ŠIAULIŲ BANKAS

INDEPENDENT AUDITOR'S REPORT FINANCIAL STATEMENTS AND ANNUAL REPORT

31 December 2017

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Independent auditor's report

To the shareholders of Šiaulių bankas AB

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of Šiaulių bankas AB ("the Bank") and its subsidiaries ("the Group") as at 31 December 2017 and of 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.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The Bank's and the Group's separate and consolidated financial statements comprise:

- the separate and consolidated statement of financial position as at 31 December 2017;
- the separate and consolidated income statements and statements of comprehensive income for the year then ended;
- the separate and consolidated statement of changes in equity for the year then ended;
- the separate and consolidated statement 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 the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the Law of the Republic of Lithuania on the Audit of Financial Statements that are relevant to our audit of the separate and consolidated financial statements in the Republic of Lithuania. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Law of the Republic of Lithuania on the Audit of Financial Statements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Bank and the Group are in accordance with the applicable law and regulations in the Republic of Lithuania and that we have not provided non-audit services that are prohibited under Article 5(1) of

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Regulation (EU) No 537/2014 considering the exemptions of Regulation (EU) No 537/2014 endorsed in the Law of the Republic of Lithuania on the Audit of Financial Statements.

The non-audit services that we have provided to the Bank and the Group, in the period from 1 January 2017 to 31 December 2017, are disclosed in consolidated annual report.

Our audit approach

Overview

Materiality

- Overall Bank materiality is EUR 2,300 thousand,
- Overall Group materiality is EUR 2,400 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 98% of assets.

Key audit matters

- Impairment of loans to customers

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 2,300 thousand (2016: EUR 1,730 thousand)
Overall Group materiality	EUR 2,400 thousand (2016: EUR 1,850 thousand)
How we determined it	5% of profit before tax, adjusted for one-off loss from change in fair value of subordinated loan and gain related to de-recognition of financial assets items. These 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. 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 120 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 to customers (refer to Part 1 "Credit risk" of note 'Financial risk management' on pages 32-51, note 7 "Impairment losses" on page 81 and note 13 "Loans to customers" on pages 88-89 for further details). We focused on this area because management makes complex and subjective judgements over both timing of recognition of impairment and the estimation of the amount of impairment. Reversal of impairment loss on loans to customers for the year ended 31 December 2017 amounted to EUR 2,047 thousand in Bank and EUR 2,417 thousand in Group (refer to note 7 "Impairment losses"). The amount of impairment provision for Bank's and Group's loan portfolio is mainly based on the individual assessment by taking	We assessed whether the Group's accounting policies in relation to the impairment of loans to customers are in compliance with IFRS. 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. We determined that we could rely on these controls for the purposes of our audit. We selected a sample of individually assessed loans and analysed customer financial

into consideration the internal credit rating of the customer and other known heightened risk factors.

Individual impairment provisions for significant loans are calculated based on the exposure and taking into account estimated future cash flows from the customer 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 procedures, relate to:

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

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 flows from customer and from realisation of collaterals is supportable for customers with identified loss event.

We also checked if the impairment amount is correctly calculated using 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.

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 the 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 16 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 98% 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.

Reporting on other information including the consolidated annual report

Management is responsible for the other information. The other information comprises the consolidated annual report, including the corporate governance report and the social responsibility report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the consolidated annual report.

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.

With respect to the consolidated annual report, we considered whether the consolidated annual report includes the disclosures required by the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings, the Law of the Republic of Lithuania on Financial Reporting by Undertakings implementing Article 19 of Directive 2013/34/EU.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the consolidated annual report for the financial year ended 31 December 2017, for which the financial statements are prepared, is consistent with the financial statements; and
- the consolidated annual report has been prepared in accordance with the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings and the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

The Bank and the Group presented the social responsibility report as a part of the consolidated annual report.

In addition, in light of the knowledge and understanding of the Bank and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated annual report which we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

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 the 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 the 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 the 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 the 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 the 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 the 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.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Bank and the Group in 1994. Our appointment has been renewed by tenders and shareholders' resolutions in the intermediate years, representing a total period of uninterrupted engagement appointment of 24 years.

