non-financial liabilities according to maturity* | | | | |
| *Short-term (up to 1 year)* | 3,281 | 301 | 3,858 | 409 |
| *Long-term (over 1 year)* | 477 | 49 | 815 | 75 |
| | | | | |
| ***Total non-financial liabilities*** | **3,758** | **350** | **4,673** | **484** |

The Group and the Bank had no debt securities in issue as at 31 December 2016. As at 31 December 2015, the Bank had deposit certificates issued (this liability was acquired in Finasta acquisition transaction), carrying amount of which was EUR 58 thousand, maturity term – December 2016. Available for sale governments bonds with a carrying value of EUR 55 thousand were pledged as collateral for deposit certificates.

## NOTE 26
## INVESTMENT PROPERTY

Investment property

| | Group | Bank |
|---|---|---|
| ***Year ended 31 December 2015:*** | | |
| *Carrying amount at 1 January* | 20,164 | 3,303 |
| *Acquisitions* | 2,155 | - |
| *Reclassification from foreclosed assets* | 4,343 | 4,334 |
| *Impairment* | (514) | - |
| *Depreciation charge* | (209) | (60) |
| *Disposals and write-offs* | (7,591) | (4,286) |
| | | |
| ***Carrying amount at 31 December 2015*** | **18,348** | **3,291** |
| | | |
| *Estimated fair value at 31 December 2015* | 19,591 | 4,606 |
| | | |
| ***Year ended 31 December 2016:*** | | |
| *Carrying amount at 1 January* | 18,348 | 3,291 |
| *Acquisitions* | 1,245 | - |
| *Reclassifications* | (327) | (327) |
| *Impairment* | (448) | - |
| *Depreciation charge* | (192) | (41) |
| *Disposals and write-offs* | (1,822) | (1,811) |
| | | |
| ***Carrying amount at 31 December 2016*** | **16,804** | **1,112** |
| | | |
| *Estimated fair value at 31 December 2016* | 17,556 | 1,190 |

Income from rent of investment property is included in the income statement line "Other operating income" (see Note 6 "Other income"). Maintenance expenses related to investment property (Group: EUR 90 thousand in 2016, EUR 46 thousand in 2015; Bank: EUR 26 thousand in 2016, EUR 27 thousand in 2015) are included in the income statement line "Other operating expenses".

The Group tests the investment property for impairment mainly using valuations from external independent certified appraisers or valuations performed by Group's employees (as of 31 December 2016, 93% of the carrying value of the investment property was tested for impairment using valuations from external independent certified appraisers). Income method or replacement cost methods, i.e. valuation techniques attributable to Level 3 are mostly used valuation techniques to test the investment property for impairment both by external and internal valuators.

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 27
# SHARE CAPITAL

As of 31 December 2016 the Bank's share capital amounted to EUR 109,471,658.33, it comprised 377,488,477 ordinary registered shares with par value of EUR 0.29 each (31 December 2015 the Bank's share capital amounted to EUR 91,226,381.99, it comprised 314,573,731 ordinary registered shares with par value of EUR 0.29 each).

The ordinary meeting of shareholders of Šiaulių bankas that took place on 30 March 2016 passed a resolution to increase Bank's share capital by EUR 18,246 thousand (20.0%) using Bank's own resources (retained earnings). The amended Charter of the Bank with an increased authorised capital was registered in the Register of Legal Entities on 26 May 2016, the bonus shares were distributed among Bank's shareholders using the proportion of their stakes at the end of the day of accounting of rights of the Meeting (13 April 2016).

On 14 September 2015, the increase in share capital by additional contributions was registered as 21,353,731 ordinary registered shares (nominal value EUR 6,192 thousand) were distributed to one shareholder - Invalda INVL AB. This way, the Bank settled for the Finasta acquisition transaction (see General Information for more details). The difference between the fair value and nominal value of shares issued (EUR 257 thousand) was accounted for as change in retained earnings.

The ordinary meeting of shareholders of Šiaulių bankas that took place on 27 March 2015 passed a resolution to increase Bank's share capital by EUR 6,734 thousand (8.6%) using Bank's own resources (share premium and retained earnings). The amended Charter of the Bank with an increased authorised capital was registered in the Register of Legal Entities on 26 May 2015, the shares we distributed among Bank's shareholders using the proportion of their stakes at the end of the day of accounting of rights of the Meeting (13 April 2015).

According to local legislation, on 1 January 2015, as the Bank adopted euro, the nominal value of shares was rounded to two decimal digits, from EUR 0.28962 to EUR 0.29. This caused an increase in Bank's share capital by EUR 103 thousand, from EUR 78,197 thousand to EUR 78,300 thousand. The difference was accounted as change in retained earnings.

As of 31 December 2016, the shareholders holding over 5% of the Bank's shares are listed in the table below:

| | Share of the authorized capital held, % 31 December 2016 | Share of the authorized capital held, % 31 December 2015 |
|---|---|---|
| *European Bank for Reconstruction and Development* | 18.24 | 18.24 |
| *Invalda INVL AB* | 6.79 | 6.79 |
| *Gintaras Kateiva* | 5.82 | 5.82 |

Shareholders of the Bank that have signed shareholders agreement - European Bank for Reconstruction and Development, Prekybos namai Aiva UAB, Mintaka UAB, Įmonių Grupė Alita AB, Arvydas Salda, Sigitas Baguckas, Vigintas Butkus, Vytautas Junevičius, Gintaras Kateiva, Kastytis Jonas Vyšniauskas, Algirdas Butkus, - and other shareholders votes of which are calculated together based on the legal acts of Republic of Lithuania, form a group of acting together shareholders. As of 31 December 2016, this group possessed 39.10 percent (31 December 2015: 39.41 percent) of the authorised capital and votes of the Bank.

As at 31 December 2016, the Bank had 3,401 shareholders (as at 31 December 2015: 3,476).

### Reserve capital
The reserve capital is formed from the Bank's profit and its purpose is to ensure the financial stability of the Bank. The shareholders may decide to use the reserve capital to cover losses incurred.

### Statutory reserve
According to the Law of the Republic of Lithuania on Banks, allocations to the statutory reserve shall be compulsory and shall not be less than 1/20 of the profit available for appropriation. The statutory reserve may, by a decision of extraordinary general or annual meeting of the shareholders, be used only to cover losses of the activities.

# NOTE 28
# CONTINGENT LIABILITIES AND COMMITMENTS

### Contingent tax liabilities
The Tax Authorities have not carried out a full-scope tax audit of the Bank for the period from 2012 to 2016. The Tax Authorities may at any time during 5 successive years after the end of the reporting tax year carry out an inspection of the Bank's books and accounting records and impose additional taxes or fines. Management is not aware of any circumstances that might result in a potential material liability in this respect.

(All amounts are in EUR thousand, unless otherwise stated)

## NOTE 28
## CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Guarantees issued, letters of credit, commitments to grant loans and other commitments

| | | *2016* | | *2015* |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| *Financial guarantees issued* | 21,253 | 21,320 | 22,255 | 22,282 |
| *Letters of credit* | 2,185 | 2,185 | 5,929 | 5,929 |
| *Commitments to grant loans* | 115,758 | 140,001 | 109,625 | 114,165 |
| *Operating lease commitments* | 2,513 | 2,830 | 2,844 | 3,260 |
| *Other commitments* | 645 | 415 | 2,342 | 2,094 |
| *Total* | **142,354** | **166,751** | **142,995** | **147,730** |

Fair value of the guarantees amounts to EUR 151 thousand at 31 December 2016 (31 December 2015: EUR 225 thousand). It is estimated as the amount of the guarantee fee to be paid by the customers less amortization over the contract period.

## NOTE 29
## DIVIDENDS

Dividends are declared during the annual general meeting of shareholders of the Bank when appropriation of profit for the reporting period is performed. On 30 March 2016 the ordinary general meeting of shareholders made a decision to pay EUR 0.002 (i.e. 0.69%) dividends per one ordinary registered share with EUR 0.29 nominal value each. Total amount of dividends was EUR 628 thousand. On 27 March 2015 the ordinary general meeting of shareholders made a decision to pay EUR 0.000725 dividends per one ordinary registered share with EUR 0.29 nominal value each (i.e. 0.25% of the nominal value of the share). Total amount of dividends was EUR 196 thousand

In 2016, Bank's 100%-owned subsidiary Pavasaris UAB paid dividends of EUR 5,500 thousand to the Bank; Bank's 100 owned subsidiary SB Lizingas UAB paid dividends of EUR 3,300 thousand to the Bank; and Bank's subsidiaries held for sale (see Note 20 for details) paid dividends of EUR 832 thousand to the Bank.

In 2015, Bank's 100%-owned subsidiary SB Lizingas UAB paid dividends of EUR 2,896 thousand to the Bank, Bank's 100%-owned subsidiary Bonum Publicum GD UAB paid dividends of EUR 579 thousand to the Bank, and Bank's subsidiaries held for sale (see Note 20 for details) paid dividends of EUR 14,898 thousand to the Bank.

## NOTE 30
## RELATED-PARTY TRANSACTIONS

Related parties with the Bank are classified as follows:

a) members of the Bank's Supervisory Council and Board (which also are the main decision makers of the Group), their close family members and companies that are controlled, jointly controlled or significantly influenced over by these related parties. For some companies the presumed significant influence threshold of 20% voting rights has been reduced if other evidence shows that a person/entity can exercise significant influence by additional means (e.g. by holding a seat in the Board of Directors of a particular entity);
b) subsidiaries of the Bank, includes Apželdinimas UAB, Bonum Publicum GD UAB, Minera UAB, Pavasaris UAB, Sandworks UAB, SB Lizingas UAB, SBTF UAB, Šiaulių Banko Investicijų Valdymas UAB, Šiaulių Banko Lizingas UAB, Šiaulių Banko Turto Fondas UAB, and subsidiaries held for sale, includes Žalgirio Sporto Arena UAB, ŽSA1 UAB, ŽSA2 UAB, ŽSA3 UAB, ŽSA4 UAB, ŽSA5 UAB;
c) the shareholders holding over 5 % of the Bank's share capital therefore presumed to have a significant influence over the Group.

During 2016 and 2015, a certain number of banking transactions were entered into with related parties in the ordinary course of business. These transactions include settlements, loans, deposits and foreign currency transactions.

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 30
# RELATED-PARTY TRANSACTIONS (continued)

The year-end balances of loans (incl. off-balance sheet commitments) granted to and deposits accepted from the Bank's related parties, except for subsidiaries, and their average annual interest rates (calculated as weighted average) were as follows (data of the Bank):

| | *Deposits, at the year-end* | | *Range of annual interest rates, %* | | *Loans, at the year-end* | | *Range of annual interest rates, %* | | *Off-balance sheet commitments, at the year-end* | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| *Members of the Council and the Board* | 952 | 684 | 0.00-0.60 | 0.00-1.15 | 958 | 1,036 | 0.48-3.00 | 0.67-4.00 | 51 | 39 |
| *Other related parties (excluding subsidiaries of the Bank)* | 14,770 | 4,602 | 0.00-0.60 | 0.00-1.20 | 49,722 | 48,045 | 1.28-3.87 | 1.47-3.87 | 3,725 | 76 |
| *Total* | 15,722 | 5,286 | - | - | 50,680 | 49,081 | - | - | 3,776 | 115 |
| *% of regulatory capital* | 9.27% | 3.73% | - | - | 29.87% | 34.63% | - | - | 2.23% | 0.08% |

As at 31 December 2016, the Group and the Bank held debt securities of one entity attributable to related parties. Debt securities attributable to related parties exposure amounted to EUR 617 thousand for the Group and to EUR 214 thousand for the Bank, interest rate was 4.50%. No debt securities attributable to related parties were held by the Group and the Bank at 31 December 2015.

Except for the debt securities exposure mentioned above, at 31 December 2016 and 2015, Bank's subsidiaries had no material transactions with the related parties except for the Bank and its subsidiaries.

As at 31 December 2016 and 2015, balance of individual allowances for impairment losses that are related to balances of loans to related parties, except for subsidiaries, was equal to nil. No impairment losses were incurred due to loans mentioned above.

Transactions with EBRD:

The Group/Bank has a subordinated loan received from European Bank for Reconstruction and Development (hereinafter – EBRD), book value of which was EUR 22,064 thousand as of 31 December 2016 (31 December 2015: EUR 20,457 thousand). The agreement for the loan was signed at the end of February 2013. Loan amount is EUR 20 million, term – 10 years. Loan agreement provides a conversion option to EBRD, under which EBRD has a right to convert a part of or the whole loan to ordinary shares of the Bank at a price, which at certain scenarios could be more favourable than the market price (but in any case, not less than the nominal value of the share). Because of this option, which is an embedded derivative, the Bank chose to account for the whole instrument as a financial liability at fair value through profit or loss. Subordinated loan related interest expenses amounted to EUR 1,394 thousand, a loss of EUR 1,644 thousand related to revaluation of the liability to fair value was recorded in profit (loss) statement in 2016 (2015: interest expenses EUR 1,486 thousand, revaluation loss EUR 1,165 thousand).

The fair value of liability is determined using valuation technique attributable to level 3 fair value measurement. For more details on valuation see section 4.2. of Financial Risk Management disclosure.

Transactions with subsidiaries:

Balances of Bank's transactions with the subsidiaries (including subsidiaries held for sale) are given below:

| | *Deposits, at the year-end* | | *Range of annual interest rates, %* | | *Loans, at the year-end* | | *Range of annual interest rates, %* | | *Off-balance sheet commitments, at the year-end* | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| *Non-financial institutions* | 401 | 323 | 0.00-0.05 | 0.00-0.05 | 36,796 | 17,559 | 2.3 | 2.3 | 2,927 | 3,332 |
| *Financial institutions* | 2,276 | 3,008 | 0.00-1.00 | 0.00-0.10 | 58,845 | 98,959 | 3.2-5.0 | 3.2-5.0 | 21,318 | 1,776 |

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 30
# RELATED-PARTY TRANSACTIONS (continued)

Bank's total balances with subsidiaries (see Note 16 for details on investment in subsidiaries and Note 20 for details on subsidiaries held for sale):

| | 2016 | 2015 |
|---|---|---|
| *Assets* | | |
| *Loans* | 95,641 | 116,518 |
| *Other assets* | 88 | 22 |
| *Bank's investment in subsidiaries* | 26,665 | 32,175 |
| *Bank's investment in subsidiaries classified as assets held for sale* | 58 | 13,856 |
| | | |
| *Liabilities and shareholders' equity* | | |
| *Term deposits* | 668 | 23 |
| *Demand deposits* | 2,009 | 3,308 |
| *Other liabilities* | 646 | 39 |

Income and expenses arising from transactions with subsidiaries:

| | 2016 | 2015 |
|---|---|---|
| *Income* | | |
| *Interest* | 4,054 | 4,797 |
| *Commission income* | 263 | 196 |
| *Income from foreign exchange operations* | 1 | - |
| *Dividends* | 9,632 | 18,374 |
| *Other income* | 242 | 144 |
| | | |
| *Expenses* | | |
| *Interest* | (5) | (4) |
| *Operating expenses* | (191) | (445) |
| *Impairment of loans* | (5) | - |
| *Impairment of an investment to subsidiaries* | (6,060) | (15,163) |

As at 31 December 2016 balance of individual allowances for impairment losses that are related to balances of loans to subsidiaries was EUR 11 thousand (as at 31 December 2015: nil).

Remuneration of the management of the Group/Bank

During 2016 the total amount of salaries and bonuses (total of payments in cash and in shares of the Bank), including social security contributions and guarantee fund payments, to the Bank's Board members amounted to EUR 1,484 thousand (2015: EUR 1,226 thousand). Liabilities related to long term benefits related to remuneration are presented in the table below:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| *Short-term (up to 1 year)* | 185 | 88 |
| *Long-term (over 1 year)* | 261 | 119 |
| *Total* | **446** | **207** |

| | *Payment in cash due in:* | | | | *Payment in shares due in:* | | | | *Total* |
|---|---|---|---|---|---|---|---|---|---|
| | up to 1 year | 1 to 2 years | 2 to 3 years | Total | up to 1 year | 1 to 2 years | 2 to 3 years | Total | |
| *31 December 2016:* | | | | | | | | | |
| *for year 2013 salaries and bonuses* | 9 | - | - | 9 | 15 | - | - | 15 | 24 |
| *for year 2014 salaries and bonuses* | 24 | 24 | - | 48 | 39 | 39 | - | 78 | 126 |
| *for year 2015 salaries and bonuses* | 39 | 40 | 40 | 119 | 59 | 59 | 59 | 177 | 296 |
| *Total liability at 31 December 2016* | **72** | **64** | **40** | **176** | **113** | **98** | **59** | **270** | **446** |
| | | | | | | | | | |
| *31 December 2015:* | | | | | | | | | |
| *for year 2012 salaries and bonuses* | 9 | - | - | 9 | 11 | - | - | 11 | 20 |
| *for year 2013 salaries and bonuses* | 9 | 9 | - | 18 | 10 | 10 | - | 20 | 38 |
| *for year 2014 salaries and bonuses* | 24 | 24 | 25 | 73 | 25 | 25 | 26 | 76 | 149 |
| *Total liability at 31 December 2015* | **42** | **33** | **25** | **100** | **46** | **35** | **26** | **107** | **207** |

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 31
# FINANCIAL GROUP INFORMATION

According to local legislation the Bank is required to disclose certain information for the Financial Group. As of 31 December 2016 and 31 December 2015, the Financial Group consists of the Bank and its subsidiaries Šiaulių Banko Lizingas UAB (finance and operating lease activities), Šiaulių Banko Investicijų Valdymas UAB (investment management activities), Šiaulių Banko Turto Fondas UAB (real estate management activities) and SB Lizingas UAB (consumer financing activities). All of the entities attributable to Financial Group operate in Lithuania.

STATEMENT OF FINANCIAL POSITION

| | *31 December 2016* | | *31 December 2015* | |
|---|---|---|---|---|
| | Fin. Group | Bank | Fin. Group | Bank |
| *ASSETS* | | | | |
| *Cash and cash equivalents* | 152,851 | 152,111 | 104,615 | 104,286 |
| *Due from other banks* | 5,337 | 5,337 | 6,499 | 6,499 |
| *Securities at fair value through profit or loss* | 26,103 | 26,103 | 42,726 | 42,726 |
| *Derivative financial instruments* | 8,983 | 8,687 | 9,292 | 8,754 |
| *Loans to customers* | 975,316 | 994,155 | 856,188 | 912,669 |
| *Finance lease receivables* | 69,807 | 48,170 | 57,812 | 1,145 |
| *Investment securities:* | | | | |
| *available-for-sale -* | 18,966 | 17,504 | 20,423 | 19,821 |
| *held to maturity -* | 524,054 | 524,054 | 494,645 | 494,645 |
| *Investments in subsidiaries* | 14,931 | 26,665 | 19,381 | 32,175 |
| *Intangible assets* | 1,375 | 1,210 | 991 | 798 |
| *Property, plant and equipment* | 10,974 | 10,532 | 10,564 | 10,023 |
| *Investment property* | 4,633 | 1,112 | 6,547 | 3,291 |
| *Current income tax prepayment* | 70 | - | 44 | - |
| *Deferred tax asset* | 493 | - | 881 | 46 |
| *Other assets* | 18,345 | 7,941 | 23,130 | 7,091 |
| *Assets held for sale* | 58 | 58 | 13,888 | 13,888 |
| *Total assets* | 1,832,296 | 1,823,639 | 1,667,626 | 1,657,857 |
| *LIABILITIES* | | | | |
| *Due to other banks and financial institutions* | 90,428 | 92,079 | 50,483 | 53,383 |
| *Derivative financial instruments* | 175 | 175 | 136 | 136 |
| *Due to customers* | 1,495,477 | 1,495,478 | 1,436,709 | 1,436,712 |
| *Special and lending funds* | 28,326 | 28,326 | 8,191 | 8,191 |
| *Subordinated loan* | 22,064 | 22,064 | 20,457 | 20,457 |
| *Current income tax liabilities* | 4,721 | 4,650 | 1,108 | 947 |
| *Deferred income tax liabilities* | 217 | 30 | 156 | - |
| *Other liabilities* | 13,177 | 7,894 | 14,372 | 5,518 |
| *Total liabilities* | 1,654,585 | 1,650,696 | 1,531,612 | 1,525,344 |
| *EQUITY* | | | | |
| ***Capital and reserves attributable to owners of the Bank*** | | | | |
| *Share capital* | 109,472 | 109,472 | 91,226 | 91,226 |
| *Reserve capital* | 756 | 756 | 756 | 756 |
| *Statutory reserve* | 4,157 | 4,157 | 2,464 | 2,290 |
| *Financial assets revaluation reserve* | 311 | 277 | 896 | 896 |
| *Retained earnings* | 63,015 | 58,281 | 40,672 | 37,345 |
| *Total equity* | 177,711 | 172,943 | 136,014 | 132,513 |
| *Total liabilities and equity* | 1,832,296 | 1,823,639 | 1,667,626 | 1,657,857 |

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 31
# FINANCIAL GROUP INFORMATION (continued)

INCOME STATEMENT

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Fin. Group | Bank | Fin. Group | Bank |
| *Continuing operations* | | | | |
| *Interest and similar income* | 65,810 | 58,569 | 65,589 | 57,929 |
| *Interest expense and similar charges* | (12,039) | (12,019) | (17,014) | (16,981) |
| ***Net interest income*** | **53,771** | **46,550** | **48,575** | **40,948** |
| | | | | |
| *Fee and commission income* | 14,232 | 13,711 | 12,294 | 12,002 |
| *Fee and commission expense* | (4,657) | (4,364) | (4,079) | (3,743) |
| ***Net fee and commission income*** | **9,575** | **9,347** | **8,215** | **8,259** |
| | | | | |
| *Net gain from operations with securities* | 4,853 | 4,872 | 865 | 866 |
| *Net gain from foreign exchange and related derivatives* | 4,248 | 4,248 | 2,867 | 2,869 |
| *Net loss from other derivatives* | (1,913) | (1,671) | (1,812) | (2,035) |
| *Net loss from changes in fair value of subordinated loan* | (1,644) | (1,644) | (1,165) | (1,165) |
| *Net gain from derecognition of financial assets* | 12,644 | 12,671 | 7,127 | 4,825 |
| *Net gain from disposal of tangible assets* | 499 | 656 | 2,735 | 2,765 |
| *Other operating income* | 944 | 543 | 1,221 | 683 |
| *Salaries and related expenses* | (17,240) | (15,558) | (15,618) | (13,292) |
| *Depreciation and amortization expenses* | (1,584) | (1,339) | (1,415) | (1,140) |
| *Other operating expenses* | (8,552) | (6,835) | (9,899) | (7,993) |
| ***Operating profit before impairment losses*** | **55,601** | **51,840** | **41,696** | **35,590** |
| | | | | |
| *Allowance for impairment losses on loans and other assets* | (7,855) | (7,496) | (20,795) | (16,918) |
| *Allowance for impairment losses on investments in subsidiaries and loss on remeasurement of subsidiaries classified as held for sale* | (4,750) | (6,060) | (13,185) | (15,163) |
| *Dividends from investments in subsidiaries and subsidiaries classified as held for sale* | 6,332 | 9,632 | 15,478 | 18,374 |
| | | | | |
| ***Profit from continuing operations before income tax*** | **49,328** | **47,916** | **23,194** | **21,883** |
| | | | | |
| *Income tax expense* | (6,418) | (6,239) | (1,165) | (953) |
| | | | | |
| ***Profit from continuing operations*** | **42,910** | **41,677** | **22,029** | **20,930** |
| | | | | |
| *Profit (loss) from discontinued operations, net of tax* | - | - | (435) | 221 |
| | | | | |
| ***Net profit for the year*** | **42,910** | **41,677** | **21,594** | **21,151** |
| | | | | |
| ***Net profit attributable to:*** | | | | |
| *Owners of the Bank* | 42,910 | 41,677 | 21,594 | 21,151 |
| *From continuing operations* | *42,910* | *41,677* | *22,029* | *20,930* |
| *From discontinued operations* | - | - | *(435)* | *221* |
| *Non-controlling interest* | - | - | - | - |
| | 42,910 | 41,677 | 21,594 | 21,151 |

(All amounts are in EUR thousand, unless otherwise stated)

## NOTE 31
## FINANCIAL GROUP INFORMATION (continued)

STATEMENT OF COMPREHENSIVE INCOME

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Fin. Group | Bank | Fin. Group | Bank |
| *Profit for the year* | 42,910 | 41,677 | 21,594 | 21,151 |
| *Other comprehensive income (loss)* | | | | |
| *Items that may be subsequently reclassified to profit or loss:* | | | | |
| *Financial assets valuation gains taken to equity* | 1,479 | 1,458 | 867 | 868 |
| *Financial assets valuation result transferred to profit or loss* | (2,110) | (2,129) | (364) | (365) |
| *Amortisation of revaluation related to held-to-maturity investments* | (57) | (57) | (57) | (57) |
| *Deferred income tax on gain (loss) from revaluation of financial assets* | 103 | 109 | (66) | (66) |
| *Other comprehensive income (loss), net of deferred tax* | (585) | (619) | 380 | 380 |
| *Total comprehensive income* | 42,325 | 41,058 | 21,974 | 21,531 |
| *Total comprehensive income (loss) attributable to:* | | | | |
| *Owners of the Bank* | 42,325 | 41,058 | 21,974 | 21,531 |
| *From continuing operations* | *42,325* | *41,058* | *22,409* | *21,310* |
| *From discontinued operations* | - | - | *(435)* | *221* |
| *Non-controlling interest* | - | - | - | - |
| | 42,325 | 41,058 | 21,974 | 21,531 |

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 31
# FINANCIAL GROUP INFORMATION (continued)

STATEMENT OF CASH FLOWS

| | Year ended | | | |
|---|---|---|---|---|
| | 31 December 2016 | | 31 December 2015 | |
| | Fin. Group | Bank | Fin. Group | Bank |
| *Operating activities* | | | | |
| *Interest received on loans and advances* | 54,309 | 46,835 | 50,005 | 41,700 |
| *Interest received on debt securities at fair value through profit or loss* | 1,382 | 1,382 | 2,758 | 2,758 |
| *Interest paid* | (13,132) | (13,112) | (19,125) | (19,092) |
| *Fees and commissions received* | 14,232 | 13,711 | 12,294 | 12,002 |
| *Fees and commissions paid* | (4,657) | (4,364) | (4,079) | (3,743) |
| *Net cash inflows from trade in securities at fair value through profit or loss* | 16,558 | 16,558 | 28,690 | 52,027 |
| *Net inflows from foreign exchange operations* | 4,583 | 4,583 | 2,911 | 2,914 |
| *Net inflows from derecognition of financial assets* | 17,441 | 17,441 | 4,825 | 4,825 |
| *Cash inflows related to other activities of Group companies* | 1,014 | 543 | 1,221 | 683 |
| *Recoveries on loans previously written off* | 975 | 139 | 1,106 | 260 |
| *Salaries and related payments to and on behalf of employees* | (17,135) | (15,408) | (14,832) | (13,263) |
| *Payments related to operating and other expenses* | (6,494) | (4,750) | (8,859) | (6,953) |
| *Income tax (paid)* | (2,279) | (1,717) | (930) | (538) |
| *Net cash flow from operating activities before change in operating assets and liabilities* | 66,797 | 61,841 | 55,985 | 73,580 |
| *Change in operating assets and liabilities:* | | | | |
| *Decrease (increase) in due from other banks* | 1,162 | 1,162 | (1,234) | (1,234) |
| *Increase in loans to customers and finance lease receivables* | (145,067) | (140,921) | (104,646) | (133,359) |
| *Decrease (Increase) in other assets* | 2,701 | (4,044) | (887) | 2,951 |
| *Increase (decrease) in due to banks and financial institutions* | 39,725 | 38,476 | (5,696) | (8,730) |
| *Increase (decrease) in due to customers* | 60,044 | 59,984 | (37,968) | (32,108) |
| *Increase in special and lending funds* | 20,135 | 20,135 | 5,692 | 5,692 |
| *Increase (decrease) in other liabilities* | (2,787) | 195 | (784) | 2,006 |
| *Change* | (24,087) | (25,013) | (145,523) | (164,782) |
| *Net cash flow from (used in) operating activities* | 42,710 | 36,828 | (89,538) | (91,202) |
| | | | | |
| *Investing activities* | | | | |
| *(Acquisition) of property, plant and equipment, investment property and intangible assets* | (3,181) | (2,133) | (5,649) | (3,165) |
| *Disposal of property, plant and equipment, investment property and intangible assets* | 2,228 | 2,740 | 8,436 | 10,515 |
| *(Acquisition) of held-to-maturity securities* | (87,659) | (87,659) | (165,939) | (165,939) |
| *Proceeds from redemption of held-to-maturity securities* | 55,794 | 55,794 | 117,233 | 118,977 |
| *Interest received on held-to-maturity securities* | 13,229 | 13,229 | 11,754 | 11,754 |
| *Dividends received* | 6,394 | 9,694 | 15,478 | 18,459 |
| *(Acquisition) of available-for-sale securities* | (5,619) | (4,758) | (24,023) | (23,625) |
| *Sale or redemption of available-for-sale securities* | 10,743 | 10,743 | 26,186 | 21,355 |
| *Interest received on available-for-sale securities* | 580 | 580 | 1,056 | 1,056 |
| *Disposal of subsidiaries, inflows from subsidiaries held for sale* | 13,942 | 13,942 | 5,058 | 2,350 |
| *Business acquisition* | (300) | - | 11,166 | 14,691 |
| *Instalments to cover losses and to strengthen the capital of subsidiaries* | - | (550) | (3,731) | (7,226) |
| *Net cash flow (used in) from investing activities* | 6,151 | 11,622 | (2,975) | (798) |
| | | | | |
| *Financing activities* | | | | |
| *Payment of dividends* | (625) | (625) | (195) | (195) |
| *Net cash flow from (used in) financing activities* | (625) | (625) | (195) | (195) |
| | | | | |
| *Net increase (decrease) in cash and cash equivalents* | 48,236 | 47,825 | (92,708) | (92,195) |
| *Cash and cash equivalents at 1 January* | 104,615 | 104,286 | 197,323 | 196,481 |
| *Cash and cash equivalents at 31 December* | 152,851 | 152,111 | 104,615 | 104,286 |

(All amounts are in EUR thousand, unless otherwise stated)

# NOTE 31
## FINANCIAL GROUP INFORMATION (continued)

FINANCIAL GROUP'S STATEMENT OF CHANGES IN EQUITY

| | Share capital | Share premium | Reserve capital | Financial assets revaluation | Statutory reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| *1 January 2015* | 78,197 | 3,684 | 756 | 516 | 1,449 | 23,185 | 107,787 |
| *Transfer to statutory reserve* | - | - | - | - | 1,015 | (1,015) | - |
| *Curency change of share capital* | 103 | - | - | - | - | (103) | - |
| *Increase in share capital through bonus issue of shares* | 6,734 | (3,684) | - | - | - | (3,050) | - |
| *Payment of dividends* | - | - | - | - | - | (196) | (196) |
| *Increase in share capital on business combination* | 6,192 | - | - | - | - | 257 | 6,449 |
| *Total comprehensive income:* | - | - | - | 380 | - | 21,594 | 21,974 |
| *Net profit* | - | - | - | - | - | *21,594* | *21,594* |
| *Other comprehensive income* | - | - | - | *380* | - | - | *380* |
| *31 December 2015* | 91,226 | - | 756 | 896 | 2,464 | 40,672 | 136,014 |
| *Transfer to statutory reserve* | - | - | - | - | 1,693 | (1,693) | - |
| *Increase in share capital through bonus issue of shares* | 18,246 | - | - | - | - | (18,246) | - |
| *Payment of dividends* | - | - | - | - | - | (628) | (628) |
| *Total comprehensive income:* | - | - | - | (585) | - | 42,910 | 42,325 |
| *Net profit* | - | - | - | - | - | *42,910* | *42,910* |
| *Other comprehensive loss* | - | - | - | *(585)* | - | - | *(585)* |
| *31 December 2016* | 109,472 | - | 756 | 311 | 4,157 | 63,015 | 177,711 |

CAPITAL RATIOS AND COMPLIANCE WITH PRUDENTIAL REQUIREMENTS

| | *31 December 2016* | | *31 December 2015* | |
|---|---|---|---|---|
| | Fin. Group | Bank | Fin. Group | Bank |
| *Common equity tier 1 capital eligible as CET1 Capital* | | | | |
| *Paid up capital instruments* | 109,472 | 109,472 | 91,226 | 91,226 |
| *Share premium* | - | - | - | - |
| *Previous years retained earnings* | 20,105 | 16,604 | 19,078 | 16,194 |
| *Interim profit eligible for inclusion* | 25,724 | 27,176 | 10,748 | 11,708 |
| *Other reserves* | 756 | 756 | 756 | 756 |
| *Statutory reserve* | 4,157 | 4,157 | 2,464 | 2,290 |
| *Part of financial assets revaluation reserve* | 187 | 166 | 358 | 358 |
| *(-) Goodwill* | (14) | - | (14) | - |
| *(-) Intangible assets* | (1,361) | (1,210) | (977) | (798) |
| *(-) Deferred tax asets that rely on future profitability* | (87) | - | (179) | (161) |
| *(-) Value adjustements due to requirements for prudent valuation* | (54) | (52) | (368) | (368) |
| *(-) Other deductions from CET1 capital* | (7,024) | (7,535) | - | - |
| *TIER 1 CAPITAL* | 151,861 | 149,534 | 123,092 | 121,205 |
| | | | | |
| *Capital instruments and subordinated loans eligible as T2 Capital* | | | | |
| *Subordinated loan capital* | 20,000 | 20,000 | 20,000 | 20,000 |
| *Part of financial assets revaluation reserve* | 124 | 111 | 538 | 538 |
| *TIER 2 CAPITAL* | 20,124 | 20,111 | 20,538 | 20,538 |
| | | | | |
| *OWN FUNDS* | 171,985 | 169,645 | 143,630 | 141,743 |
| | | | | |
| *Own funds requirements for:* | | | | |
| *Risk weighted exposure amount for credit risk under the Standardised Approach* | 860,131 | 872,393 | 832,174 | 845,174 |
| *Risk weighted exposure amount for the trading book instruments* | 21,818 | 21,818 | 27,647 | 27,539 |
| *Operational risk under the Basic Indicator Approach* | 118,005 | 110,372 | 109,216 | 98,442 |
| *Other capital requirements (credit value adjustment risk)* | 63 | 63 | 425 | 425 |
| *Total risk exposure amount* | 1,000,017 | 1,004,646 | 969,462 | 971,580 |
| | | | | |
| *CET1 Capital ratio* | 15.19% | 14.88% | 12.75% | 12.53% |
| *T1 Capital ratio* | 15.19% | 14.88% | 12.70% | 12.48% |
| *Total capital ratio* | 17.20% | 16.89% | 14.82% | 14.59% |

During the years ended 31 December 2016 and 31 December 2015, the Financial group and the Bank complied with prudential requirements.

The profit of the current year is not included in Tier 1 capital until it is audited by independent auditors. If the whole profit for the year 2016 was included in Owns funds of the Financial group and the Bank as of 31 December 2016, it would cause the Total capital ratio to increase to 19.62% and 19.08%, respectively.

# CONSOLIDATED ANNUAL REPORT OF ŠIAULIŲ BANKAS AB FOR 2016

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# 1. REPORTING PERIOD, COVERED IN THE CONSOLIDATED ANNUAL REPORT

The present consolidated report of Šiaulių Bankas AB (hereinafter — the Bank) covers the period from 01 January 2016 to 31 December 2016.

# 2. CONTACT INFORMATION OF THE COMPANIES OF THE GROUP

## Contact information of the Bank

| | Šiaulių Bankas AB |
|---|---|
| *Legal form:* | limited liability public company |
| *Registration date:* | 04/02/1992 |
| *Registrar:* | State Enterprise Centre of Registers |
| *Company's code:* | 112025254 |
| *Domicile address:* | Tilžės str. 149, LT-76348 Šiauliai<br>tel.: + 370 41 595 607<br>fax + 370 41 430 774<br>info@sb.lt, www.sb.lt |

## Contact information of the companies of the Group

The Bank directly controls the following subsidiaries:

SB Lizingas UAB
- *Assets: EUR 53.4 million*
- *Nature of activities: finance lease and consumer credits*

| | |
|---|---|
| *Legal form:* | limited liability private company |
| *Registration date:* | 14/07/1997 |
| *Registrar:* | State Enterprise Centre of Registers |
| *Company's code:* | 234995490 |
| *Domicile address:* | Laisvės al. 80, LT- 44249 Kaunas<br>tel . + 370 37 407 200<br>fax + 370 37 407 203<br>info@sbl.lt, www.sblizingas.lt |

*Šiaulių Banko Lizingas UAB*
- *Assets: EUR 23.2 million*
- *Nature of activities: finance lease (leasing) and operating leases*

| | |
|---|---|
| *Legal form:* | limited liability private company |
| *Registration date:* | 16/08/1999 |
| *Registrar:* | State Enterprise Centre of Registers |
| *Company's code:* | 145569548 |
| *Domicile address:* | Vilniaus str. 167, LT-76352 Šiauliai<br>tel. +370 41 598 010<br>+370 5 272 3015<br>fax +370 41 399 481<br>lizingas@sb.lt, www.sb.lt |

*Šiaulių Banko Turto Fondas UAB*
- *Assets: EUR 15.0 million*
- *Nature of activities: real estate management*

| | |
|---|---|
| *Legal form:* | limited liability private company |
| *Registration date:* | 13/08/2002 |
| *Registrar:* | State Enterprise Centre of Registers |
| *Company's code:* | 14855439 |
| *Domicile address:* | Vilniaus str. 167, LT-76352 Šiauliai<br>tel. +370 41 525 322<br>fax +370 41 525 321<br>turtofondas@sb.lt, www.sbip.lt |

*SBTF UAB*
- *Assets: EUR 8.6 million*
- *Nature of activities: management and administration of real estate*

| | |
|---|---|
| *Legal form:* | limited liability private company |
| *Registration date:* | 24/11/2004 |
| *Registrar:* | State Enterprise Centre of Registers |
| *Company's code:* | 300069309 |
| *Domicile address:* | Vilniaus str. 167, LT-76352 Šiauliai<br>tel. +370 41 525 322<br>fax +370 41 525 321<br>sbtf@sb.lt, www.sbip.lt |

*Minera UAB*
- *Assets: EUR 14.9 million*
- *Nature of activities: real estate management*

| | |
|---|---|
| *Legal form:* | limited liability private company |
| *Registration date:* | 30/09/1992 |
| *Registrar:* | State Enterprise Centre of Registers |
| *Company's code:* | 121736330 |
| *Domicile address:* | Dvaro str. 123A, LT-76208 Šiauliai<br>tel. +370 41 399 423<br>fax +370 41 399 423<br>info@minera.lt, www.sbip.lt,<br>www.minera.lt |

*Pavasaris UAB*
- *Assets: EUR 4.1 million*
- *Nature of activities: development of residential apartment area*

| | |
|---|---|
| *Legal form:* | limited liability private company |
| *Registration date:* | 25/09/1992 |
| *Registrar:* | State Enterprise Centre of Registers |
| *Company's code:* | 121681115 |
| *Domicile address:* | Jonažolių str. 3-113, LT-04138 Vilnius<br>tel. +370 5 244 8096<br>fax +370 5 240 1623<br>info@pavasaris.net,<br>www.sbip.lt, www.pavasaris.net |

*Life insurance company Bonum Publicum UAB*
- *Assets: EUR 33.9 million*
- *Nature of activities: life insurance*

| | |
|---|---|
| *Legal form:* | limited liability private company |
| *Registration date:* | 31/08/2000 |
| *Registrar:* | State Enterprise Centre of Registers |
| *Company's code:* | 110081788 |
| *Domicile address:* | Laisvės pr. 3, LT-04215 Vilnius<br>tel. +370 5 236 2723<br>fax +370 5 236 2724<br>life@bonumpublicum.lt,<br>www.bonumpublicum.lt |

*Šiaulių Banko Investicijų Valdymas UAB*
- *Assets: EUR 2.3 million*
- *Nature of activities: investment management*

| | |
|---|---|
| *Legal form:* | limited liability private company |
| *Registration date:* | 31/08/2000 |
| *Registrar:* | State Enterprise Centre of Registers |
| *Company's code:* | 145649065 |
| *Domicile address:* | Šeimyniškių str. 1A, LT-09312 Vilnius<br>tel. +370 5 272 2477<br>fax +370 5 263 6144<br>sbiv@sb.lt, www.sbip.lt |

## The Bank indirectly controls the following subsidiaries:

Sandworks UAB
- *Assets: EUR 5.1 million*
- *Nature of activities: real estate management*

| | |
|---|---|
| *Legal form:* | limited liability private company |
| *Registration date:* | 10/10/2012 |
| *Registrar:* | State Enterprise Centre of Registers |
| *Company's code:* | 302896357 |
| *Domicile address:* | Skruzdynės str. 1, LT- 93123 Neringa<br>tel. +370 615 34251 |

As of 31 December 2016 Bank's 100% owned subsidiary Šiaulių Banko Investicijų Valdymas UAB controlled 100% shares of Sandworks UAB.

Apželdinimas UAB
- *Turtas: EUR 0.6 million*
- *Veiklos pobūdis: afforestation, landscaping*

| | |
|---|---|
| *Legal form:* | limited liability private company |
| *Registration date:* | 05/02/1991 |
| *Registrar:* | State Enterprise Centre of Registers |
| *Company's code:* | 132443396 |
| *Domicile address:* | A. Mickevičiaus str. 56, LT-44244 Kaunas<br>tel. / fax. + 370 37 391 055 |

As of 31 December 2016 Bank's 100% owned subsidiary Šiaulių Banko Turto Fondas UAB controlled 100% shares of Apželdinimas UAB.

More information regarding subsidiaries is provided in Note 16 to the financial statements for the year ended 31 December 2016.

## Subsidiaries held for sale:

As of 31 December 2016 the Bank had the following subsidiaries held for sale: Trade Project UAB, Investicinio Turto Valdymas UAB, ŽSA 1 UAB, ŽSA 2 UAB, ŽSA 3 UAB, ŽSA 4 UAB and ŽSA 5 UAB, Žalgirio Sporto Arena UAB.

As of 31 December 2016 the share of the Bank in all the subsidiaries held for sale comprised 100%. The Bank directly controlled the following subsidiaries held for sale: Trade Project UAB, Investicinio Turto Valdymas UAB, ŽSA 1 UAB, ŽSA 2 UAB, ŽSA 3 UAB, ŽSA 4 UAB and ŽSA 5 UAB. Bank's subsidiaries ŽSA 1 UAB, ŽSA 2 UAB, ŽSA 3 UAB, ŽSA 4 UAB and ŽSA 5 UAB together controlled 100% shares of Žalgirio Sporto Arena UAB.

More information regarding subsidiaries held for sale is provided in Note 20 to the financial statements for the year ended 31 December 2016.

## 3. BANK'S STRATEGIC GUIDELINES

Providing financial services to private and corporate clients the Bank aims to be a reliable, flexible and attentive financial partner focusing on the country's potential and financial welfare of the population and business in Lithuania.

Implementing its business strategy, the Bank is expanding the range of retail banking segment services especially focusing on saving and investment decisions important to the population and seeking to become a leader in the consumer financing market.

MISSION
We come from the same roots. By providing financial services, we increase the well-being of Lithuania's people and businesses, and we grow together with them.

VALUES
- Trust
- Professionalism
- Respect
- Responsibility

Corporate financing services account for another Bank's strategic direction with the special focuse on lending to small and medium-sized enterprise (SME) segment. To provide more opportunities for business in Lithuania, the Bank cooperates with its long-term partners - the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the European Investment Fund (EIF). The Bank signs new agreements with the aforementioned and other institutions, thus, expanding SME and innovative business development opportunities in the country.

For several years in a row the Bank remains the financing leader of the multi-apartment house renovation (modernisation) in Lithuania, it actively participates in business promotion projects initiated by the Government of the Republic of Lithuania, finances municipal and regional projects and significantly contributes to the business development in all regions of the country.

Consistently developing the activities and strengthening its market position in the mentioned areas, optimizing the internal processes and making them more efficient, increasing the accessibility of the Bank's services through variety of channels and improving the quality of customer servicing the Bank achieved significant results in 2016. All this allowed the Bank to work sustainably and successfully create the value for its employees, customers, partners and investors, therefore the Bank plans to maintain this direction in 2017.

## 4. NATURE OF THE BANK'S ACTIVITIES

In its activities the Bank follows the laws and other legal acts of the Republic of Lithuania, the Charter of the Bank and agreements concluded, the Bank is engaged in usual activity of commercial banks. The key area of the Bank's activities is focused on lending to small and medium-sized business.

The following services are provided to the private and corporate customers:
- banking service plans for a fixed monthly fee;
- opening and handling of bank accounts euros and foreign currency to Lithuanian and foreign clients;
- transfer of funds in euro and foreign currency to the accounts with the banks operating in Lithuania and abroad;
- collection utility bills and other settlements;
- e-invoice service, standing and conditional orders;
- account management on the online banking system;
- mobile banking services;
- issue and administration of payment cards;
- granting of various short-term and long-term credits;
- issue, purchase and sales of cheques,
- trading in foreign currencies;
- conclusion of various types deposit agreements;
- investment services:
    - intermediation in entering transactions on the Stock Exchanges;
    - securities transactions concluded over-the-counter;
    - consulting regarding issue, acquisition and transfer of securities;
    - handling of accounting of shares issued by the entities;
    - issue of debt securities;
    - preparation of share issue prospectus;
    - other investment services;
- ribution of commemorative coins and numismatic sets, etc.

The Bank's head office is located in Šiauliai. The Bank's units operate in all major cities and financial active regional centres of Lithuania.

## 5. INVOLVEMENT INTO ASSOCIATED STRUCTURES

The Bank participates in the activities of the following organizations, associations, and associated structures:

- Society for Worldwide Interbank Financial Telecommunication (SWIFT)
- Visa Inc. Europe International Payment Card Association
- MasterCard Worldwide International Payment Card Organization
- International initiative under the UN – Global Compact
- Association of Lithuanian Banks
- Stock Exchange Nasdaq Vilnius AB;
- Association of Lithuanian Financial Brokers
- Lithuanian Employers' Confederation
- Association of Human Resources Professionals
- Lithuanian Association of Accountants and Auditors
- Vilnius Chamber of Commerce, Industry and Crafts
- Kaunas Chamber of Commerce, Industry and Crafts
- Klaipeda Chamber of Commerce, Industry and Crafts
- Šiauliai Chamber of Commerce, Industry and Crafts
- Panevėžys Chamber of Commerce, Industry and Crafts
- Klaipėda Association of Industrialists
- Šiauliai Association of Industrialists
- Akmenė Association of of Entrepreneurs
- Kelmė region Association of of Entrepreneurs
- Mažeikiai Association of of Entrepreneurs
- Tauragė Association of of Entrepreneurs
- Kelmė Association of of Entrepreneurs
- Šilalė region Association of of Entrepreneurs
- ISACA
- BNI recommended marketing services

## 6. AUTHORIZED CAPITAL AND SHAREHOLDERS OF THE BANK

As of 31 December 2016 The authorized capital of the Bank totals to EUR 109,471,658.33 and is comprised of 377,488,477 units of ordinary registered shares with a nominal value of EUR 0.29 each. The amendments of the Charter related to the capital increase were registered the Register of Legal Entities on 26 May 2016.

In aggregate, over the five recent years the Bank's authorized capital increased by EUR 41.36 million : EUR 6.19 million was raised from the additional shareholders' contribution and EUR 35.17 million from the Bank's own funds.