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
7 March 2018

FINANCIAL STATEMENTS

31 December 2017

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

THE GROUP'S AND THE BANK'S INCOME STATEMENTS

		Year ended			
		31 December 2017		31 December 2016	
	Notes	Group	Bank	Group	Bank
Interest and similar income	1	67,078	58,136	65,934	58,569
Interest expense and similar charges	1	(9,921)	(9,915)	(12,013)	(12,019)
Net interest income		**57,157**	**48,221**	**53,921**	**46,550**
Fee and commission income	2	15,752	15,294	14,115	13,711
Fee and commission expense	2	(4,800)	(4,660)	(4,702)	(4,364)
Net fee and commission income		**10,952**	**10,634**	**9,413**	**9,347**
Net gain from operations with securities	3	2,923	1,556	6,164	4,872
Net gain from foreign exchange and related derivatives	3	4,829	5,514	4,477	4,248
Net loss from other derivatives	3, 12	(2,885)	(2,589)	(1,913)	(1,671)
Net loss from changes in fair value of subordinated loan	30	(12,139)	(12,139)	(1,644)	(1,644)
Net gain from derecognition of financial assets	6	3,178	3,070	12,644	12,671
Net gain from disposal of tangible assets	6	2,897	37	612	656
Revenue related to other activities of Group companies	5	10,539	-	15,293	-
Other operating income	6	1,366	380	1,688	543
Salaries and related expenses		(20,192)	(16,727)	(18,340)	(15,558)
Depreciation and amortization expenses		(1,863)	(1,510)	(1,773)	(1,339)
Expenses related to other activities of Group companies	5	(8,686)	-	(12,766)	-
Other operating expenses	4	(10,293)	(7,574)	(9,677)	(6,835)
Operating profit before impairment losses		**37,783**	**28,873**	**58,099**	**51,840**
Reversal of allowance / (allowance) for impairment losses on loans and finance lease receivables	7	2,457	2,018	(7,185)	(7,451)
Reversal of allowance / (allowance) for impairment losses on other assets	7	(483)	25	(590)	(45)
Allowance for impairment losses on investments in subsidiaries	7, 19	-	(1,261)	-	(6,060)
Dividends from investments in subsidiaries and subsidiaries classified as held for sale	19, 29	-	7,681	-	9,632
Profit before income tax		**39,757**	**37,336**	**50,324**	**47,916**
Income tax expense	8	(7,630)	(6,446)	(6,658)	(6,239)
Net profit for the year		**32,127**	**30,890**	**43,666**	**41,677**
Net profit attributable to:					
Owners of the Bank		32,127	30,890	43,666	41,677
Non-controlling interest		-	-	-	-
Basic earnings per share (in EUR per share) attributable to owners of the Bank		0.07		0.10	
Diluted earnings per share (in EUR per share) attributable to owners of the Bank		0.07		0.10	

Chief Executive Officer — Vytautas Sinius

Chief accountant — Vita Urbonienė

7 March 2018

The accounting policies and notes on pages 16 to 109 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 2017		31 December 2016	
	Notes	Group	Bank	Group	Bank
Net profit for the year		32,127	30,890	43,666	41,677
Other comprehensive income (loss)					
Items that may be subsequently reclassified to profit or loss:					
Financial assets valuation gains taken to equity	15	690	469	1,479	1,458
Financial assets valuation result transferred to profit or loss	15	(388)	(409)	(2,110)	(2,129)
Amortisation of revaluation related to portfolio reclassified to held-to-maturity category	15	(45)	(45)	(57)	(57)
Deferred income tax on gain from revaluation of financial assets	8, 15	(38)	(2)	103	109
Other comprehensive income (loss), net of deferred tax		219	13	(585)	(619)
Total comprehensive income for the year		32,346	30,903	43,081	41,058
Total comprehensive income attributable to:					
Owners of the Bank		32,346	30,903	43,081	41,058
Non-controlling interest		-	-	-	-
		32,346	30,903	43,081	41,058

Chief Executive Officer Vytautas Sinius

Chief accountant Vita Urbonienė

7 March 2018

The accounting policies and notes on pages 16 to 109 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 2017		31 December 2016	
	Notes	Group	Bank	Group	Bank
ASSETS					
Cash and cash equivalents	10	129,738	126,591	153,867	152,111
Securities at fair value through profit or loss	12	49,175	18,284	57,427	26,103
Due from other banks	11	2,218	2,218	5,337	5,337
Derivative financial instruments	12	3,031	3,031	8,983	8,687
Loans to customers	13	1,098,327	1,102,927	953,609	994,155
Finance lease receivables	14	91,139	90,898	69,807	48,170
Investment securities:					
available-for-sale -	15	16,472	11,542	19,168	17,504
held-to-maturity -	15	576,260	576,260	524,054	524,054
Investments in subsidiaries	16	-	26,895	-	26,665
Intangible assets	17	4,535	1,684	4,180	1,210
Property, plant and equipment	18	10,702	10,068	11,469	10,532
Investment property	26	12,230	3,771	16,804	1,112
Current income tax prepayment		16	-	70	-
Deferred income tax asset	8	718	218	665	-
Inventories	19	18,316	-	24,936	-
Other financial assets	19	10,485	9,616	4,136	3,078
Other non-financial assets	19	7,400	5,963	6,766	4,921
Total assets		2,030,762	1,989,966	1,861,278	1,823,639
LIABILITIES					
Due to other banks and financial institutions	20	55,717	57,884	89,793	92,079
Derivative financial instruments	12	1,894	1,894	175	175
Due to customers	21	1,648,053	1,648,817	1,495,087	1,495,478
Special and lending funds	22	13,336	13,336	28,326	28,326
Debt securities in issue	23	20,003	20,003	-	-
Subordinated loan	30	34,203	34,203	22,064	22,064
Current income tax liabilities		3,735	3,440	4,790	4,650
Deferred income tax liabilities	8	525	-	468	30
Liabilities related to insurance activities	24	27,232	-	25,515	-
Other financial liabilities	25	11,876	7,945	11,781	7,544
Other non-financial liabilities	25	4,212	485	3,762	350
Total liabilities		1,820,786	1,788,007	1,681,761	1,650,696
EQUITY					
Share capital	27	131,366	131,366	109,472	109,472
Reserve capital	27	756	756	756	756
Statutory reserve	27	7,177	7,071	4,157	4,157
Financial assets revaluation reserve		530	290	311	277
Retained earnings		70,147	62,476	64,821	58,281
Non-controlling interest		-	-	-	-
Total equity		209,976	201,959	179,517	172,943
Total liabilities and equity		2,030,762	1,989,966	1,861,278	1,823,639