Authorized capital:

| | *04/08/2011* | *31/05/2013* | *03/06/2014* | *26/05/2015* | *14/09/2015* | *26/05/2016* |
|---|---|---|---|---|---|---|
| *Capital, EUR* | 68,108,685 | 72,500,000 | 78,300,000 | 85,033,800 | 91,226,381.99 | 109,471,658.33 |

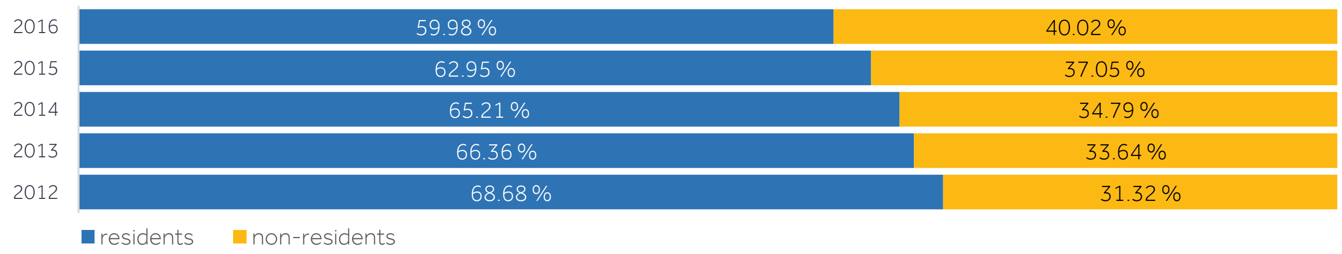
Authorized capital by types of shareholders as of 31 December 2016, in per cent:

Structure of the Bank's authorized capital as of 31 December 2016:

| *Type of shares* | *Number of shares, units* | *Nominal value, EUR* | *Total nominal value, EUR* |
|---|---|---|---|
| *Ordinary registered shares, ISIN LT0000102253* | 377,488,477 | 0.29 | 109,471,658.33 |

As of 31 December 2016 the number of the Bank's shareholders amounted to 3,401 (at the end of 2015 – 3,476). All issued shares grant the shareholders equal rights foreseen by the Law on Companies of the Republic of Lithuania and the Charter of the Bank.

A share of capital held by the Bank's shareholders by the place of residence (per cent):




The Bank's shareholders have to the following property rights:
- to receive a share of the Bank's profit (dividend);
- to receive the Bank's funds when the authorized capital of the Bank is reduced seeking to pay the Bank's funds to Shareholders;
- to receive the shares free of charge in case the authorized capital is increased from the Bank's funds, except the cases, provided in the laws;
- in case the shareholder is a natural person - to bequeath all or a part of the shares to one or several persons;
- following the procedure and according to the conditions stipulated by the laws, to sell or otherwise transfer all or a part of the shares to the ownership of other persons;
- the pre-emptive right to acquire the shares issued or converted bonds of the Bank, except the case when the Meeting decides to cancel this right to all the shareholders;
- to lend to the Bank in the ways, prescribed in the laws. However, the Bank, borrowing from its shareholders, is not entitled to mortgage its assets for the shareholders. In the case the Bank borrows from its shareholder, interest rate cannot exceed the average interest rate of the commercial banks, located in the living or business place of the lender, valid at the moment of the loan agreement conclusion. In such case the Bank and the shareholders are prohibited from making an agreement regarding higher interest rate;
- other property rights, provided in the laws.

Persons who are the shareholders of the Bank at the end of the tenth business day following the date of the General meeting of Shareholders having adopted respective resolution, i.e. at the end of the day of accounting of rights, have the rights to dividends, pay outs in case the Bank's authorized capital is subject to reductions as and to free shares and pre-emptive right to gain the shares issued by the Bank.

The Shareholders of the Bank have the following non-property rights:
- to participate in the General meeting of shareholders;
- to vote in the Meetings according to the rights, granted by the shares;
- to submit the questions to the Bank related to the agenda issues of the General meeting of shareholders in advance;
- to receive information on the Bank, as provided for in the Law on Companies;
- to apply to court with the claim, asking to compensate the loss, made to the Bank, that has occurred because of failure to execute obligations, provided for in the laws and present Charter, duly or their omission by the Head or Board members of the Bank, as well as in other cases, provided for in the laws;
- other non-property rights, provided in the laws

The person shall obtain all the rights and obligations granted to this person by the share of the authorized capital and (or) voting rights of the Bank: in case of the raise of the authorized capital of the Bank – from the date of registration of the changes related to the raise of the authorized capital and (or) voting rights of the Bank; in other cases – from the emergence of the property right to the share of the authorized capital and (or) voting rights of the Bank.

The Bank's shareholders owning more than 5 per cent of the Bank's shares as of 31 December 2016 are as follows:

| *Shareholder* | *Number of shares under the right of ownership, units* | *Share of authorized capital under the right of ownership, %* | *Share of votes under the right of ownership, %* | *Share of votes together with the related persons, %* |
|---|---|---|---|---|
| *European Bank for Reconstruction and Development* | 68,865,365 | 18.24 | 18.24 | 39.10 |
| *Invalda INVL AB* | 25,624,477 | 6.79 | 6.79 | - |
| *Gintaras Kateiva* | 21,963,961 | 5.82 | 5.82 | 39.10 |

European Bank for Reconstruction and Development (EBRD), Trade House Aiva, UAB, Mintaka UAB , Enterprise group Alita AB, Sigitas Baguckas, Algirdas Butkus, Vigintas Butkus, Vytautas Junevičius, Gintaras Kateiva, Arvydas Salda ir Kastytis Jonas Vyšniauskas who have signed the Shareholders' Agreement as well as other shareholders whose votes are calculated together in compliance with the law of the Republic of Lithuania form a group that owned 39.10 per cent of the Bank's authorized capital and votes as of 31 December 2016.

There are no restrctions set to transfer of the Bank's securities.

The shareholders are entitled to property ad non-property rights and have the duties defined in the Law on Companies of the Republic of Lithuania and the Charter of the Bank.

**The shareholders entitled to exclusive control rights and descriptions of those rights.** The shareholders control the Bank through the elected Supervisory Council. Its functions are stipulated by the Law on Companies.

**Restrictions to Exercise the Voting Right.** All the issued shares of the Bank are ordinary registered shares of EUR 0.29 nominal value. Each share grants one voting right at the Bank's General Meeting of Shareholders. Restrictions to the voting rights can be applied in the cases foreseen by the laws.

The shareholders shall not have the right to vote when adopting a decision on the pre-emption right to acquire the shares of the Bank being issued or withdrawal of convertible bonds if it is stipulated in the agenda of the General Meeting of Shareholders that the right to acquire these securities is granted to him, his close relative, spouse or common-law spouse when partnership is registered in the procedure stipulated by the laws, and to a close relative of the spouse when the shareholder is a natural person as well as to the company patronizing the shareholder when the shareholder is a legal entity.

The person or persons acting jointly, having decided to acquire a qualified share of the authorized capital and (or) voting rights of the Bank or to raise it to such extent that the available share of the authorized capital and (or) voting rights of the Bank would be equal to or exceed 20 per cent, 30 per cent or 50 per cent or as much as the Bank would become controllable, shall be obliged to report this in writing to the Bank of Lithuania, which implements the supervisory function, specifying the qualified share of the authorized capital and (or) voting rights of the Bank intended to be purchased as well as to provide documents and data specified in the list given in Paragraph 2 of Article 25 of the Banks' Law. Failure to observe the requirement to receive a decision of the Bank of Lithuania not to be in conflict with surpassing the aforementioned limits does not cause the transaction to become ineffective; however, due to the failure to observe this requirement the whole share of the Bank's authorized capital and (or) voting rights owned by the person acquiring it shall lose the voting right in the Bank's General Meeting of Shareholders.

**Taxation of capital gains.** According to the recast of article 17 of the Law on Income Tax of Individuals of the Republic of Lithuania which came in force on 01 January 2016, income gained from the securities sold or transferred to ownership otherwise are exempt from the residents' income tax if a difference of income from the sold financial instruments or from other transfer to ownership or from realization of financial derivatives and the initial purchase price of these financial instruments and other costs related to their sales or to other types of their transfer to ownership as well as to realization of financial derivatives does not exceed EUR 500 (LTL 10 000 till 31 December 2015) per tax period. Difference exceeding EUR 500 per tax period shall be subject to taxation rate of 15 per cent. The income from the sold securities are taxed at the same rate if a shareholder sells his shares or otherwise transfers them to other ownership of the issuer or when the shares received 2014 from the issuer are sold free of charge (increasing a share capital) or in other cases defined in the the Law on Income Tax of Individuals of the Republic of Lithuania .

Following the Profit Law of the Republic of Lithuania the profit which is gained by the legal entities of Lithuania from the sold securities is subject to income tax of 15 per cent from capital gains. Capital gains are such earned income which comprises of the amount by which an asset's selling price exceeds its initial purchase price. The asset's purchase price includes the paid commissions , thus, selling the assess the sales price is reduced by the amount of sales costs. If a legal entity incurs loss from the sales of securities, this loss is transferred to the next tax year, however, it will be covered only from the profit gained from the transfer of securities. Depending on the nature of the company's business, the law foresees different procedures for transfer of securities' loss.

# 7. TRADE IN SHARES OF THE COMPANIES OF THE BANK GROUP IN REGULATED MARKETS

The Bank's shares are quoted in the main trading list of Nasdaq Baltics. The shares of other companies belonging to the Group are issued for non-public circulation. ISIN code of the Bank's shares is LT0000102253; the number of shares 377,488,477 units.

The Bank's shares are included into the following Nasdaq indices:

- *OMX Baltic Benchmark (OMXBB)* – the Baltic benchmark index consists of the largest and most traded stocks on the Nasdaq Baltic Market representing all sectors;
- *OMX Baltic 10 (OMXB10)* – is a tradable index of the Baltic states consisting of the 10 most actively traded stocks on the Baltic exchanges;
- *OMX Baltic (OMXB)* – is an all-share index consisting of all the shares listed on the Main and Secondary lists of the Baltic exchanges with exception of the shares of the companies where a single shareholder controls at least 90% of the outstanding shares;
- *OMX Vilnius (OMXV)* – is an all-share index which includes all the shares listed on the Main and Secondary lists on the Nasdaq Vilnius with exception of the shares of the companies where a single shareholder controls at least 90% of the outstanding shares;
- *OMX Baltic Financials* – an index of the Baltic financial institutions;
- *OMX Baltic Banks* – an index of the Baltic banks.

Besides, the Bank's shares are included into such indices as *STOXX Eastern Europe TMI*, *STOXX All Europe Total Market*, *STOXX Eastern Europe 300*, *STOXX EU Enlarged TMI*, *STOXX Eastern Europe 300 Banks*, *STOXX Eastern Europe Small 100*, *STOXX Eastern Europe TMI Small*, *STOXX Global Total Market*, *STOXX Lithuania Total Market*.

Change in share price over the period of 2014-2016:


Source:
Nasdaq Baltic website

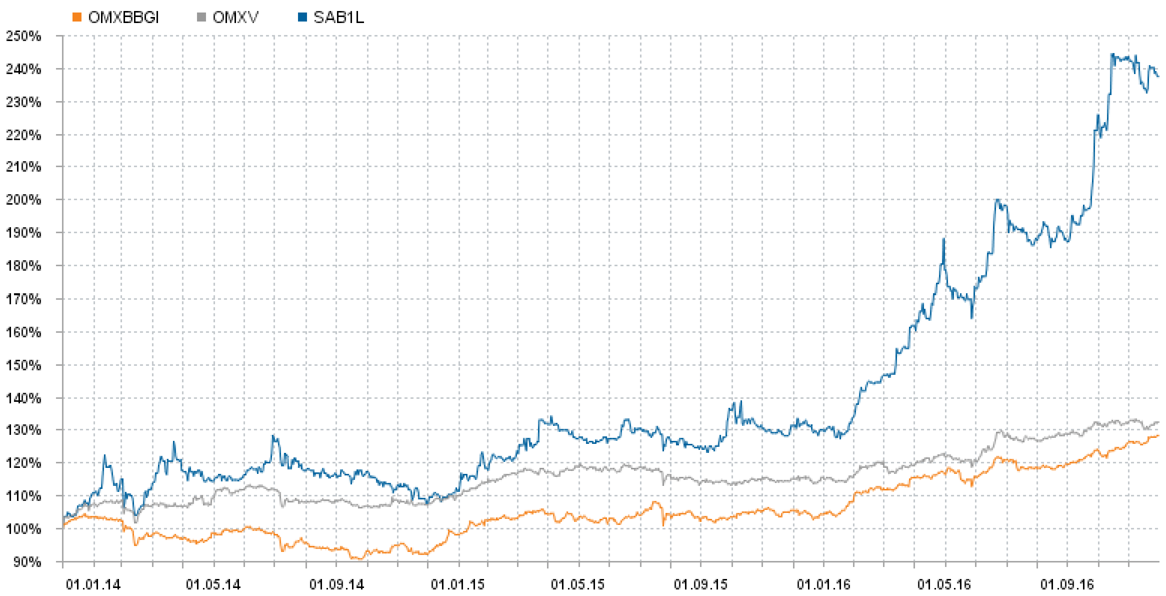
Turnover the Bank's shares over the period of 2014-2016:

| *Year* | *Last trading session price, EUR* | *Max. price, EUR* | *Min. price, EUR* | *Average price, EUR* | *Number of shares, units* | *Turnover, EUR mln* |
|---|---|---|---|---|---|---|
| *2014* | 0.266 | 0.331 | 0.266 | 0.290 | 28,107,139 | 8.15 |
| *2015* | 0.298 | 0.323 | 0.267 | 0.295 | 43,084,506 | 12.70 |
| *2016* | 0.449 | 0.469 | 0.262 | 0.352 | 65,709,337 | 23.12 |

Turnover and price of the Bank's shares over the reporting year, EUR:


Source:
[Nasdaq Baltic website]

Changes of OMX Vilnius, *OMX Baltic Benchmark* indices and Bank's share price during the period of 2014-2016:




Source:
[Nasdaq Baltic website]

The chart's data:

| Index/Shares | 01/01/2014 | 31/12/2016 | +/-, % |
|---|---|---|---|
| OMX Baltic Benchmark GI | 613.50 | 788.17 | +28.47 |
| OMX Vilnius | 421.60 | 558.50 | +32.47 |
| SAB1L | 0.189 EUR | 0.449 EUR | +137.57 |

The capitalization of the Bank was EUR 66.50 million as of 31 December 2013; on 31 December 2016 it comprised EUR 169.49 million.

The capitalization the Bank and the total capitalization of shares of companies quoted on the Nasdaq AB in the Baltics as of the last trading day of 2013 and 2016 is provided below:

| | 31/12/2013 | 31/12/2016 | Change |
|---|---|---|---|
| Šiaulių Bankas – SAB1L | 66,500,000.00 EUR | 169,492,326.17 EUR | +154.88% |
| The Baltic market in total: | 5,731,270,188.87 EUR | 6,585,528,406.26 EUR | +14.91% |

Source: Nasdaq Baltic website

Price/Earnings (P/E) indicator of the Group:

| | 31/12/2012 | 31/12/2013 | 31/12/2014 | 31/12/2015 | 31/12/2016 |
|---|---|---|---|---|---|
| P/E | 13.29 | 13.12 | 6.12 | 3.73 | 4.06 |

## 8. ACQUISITION OF OWN SHARES

The Bank and its subsidiary companies or persons acting at the instruction of the subsidiary companies do not hold any shares of the Bank. The Bank has not acquired its own shares and has not transferred them to others over the accounting period. To employees who in compliance with the Bank's Remuneration Policy should receive Bank shares, the shares are purchased at the Nasdaq Vilnius stock exchange on behalf of the employees group joint order which is paid from the Bank's funds.

## 9. AGRREMENTS WITH INERMEDIARIES IN PUBLIC CIRCULATION OF SECURITIES

The Bank's Securities Accounting Department is in charge of accounting of the securities issued by the Bank.

To execute and account Bank's and its client's transactions with securities the Bank has concluded agreements with the intermediaries. The following agreements were effective as of 31 December 2016 with:

- *the Lithuanian branch of Danske Bank A/S* – Investment service provision agreement;
- DNB bankas AB – Agreement regarding management of financial instrument account and execution of orders;
- *Swedbank, AB* – Agreements of securities account management and brokerage;
- AB SEB banku – Agreements of securities account management;
- *Raiffeisen Bank International AG* – Agreements of securities account management and brokerage;
- *Privredna banka Zagreb* – Agreement on custody service and storage and administration of financial instruments of the clients;
- *ERSTE Securities Polska SA* - Brokerage services agreement for custodian clients;
- *Bank of Georgia* - Subcustodial services agreement;
- *Caceis bank Deutschland* – Custody agreement;
- *Commerzbank AG* – Custodial account agreement;
- *Karoll AD* – Brokerage agreement;
- *Galt & Taggart* – Agency and service agreement;
- *KCG Europe Limited* – Agency agreement;
- *Swiss Capital* – Agency agreement;
- *Global Securities* - Agency agreement.

# 10. INFORMATION IN COMPLIANCE WITH THE PRUDENTIAL REQUIREMENTS SET TO THE BANK

During the reporting period the Bank complied with all the prudential requirements. Detailed information is provided in the Financial Risk Management disclosure in notes to the financial statements for the year ended 31 December 2016 (hereinafter – FRM disclosure):

- maximum exposure per borrower - part 1.8 of the FRM disclosure;
- liquidity ratio – part 3.1 of the FRM disclosure;
- requirements for own funds – part 10 of the FRM disclosure.

# 11. RISK MANAGEMENT

The Group accepts, manages, analyses, and evaluates the risks arising from its activities. The purpose of risk management in the Group is to ensure the sufficient return on equity by managing risks in a conservative manner. By implementing an advanced risk management policy, the Group seeks not only to minimize the potential risks as much as possible, but also to ensure the optimal risk and profit ratio as well as an effective distribution of the capital.

The risk management policy is approved by the Bank's Supervisory Council and its implementation controlled by the Board of the Bank. It specifies the risks incurred in the activities of the Group and the principles of the risk management system. The development of the proper risk management system, its constant improvement and application of its measures in the daily performance are among the key preconditions for the Group activities in the long run. The procedures for the management of various types of risks prepared on the basis of the policy specify the principles of management of particular risks and ensure the integrity of the risk management process throughout the Group. The Group revises its risk management policies and systems regularly, at least once a year, with regard to market changes, new products, and newly applied principles best practices.

Risk management is a structured, consistent and on-going process taking place in all levels of the Group which assists establishing and assessing possibilities and threats affecting the achievement of the Group's goals and allows making decisions with respect to certain actions. Since various risks encountered by the Group are interdependent, their management is centralized and performed by the Bank's Risk Management Committee. Organization and coordination of the experienced risk management system is one of the main goals of the Bank's Risk Management Committee. Seeking to avoid the conflict of interest, the Bank's units performing the risk management functions are separated from the units, the direct performance of which are related to the emergence of various types of the banking activity risks. Strategic risk management issues are addressed by the Risk Committe, which consists of members of Supervisory Board.

Internal Capital Adequacy Assessment Process (ICAAP) is one of key elements in the Group's risk management and decision-making. The purpose of the Group's ICAAP is to implement the processes ensuring calculation of the requirement of the Group's capital sufficient to cover the activity risks and to ensure the continuity of the performance as well as appropriate formation of the capital base. ICAAP includes the Bank's self-assessment, stress testing and establishment of the internal capital requirement. During the internal self-assessment risks that are characteristic to the Group's activities are identified and evaluated applying selected methods of assessment. An impact of a certain risk on the Group's income and capital is assessed while determining the level of risk. The major goal of the stress testing is to establish if the Group's capital is adequate to cover the likely loss which could be incurred from the deterioration of the Group's financial status.

More details are provided in the *Financial Risk Management* disclosure in notes to the financial statements for the year ended 31 December 2016 (hereinafter – FRM disclosure):

- Credit risk management – part 1 of the FRM disclosure;
- Market risk management – part 2 of the FRM disclosure;
- Foreign exchange risk management – part 2.1 of the FRM disclosure;
- Interest rate risk management – part 2.2 of the FRM disclosure;
- Securities risk management – part 2.3 of the FRM disclosure;
- Liquidity risk management – part 3 of the FRM disclosure;
- Risk inherent in insurance activities – part 5 of the FRM disclosure;
- Operational risk management – part 6 of the FRM disclosure;
- IT risk – part 7 of the FRM disclosure;
- Compliance risk – part 8 of the FRM disclosure;
- Capital management – part 10 of the FRM disclosure.

## 12. RATINGS ASSIGNED BY THE INTERNATIONAL AGENCIES

The credit rating of the Bank is determined by the international rating agency Moody's Investors Service LTD. On 16 June 2016 the agency upgraded ratings of the Bank improving the long-term deposit rating to Ba1 from Ba2:

| | |
|---|---|
| *Long-term credit rating* | Ba1 |
| *Short-term credit rating* | NP |
| *Rating outlook* | Stable |

Moody's Investors Service also upgraded such indicators as the Bank's baseline credit assessment to ba3 from ba1, the Bank's short-term Counterparty Risk Assessment to P-3(cr) from NP(cr) and long-term Counterparty Risk Assessment to Baa3(cr) from Ba1 (cr).

## 13. INFORMATION ON THE PERFORMANCE RESULTS

The Group, which has shown rapid expansion and growth in recent years, continued to improve its operating indicators in 2016. The highly successful annual operating results were reflected in the price of the Bank's shares on the Nasdaq Baltic securities exchange, which was up 81 per cent since the beginning of the year. The Bank's shares are included on the list of the most actively traded Baltic shares, its turnover increased from last year and reached 23 million euros.

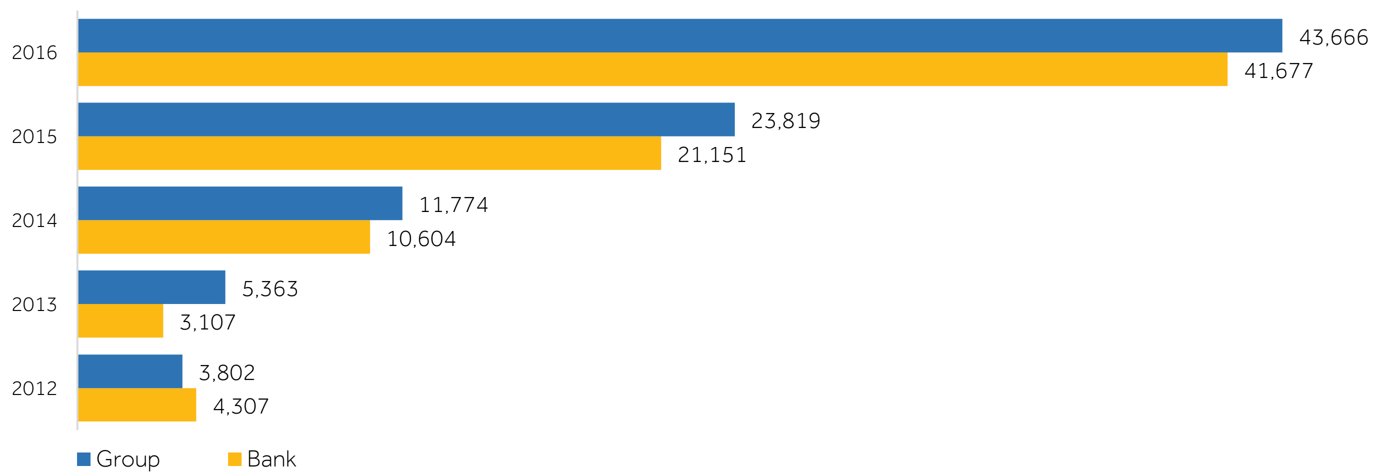
Significantly growing profitability, strengthened capital alongside with decreased assets risk and problem loan ratio affected the Bank's long-term deposit rating - on 16 June 2016 international rating agency Moody's Investors Service upgraded the rating to Ba1.

Two solid international business and finance magazines - *The Banker* issued by the Great Britain's daily newspaper *The Financial Times* and the specialized publication *Global Finance* - positively evaluated the successful performance recognizing the Bank as the Best Bank in Lithuania' 2016.

The results of the research conducted for the eighth year in a row by company *Dive Lietuva* (*Slapto pirkėjo tyrimai UAB*) indicated that the Bank's general customer satisfaction indicator grew by 5.4 percentage points per annum and reached 95.7 per cent which represents the highest level of servicing. This is the second best result among all 7 banks operating in Lithuania covered in the research. The banking-sector average amounted to 89.5 per cent.

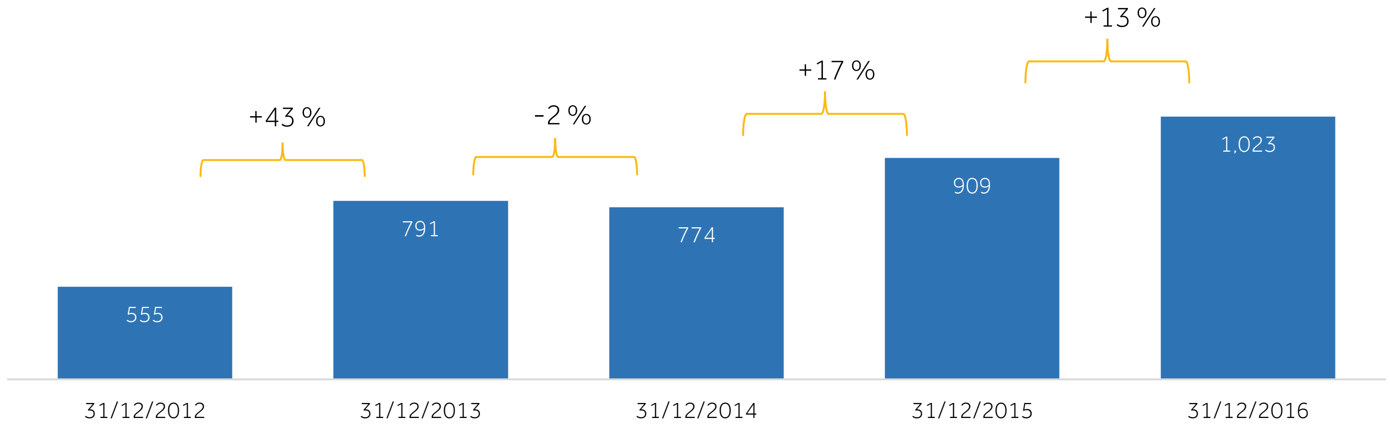
In 2016, the Group had an unaudited net profit of 43.7 million euros, or 83 per cent more than in the same period of 2015 when net profit was 23.8 million euros. The Bank's annual net profit was 41.7 million euros. In 2015, the Bank earned 21.2 million euros.

Net profit of the Bank and the Group 2012–2016, Eur thousand



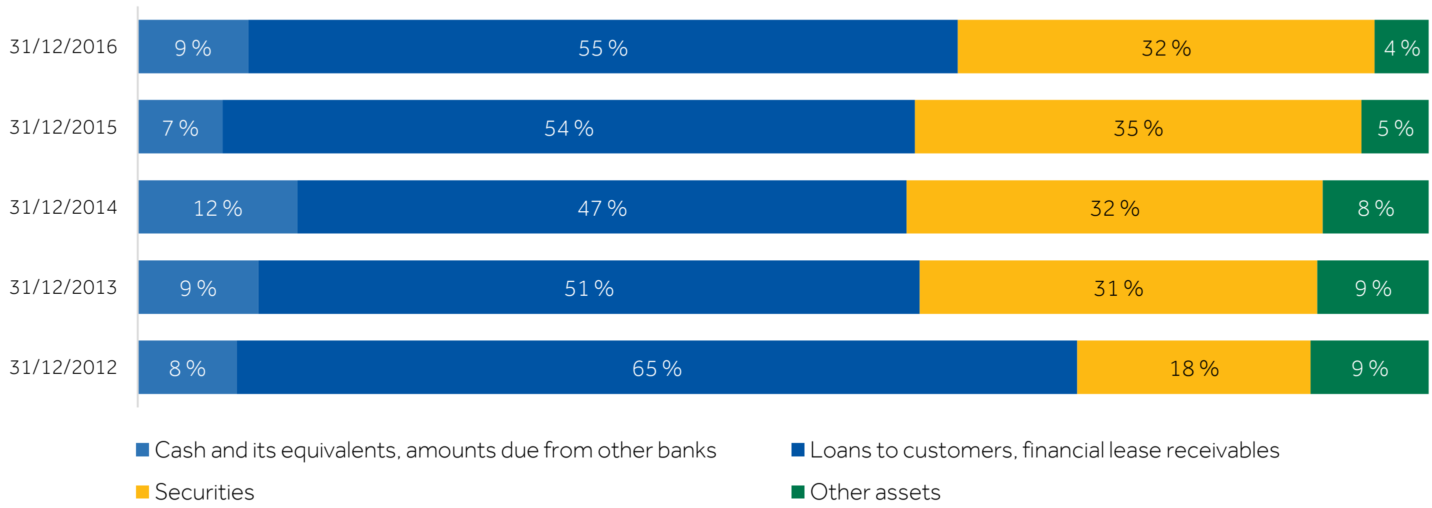
Loan and financial lease portfolio of the Group crossed the billion-euro threshold at the end of 2016. Several factors drove the growth of the portfolio: positive expectations among individuals and business entities, increasing investments and consumption, and the low interest rate environment. 469 million euros of new loans were issued per year and the size of the portfolio increased by 114 million euros, or 13 per cent over twelve months.

Loan and Financial Lease Portfolio 2012–2016, Eur million




The priority lending areas continue to be loans to small and medium-sized enterprises (SMEs), consumer financing, and the multi-apartment building modernization programme where the Bank has more than 60 per cent of the market. In order to enhance access to financing for innovative SMEs in Lithuania, in September 2016 the European Investment Fund (EIF) and the Bank signed a guarantee agreement which enabled the Bank to provide financing to SMEs and small mid-caps over the next two years at reduced interest rates. Some 450 businesses are expected to take advantage of this EU support, with the Bank creating a 50-million-euro portfolio of loans and financial leases.

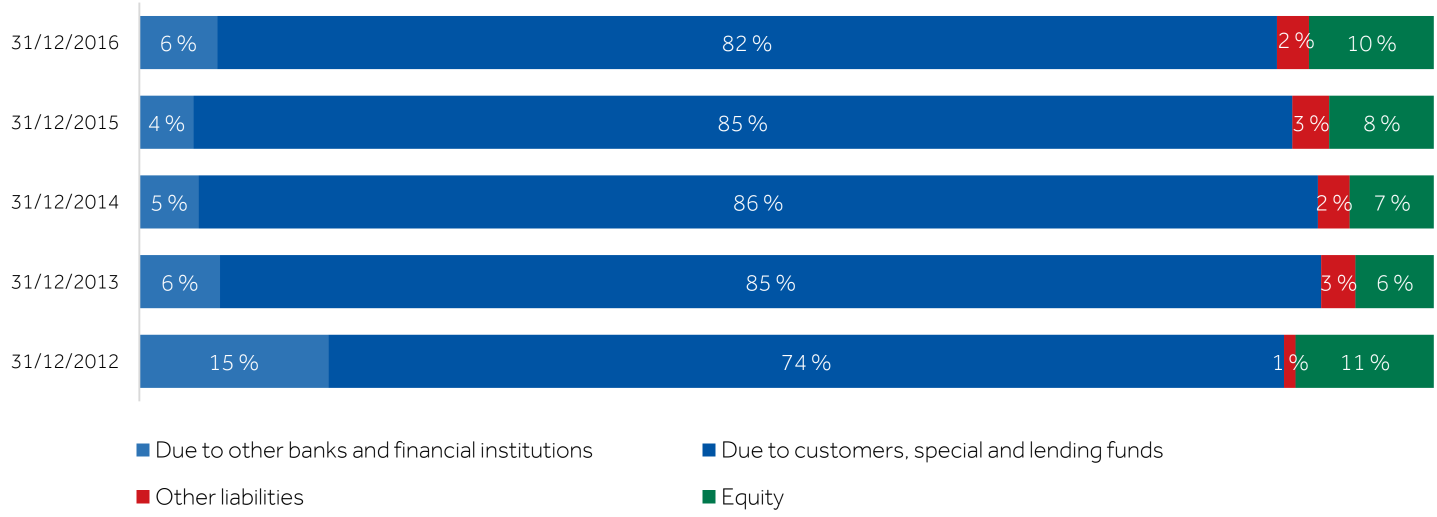
Group's Asset Structure 2012–2016, per cent




The Group's deposit portfolio grew by 4 per cent per annum to nearly 1.5 billion euros at the end of December 2016. Responding to a growing need in the market for alternative saving products, in 2016 the Bank introduced a structured finance instrument – a fixed-term deposit whose interest rate is linked to financial assets: the first deposit is related to changes in the price of oil company shares, the second one - to the agricultural raw material price indices.

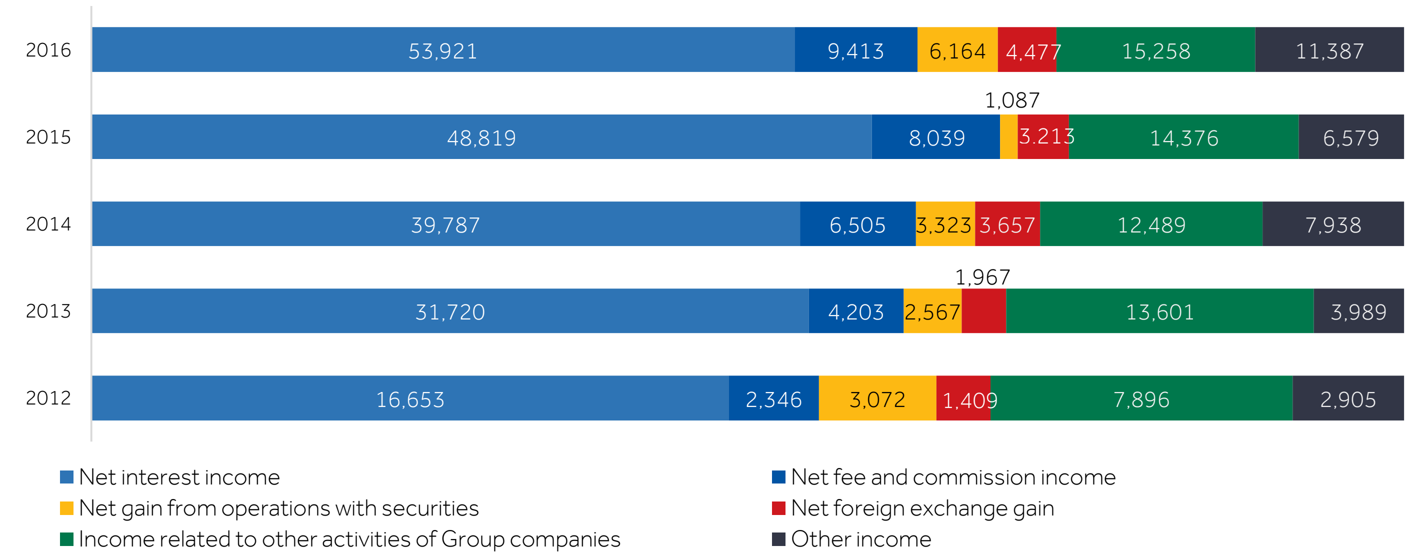
Among banks operating in Lithuania, the Bank currently stands fourth both in the loan and deposit markets.

## Group's Liability Structure 2012–2016, per cent



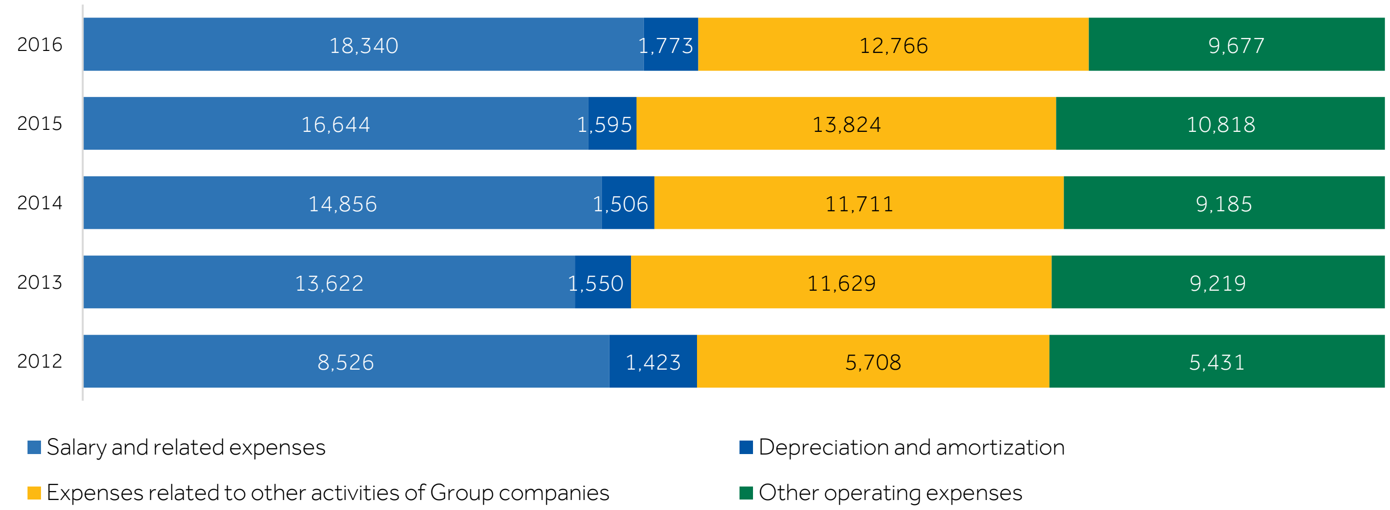

Net interest income increased by 11 per cent and amounted to almost 54 million euros. The Group's net fee and commission income also changed significantly last year– it amounted to EUR 9.4 million which was by 17 per cent more than in 2015. Active participation in the multi-apartment housing modernization programme ensured 6 per cent annual growth of this type of income. Other net fee and commission income grew by 28 per cent per annum due to increasing customer pro-activity and banking service range development.

## Group's Operating Income Structure 2012–2016, EUR thousand




Profit from foreign exchange operations increased by 39 per cent in 2016 to more than 4.5 million euros. New foreign exchange products and increased client activity contributed to that growth. Profit earned from trading in securities significantly contributed to the results as well. Bank's safe investments in securities portfolio not only generates stable interest income but also contributed a net gain of EUR 6.2 million from securities trading, of which 3.5 million euros was profit from one-time transactions.

Group's Operating Expenses Structure 2012-2016, in EUR thousand




During the reporting period the Group's expenses decreased by 1 per cent compared to 2015 and amounted to 42.6 million euros in total. 43 per cent of operating expenses consisted of salary and related expenses, i.e. EUR 18.3 million. In 2016 the Group incurred an impairment loss on loans and other assets of EUR 7.8 million(a loss of EUR 23.0 million in 2015).

According to the data as of 31 December 2016 the Bank complied with all the prudential requirements set by the Bank of Lithuania. The information is available on the Bank's website www.sb.lt in the section *Financial statements, ratios and prospectuses -> Prudential standards*.

The Bank's profitability ratios are available on the Bank's website www.sb.lt in the section *Financial statements, ratios and prospectuses -> Profitability ratios*.

As of 31 December 2016 the customer service network of the Bank consisted of 68 units operating in 38 areas throughout Lithuania.

Changes in the number of the Bank's customers:

| | *2012* | *2013* | *2014* | *2015* | ***2016*** |
|---|---|---|---|---|---|
| *Number of Clients* | 161,847 | 342,780 | 360,584 | 386,273 | 354,612 |
| *Private Clients* | 150,642 | 322,199 | 337,284 | 360,809 | 328,296 |
| *Corporate Clients* | 11,205 | 20,581 | 23,300 | 25,464 | 26,316 |

As of 31 December 2016 the Bank's clients could use 209 ATMs (14 of the are ATMs accepting cash) belonging to bank's network operating in 48 towns throughout Lithuania. At the end of 2016 the Bank's clients could withdraw cash or place their funds to the payment card accounts through 2,063 terminals of Perlo paslaugos UAB all over Lithuania. The banking services are also available via the Bank's on-line system SB Linija and mobile application *Šiaulių Bankas*.

## 14. ACTIVITY PLANS AND FUTURE OUTLOOK

- The Bank has no plans to increase its capital by additional contributions; the major part of the profits earned will be retained to strengthen the capital base.
- Interest rates would remain low, the net interest margin would be stable - the downward pressure on loan interest rates and debt securities yield would be balanced by lower costs of deposits.
- One-off revenues that had a significant impact on the Bank's results over the recent years would decrease.
- Internal control and risk management systems will be subject to further improvements with emphasis on IT risks, which, due to rapid growth of importance in the field of technologies, increase significantly.

## 15. MAJOR INVESTMENTS MADE OVER THE REPORTING PERIOD

The major investments made by the Group over the reporting period are provided in the table below in thousand euros:

| | |
|---|---|
| *Acquisition of property, plant and equipment, investment property and intangible assets* | 3,628 |
| *Acquisition of held-to-maturity securities* | 91,492 |
| *Acquisition of available-for-sale securities* | 5,776 |

## 16. SOCIAL RESPONSIBILITY

The Bank, since 2008 being a participant of international initiative *Global Compact*, accepts and takes ongoing commitment to strengthen its socially responsible activities, always follows the principles of the human rights, labour rights, environmental protection and corruption.

Since 2010, the Bank annually submits comprehensive social responsibility reports, which are publicly available on the Bank's website under *Social Responsibility* heading and on Global Compact website. The Bank's consolidated annual report under the heading Social Responsibility provides a succinct corporate social responsibility report for January-December 2016.

### Goal 2017

In order to make progress in raising public awareness of its social responsibility, in 2016 the Bank set itself the goal to prepare the social responsibility report for 2017 in accordance with the Global Reporting Initiative (GRI) guidelines for the financial services sector. Starting next year, the reports covering also the Bank's subsidiaries, are scheduled to be presented as a separate part of each audited consolidated annual report.

### The main socially responsible Bank's areas of activity in 2016

Socially responsible activities sought by the Bank to improve the quality of life in Lithuania, to promote sustainable economic development and environment, is focused on the areas in which the Bank may seek to have a positive impact, i.e.:

- Employees
- Bank's customers
- Environmental protection
- Community and the general public.

### Personnel

As a socially responsible employer, the Bank is guided by the principles of equality and diversity and provides equal career opportunities, without taking into account people's age, gender, ethnicity, religion and so on (data is given in Part 23 *Employees*).

The Bank fosters sustainable and long-term working relationship, in developing and promoting culture based on common values and continuous improvement, providing safe and favourable working conditions.

Staff turnover in the Bank:

For both full and part-time employees, the Bank offers an attractive additional benefit and social security basket, which is described in detail in part 23 *Employees → Employee motivation*. In 2016 it was supplemented with two new exclusive benefits:

- Supplementary retirement scheme Save Together
- Staff reciprocal motivation system Thank You.

The new benefits even more increased the Bank's as an employer's attractiveness and employee engagement and initiative, in this way strengthening the team spirit.

Work at the Bank makes it possible to combine professional and personal goals and needs:

| *In 2016:* | *Number of Bank employees* | *Percentage of the Bank employees* |
|---|---|---|
| *Paternity leaves granted* | 7 | 1 % |
| *Parental leaves granted* | 94 | 13 % |

The Bank aims to create safe and healthy workplaces, regularly modernizing and reconstructing facilities, updating equipment. In 2016 EUR 14 785.06 was allocated for this purpose.

Also, there are regular investments in technologies designed to facilitate and speed up the work. In 2016 the Bank intensively implemented the project *Quickly and Easily*: using a modern document management system, internal business processes of the Bank were automated, standardized, accelerated and made more efficient.

The Bank enables a regular and active learning, making use of both the potential cooperation between the employees and external resources (see more: part 23 of *Employees → Employee Education*).

Bank's investments in staff development:

| | *2015* | *2016* |
|---|---|---|
| *Training budget, EUR* | 67,633 | 100,000 |
| *Training costs per employee, EUR* | 100 | 138 |

The Bank aims to make employees more involved in the overall project work, where they can exchange ideas, knowledge and experience and improve personally. Effective engagement promotional tool is the opportunity to register suggestions or ideas in the Bank's information system.

In submitting suggestions, employees are becoming more and more active each year:

| | *2014* | *2015* | *2016* |
|---|---|---|---|
| *Total suggestions from employees* | 32 | 42 | 48 |
| ***Including:*** | | | |
| *Realized* | 7 | 8 | 15 |
| *Started to realize before the suggestion* | 4 | 4 | 1 |
| *Accepted for realization* | 1 | 5 | 14 |
| *Under discussions* | 9 | 12 | 13 |

The Bank follows the *Code of Ethics*. No intolerable inequality, violence, psychological or the like pressure manifestations and forms of discrimination at work.

The Bank has installed a common channel for anonymous reporting to compliance officer through which any employee can anonymously report any breach of a regulatory requirement ongoing in the bank. Report is analysed, if it is confirmed true, the necessary steps to rectify that breach are promptly taken.

## Clients

For the Bank it is important that its services are accessible to the clients, regardless of their ethnicity, gender, age, place of residence and so on. Bank customers can use the services via one of the most extensive customer service network in the country and via all electronic channels (more information in Part 13 *Information on operating results*).

In order to allow customers to obtain competitive conditions for all financial services that meet the modern needs of the market, in 2016 we have been offering the following key new products:

- Opportunity Credit, a selection of four lending products
- Term deposit with additional interest
- Bank service plans for residential customers
- Funding for innovative small and medium-sized and mid-cap companies under InnovFin – EU Finance for Innovators initiative.

In addition, since 2016 customers have an additional electronic option: to trade securities on the Baltic markets comfortably in the Bank's online banking system.

After in 2014 the Bank set up a special customer service quality department and in recent years particularly actively implemented the customer service quality standard, service quality has been improving significantly every year: this is evidenced by the Bank's overall customer service performance index revealed in the independent mystery customer research conducted by the company *Dive Lithuania*:


Bank responsibly and transparently informs customers about the changes in its activities, as needed using appropriate information feeds for different customers. The Bank publishes its performance results on its website.

## Environment Protection

In order to preserve biodiversity and ecosystems, to reduce the global warming impact, the Bank shall contribute to increased energy efficiency in the country and promote the saving of energy and resources.

One of the most important measures to promote energy efficiency nationwide is the Multi-flat House Renovation (Modernisation) program implemented in Lithuania, to which the Bank has made a significant contribution since 1999 by actively financing the renovation projects.

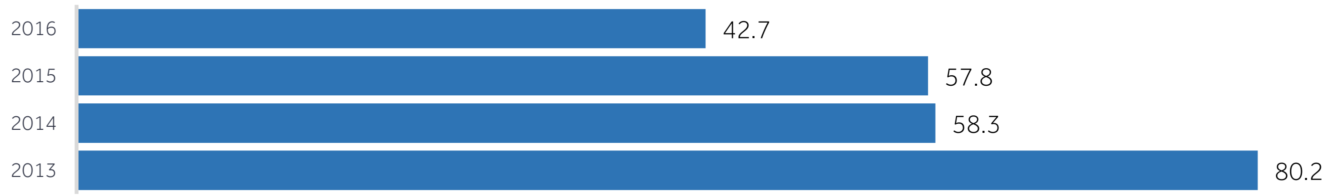
Multi-apartment House Renovation (Modernisation) financing in 2016:

| | *Number of contracts* | *Total contract value, EUR million* |
|---|---|---|
| *Submitted preliminary approvals for credit contract signing* | 285 | 77 |
| *Signed credit contracts* | 368 | 97 |

For the faster and smoother run of this important program, in cooperation with the European Investment Bank, the Bank assigned EUR 70 million of its funds for the project.

Use of resources in the Bank is associated with large internal and external number of printed documents. In 2016 intensively developed and more and more exploited, the new document management system allows a significant reduction in paper and printing means quantities and due to faster and more efficient processes leads to reduction of other resources. In addition, in 2016 the infrastructure of staff for electronic signatures was started to build, which will be used for approval process of all the internal documents.

Paper consumption at the Bank in 2013-2016, t:




In order to lower fuel consumption and reduce exhaust atmospheric pollution:

- The Bank uses an electronic operative car ordering system that allows planning business trips for groups and going to the trips by a minimum number of cars
- Encourages meetings involving employees and partners from different cities to be organized in the modern videoconference rooms installed in Vilnius, Kaunas, Klaipėda and Šiauliai.

Vehicles and fuel consumption at the Bank in 2016:

| *Petrol* | *Number of vehicles* | *Fuel consumption, l* |
|---|---|---|
| *Bank-owned* | 31 | 52,950 |
| *Other* | 26 | 40,421 |
| *Total:* | 57 | 93,371 |

| *Diesel* | *Number of vehicles* | *Fuel consumption, l* |
|---|---|---|
| *Bank-owned* | 18 | 37,127 |
| *Other* | 16 | 27,203 |
| *Total:* | 34 | 64,330 |

In order to offset the negative impact on the environment, in 2016 the Bank organized a joint Bank Group and customer forest planting voluntary action *Invest in the Future of Lithuania* in all the regions of the country.

With the means of this initiative, the Bank expressed its position that a good investment is not limited to finance. The most valuable investments are those where the works are taking responsibility for the environment in which we live and which remains for the future generations.

During the voluntary action *Invest in the Future of Lithuania* 2016, nearly 10 thousand of firs, oaks and birches were planted around four cities: Vilnius, Kaunas, Klaipėda and Šiauliai.

## Communities and the General Public

The Bank seeks to promote small and medium-sized businesses and the country's regional economic development and to reduce both economic and social differences existing between them. One of the means to achieve this is apartment building renovation (modernization) funding, which is particularly active not in the major Lithuanian cities.

In addition, the Bank is actively involved in supporting and organizing conferences, seminars, training sessions, in which small and medium-sized companies of the country or those planning to start a business are introduced to the business funding opportunities, such as:

- Cycle of free seminars in Alytus, Ukmergė and Vilnius *Business Financing Opportunities using the EU means Today and Predictions for the Future*
- Creativity and future trends conference *What's Next?*
- *Business Development Forum 2016* and so on.

In 2016, the Bank launched quarterly meetings with business clients in the regions *Business Espresso*, during which consultants share their insights with the clients on urgent issues:

- *The Legal Regulatory Challenges and Prospects of Small and Medium-sized Enterprises*
- *How to Attract and Retain Talent in your Business?*

In 2016, support was assigned for Mažeikiai business association on Business Day, Utena Business Information Centre's event Utena Business Nominations 2015, Šiauliai Chamber of Commerce, Industry and Crafts, Lithuanian Free Market Institute and others.

In order to strengthen the business and educational links, in 2016 the bank traditionally allocated nominal semester scholarships to two students of Vytautas Magnus University.

As the Lithuanian capital bank, the Bank attaches great importance to the country's cities and towns community traditions and to upholding and promotion of the cultural life in the Lithuanian regions. In 2016 the Bank assigned for this support more than EUR 60,000. Most of the support funds were allocated for community, cultural and sports projects: Utena, Varėna, Panevėžys, Marijampolė, Plungė, Rokiškis, Klaipėda and other cities and towns celebrations, basketball club Šiauliai, Thomas Mann Cultural Centre, the Lithuanian Musicians Support Fund, Šiauliai Museum Aušra and others.

The bank, in order to reduce social exclusion, in 2016 handed 100 modern TV sets to three Lithuanian public charities and aid organizations: *Caritas Lithuania*, public organization *Save the Children* and the *Lithuanian Samaritan Community*.

In collaboration with the *NGO Good Will* Projects, the Bank enables clients, via the Internet banking system, to assign the desired amount of money for aukok.lt social projects and donate cash in the sacrificial boxes located in the bank branches. During 2016, the sacrificial boxes collected more than EUR 1,600, which was transferred to the *NGO Good Will Projects*.

## 17. DIVIDENDS PAID

The Bank does not have an established procedure for allocation of dividends. The Bank's General Shareholders' Meeting annually decides whether to pay dividends or not while allocating the Bank's profit.

Dividends paid, 2013-2016

| | *2013* | *2014* | *2015* | *2016* |
|---|---|---|---|---|
| *Per cent from the nominal value* | 0.5 | 0.00 | 0.25 | 0.69 |
| *Amount of dividends per share, EUR* | 0.00145 | 0.00 | 0.000725 | 0.002 |
| *Amount of dividends, EUR* | 340,097 | 0.00 | 195,750 | 629,147 |
| *Dividends to net profit, %* | 8.34 | 0.00 | 1.81 | 2.97 |

**Taxation of dividends.** Profit taxation of legal entities is regulated by the Profit Law of the Republic of Lithuania No. IX-675 as of 20 December 2001 and the resolutions and other legal acts adopted by the Government of the Republic of Lithuania on its basis.

The charge of 15 per cent is applied to the paid dividends. The dividends of the Lithuanian unit that owns 10 per cent of issuer's capital for the period longer than one year are not subject to charges (with exceptions described in the chapter VII of the Profit Law of the Republic of Lithuania).

The dividends of the foreign units are charged by applying an income tax rate of 15 per cent. If a foreign unit owns the shares granting at least 10 per cent of votes for a period of at least 12 months without interruption, the dividends paid to that foreign entity are not charged, except for the cases when a foreign entity receiving dividends is registered or otherwise organized in the targeted countries.

Taxation of citizens' income is regulated by the Law on Citizen's Income Tax of the Republic of Lithuania No. IX-1007 as of 2nd July, 2002 and the latter amendments of the Law as well as resolutions adopted on the basis of this Law. The dividends received since 01 January 2014 are charged by 15 per cent tax, which is deducted and paid to the budget by the Bank in compliance with the applicable orders.

Persons who are the shareholders of the Bank at the end of the tenth business day following the date of the Bank's General Shareholders' Meeting having adopted respective resolution (at the end of the day of accounting of rights).

## 18. PRINCIPLES OF THE INTERNAL AUDIT PERFORMANCE

The purposes, functions, organization, rights, duties and responsibilities of the Internal Audit Division are foreseen by the Provisions of the Internal Audit Division and Methodology of the Internal Audit. These documents are prepared in accordance with the laws of the Republic of Lithuania, resolutions passed by the Government of the Republic of Lithuania and the Bank of Lithuania, International Financial Reporting Standards, International Internal Audit Standards, the Code of Ethics, the general organization regulations of the Internal Audit of the Bank approved by the Board of the Bank of Lithuania, the Charter of the Bank, the resolutions of the General Shareholders' Meeting, Bank's Supervisory Council, Internal Audit Committee and the Bank's Board.

While carrying out its functions the Internal Audit Division performs audits in the fields of finance, compliance, operations, governance, information systems and projects. The purpose of Internal Audit is to provide independent and objective assurance and consulting activity, to systematically and comprehensively evaluate and promote the improvement of the Bank's risk management and the efficiency of the internal control system. Also, to assist the Bank in achieving its goals by seeking to ensure that the objectives of internal control are achieved at the lowest cost and the functions of internal control are implemented efficiently.

The Internal Audit Division performs its functions by exercising the operational plan for the current year and the strategic plan for 2016-2018 (both approved by the Internal Audit Committee).

The employees of the Internal Audit Division follow the principles of:

- INTEGRITY – to perform their work honestly, with due diligence, in compliance with the laws, to not participate in any illegal activities, not take any actions, that could discredit an internal auditor's profession and the Bank, to respect lawful and ethical objectives of the Bank and to support their implementation;
- OBJECTIVITY – to not participate in any activities and not have any relations that harm or might harm their impartiality and would contradict with the Bank's interest, to not accept presents in order to avoid the impact on their professional opinion and to disclose all the important facts they are aware of;
- CONFIDENTIALITY – to use and store the information gained while performing their duties responsibly, to not use the information for their own purposes;
- COMPETENCY – to provide only such services, for the performance of which they possess necessary knowledge, skills and experience, to provide internal audit services in compliance with the International Audit Standards, to improve their qualification on a regular basis, to improve the quality and efficiency of the services.

Vid The Internal Audit Division is under the direct control of the Internal Audit Committee and reports to it on a quarterly basis.

The key objectives of the Internal Audit Committee are to supervise the process of the Bank's internal control implementation, the Bank's risk management implementation, efficiency of organizing the internal audit process, the statutory audit process, the Bank's operational compliance with laws and regulations and to ensure the independence of the Internal Audit's performance.

The Bank's Internal Audit Committee consists of 4 members including an independent member of the Supervisory Council. The Internal Audit Committee performs functions foreseen in the provisions of the Internal Audit Committee (approved by the Supervisory Council of the Bank). The Internal Audit Committee reports to the Bank Supervisory Council no less than once a year.

The employees of the Internal Audit Division prepare an inspection programme before each inspection that specifies the purpose, scope and duration of the audit. Typical audit programmes are formed for the most frequently performed audit specifying the typical audit actions and identifying specific actions relevant to a current period of time. The inspection programme is approved by the Head of Internal Audit Division. Based on the recommendations and comments made by the Internal Audit Division the Bank's management approves a Plan for eliminating deficiencies and implementing recommendations. The Head of Internal Audit Division based on the significance of the comments and recommendations assigns employees of the Internal Audit Division to control the implementation of recommendations (monitoring of progress).

The post-audit activities (monitoring of progress) include the elimination of deficiencies identified during the inspection by internal audit , external auditors and the Bank of Lithuania as well as evaluation of the implementation of recommendations.

On a quarterly basis the Head of the Internal Audit Division provides the Bank's senior management with the information regarding the recommendations submitted after the performed inspections and their implementation.

## 19. THE EXTERNAL AUDIT

In 2016 the Bank's audit was carried out by the audit company PricewaterhouseCoopers UAB (company's address: J. Jasinskio str 16B, 01112 Vilnius tel. +370 5 300 2392, fax. +370 5 301 2392, the company registered on 29/12/1993, No. UĮ 93-369, code 111473315).

This audit company was selected after the Bank's Board interviewed a number of international audit companies and discussed their offers. The selection of the audit company is based on the reputation risk, the price of service and other factors.

30 March 2016 the Bank's General Shareholders' Meeting passed a resolution to elect PricewaterhouseCoopers UAB to verify the Bank's annual financial statements and consolidated annual report for the year 2016 and 2017. The determined price of the audit services over 2016 could not exceed EUR 38 thousand (excluding VAT) per annum for the Bank and EUR 81 thousand for the Group.

For the additional consultations the audit company received EUR 42 thousand of remuneration not related to the audit services from the Bank in 2016. For the additional consultations the audit company received EUR 34 thousand of remuneration not related to the audit services from the Bank in 2015.

## 20. TRANSACTIONS WITH RELATED PARTIES

Members of the Supervisory Council and the Board act in the interest of the Bank and its shareholders and avoid any conflict of interest. Any transactions with the executives of the Bank are concluded in accordance with market conditions. The regulation stipulating the work of the Board provides that a member of the Board must avoid any conduct that could cause a conflict of interest. Prior to starting the term of office as the member of the Board, the candidate must reveal to the Bank all the information that could potentially cause a conflict of interest and keep the relevant information constantly updated. Board members abstain from voting and participating in the Board meeting that addresses a question pertaining to his/her activity in the Board or his/her responsibility as well as issues that could be related to the Board member's interest or cases where the absence of the Board member's impartiality could pose any risk.

Each prospective member of the Supervisory Council must inform the General Shareholders Meeting of any occupation and duties exercised as well as details of how such activity is connected with the Bank or other legal entities involved with the Bank.

In the Bank, transactions with the senior management executives are separated from the rest of the transactions by means of technology and the amounts of such transactions are presented in the notes to the financial statements for 2016.

The Bank follows a conflict of interest policy that establishes the requirements for internal procedures and measures that help identify and manage any circumstances that may give rise to a conflict of interest related to the provision of the banking services and specifies the ways and actions to be followed in case such conflicts arise. The policy applies to all Bank employees and executives, including members of the Board and the Supervisory Council. Apart from other measures described in the policy, the person in charge of performing internal control is also responsible for monitoring those financial transactions that could potentially cause a conflict of interest and must immediately report of any instances of procedural violations in writing to the Internal Audit Committee and the Board of the Bank.

More detailed information is provided in the note 30 to the financial statements for the year ended 31 December 2016.

## 21. INFORMATION ON MALICIOUS TRANSACTIONS

During the reporting period, there were no malicious transactions not meeting the objectives of the Bank, normal market conditions, breaching the shareholders' or other group's interests which have had or will likely have a negative impact on the Bank's performance or activity results. Nor were there any transactions made on the conflict of interest between the Bank's senior management, controlling shareholders or other related parties' obligations to the Bank and their private interests and (or) office.

## 22. ASSESMENT OF INTERNAL CONTROL AND RISK MANAGEMENT

Pursuant to the risk appetite acceptable to the Bank the integrated risk management principles are being developed and introduced to the entire Group. The risk management principles are regulated by the Policy of Risk Management in Banking Activities.

The Bank's Remuneration policy in and integral part of the risk management system. The Remuneration policy is consistent with the Bank's strategy, level of assumed risks, the Bank's objectives, values and long-term vision.

The Bank's internal control system is an integral and continuous process in its day-to-day activities arranged applying the three lines of defence approach. At the required level each employee is responsible of the Bank's internal control processes and each employee is involved in the internal control system and may affect it.

Internal control pursues to ensure legitimacy, economy, efficiency, effectiveness and transparency of the Bank's activities, implementation of strategic and other activity plans, protection of assets, reliability and comprehensiveness of information and reports in line with the fulfilment of contractual and other obligations to third parties and management of risk factors related to the aforementioned activities.

The responsibility for the implementation of the compliance function within the Bank falls on the Head of Compliance and other compliance officers assigned for the implementation of the compliance function in the areas delegated to them who carry out their functions independently. Moreover, all the Bank's employees who participate in the internal control system while carrying out their functions are responsible for the compliance within the Bank, i.e. they bear responsibility that all the Bank's employees' actions would meet the requirements set by the laws and other legal acts regulating the Bank's performance.

The Group's internal control system and assessment of the internal risk management is performed by the Bank's Internal Audit Division. This Division informs the Bank's Internal Audit Committee and the Bank's Board regarding the detected shortcoming and violations.

Information on the Bank's exposure to risks and their management is provided for in chapter 11 *Risk Management* of the present report.

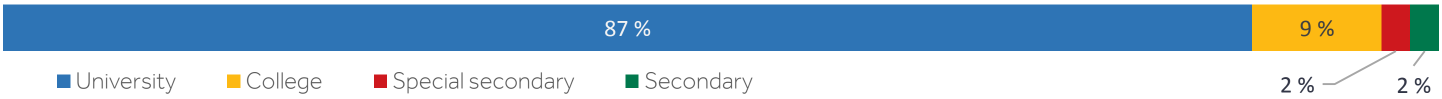
## 23. EMPLOYEES

On 31 December 2016 the Bank employed 722 employees (as of 31 December 2015 the Bank had 719 employees).

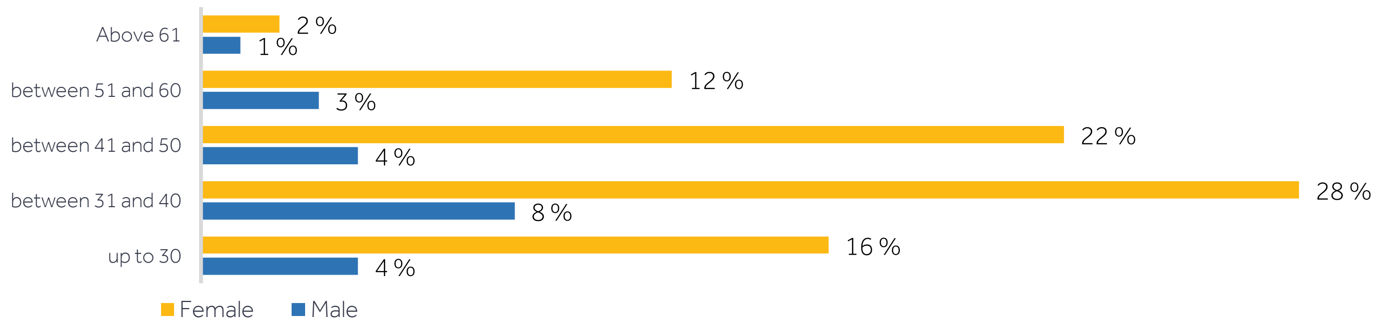
As of 31 December 2016 the Group's companies (excluding the subsidiaries held for sale) employed 829 employees (as of 31 December 2015 - 861 employees).

According to the data as of 31 December 2016, 627 employees of the Bank's had university education, 64 gained college education, 14 had secondary education and 17 – special secondary education.

Structure of the Bank's employees by education as of 31 December 2016:




The structure of the Bank's employees by age and gender as of 31 December 2016:



## Personnel

The Bank aims to create an environment that allows attracting, selecting and keeping professional and loyal employees that achieve very good results.

### Team of the Bank's Employees

At the beginning of 2016, when the the Bank started providing leasing services a special emphasis was made on integration of the employees of Šiaulių Banko Lizingas UAB into the Bank's team and on well-tuned overall activities.

### Relations with the employees

The Bank fosters long-term relationships with its employees. As of 31 December 2016 the percentage of the employees who have been working at the Bank for more than 10 years comprised almost 30 per cent. The increased number of the employees with such service length was caused by the integration of part of employees of Šiaulių Banko Lizingas UAB to the Bank.

### The performance management system

To improve the efficiency of performance management and to achieve the best possible result, once a year the employees' activities are discussed in compliance with the Procedure of Annual Appraisals. In these appraisals the immediate supervisors discuss the implemented works and planned projects with their employees, figure out the employees' competences required for their successful work and value-based behaviour and clear out the expectations related to the employees, senior management and the Bank including career possibilities and training needs.

### Organizational structure

In 2016, the Bank has been implementing the departmental structural changes related to infusion of Šiaulių Banko Lizingas UAB services to the Bank.

### Employee training

In 2016, integration of new employees remained the priority area due to importance and value of preparation for efficient work. The Bank focused on the employees' abilities to gain more knowledge on existing and new banking products as well as on related changes and innovations. For this purpose the Bank organized 12 unique internal trainings over 2016. The Bank has also launched a new form of training - e-training.

In 2016, the members of the Bank's top management participated in the educational session for leaders' competence development. The session's purpose was to formulate guidelines and principles for the Bank's management development which would further serve as basis for a specific management training programme.

In 2016, the average current training time per Bank's employee amounted to 7.5 hours.

### Opportunities of apprenticeship

The Bank has been actively collaborating with the high schools by participating in career days, making presentations, initiating visits of students' groups to the Bank and providing opportunities for students to have the wide-ranging internship with the Bank.

In 2016 more than 60 students did their compulsory or voluntary internship in various Bank's units all around Lithuania. The biggest number of interns gained work experience in the customers service points.

### Employees' motivation

For the implementation of the objectives set by the Bank, unit and fulfilment of individual professional goals the employees receive bonuses on a quarterly basis.

The employees whose professional performance may have a significant impact on the risks assumed by the Bank are fostered with annual deferred payment bonuses (for more see *24. Remuneration Policy*).

In order to encourage employees and evaluate the involvement of each customer service unit officer in implementation of the personal and professional objectives as well as general goals of the Bank and the unit, a sales promotion system has been launched allowing the Bank to figure out the best Bank's network employees and to motivate them.

On personal occasions and on the events significant to the Bank the employees receive one-off bonuses.

In the middle of the year 2016, the first long-term incentive programme *Save Together* was launched in the Bank. The programme was prepared together with the life insurance company *Bonum Publicum* UAB. It allows employees to save for their additional pension at exceptional terms when part of the payment is paid by the employee and another part by the employer. At the end of 2016 almost 25 per cent of the employees took part in the aforementioned programme. The programme applies to all companies of the Group.

In order to foster efficiency of the Bank's internal and customer servicing processes, speed and simplicity creating the culture of continuous improvement in the Bank as well as to enable employees personally and publicly to express their gratitude to the colleagues in a free and playful form, to increase the employees' engagement, their initiative and pursue for the higher servicing quality, the Bank launched the motivation system *Thank You*. The employees have possibility to score the colleagues' achievements by giving e-apples which later may be exchanged to prizes.

Each year the Bank holds a sports and leisure event of the Bank in summer. The Bank fostered its employees' basketball, volleyball and karting teems to participate in the interbank and other tournaments. As the matter of fact, the Bank's teams achieve excellent results in the aforementioned tournaments.

Free vaccination against influenza, two first days of a sick leave fully paid by the Bank in 100 per cent, partial coverage of the gym memberships, pay-outs in case of accident in the employee's family are the additional benefits provided by the Bank to its employees.

The monthly average salary of the respective group of employees before taxes:

| | *2014* | | *2015* | | *2016* | |
|---|---|---|---|---|---|---|
| | Average number of employees | Average monthly salary, in EUR | Average number of employees | Average monthly salary, in EUR | Average number of employees | Average monthly salary, in EUR |
| *Management* | 78 | 3,087 | 85 | 3,058 | 87 | 3,528 |
| *Officers* | 565 | 776 | 546 | 836 | 581 | 921 |

**The Bank does not have agreements with the employees foreseeing compensations** in case of retirement or dismissal without the reasonable ground or in case their capacities would be cancelled because of changes in the bank's control.

**The Bank also is not the party of material agreements**, which would become effective, change or would be cancelled because of changes in the Bank's control.

# 24. REMUNERATION POLICY

### Information related to the process of decision-making defining the remuneration policy and the number of meeting held by the main body supervising the remuneration during the financial year

Information is prepared and delivered in compliance with resolution No. 03-82 regarding *the Minimum Requirements Guidelines for Remuneration Policy to Credit Institutions and Brokerage Firms Employees* approved on 8 May 2015 and resolution No.105 regarding *Election or Nomination of the Bank's Head* approved on 17 June 2004 by the Board of the Bank of Lithuania, Labour Code of the Republic of Lithuania, Charter of the Bank, and resolutions of the Management Board and Supervisory Council of the Bank.

The Remuneration Policy is reviewed annually. The suggestions regarding the principles of remuneration are submitted by the Remuneration Committee. The Remuneration Policy is approved by the Supervisory Council of the Bank, while the Board of the Bank bears responsibility for its implementation. The updated Remuneration Policy approved by the resolution of the Supervisory Council on 29 October 2015 came in force on 1 January 2016 The composition of the Remuneration Committee is subject to the Supervisory Council's approval, the list of the Committee members is provided in chapter 25 *Members of the Committees* formed within the Bank and the areas of their performance. The services of external consultants have not been used while preparing the Remuneration Policy.

### Relation between remuneration and activity results

Variable remuneration is paid seeking to relate personal employees' activity purposes with long-term concerns of the Bank. A variable remuneration fund is formed only after evaluation of the Bank's performance results, taking into account the current and future risk, used capital and liquidity costs. The estimated variable remuneration fund cannot impede the Bank's or Group's ability to strengthen its capital base. The variable remuneration is based on the total assessment of the results achieved by an employee, unit and the Bank. The same conditions of variable remuneration allocation apply for all employees, including employees whose professional activities and (or) decisions can have a significant impact on the risk assumed by the Bank.

The models of variable remuneration calculation used at the Bank are developed to meet the Bank's business strategy, purposes, values, long-term continuous activity interests, stimulate reliable and efficient risk management and to facilitate avoidance of a conflict of interest. The applicable models should not induce the employees to assume the excessive risks unacceptable to the Bank and to ensure compliance with the investor and customer protection principles in the banking services.

### The most important characteristics of remuneration system, including information on criteria used for assessment of performance results, correction of the risks, deferment policy and allocation criteria

The Bank uses the following elements of the remuneration system:

- the fixed official pay stipulated in the labour contract;
- variable remuneration (quarterly bonuses to the employees and annual bonuses to the employees whose professional performance and (or) passed resolutions may have a significant impact on the risks assumed by the Bank);
- one-off payments or allowances (payments not associated with the Bank's results);
- other benefits.

While assessing achievement of the set objectives both the quantitative and qualitative criteria are considered. Ealuating the employee's achievements, not only a level of personal achievements, financial results of the unit and the Bank but also non-financial (qualitative) contribution including relations with customers, colleagues, compliance with the standards, implementation of the internal regulations, policies and procedures, pro-activeness, responsibility, improvement of activities, etc. are taken into account.

Considering the possible risks related to the evaluated annual results of the employee whose professional activities (or) decisions might have significant impact on the risks accepted by the Bank not less than 40 per cent of the variable remuneration is subject to 3 (three) years of grace period paying in equal portions. 50 per cent of variable remuneration paid immediately and deferred are paid in cash, 50 per cent are paid in bank's shares with a 12 (twelve) month year grace period to the right of transfer. This period has been determined combining the long-term continuous activity interests of the Bank and Financial Group and the employee motivation.

### Relation between fixed and variable remuneration

To foster sound and efficient risk management variable remuneration cannot exceed 100 per cent of fixed remuneration unless the General Meeting of Shareholders increases the maximum variable and fixed remuneration ratio to 200 per cent in line with the conditions of the Directive 2013/36 /EU.

### Information on criteria for assessment of performance results which provide basis for right to shares, options or variable parts of remuneration

Payment of the deferred variable remuneration at the Bank applies to the employees whose professional performance and (or) passed resolutions may have a significant impact on the risks assumed by the Bank.

A deferred portion is paid under the decision of the Bank's Board if operational goals of the Bank, unit and (or) employee are being implemented. Variable remuneration, including the deferred portion, is paid only in case of sustainable financial situation of the Bank. The variable remuneration, without prejudice to requirements in legislation, can be reduced or not paid if the Bank's performance results do not comply with the indicators foreseen in the strategy or in case the Bank operates at a loss, if an employee acted unfairly or his activities led to the Bank's or Financial Group's loss. Both a current variable remuneration amount and earlier earned due amounts are subject to adjustments.

The right to the Bank's shares as part of the variable remuneration is based on the same performance evaluation criteria which apply to the portion paid in cash.

### The reasons and criteria of assignment of part of the variable remuneration and all the other benefits received not in cash

Following the requirements set by the Bank of Lithuania and the Remuneration Policy, the non-cash variable remuneration can be assigned only in the form of the Bank's shares and only to those Bank's employees whose professional activities and (or) decisions can have a significant impact on the risks assumed by the Bank.

### The general quantitative information about remuneration in terms of business areas

No business areas are distinguished within the Bank.

### Aggregate quantitative information on remuneration results

Following requirements provided for by the Bank of Lithuania, as of 31 December 2016, the employees whose professional performance and (or) decisions can have a significant impact on the risks assumed by the Bank totaled to 33 employees - 28 employees of the Bank, 4 employees of SB Lizingas UAB and 1 employee of Šiaulių banko investicijų valdymas UAB.

The following tables contain information about remuneration paid and (or) allocated in 2016. Information is provided without the employer's taxes. It is classified into the groups of the top management, employees whose professional performance and (or) decisions can have a significant impact on the risks assumed by the Bank and other employees.

### The Group's data not assessing the payments to *Sodra* and guarantee fund (thousand EUR):

| *2016* | *Portion of fixed remuneration, in thou EUR* | *Portion of variable remuneration, EUR* | *Number of beneficiaries* |
|---|---|---|---|
| *The senior management(members of the Board)** | 1,100 | 577 | 15 |
| *Employees whose performance can have a significant impact on the nature of risks assumed by the Bank*** | 882 | 308 | 22 |
| *Other employees* | 7,476 | 1,183 | 707 |
| *Total* | 9,458 | 2,068 | 744 |

| 2015 | Portion of fixed remuneration, in thousand EUR | Portion of variable remuneration, EUR | Number of beneficiaries |
|---|---|---|---|
| The senior management (members of the Board)* | 1,275 | 285 | 20 |
| Employees whose performance can have a significant impact on the nature of risks assumed by the Bank** | 670 | 185 | 15 |
| Other employees | 7,254 | 988 | 712 |
| Total | 9,198 | 1,457 | 747 |

The Bank's data not assessing the payments to *Sodra* and gurantee fund (thousand EUR):

| 2016 | Portion of fixed remuneration, in thousand EUR | Portion of variable remuneration, EUR | Number of beneficiaries |
|---|---|---|---|
| The senior management (members of the Board)* | 766 | 362 | 7 |
| Employees whose performance can have a significant impact on the nature of risks assumed by the Bank** | 882 | 308 | 22 |
| Other employees | 6,699 | 1,090 | 639 |
| Total | 8,347 | 1,760 | 668 |

| 2015 | Portion of fixed remuneration, in thousand EUR | Portion of variable remuneration, EUR | Number of beneficiaries |
|---|---|---|---|
| The senior management (members of the Board)* | 720 | 215 | 7 |
| Employees whose performance can have a significant impact on the nature of risks assumed by the Bank** | 670 | 185 | 15 |
| Other employees | 6,099 | 780 | 609 |
| Total | 7,489 | 1,180 | 631 |

**Senior managers (members of the Board) are also considered as employees whose performance and (or) decisions can have a significant impact on the risks assumed by the Bank.*

*** Not including senior managers (members of the Board).*

The amounts of variable remuneration for 2014 split into monetary pay outs, pension contributions, Bank's shares, financial instruments related to the Bank's shares, other financial or non-financial measures, not assessing the payments to *Sodra* and guarantee fund:

| Bank: | |
|---|---|
| Monetary payments | 253 thou EUR |
| Bank's shares | 905 thou units |

| Šiaulių Banko Lizingas: | |
|---|---|
| Monetary payments | 24 thou EUR |
| Bank's shares | 85 thou units |

| SB Lizingas: | |
|---|---|
| Monetary payments | n/a |
| Bank's shares | n/a |

The amounts of variable remuneration for 2015 split into monetary pay outs, pension contributions, Bank's shares, financial instruments related to the Bank's shares, other financial or non-financial measures, not assessing the payments to "Sodra" and guarantee fund:

| *Bank:* | |
|---|---|
| *Monetary payments* | 402 thou EUR |
| *Bank's shares* | 1,336 thou units |

| *Šiaulių Banko Lizingas:* | |
|---|---|
| *Monetary payments* | 28 thou EUR |
| *Bank's shares* | 94 thou units |

| *SB Lizingas:* | |
|---|---|
| *Monetary payments* | 56 thou EUR |
| *Bank's shares* | 188 thou units |

The amounts of outstanding deferred variable remuneration for 2013-2015 split to assigned and non-assigned parts, not assessing the payments to *Sodra* and guarantee fund:

| *Bank:* | *2013* | *2014* | *2015* | *Total:* |
|---|---|---|---|---|
| *Monetary payments* | 16 thou EUR | 67 thou EUR | 159 thou EUR | **242 thou EUR** |
| *Bank's shares* | 58 thou units | 239 thou units | 528 thou units | **825 thou units** |

| *Šiaulių Banko Lizingas:* | *2013* | *2014* | *2015* | *Total:* |
|---|---|---|---|---|
| *Monetary payments* | 2 thou EUR | 6 thou EUR | 11 thou EUR | **19 thou EUR** |
| *Bank's shares* | 6 thou units | 23 thou units | 38 thou units | **67 thou units** |

| *SB Lizingas:* | *2013* | *2014* | *2015* | *Total:* |
|---|---|---|---|---|
| *Monetary payments* | n/a | n/a | 23 thou EUR | **23 thou EUR** |
| *Bank's shares* | n/a | n/a | 75 thou units | **75 thou units** |

The amount and number of recipients of the guaranteed variable remuneration as foreseen by the new agreements and payments relating to the termination of the agreement over the financial year

The guaranteed variable remuneration is not foreseen.

Assignment of payments relating to the termination of the labour contracts over the financial year at the Bank, the number of their recipients and the largest amount assigned per person

| *2016* | *Pay-outs related to contract termination, EUR thousand* | *Largest amount per party, EUR thousand* | *Number of beneficiaries* |
|---|---|---|---|
| *The senior management (members of the Board)* | 0 | 0 | 0 |
| *Employees whose professional performance and (or) decisions can have a significant impact on the risks assumed by the Bank* | 39 | 29 | 2 |
| *Other employees* | 98 | 34 | 18 |
| *Total* | 137 | 63 | 20 |

| *2015* | *Pay-outs related to contract termination, EUR thousand* | *Largest amount per party, EUR thousand* | *Number of beneficiaries* |
|---|---|---|---|
| *The senior management (members of the Board)* | 0 | 0 | 0 |
| *Employees whose professional performance and (or) decisions can have a significant impact on the risks assumed by the Bank* | 0 | 0 | 0 |
| *Other employees* | 48 | 13 | 11 |
| *Total* | 48 | 13 | 11 |

Other information which, in the bank's opinion, is significant

The outstanding amounts of the deferred share of the variable remuneration, divided into assigned and non-assigned shares to the employees; the amounts of the deferred variable remuneration assigned over the financial year, paid out and corrected in accordance with the results of performance are disclosed after their payment, i.e. after the general meeting of the Bank's shareholders together with the interim report for the year 2017.

# 25. MEMBERS OF THE COMMITTEES FORMED WITHIN THE BANK, THE AREAS OF THEIR PERFORMANCE

The Risk, Internal Audit, Nomination, Remuneration, Loan and Risk Management Committees are formed within the Bank.The functions, procedures of formation and the policy of activities of these committees are defined by the legal acts of the Republic of Lithuania, legal acts of the Bank of Lithuania as well as provisions of the certain committees approved by the Management Board or Supervisory Council of the Bank.

- The Risk Committee shall advise the management bodies of the Bank on the overall current and future risk acceptable to the Bank and strategy and assist in overseeing the implementation of the strategy at the Bank, shall verify whether prices of liabilities and assets offered to clients take fully into account the Bank's business model and risk strategy and shall also shall carry out other functions provided for in its provisions.
- The Internal Audit Committee monitors and discusses the process of financial statement preparation, the efficiency of the Bank's internal control, risk management and internal audit systems, the processes of the audit and internal audit performance on regular basis and performs other functions foreseen by the legal acts of the supervisory authority and provisions of the Internal Audit Committee. The composition, competences and arrangement of activities of the internal Audit Committee are defined by the provisions of the internal Audit Committee approved by the Bank's Supervisory Council.
- The Nomination Committee nominates and recommends, for the approval of the management bodies of the bank or for approval of the general meeting of shareholders, candidates to fill management body vacancies, evaluates the balance of skills, knowledge and experience of the management body of the Bank, submits comments and findings related to the matter, assesses the structure, size, composition, operating results, skills of its members, their experience and carries out other functions provided for in its provisions.
- The Remuneration Committee evaluates the Policy of variable remuneration, practice and incentives created to manage the risks accepted by the Bank, its capital and liquidity, supervises the variable remuneration of the employees responsible for risk management and control of compliance, prepares draft resolutions regarding variable remunerations and performs other functions foreseen by its provisions.
- The Loan Committee analyses loan application documents, decides regarding granting of loans and amendment of their terms, assesses risks of loans, suggests regarding loan granting, loan interest rates, improvement of loan administration procedures and performs other functions foreseen by its provisions.
- The Risk Management Committee performs the functions related to the efficiency of the Bank's activities taking into consideration the parameters of the acceptable risks and integrating the management of the interest rates, capital and liquidity, also, performs other functions foreseen by its provisions.

Information on the members of the committees as of 31 December 2016:

## The Risk Committee

| *Name, surname* | *Beginning / end of tenure* | *Share of capital under the right of ownership, %* | *Place of Employment* |
|---|---|---|---|
| *Darius Šulnis* | 09/05/2016 / 2020 | 0.00 | Invalda INVL AB, INVL Asset Management UAB, Invalda INVL Investments UAB |
| *Arvydas Salda* | 30/03/2016 / 2020 | 2.42 | Šiaulių Banko Turto Fondas UAB, Sanatorium Eglės AB |
| *Peter Reiniger* | 30/03/2016 / 2020 | 0.00 | An independent consultant |

## Internal Audit Committee

| *Name, surname* | *Beginning / end of tenure* | *Share of capital under the right of ownership, %* | *Place of Employment* |
|---|---|---|---|
| *Ramunė Vilija Zabulienė* | 30/03/2016 / 2020 | 0.00 | ArsDomina VšĮ |
| *Martynas Česnavičius* | 30/03/2016 / 2020 | 0.00 | D Investicijų Valdymas UAB, Fund Amber Trust I S.C.A., Amber Trust II S.C.A, Pro Finance UAB, KJK management S. A. |
| *Valdas Vitkauskas* | 30/03/2016 / 2020 | 0.00 | European Bank for Reconstruction and Development |
| *Rimantas Purtulis* | 30/03/2016 / 2020 | 0.09 | Individual activity |

## The Nomination Committee

| Name, surname | Beginning / end of tenure | Share of capital under the right of ownership, % | Place of Employment |
|---|---|---|---|
| Valdas Vitkauskas | 30/03/2016 / 2020 | 0.00 | European Bank for Reconstruction and Development |
| Ramunė Vilija Zabulienė | 30/03/2016 / 2020 | 0.00 | ArsDomina VšĮ |
| Darius Šulnis | 09/05/2016 / 2020 | 0.00 | Invalda INVL AB, INVL Asset Management UAB, Invalda LT Investments UAB |

## Remuneration Committee

| Name, surname | Beginning / end of tenure | Share of capital under the right of ownership, % | Place of Employment |
|---|---|---|---|
| Gintaras Kateiva | 30/03/2016 / 2020 | 5.82 | Litagra UAB, Litagros Mažmena UAB |
| Peter Reiniger | 30/03/2016 / 2020 | 0.00 | An independent consultant |
| Martynas Česnavičius | 09/05/2016 / 2020 | 0.00 | D Investicijų Valdymas UAB, Fund Amber Trust I S.C.A., Amber Trust II S.C.A, Pro Finance UAB, KJK management S. A. |

## Loan Committee

| Name, surname | Beginning / end of tenure | Share of capital under the right of ownership, % | Place of Employment |
|---|---|---|---|
| Vytautas Sinius | 13/01/2015 / operating on a continuous basis | 0.14 | Šiaulių Bankas AB |
| Edas Mirijauskas | 13/01/2015 / operating on a continuous basis | 0.03 | Šiaulių Bankas AB |
| Giedrius Sarapinas | 13/01/2015 / operating on a continuous basis | 0.01 | Šiaulių Bankas AB |
| Daiva Šorienė | 13/01/2015 / operating on a continuous basis | 0.07 | Šiaulių Bankas AB |
| Donatas Savickas | 13/01/2015 / operating on a continuous basis | 0.10 | Šiaulių Bankas AB |
| Aurelija Geležiūnė | 20/10/2015 / operating on a continuous basis | 0.01 | Šiaulių Bankas AB |
| Mindaugas Rudys (a substitute membe) | 26/04/2016 / operating on a continuous basis | 0.01 | Šiaulių Bankas AB |

## Risk Management Committee

| Name, surname | Beginning / end of tenure | Share of capital under the right of ownership, % | Place of Employment |
|---|---|---|---|
| Donatas Savickas | 17/11/2015 / operating on a continuous basis | 0.10 | Šiaulių Bankas AB |
| Algimantas Gaulia | 17/11/2015 / operating on a continuous basis | 0.00 | Šiaulių Bankas AB |
| Jolanta Dūdaitė | 17/11/2015 / operating on a continuous basis | 0.00 | Šiaulių Bankas AB |
| Pranas Gedgaudas | 17/11/2015 / operating on a continuous basis | 0.02 | Šiaulių Bankas AB |
| Morena Liachauskienė | 17/11/2015 / operating on a continuous basis | 0.00 | Šiaulių Bankas AB |
| Edas Mirijauskas | 17/11/2015 / operating on a continuous basis | 0.03 | Šiaulių Bankas AB |

## 26. BANK'S MANAGEMENT BODIES

**The bodies of the Bank** are as follows: the General Meeting of the Shareholders of the Bank, Council of the Bank, Board of the Bank and Chief Executive Officer (hereinafter - CEO). **The management bodies of the Bank** are as follows: Board of the Bank and Chief Executive Officer.

**General Meeting of Shareholders** takes place annually, within 3 months after the end of fiscal year. The extraordinary meeting of shareholder may also be convened. The shareholders, having no less than 1/10 of all the votes, as well as the Bank's Board and Supervisory Council have an initiative right of convening the meeting. The Law on Companies of the Republic of Lithuania specifies the cases when a general meeting can be convened by other persons.

General Meeting of Shareholders is organized, voting is carried out and resolutions passed in compliance with the Law on Companies of the Republic of Lithuania. If the meeting cannot take place due to lack of a quorum (more than ½ of the total votes), the re-convened meeting of shareholders with the valid agenda of the previous meeting shall be summoned.

**The General Shareholders' Meeting exclusively**:

- amends Charter of the Bank, except in cases, provided in the laws;
- amend the Bank's head office;
- elects the Bank's Supervisory Council members;
- recalls the Bank's Supervisory Council or its individual members;
- elects and recalls the audit company to audit the annual financial statements, sets the terms of payment for audit services;
- approves the set of annual financial statements of the Bank;
- sets class, number, par value and minimum issue price of the shares, issued by the Bank;
- adopts resolution regarding:
    - issuing of convertible bonds;
    - cancellation of the preference right to purchase shares or convertible bonds of the Bank of a given emission to all of the shareholders;
    - conversion of the Bank's shares of one class into another, approval of the conversion order;
    - allocation of profit (loss);
    - making, use, reduction and cancellation of reserves;
    - increase of authorized capital;
    - reduction of authorized capital, except of the cases, provided in the laws;
    - purchase by the Bank of its own shares;
    - reorganization or demerge of the Bank and approving terms of such reorganization or demerge; except of the cases, provided in the Law on Companies of the Republic of Lithuania;
    - restructuring of the Bank;
    - liquidation of the Bank, cancellation of liquidation, except cases, provided in the laws;
- selects and cancels the Bank's liquidator, except cases, provided in the laws.

**The Supervisory Council** of the Bank is a collegial body supervising the activities of the Bank. The Supervisory Council is directed by its Chairman. The Supervisory Council consisting of 7 (seven) members is elected by the General Meeting of Shareholders for a term of four years. The initiators of the Meeting or the shareholders holding at least 1/20 of the Bank's shares, shall have the right of proposing the members of the Supervisory Council.

The candidates are proposed before the Meeting or during the Meeting. Each candidate to the Supervisory Council's members shall inform the Meeting about his current capacity and how his activities are related to the Bank or to other legal entities associated with the Bank.

While electing the Supervisory Council's members each shareholder shall have the number of votes equal to the product of the numbers of votes granted to him by the shares owned and number of the Supervisory Council's members to be elected. These votes are allocated by the shareholder at his own discretion - for one or several candidates. The candidates who receive the biggest number of votes are elected.

1 (one) independent member is elected to the current tenure of the Supervisory Council. In accordance with the Bank's Charter the number of tenures of the Council member is not limited.

The functions of the Supervisory Council are as follows:

- elect members of the Board and remove them from office, make recommendations to the Board regarding the candidature for the Chairman of the Board. Prior approval of the Council is necessary to obtain before setting salaries of the Board members who hold other positions in the Bank, Chief Executive Officer and his deputies, as well as other terms of labour contract. If the Bank operates at a loss, the Council must consider the suitability of the Board members for their positions;
- elect members of the Internal Audit Committee;
- supervise activities of the Board and the Chief Executive Officer;
- supervise the implementation of business plans of the Bank, analysis the Bank's income and expenses, own investments and capital adequacy issues;
- approve the Rules of Procedure of the Supervisory Council of the Bank;
- approve business plans of the Bank and annual budget;
- approve any type of policies related to the Bank's activities including the risk management policy;
- ensure the effective internal control system in the Bank;
- make proposals and comments to the General Shareholders' Meeting on the Bank's work strategy, the Bank's annual financial statements, the draft of the profit (loss) distribution and the report on the Bank's activities as well as activities of the Board and the Chief Executive Officer of the Bank;
- approve loan granting policy and set order of lending subject to Supervisory Council's approval;
- make proposals to the Board and the Chief Executive Officer to cancel their resolutions that contradict the laws and other legal acts, this Charter or resolutions of the General Meeting of the Shareholders;
- set the list of transactions and resolutions, making or implementation of which is subject to the Council's approval;
- adopt resolutions, assigned to the Supervisory Council's competence according to the orders, approved by the Supervisory Council; such order shall be adopted by the Council following the laws, this Charter or resolutions of the General Meeting of Shareholders;
- consider other matters, subject to its consideration or solution, provided for in the laws of this Charter or in the resolutions adopted by the Meeting which are subject to discussion and resolution of the Supervisory Council.

6 (six) meetings of the Supervisory Council were held in 2016. 1 (one) member did not participate in one meeting. The general attendance of the Bank;s Supervisory Council's meetings is 98 per cent.

The Management Board of the Bank is a collegial Bank management body, consisting of 7 (seven) members. It manages the Bank, handles its matters and answers under the laws for the execution of the Bank's financial services. Order of the Board's work is set by the Board work regulations. The Board members are elected, recalled and supervised by the Bank's Supervisory Council. The Board of the Bank is elected by the Council for a term of 4 years - the number of tenures is not limited. If individual Board members are elected, they are elected till the end of the active Board's term.

The Bank's Board shall consider and approve:

- the annual report of the Bank;
- the structure of the Bank management and positions; posts in which persons are employed only by holding competitions;
- regulations of the branches, representatives and other separate subdivisions of the Bank;
- order of the Bank's loans granting, following the loan granting policy, approved by the Supervisory Council;
- order of issuing guarantees, securities and taking of other liabilities;
- order of writing-off of the loans and other receivables;
- regulations of the Loan Committee and Risk Management Committee of the Bank.
- also the Board shall elect (assign) and remove from office the Chief Executive Officer and his deputies. The Board sets salary and other terms of labour contract with the Chief Executive Officer, approves his Staff Regulations, induces and imposes sanctions to the Chief Executive Officer;
- also the Board determines the information to be considered commercial secret of the Bank.

The Board shall adopt:

- decisions on the Bank becoming the founder, member of other legal entities;
- decisions on opening branches, representatives and other separate subdivisions of the Bank as well as on cancellation of their activities;
- decisions on the investment, transfer or lease of long-term assets the balance-sheet whereof amounts to over 1/20 of the Bank's authorized capital (calculating separately for each kind of transaction);
- decisions on the mortgage or hypothec of long-term assets the value whereof amounts to over 1/20 of the Bank's authorized capital (calculating separately for each kind of transaction);
- decisions on offering guarantee or warranty for the discharge of obligations of other entities, when the amount of the obligations exceeds 1/20 of the Bank's authorized capital;
- decisions on the acquisition of long-term assets the price whereof exceeds 1/20 of the Bank's authorized capital;
- decisions on issuing of non-convertible bonds;
- Board work regulation;
- decisions on other matters it has to consider or solve under the Laws or Charter of the Bank.

The Board shall set:

- terms for the shares issue of the Bank;
- order for issue of the bonds of the Bank. When the General Shareholders' Meeting adopts a resolution regarding the issuing of convertible bonds, the Board is entitled to set additional terms of issuing and to approve bond subscription agreements, signed by the Chief Executive Officer or his authorized person;
- order and cases of employment in the Bank, when the employees are engaged with the Board's approval.

The Board shall execute resolutions passed by the Meeting and Supervisory Council.

The Board shall analyse and evaluate the material submitted by the Chief Executive Officer on:

- implementation of the Bank's activities strategy;
- arrangement of the Bank's activities;
- financial state of the Bank;
- results of economic activities, income and expenditure estimates, stock-taking data and other records of valuables.

The Board shall also analyze, assess the Bank's draft annual financial statements and draft of the profit (loss) distribution and submit them to the Board and General Meeting of Shareholders. Also, the Board shall solve other matters of the Bank's activities, if they are out of the other managing bodies' competence under the laws and this Charter.

The Board shall convene and hold the General Shareholders' Meetings in due time.

Chief Executive Officer is a single person management body of the Bank who arranges everyday activities of the Bank and performs other actions necessary to perform his functions, to implement the decisions of the Bank's bodies and to ensure the Bank's activities.

Functions of the Chief Executive Officer:

- to arrange everyday activities of the Bank;
- to engage and discharge employees, make work contracts with them and terminate them, induce them and impose sanctions. The Chief Executive Officer of the Bank is entitled to authorize another Bank employee to perform actions listed therein;
- to represent the Bank in its relations with other persons, in court and arbitrage without special authorization;
- to grant and cancel powers of attorney and procurements;
- to issue orders;
- to perform other actions, necessary to perform his functions, to implement decisions of the Bank's bodies and to ensure Bank's activities.

Chief Executive Officer is responsible for:

- arrangement of the Bank's activity and implementation of its aims;
- making of annual financial statements and preparation of the Bank's annual report;
- making of a contract with the audit company;
- delivery of information and documents to the Meeting, Board and Supervisory Council in the cases, provided for in the laws or upon request;
- delivery of the Bank's documents and data to the custodian of the Register of Legal Entities;
- delivery of the documents to the Securities Commission and to the Central Securities Depository of Lithuania;
- publication of the information, prescribed by the laws and other legal acts, in the media sources stated in this Charter;
- information delivery to the shareholders;
- execution of other duties, prescribed by the laws and legal acts, this Charter and Staff regulations of the Chief Executive Officer.

The Chief Executive Officer acts on the Bank's behalf and is entitled to make transactions at his sole discretion, except for the exceptions, stated therein or in the resolutions of the bodies of the Bank.

**The Chief Executive Officer and the members of the Board and Supervisory Council participate in the general meetings of shareholders.** Chief Executive Officer of the Bank Vytautas Sinius, Head of Accounting and Tax Division of the Bank Vita Adomaitytė as well as members of the Supervisory Council of the Bank participated in the General meeting of shareholders held in 2016. The shareholders had an opportunity to discuss the issues of concern with the senior management of the Bank directly.

## 27. MEMBERS OF BANK'S COLLEGIAL BODIES

Supervisory Council of the Bank:

*Arvydas Salda*

Member of the Supervisory Council since 1991, Chairman of the Supervisory Council of the Bank since 1999

Education:
- Kaunas Institute of Technology;
- Vilnius University, Master of applicable mathematics

Work experience (not less than 5 years):
- Member of the Board Klaipėdos LEZ Valdymo Bendrovė UAB since 1998
- A consultant of Šiaulių Banko Turto Fondas UAB since 2004
- Consultant of Sanatorium Eglės AB since 2014

*Gintaras Kateiva*

Member of the Supervisory Council of the Bank since 2008

Education:
- Vilnius Pedagogic Institute, a teacher

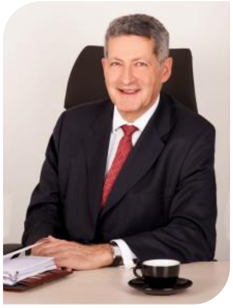
Work experience (not less than 5 years):
- Chairman of the Board of Litagra UAB since 2005 and director general since 2008
- Director of Litagros Mažmena UAB since 2008

## *Valdas Vitkauskas*

Member of the Supervisory Council of the Bank since 2014 , representing he European Bank for Reconstruction and Development (EBRD)

Education:
- Vytautas Magnus University, Master of Business Administration and Management
- Southern Methodist University (USA), Master

Work experience (not less than 5 years):
- Banker of the EBRD representative office in Vilnius until 2007
- Chairman of the Audit Committee at Belarusian Small Business Bank until 2011
- Head of the EBRD representative office in Minsk until 2011
- EBRD associated director, chief banker since 2011
- Independent member of EPSO-G UAB since 2016



## *Peter Reiniger*

Member of the Supervisory Council of the Bank since 2011

Education:
- Technical University of Budapest, an engineer-mechanic, engineer of production organization

Work experience (not less than 5 years):
- Took various capacities (up to executive director) at the European Bank for Reconstruction and Development until 2011
- An independent consultant since 2011
- Member Investment Committee and member of the Board at European Fund For Southeast Europe since 2011

## *Ramunė Vilija Zabulienė*

Independent member of the Supervisory Council of the Bank since 2012

Education:
- Vilnius University, an engineer-economist

Work experience (not less than 5 years):
- Member of the Board of the Bank of Lithuania, Deputy Chairman until 2011
- Director of ArsDomina VšĮ since 2012
- Minister's Counsellor at the Ministry of Culture of the Republic of Lithuania from 2014 till the end of the tenure at 2016

## *Darius Šulnis*

Member of the Supervisory Council of the Bank since 09 May 2016

Education:
- Duke University USA, Global Executive MBA
- Vilnius University, Master of Accounting and Audit

Work experience (not less than 5 years):
- Member of the Board at Litagra UAB since 2011
- President of Invalda INVL AB since 2013, member if the Board since 2006
- Member of the Board at INVL Baltic Farmland AB since 2014
- Director General and Chairman of the Board at INVL Asset Management UAB since 2015
- Member of the Supervisory Council at Finasta Asset Management IPAS (Latvia) since 2015
- Member of the Supervisory Council at INVL atklātais pensiju fonds AS (Latvia) since 2015

*Martynas Česnavičius*

Member of the Supervisory Council of the Bank since 09 May 2016

Education:
- Vilnius University, an economist

Work experience (not less than 5 years):
- Member of the Board at Laisvas nepriklausomas kanalas UAB since 2003
- Member of the Board at Litagra UAB since 2003
- Counsellor at KJK management S.A. since 2003
- Counsellor at Fund Amber Trust I S.C.A. since 2003
- Counsellor at Fund Amber Trust II S.C.A. since 2003
- Member of the Board at Atradimų studija UAB since 2005
- Counsellor at Pro Finance UAB since 2006
- Member of the Board at Amber Trust II Management SA since 2009
- Member of the Board at Amber Trust Management SA since 2009
- Chairman of the Board at Malsena plius AB since 2012
- Member of the Board and Director at D Investicijų valdymas UAB since 2012
- Member of the Board at AS Rigas Dzirnavnieks since 2013
- Member of the Board at Baltic Mill AB since 2015

The Management Board of the Bank:

*Algirdas Butkus*

Chairman of the Board of the Bank, Deputy Chief Executive Officer

Education:
- Kaunas Technology Institute, Master of Economy

Work experience (not less than 5 years):
- Chairman of the Board, Chief Executive Officer of Šiaulių bankas AB from 1999 to 2011, Deputy Chief Executive Officer since February 2011

*Vytautas Sinius*

Member of the Board of the Bank, Chief Executive Officer

Education:
- Vilnius Higher School of Economics, a bank officer
- Vilnius University, Bachelor of Economy
- Vytautas Magnus University, Master of Business Administration and Management

Work experience (not less than 5 years):
- Director of Retail Banking Division of SEB AB 2006 -2010
- Head of Corporate Banking Division of Šiaulių Bankas AB 2011 - 2014, Chief Executive Officer since 2014

*Donatas Savickas*

Member of the Board, Deputy Chief Executive Officer, Head of Finance and Risk Management Division

Education:
- Vilnius University,Master of Economy
- Vytautas Magnus University, Master of Business Administration and Management

Work experience (not less than 5 years):
- Deputy Chairman of the Board of Šiaulių bankas AB since1995, Deputy Chief Executive Officer, Head of Finance and Credit Division since 2005, Head of Finance and Risk Management Division since 2011

*Daiva Šorienė*

Member of the Board of the Bank, Deputy Chief Executive Officer, Head of Business Development Division

Education:
- Vilnius University, Master of Economy
- Vytautas Magnus University, Master of Business Administration and Management

Work experience (not less than 5 years):
- Deputy Chairperson of the Board of Šiaulių Bankas AB since1998, Deputy Chief Executive Officer, Head of Corporate and Retail Banking Division since 2005, Head of Business Development Division since 2014

*Vita Adomaitytė*

Member of the Board of the Bank, Chief Accountant, Head of Accounting and Tax Division

Education:
- Vilnius University, Master of Finance and Credit

Work experience (not less than 5 years):
- Chief Accountant of Šiaulių Bankas AB since 2002, Head of Accounting and Reporting Division from 2005 to 2015, Head of Accounting and Tax Division since 2015

*Jonas Bartkus*

Member of the Board of the Bank, Head of IT Division

Education:
- Vilnius University, Master of Mathematics

Work experience (not less than 5 years):
- Head of Business Development Division of the Bank since 2005, Head of the IT Division since 2011

*Ilona Baranauskienė*

Member of the Board of the Bank, Head of Assets Restructuring Division

Education:
- Kaunas University of Technology, Bachelor of Business Administration and Management
- Šiauliai University, Master of Economy

Work experience (not less than 5 years):
- Director General of SLEZVB UAB until 2013
- Deputy Director of SBTF UAB since 2006
- Director of the Special Financing Department of Šiaulių Bankas AB since 2013

Information on the share of Bank's capital and votes owned under the right of ownership by the members of the Bank's collegial bodies and chief accountant together with the related parties as of 31 December 2016:

| Name, surname | Beginning / end of tenure | Share of capital under the right of ownership, % | Share of votes together with the related persons, % |
|---|---|---|---|
| Arvydas Salda | beginning 30/03/2016/ end 2020 | 2.42 | 39.10 |
| Gintaras Kateiva | beginning 30/03/2016/ end 2020 | 5.82 | 39.10 |
| Peter Reiniger | beginning 30/03/2016/ end 2020 | — | — |
| Ramunė Vilija Zabulienė | beginning 30/03/2016/ end 2020 | — | — |
| Valdas Vitkauskas | beginning 30/03/2016/ end 2020 | — | — |
| Darius Šulnis | beginning 09/05/2016/ end 2020 | — | 39.10 |
| Martynas Česnavičius | beginning 09/05/2016/ end 2020 | — | 39.10 |
| Algirdas Butkus | beginning 30/03/2016/ end 2020 | 3.22 | 39.10 |
| Vytautas Sinius | beginning 30/03/2016/ end 2020 | 0.14 | 39.10 |
| Donatas Savickas | beginning 30/03/2016/ end 2020 | 0.10 | 39.10 |
| Daiva Šorienė | beginning 30/03/2016/ end 2020 | 0.07 | 39.10 |
| Vita Adomaitytė | beginning 30/03/2016/ end 2020 | 0.06 | 39.10 |
| Jonas Bartkus | beginning 30/03/2016/ end 2020 | 0.09 | 39.10 |
| Ilona Baranauskienė | beginning 30/03/2016/ end 2020 | 0.01 | 39.10 |

Amounts of remuneration over 2015 and 2016 and average sizes per member of the collegial body as well as provided guarantees:

| Members of the Management Bodies | Number of people | Total remuneration, EUR | | Place of Employment | | Transferred assets,EUR | Provided guarantees, EUR |
|---|---|---|---|---|---|---|---|
| | | 2015 | 2016 | 2015 | 2016 | | |
| Members of the Supervisory Council of the Bank* | 7 | 71,042 | 205,213 | 10,149 | 29,316 | 0 | 0 |
| The members of the Board of the Bank | 7 | 934,554 | 1,131,993 | 133,508 | 161,713 | 0 | 0 |
| Chief Executive Officer and Chief Accountant | 2 | 277,594 | 366,001 | 138,797 | 183,001 | 0 | 0 |

**Only the independent member of the Supervisory Council received pay outs in 2015 and 2016. In 2016 the total amount of bonuses paid to the members of the Supervisory Council comprised EUR 200 thousand (in 2015 - EUR 65 thousand).*

Loans granted to the members of the Supervisory Council and Bank's Board as of 31 December 2016:

| Members of the Management Bodies | Loans granted, in EUR thousand |
|---|---|
| The Supervisory Council of the Bank | 872 |
| The members of the Board of the Bank | 86 |
| Total: | 958 |

## 28. THE MOST IMPORTANT EVENTS DURING REPORTING PERIOD

The Bank started the year 2016 successfully implementing all changes associated with accession to the Single Euro Payments Area (SEPA) allowing the clients in Lithuania as well as in other member states belonging to the SEPA to transfer the funds in euros in unified formats, scope of information and in compliance with the same regulations.

On 01 January, the range of financing services provided by the Bank will encompass leasing services with respect to vehicles and other large assets rendered to private and corporate customers previously rendered by Šiaulių Banko Lizingas UAB, a subsidiary of the Bank.

On January 11, the Bank announced about a new e-invoice service which replaced a direct debit services previously rendered by the Bank and currently not meeting the requirements set to the payment orders in euros in the SEPA environment.

On January 25, it was announced that big companies may receive the loans issued by the Ban with the guarantees provided by Investicijų ir verslo garantijos UAB.

On January 29, in order to ensure higher security of electronic settlement transactions, the Bank provided the possibility to register payment cards on the secure on-line payment programme MasterCard SecureCode.

On February 23, it was announced that in order to increase on-line payment security the clients would have to sign some of the transaction on the on-line banking system SB Linija with an additional password sent by SMS.

On 21 March, the magazine Global Finance selected top banking performers in emerging markets in Central and Eastern Europe for the twenty-third year and recognized the Bank as the best bank in Lithuania in 2015.

A resolution to increase the Bank's authorized capital by 18.2 million euros from the Bank's retained earnings was passed during the General Meeting of Shareholders of the Bank held on 30 March. After the share issue the authorized capital of the Bank grew up to 109.5 million euros.

On 19 April, the procedure of payment of dividends allocated by the General meeting of shareholders was announced.

On 22 April, the Bank signed an amendment to the cooperation agreement with the European Investment Bank and a pre-financing agreement under which the Bank AB acquired a right to assign EUR 30 million from its own funds to finance housing renovation (modernization) projects.

On 26 April, The Bank's Board passed a resolution to start the liquidation process of the subsidiaries Investicinio turto valdymas UAB and Trade project UAB directly controlled by the Bank and Žalgirio Sporto Arena UAB indirectly controlled by the Bank.

On 09 May following the resolution of the Director of the Supervisory Service of the Bank of Lithuania Darius Šulnis and Martynas Česnavičius were allowed to become the members of the Supervisory Council of the Bank. The members of the Supervisory Council were elected for the new tenure during the General meeting of shareholders held on 30 March 2016.

From 12 May the on-line banking system SB Linija clients were provided with a service allowing to trade in securities in the Baltic markets using the updated securities trading platform.

The Bank invites its private customers to take advantage of the exclusive facility *A Credit of Opportunities* during the period between 16 May and 18 September.

On 26 May the amended Charter of the Bank with the authorized capital increased up to EUR 109,471,658.33 was registered at the the Registry of Legal Entities.

On 27 May the Bank signed a cooperation agreement with the European Investment Bank (EIB) under which EUR 80 million shall be additionally contributed to the multi-apartment building renovation programme (EUR 40 million from the Bank's funds and EUR 40 million from the EIB's funds).

On 16 June Moody's Investors Service LTD announced the better ratings of the Bank: the long-term deposit rating improved by two notches from B2 to Ba1, the rating outlook was stable.

On 28 July six new cash accepting ATMs were installed in the major cities of Lithuania as a result of the ATM network update, thus,giving even more self-service options to the Bank's clients.

On 16 August the Bank supplemented a range of its services with the life risk insurance service Safe Family which at favourable terms is rendered to the Bank's clients by the life insurance company Bonum Publicum UAB.

On 31 August, the Banks informed on resuming the car leasing terms to natural persons, and providing an opportunity to its clients acquire a car by lease without a down payment.

On 5 September, the Bank launched its new structural saving facility, i.e. a fixed-term deposit with additional interest linked to financial assets - to the oil sector companies' share rates. The deposit of such type was distributed for the period of one month.

On 07 September the Bank received a special certificate *For introduction of employees' mutual service quality and performance assessment system* at the National Responsible Business Awards arranged by Social Security and Labour Ministry.

On 15 September, the Bank had been selected among top ten European companies in European Business Awards claiming for *The ELITE Award for Growth Strategy of the Year*.

On 29 September, the European Investment Fund and the Bank signed an agreement to enhance access to finance to innovative small and medium-sized enterprises in Lithuania. This transaction benefits from the support of the European Fund for Strategic Investments, the heart of the Investment Plan for Europe.

On 28 October, the Bank and MasterCard, its strategic partner in issuance of payment cards and provision of card-related services, invited the cardholders to know the world and enjoy experiences with the programme *Priceless Cities.*

On 10 November, in the traditional competition Car of the Year the Bank as the competition partner announced about its second nomination *The Dream Comes True* with 10 cars competing against each other.

On 11 November, the Bank and one of the largest consumer leasing companies SB Lizingas introduced a new MasterCard card which allows convenient purchase of goods and services on a lease.

On 30 November, the Bank announced about the changes related to the provided services and fees. Since 12 December the Bank's private customers were provided with the possibility to economically and conveniently use of the basic banking services subscribing to one of the following service plans which met their needs at most: Modern, Maximum,Traditional with a discount For Loyal or For Seniors or a free plan For the Youth. Since that date private and corporate customers can also order security programme to any payment card issued by the Bank which is useful if the card is lost.

On 30 November, Deputy Chief Executive Officer of the Bank Donatas Savickas presented the Bank's activities and prospects during the meeting between investors and CEOs of the companies listed on the Nasdaq Vilnius Stock Exchange.

On 02 December it was announced that the Bank signed the first loan agreement with the safe production company Seifuva under the new innovative business facility *InnovFin* . EUR 689 thousand were granted to the company for investments into advanced production system.

On 05 December, the Bank as the social partner of the Vytautas Magnus University (VMU) granted a nominal scholarship to a student of the Vytautas Magnus University (VMU) for the eight time in a row.

On 08 December, The Banker issued by Great Britain's daily newspaper The Financial Times announced the Bank as the Best Bank in Lithuania 2016. This is the third award of the prestigious business magazine granted to the Bank.

On 13 December, as alternative to the low deposit interest environment the Bank introduced a fixed-term deposit whose interest rate is linked to financial assets - the agricultural raw material price indices.

At the end of December the Bank's employees granted a hundred modern digital TV sets to three Lithuanian public charity and aid organizations - *Caritas*, *Save the Children* and *the Lithuanian Samaritan community*. TV sets were distributed among the centres and units of these organizations as well as to the deprived living in 20 locations throughout Lithuania.

## 29. DATA ON THE PUBLICLY DICSLOSED INFORMATION

The following information was publicly disclosed in 2016:

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|---|---|
| *26/02/2016* | The interim information for twelve months of the Bank and the Group for 2015 |
| *09/03/2016* | Convocation of the Ordinary General Meeting of Shareholders |
| *09/03/2016* | The draft resolutions prepared by the Board for the Ordinary General Meeting of Shareholders held on 30 March 2016 |
| *30/03/2016* | The resolutions of the Ordinary General Meeting of Shareholders held on 30 March 2016 |
| *30/03/2016* | Annual Report for 2015 |
| *31/03/2016* | The resolutions of the Supervisory Council and Management Board of the Bank (regarding election of the Chairman of the Supervisory Council and members of the Management Board) |
| *19/04/2016* | The dividend payment procedure |
| *25/04/2016* | The arrangement with European Investment Bank regarding allocation of the Bank's additional funds to finance modernization projects |
| *26/04/2016* | The unaudited activity result for Q1 2016 of the Bank and the Group |
| *27/04/2016* | The approval of liquidation of three non-financial subsidiaries of the Bank |
| *03/05/2016* | The Bank's presentation at the Nasdaq Vilnius meeting |
| *10/05/2016* | The Bank of Lithuania issued a permission allowing Darius Šulnis and Martynas Česnavičius to become the members of the Supervisory Council of the Bank |
| *19/05/2016* | A permit to register an amendment of the Bank's Charter has been received |
| *20/05/2016* | Interim information for 3 months of 2016 |
| *27/05/2016* | The amended Charter with the increased authorized capital has been registered |
| *01/06/2016* | The transactions related to payment of the variable remuneration in the Bank's shares were concluded |
| *02/06/2016* | The Bank signed another agreement with the EIB regarding financing of the Multi-apartment Building Modernisation Programme |
| *02/06/2016* | Information on the shares and authorized capital |
| *17/06/2016* | Rating agency upgraded the Bank's ratings |
| *26/07/2016* | The unaudited activity result for H1 2016 of the Bank and the Group |
| *19/08/2016* | The information on H1 2016 performance results |
| *25/10/2016* | The unaudited activity result for 9 months of 2016 of the Bank and the Group |
| *21/11/2016* | Interim information for 9 months of 2016 |
| *29/11/2016* | The requirement of other systemically important institution buffers applicable to the Bank remains unchanged |
| *30/11/2016* | The Bank's presentation at the Nasdaq Vilnius meeting |
| *12/12/2016* | The calendar of the Bank's information to be announced in 2017 |
| *27/12/2016* | Regarding capital adequacy ratio |
| | Reports regarding the transactions with the Banks shares entered by the Bank's senior managers |

In accordance with the procedures set by the Charter of the Bank and the legal acts of the Republic of Lithuania all the stock events are announced in the Central regulated information base and on the Bank's site www.sb.lt. Reports on the Meeting of Shareholders was additionally announced in the daily newspaper *Lietuvos rytas*.

## 30. PROCEDURES PROCEDURE OF CHARTER AMENDMENTS

The Bank's Charter can be amended only by the resolution of the General Shareholders' Meeting at 2/3 majority of votes, except exclusive cases defined by the law.

## 31. INFORMATION ON THE BANK'S GOVERNANCE

The Bank operates in compliance with the many standards set in the Corporate Governance Code of Listed Companies approved by the Nasdaq Vilnius which is of a recommendatory nature. Comprehensive information on the matter is provided in the annex enclosed to the consolidated annual report.

Chief Executive Officer — Vytautas Sinius

8 March 2017

ŠIAULIŲ BANKAS

# REPORT ON THE BANK'S GOVERNANCE

(Annex to the Consolidated Annual Report for 2016)

Following Article 22 paragraph 3 of the Law on Securities of the Republic of Lithuania and clause 24.5 clause of the Listing Rules of Nasdaq Vilnius AB, the Bank discloses its compliance with the Governance Code for the companies quoted on the Nasdaq Vilnius AB, its specific provisions and recommendations. Where the Bank does not meet some of its provisions or recommendations it is indicated which specific provisions or recommendations are not met and explanatory information is provided.

## Governance Report Summary

The bodies of the Bank include the General Meeting of the Shareholders of the Bank, Council of the Bank, Board of the Bank and Chief Executive Officer. The Supervisory Council consisting of 7 (seven) members is elected by the General Meeting of Shareholders. The Management Board consisting of 7 (seven) members is appointed by the Supervisory Council. Chief Executive Officer is assigned by the Management Board.

The Risk, Internal Audit, Nomination, Remuneration, Loan and Risk Management Committees are formed within the Bank. The functions, procedures of formation and the policy of activities of these committees are defined by the legal acts of the Republic of Lithuania, legal acts of the Bank of Lithuania as well as provisions of the certain committees approved by the Management Board or Supervisory Council of the Bank.

More information on the Bank's management, the shareholders' rights, the Supervisory Council, the Management Board, Chief Executive Officer and committees' performance as well as the Bank's internal control and risk management are disclosed in the consolidated annual report.

## Structured Disclosure Table

| PRINCIPLES/ RECOMMENDATIONS | YES / NO / NOT APPLICABLE |
|---|---|
| *Principle I: Basic Provisions*<br>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value. | |
| **1.1.** A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.<br><br>COMMENTARY<br><br>General purposes of the Bank, in attaining of which the Bank fulfils its mission, and the main business areas, aiming at exceptional competence, as well as plans are publicly declared in the Bank's notifications and are placed on the website of the Bank as well as reviewed during the meetings with investors. | Yes |
| **1.2.** All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value. | Yes |
| **1.3.** A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders. | Yes |
| **1.4.** A company's supervisory and management bodies should ensure that the rights and interests not only of the company's shareholders but also of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.<br><br>COMMENTARY<br><br>The rights and interest of the shareholders, employees, clients and other entities related to the bank's activities are respected; the bank works in compliance with requirements set by the Labour Code as well as with the provisions stated in the agreements between clients and suppliers. | Yes |
| *Principle II: The corporate governance framework*<br>The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests. | |

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| **2.1.** Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.<br><br>COMMENTARY<br><br>The Bank's bodies include a general shareholders' meeting, the Bank's Supervisory Council, the Bank's Board and the chief executive officer. | Yes |
| **2.2.** A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.<br><br>COMMENTARY<br><br>The Board performs the function of the Bank's management and bears responsibility for the performance of the Bank. The supervision of the management bodies is under the Bank's Supervisory Council control. | Yes |
| **2.3.** Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.<br><br>COMMENTARY<br><br>Both bodies are formed at the Bank - the Bank's Supervisory Council and the Bank's Board. | Not applicable |
| **2.4.** The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.<br><br>COMMENTARY<br><br>The Supervisory Council is set up at the Bank. The candidates to the Supervisory Council are elected and the votes for them are given in compliance with procedures defined in the law. The right of small shareholders to have their own representative is not suppressed. | Yes |
| **2.5**. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.<br><br>COMMENTARY<br><br>The Bank's Board consists of 7 members; the Supervisory Council also consists of 7 members. Taking into consideration the Bank's size, scope of activities and the number of shareholders such number of members is the most optimal. Each member has one vote while the bodies are making decisions. | Yes |
| **2.6.** Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.<br><br>COMMENTARY<br><br>Supervisory Council members are elected for 4 years. According to the Bank's Charter members of management and supervisory bodies can be re-elect for the next tenure.<br>Only the body of the Bank who elected a member of Supervisory council or a member of the Board can remove them. | Yes |

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| **2.7.** Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.<br><br>COMMENTARY<br><br>The Chairman of Supervisory Council has never been the Bank's chief executive officer, previous and current positions do not constitute a barrier for the implementation of independent and impartial supervision. | Yes |

*Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting*

**The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**

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| **3.1.** The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.<br><br>COMMENTARY<br><br>General Shareholders' Meeting shall elect a Supervisory Council. Candidates to the Supervisory Council are proposed; voting is held by following the procedures set in the laws. The election procedure of the Supervisory Council member applied by the Bank established in the Law on Companies of the Republic of Lithuania is favourable for the combination of minority shareholders to elect their representative to the Supervisory Council. | Yes |
| **3.2.** Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.<br><br>COMMENTARY<br><br>Information on the candidates to the Supervisory Council is provided before the shareholders' meeting if the members are suggested in advance. During the meeting the members to the Supervisory Council introduce information on them required by laws and answer the shareholders' questions before voting. Eligibility of the member to be elected to the Supervisory Council is assessed by the Bank of Lithuania.<br>The Bank's annual and interim reports include the updated information on the collegial bodies' members' education, professional experience and current position. | Yes / No |
| **3.3.** Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.<br><br>COMMENTARY<br><br>While electing the members of the Supervisory Council, their work experience and professional competence are disclosed. The Bank supposes that it is suffice to meet the standards and provisions set in the Acts of Law of the Republic of Lithuania including the requirement approved by the resolutions of the Bank of Lithuania which indicates that people who are being elected and assigned into senior management have to receive the permission from the Bank of Lithuania to be appointed to the relevant positions. | Yes / No |

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| **3.4.** In order to maintain a proper balance in terms of the current qualifications possessed by the members of collegial body, the collegial body should determine its desired composition with regard to the company's structure and activities, and evaluate this periodically. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration determination policy.<br><br>COMMENTARY<br><br>With regard to the fact that all the members of the collegial body receive licenses of the Bank of Lithuania to hold positions, it is considered that they possess necessary knowledge of and experience to properly implement the tasks.<br>The members of the Supervisory Council participate in the Bank's overall management system assessment process.<br>The members of the audit committee have knowledge in field of finance; an independent member is competent in the field of audit.<br>The members of the Remuneration Committee have knowledge and experience in the salary establishment policy. | Yes |
| **3.5.** All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.<br><br>COMMENTARY<br><br>New members shall meet with their duties, the Bank and its activity.<br>The Nomination Committee formed in 2016 shall analyse the need for additional skills and knowledge and will provide its proposals in the future. | Yes |
| **3.6.** In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.<br><br>COMMENTARY<br><br>Performing their duties the members of the Supervisory Council seek avoiding the conflict of interests. The shareholders offering the candidates to the Supervisory Council and voting for them have their own opinion concerning which candidates will represent their interest in the Council best. There is 1 independent member in the Supervisory Council. | Yes |
| **3.7.** A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:<br><br>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;<br><br>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;<br><br>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);<br><br>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);<br><br>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive | Yes |

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| of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group;<br>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;<br>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;<br>8) He/she has not been in the position of a member of the collegial body for over than 12 years;<br>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents; | |
| 3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.<br><br>COMMENTARY<br><br>While electing the independent member of the Council, he has been considered as independent. The Bank's annual report also contained information stating which member of the Supervisory Council is independent. | Yes |
| 3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.<br><br>COMMENTARY<br><br>The independent member of the Council meets all criteria of independence | Not applicable |
| 3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed. | Not applicable |
| 3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.<br><br>COMMENTARY<br><br>The bank has concluded the agreement with the independent Council member foreseeing the remuneration form the Bank's funds, however, according to the Law on Companies the confirmation of the size of the remuneration by the shareholders' meeting is not subject to the competence of the meeting. | Yes / No |

*Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting*
**The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.**

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| **4.1.** The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance. | Yes |
| **4.2.** Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should<br><br>COMMENTARY<br><br>All the members of the Supervisory Council act in good faith with regard to the Bank and according to the interest of the Bank and its shareholders but not of their own one or of the third parties trying to maintain their independence while making decisions.<br><br>a) under all circumstances maintain independence of their analysis, decision-making and actions<br>b) do not seek and accept any unjustified privileges that might compromise their independence, and<br>c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution). | Yes |
| **4.3.** Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.<br><br>COMMENTARY<br><br>The members of the Supervisory Council actively participate in the meetings and devote sufficient time to properly perform his duties as a member of the collegial body. During the reporting period one member did not participate in one meeting. 6 meeting were held in total. | Yes |
| **4.4.** Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders. | Yes |
| **4.5.** It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.<br><br>COMMENTARY<br><br>All the transactions between the Bank and shareholders as well as between supervisory and managing members are concluded according standard conditions performing usual banking activities. Not all transactions of the Bank are approved by the collegial body. The Bank's Supervisory Council defines a list of transactions and resolutions the formation and implementation of which are subject to the Supervisory Council's approval. | Yes / No |

**4.6.** The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient resources administrative (including financial) resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using their services with a view to obtaining information on market standards for remuneration systems, the Remuneration committee should ensure that they would not at the same time advice the affiliated company, executive director or members of management body.

Yes

COMMENTARY

The work and decisions of the Supervisory Council are not influenced by people who elected the members of this body. The members of the Supervisory Council have a right to receive the information and documents necessary for appropriate performance of their duties through the Bank's Board and Chief Executive Officer.

**4.7.** Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.

Yes

COMMENTARY

The Bank has formed the Audit Committee, Remuneration Committee and Nomination Committee. The independent member of the Supervisory Council is assigned to the Audit and Nomination Committees.

**4.8.** The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should act independently and based on integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.

Yes

**4.9.** Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to refresh membership and that undue reliance is not placed on particular individuals.

Yes / No

COMMENTARY

The Audit Committee consists of 4 members
The Nomination and Remuneration Committee consists of 3 members. The members of all these Committee are the member of the Bank's Supervisory Council. The independent member of the Supervisory Council is assigned to the Audit and Nomination Committees.

**4.10.** Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion. — Yes / No

COMMENTARY

The authority delegated to the Committee as well as its reporting are set in the Committees' provisions approved by the Supervisory Council.
The Remuneration Committee acts in compliance with the Remuneration Policy approved by the Supervisory Council.
The Supervisory Council bears responsibility for the establishment of the principles of the Remuneration Committee and models of variable remuneration calculations.
Information regarding the functions and composition of the Committees are declared in the Bank's annual report.
However, information regarding the number of committee meetings and participation of the committee members is not declared there.

**4.11.** In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities. — Yes

COMMENTARY

Other members of the management bodies who are not Committee's members participate in the meetings in case the Committee invites. The employees and experts can also be invited to the Committee's meetings.

**4.12.** Nomination Committee. — Yes

**4.12.1.** Key functions of the nomination committee should be the following:

1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;
2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;
3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;
4) Properly consider issues related to succession planning;
5) Review the policy of the management bodies for selection and appointment of senior management.

**4.12.2.** Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee. — Yes

**4.13.** Remuneration Committee. — Yes / No

COMMENTARY

The Remuneration Committee at the Bank evaluates the principles of the variable remuneration, supervises the variable remunerations of managing employees responsible for risk management and control of compliance, and prepares draft resolutions regarding variable remunerations which are approved by the Supervisory Council taking into consideration the long-term goals of the Bank's shareholders.
The Remuneration Policy is reviewed by the Supervisory Council at least once a year.
The official salaries of the employees and senior managers are established or approved by the Bank's CEO, Board and Supervisory Council in accordance with the competence.

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| **4.13.1.** Key functions of the remuneration committee should be the following:<br>1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;<br>2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;<br>3) Ensure that remuneration of individual executive directors and the member of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company;<br>4) Periodically review the remuneration policy (as well as the policy regarding share-based remuneration) for executive directors or members of management body, and its implementation;<br>5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;<br>6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);<br>7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. | |
| **4.13.2.** With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:<br>1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;<br>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;<br>3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. | Yes |
| **4.13.3.** Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. | Yes |
| **4.13.4.** The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general shareholders' meeting for this purpose. | No |
| **4.14.** Audit Committee.<br>COMMENTARY<br>The Audit Committee in the Bank consists of 4 members including the independent Council member. | Yes |
| **4.14.1.** Key functions of the audit committee should be the following:<br>1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);<br>2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;<br>3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; | |

4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;

5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;

6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. — Yes

**4.14.2.** All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centres and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. — Yes

**4.14.3.** The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. — Yes

**4.14.4.** Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. — Yes

**4.14.5.** The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. — Yes

**4.14.6.** The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. — No

**4.14.7.** The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved. — Yes / No

COMMENTARY

The Audit Committee provides only its annual statements to the Supervisory Council as the Committees meets 4-5 times a year and it does not report for the every second meeting.

**4.15.** Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities. — Yes / No

COMMENTARY

The members of the Supervisory Council participate in the Bank's overall management system assessment process. Information about the internal organization of Supervisory Council (chairman, deputy and members) is announced on the website of the Bank, annual and interim reports. Separate information on the Supervisory Council's procedures and changes caused by self-assessment is not published.

| Principle V: The working procedure of the company's collegial bodies<br>The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies. | |
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| 5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.<br><br>COMMENTARY<br><br>The Supervisory Council is chaired by the Chairman of the Supervisory Council, the Bank's Board is chaired by the Chairman of the Bank's Board.<br>These persons are responsible for the proper convocation of the meeting of relevant collegial body and its handling. | Yes |
| 5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.<br><br>COMMENTARY<br><br>The Meetings of the Supervisory Council are carried not less than 4 times a year. The interval between two meetings cannot be longer than 4 months. The Meetings of the Bank's Board are carried more frequently than once a month. | Yes |
| 5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution. | Yes |
| 5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration establishment are discussed. | Yes |

| Principle VI: The equitable treatment of shareholders and shareholder rights<br>The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders. | |
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| 6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.<br><br>COMMENTARY<br><br>The ordinary registered shares that comprise the Bank's authorized capital grant the same rights all their holders. | Yes |
| 6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.<br><br>COMMENTARY<br><br>The rights provided by the newly issued shares are described in the Securities prospects, while the rights provided by the earlier issued shares are provided in the annual reports. | Yes |

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| **6.3.** Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed. | No / Yes |

COMMENTARY

The decisions regarding the long-term assets the balance value of which exceeds 1/20 of the Bank's authorized capital, purchase, pledge or hypothec as well as liabilities of other persons the amount of which exceeds 1/20 of the Bank's authorized capital are made by the Bank's Board.
Shareholders are aware of important transactions by the Bank's announcement on stock events.

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| **6.4.** Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. | Yes |
| **6.5.** Possible, in order to ensure the foreigners the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting, including decisions projects of the meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed. | Yes |

COMMENTARY

All documentation prepared for the General Meeting of Shareholders is published in advance both in the Lithuanian and English languages. Resolutions passed by the General Meeting of Shareholders are published and a stock report, stock reports are also available on the Bank's website. The meeting's voting results are also published on the Bank's website.

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| **6.6.** Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot. | Yes |

COMMENTARY

The Bank's shareholders may participate in the general shareholders' meeting in person or through their representative. The voting is possible by filling the general voting bulletin.

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| **6.7.** With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by providing opportunity to the shareholders to vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies. | No |

COMMENTARY

The Bank does not allw the shareholders to vote in general meetings via terminal equipment of telecommunications. Foreigner's shareholders participate in the meeting via their representatives, the voting instructions to whom usually provide with the SWIFT notifications.

*Principle VII: The avoidance of conflicts of interest and their disclosure*

**The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**

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| **7.1.** Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible. | Yes |
| **7.2.** Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting. | Yes |
| **7.3.** Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.<br><br>COMMENTARY<br><br>All the transactions with the members of the Bank's bodies are concluded in usual (standard) conditions. Information to the shareholders is provided in annual and interim reports. | Yes |
| **7.4.** Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on. | Yes |

*Principle VIII: Company's remuneration policy*

**Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**

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| **8.1.** A company should make a public report of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration report should be published as a part of the company's annual statement as well as posted on the company's website.<br><br>COMMENTARY<br><br>The report of the Remuneration policy is prepared according to the requirements set by the resolution of the Board of the Bank of Lithuania. Information regarding implementation of the Remuneration policy is provided in the annual report and interim reports in the scope set by the valid requirements. | Yes / No |
| **8.2.** Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.<br><br>COMMENTARY<br><br>The Remuneration Policy report provides data about all employees and management, distinguishing the shares of the fixed and variable remuneration. | Yes |

**8.3.** Remuneration statement should leastwise include the following information: Yes / No

COMMENTARY

The Remuneration Policy report is prepared according to the requirements set by the resolutions of the Board of the Bank of Lithuania, therefore, not all clauses specified in this Code are described.
Considering the possible risks related to the evaluated annual results of the employee whose professional activities might have significant impact on the risks accepted by the Bank not less than 40 per cent of the variable remuneration is subject to 3 years of grace period paying in equal portions.

1) the relation of the variable and non-variable components of directors' remuneration and its explanation ;
2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;
3) An explanation how the choice of the activities' results evaluation criteria contributes to the long-term interests of the company;

COMMENTARY

Calculating the variable remuneration the performance results of the employee for the period not less than three years is taken into consideration. 50 per cent of variable remuneration paid immediately and deferred are foreseen to be paid in bank's shares with a 1 year grace period to the right of transfer.
Referring to the Remuneration Policy approved by the Board, the variable remuneration including the deferred portion is paid only in case of sustainable financial status of the bank. The cases when the variable remuneration can be corrected (reduced) are specified in the Bank's internal procedures.

4) An explanation of the methods, applied in order to determine whether the activities' results evaluation criteria have been fulfilled;
5) Sufficient information on provision periods with regard to variable components of remuneration;
6) Sufficient information on the linkage between the remuneration and activity's results;
7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;
8) Sufficient information on the policy regarding termination payments;
9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13;
10) Sufficient information on retention of shares after vesting, as referred to in point 8.15 of this Code;
11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned;
12) A description of the main characteristics of supplementary pension or early retirement schemes for directors;
13) The remuneration report cannot contain confidential information in a commercial view.

**8.4.** Remuneration report should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies. No

COMMENTARY

The report of the Remuneration policy is not prepared in compliance with the scope defined in the present clause.

**8.5.** Remuneration report should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. No

COMMENTARY

According to the requirements set by the Bank of Lithuania the report reveals the average sizes of the remuneration.
Other information defined in this item is not published.

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| 8.5.1. The following remuneration and/or emoluments-related information should be disclosed:<br>1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;<br>2) The remuneration and advantages received from any undertaking belonging to the same group;<br>3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;<br>4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;<br>5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;<br>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. | No |
| 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:<br>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;<br>2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;<br>3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;<br>4) All changes in the terms and conditions of existing share options occurring during the coming financial year. | No |
| 8.5.3. The following supplementary pension schemes-related information should be disclosed:<br>COMMENTARY<br>According to the requirements set by the Bank of Lithuania the report reveals the average sizes of the remuneration. Other information defined in this documents is not published.<br>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;<br>2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial yea. | No |
| 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate. | No |
| 8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component of remuneration.<br>The non-variable component of remuneration should be sufficient to allow the company not to pay variable components of remuneration when activity's results evaluation criteria are not met.<br>COMMENTARY<br>The Remuneration Policy defines that variable remuneration may not exceed 100 per cent of fixed remuneration, except cases when general meeting of shareholders decides to increase it, however, by not more than 200 per cent. Variable remuneration cannot form such a substantial part of the remuneration that would encourage employees to ignore the long-term interests of the bank. | Yes |
| 8.7. Award of variable components of remuneration should be subject to predetermined and measurable activity's results evaluation criteria.<br>COMMENTARY<br>The amount of the variable remuneration is based on the general evaluation of the employee's, outlet's or bank's activity result | Yes |

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| **8.8.** Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.<br><br>COMMENTARY<br><br>The deferred portion of the variable remuneration applicable to the employees is not less than 40 per cent. | Yes/No |
| **8.9.** Contractual arrangements with executive or members of management bodies should include provision which permits the company to reclaim variable components of remuneration that was awarded on the basis of data which subsequently proved to be manifestly misstated.<br><br>COMMENTARY<br><br>The Remuneration policy foresees the review of the assignment of the differed portion of the variable remuneration and to pay it only in case the set goals and the results of the bank meet the goals set in the strategy. | No |
| **8.10.** Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.<br><br>COMMENTARY<br><br>No principles of termination payments are foreseen by the Remuneration policy. | Not applicable |
| **8.11.** Termination payments should not be paid if the termination is due to inadequate activity's results.<br><br>COMMENTARY<br><br>See item 8.10 | Not applicable |
| **8.12.** The information on preparatory and decision-making processes, during which a remuneration policy of directors is being established, should also be disclosed. Information should include data, if applicable, on authorization and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.<br><br>COMMENTARY<br><br>The official salaries of the employees and senior managers are established or approved by the Bank's CEO, Board and Supervisory Council in accordance with the competence. The principles of the variable remuneration are supervised and assessed by the Remuneration Committee which prepares draft resolutions regarding variable remunerations and submits them to the Supervisory for approval.<br>If the services of the external consultant were used they would be specified in the report of the Remuneration Policy. | Yes / No |
| **8.13.** Shares should not vest for at least three years after their award in case the remuneration is share-based.<br><br>COMMENTARY<br><br>As foreseen by the Remuneration Policy not less than 40 per cent of the variable remuneration is subject to 3 years of grace period. 50 per cent of variable remuneration paid immediately and deferred are foreseen to be paid in bank's shares with a 12 month grace period to the right of transfer. | Yes / No |
| **8.14.** Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable activity's results evaluated criteria.<br><br>COMMENTARY<br><br>Share options or any other right to acquire shares or to be remunerated on the basis of share price movements are not foreseen by the Remuneration Policy. 50 per cent of variable remuneration paid immediately and deferred are foreseen to be paid in bank's shares with a 12 (twelve) month grace period to the right of transfer. The Remuneration policy foresees the review of the assignment of the differed portion of the variable remuneration and to pay it only in case the set goals and the results of the bank meet the goals set in the strategy. | Yes / No |

**8.15.** After vesting, directors should retain a particular number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).

No

COMMENTARY

The share transfer is limited for a period of 12 (twelve) months. No restrictions are foreseen after this period.

**8.16.** Remuneration of non-executive or supervisory directors should not include share options.

Not applicable

COMMENTARY

The members of the Supervisory Council are not subject to any form of remuneration.

**8.17.** Shareholders, in particular institutional shareholders, should be encouraged to attend general shareholders' meetings and make considered use of their votes regarding directors' remuneration.

No

COMMENTARY

The meeting for the work in the Supervisory Council can allocate to the Council members annual bonuses (tantiemes). Determination of the remunerations for the members of the Board under the structure of the bank's bodies is not the priority of the shareholders' meeting.

**8.18.** Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.

No

COMMENTARY

The Remuneration Policy and its implementation are the prerogative of the Remuneration Committee and the Council of the Bank. Therefore, the voting does not take place in the shareholders' meeting.

**8.19.** Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.

No

COMMENTARY

See item 8.17.

**8.20.** The following issues should be subject to approval by the shareholders' annual general meeting:

No

COMMENTARY

See item 8.17.

1) Grant of share-based schemes, including share options, to directors;
2) Determination of maximum number of shares and main conditions of share granting;
3) The term within which options can be exercised;
4) The conditions for any subsequent change in the exercise of the options, if permissible by law;
5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms.

Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.

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| **8.21.** Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.<br><br>COMMENTARY<br><br>Share options or any other right to acquire shares without remuneration on the basis of share price movements are not foreseen by the Remuneration Policy. | Not applicable |
| **8.22.** Provisions of Articles **8.19** and **8.20** should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.<br><br>COMMENTARY<br><br>Employees of the bank or subsidiaries are not remunerated for the work with shares or share options or the other rights to acquire shares. | Not applicable |
| **8.23.** Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.<br><br>COMMENTARY<br><br>See item 8.17. | Not applicable |

*Principle IX: The role of stakeholders in corporate governance*

**The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**

COMMENTARY

The interest holders' rights are respected. The Bank obeys the agreements with the suppliers, creditors, and clients. The relations with employees are regulated by the labour contracts. The employees can provide offers in the filed improvement of work conditions. The Bank's employees participate in the Bank's authorized capital.

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| **9.1.** The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected. | Yes |
| **9.2.** The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc. | Yes |
| **9.3.** Where stakeholders participate in the corporate governance process, they should have access to relevant information. | Yes |

*Principle X: Information disclosure and transparency*

The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.

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| **10.1.** The company should disclose information on:<br><br>COMMENTARY<br><br>The information disclosed in this section is submitted in annual and interim reports, in prospects of securities issue and in the website of the Bank.<br><br>1) The financial and operating results of the company;<br>2) Company objectives;<br>3) Persons holding by the right of ownership or in control of a block of shares in the company;<br>4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;<br>5) Material foreseeable risk factors;<br>6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;<br>7) Material issues regarding employees and other stakeholders;<br>8) Governance structures and strategy.<br><br>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. | Yes |
| **10.2.** It is recommended to disclose the consolidated results of the whole group to which the company belongs when information specified in item 1 of Recommendation 10.1 is under disclosure. | Yes |
| **10.3.** It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.<br><br>COMMENTARY<br><br>The information regarding the professional experience of the Supervisory Council and the Bank Board, and capacities taken in other companies is provided in the Annual Reports of the Bank and is available on the bank's website. The information regarding received remuneration of the particular person is not published. The information regarding income in average values is published in the Annual Report of the Bank. | Yes / No |
| **10.4.** It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information. | Yes |
| **10.5.** Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Nasdaq Vilnius, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions. | Yes |
| **10.6.** Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well. | Yes |
| **10.7.** It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too. | Yes |

*Principle XI: The selection of the company's auditor*

**The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**

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| 11.1. An annual audit of the company's financial reports and annual reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements. | Yes |
| 11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.<br><br>COMMENTARY<br><br>The candidate for the Bank's audit agency is provided by the Bank's Board to the General Shareholders' Meeting in compliance with the results of audit agency review. | No |
| 11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.<br><br>COMMENTARY<br><br>Information on remuneration to the audit company is provided for publicly in the annual reports of the Bank. The Supervisory Council is familiar with this information. | Yes |