Chief Executive Officer — Vytautas Sinius

Chief accountant — Vita Urbonienė

7 March 2018

The accounting policies and notes on pages 16 to 109 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 2016		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	27	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
Transfer to statutory reserve		-	-	-	-	3,020	(3,020)	-	-	-
Payment of dividends	29	-	-	-	-	-	(1,887)	(1,887)	-	(1,887)
Increase in share capital through bonus issue of shares	27	21,894	-	-	-	-	(21,894)	-	-	-
Total comprehensive income:		-	-	-	219	-	32,127	32,346	-	32,346
Net profit		-	-	-	-	-	32,127	32,127	-	32,127
Other comprehensive income		-	-	-	219	-	-	219	-	219
31 December 2017		131,366	-	756	530	7,177	70,147	209,976	-	209,976

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 2016		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
Transfer to statutory reserve		-	-	-	-	2,914	(2,914)	-
Payment of dividends	29	-	-	-	-	-	(1,887)	(1,887)
Increase in share capital through bonus issue of shares	27	21,894	-	-	-	-	(21,894)	-
Total comprehensive income:		-	-	-	13	-	30,890	30,903
Net profit		-	-	-	-	-	30,890	30,890
Other comprehensive income		-	-	-	13	-	-	13
31 December 2017		131,366	-	756	290	7,071	62,476	201,959

The accounting policies and notes on pages 16 to 109 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 2017		31 December 2016	
	Notes	Group	Bank	Group	Bank
Operating activities					
Interest received on loans and advances		55,595	48,309	53,682	46,835
Interest received on debt securities at fair value through profit or loss		1,254	901	1,800	1,382
Interest paid		(9,647)	(9,641)	(13,106)	(13,112)
Fees and commissions received		15,752	15,294	14,115	13,711
Fees and commissions paid		(4,800)	(4,660)	(4,702)	(4,364)
Net cash inflows from trade in securities at fair value through profit or loss		7,654	7,365	14,915	16,558
Net inflows from foreign exchange operations		9,152	9,837	4,812	4,583
Net inflows from derecognition of financial assets		2,026	1,918	17,441	17,441
Net inflows from disposal of tangible assets		5,962	362	4,128	3,093
Cash inflows related to other activities of Group companies		11,905	380	16,946	543
Cash outflows related to other activities of Group companies		(7,391)	-	(8,284)	-
Recoveries on loans previously written off		1,245	555	975	139
Salaries and related payments to and on behalf of employees		(19,953)	(16,488)	(18,190)	(15,408)
Payments related to operating and other expenses		(10,276)	(7,506)	(7,800)	(4,750)
Income tax paid	8	(8,664)	(7,901)	(2,900)	(1,717)
Net cash flow from operating activities before change in operating assets and liabilities		49,814	38,725	73,832	64,934
Change in operating assets and liabilities:					
Decrease in due from other banks		3,119	3,119	1,440	1,162
(Increase) in loans to customers and finance lease receivables		(155,379)	(140,816)	(129,184)	(140,921)
Decrease (increase) in other assets		(4,694)	(10,698)	1,473	(7,137)
Increase (decrease) in due to banks and financial institutions		(34,545)	(34,664)	39,198	38,476
Increase (decrease) increase in due to customers		153,161	153,534	59,975	59,984
Increase (decrease) in special and lending funds		(14,990)	(14,990)	20,135	20,135
Increase (decrease) in other liabilities		2,039	313	(3,059)	195
Change		(51,289)	(44,202)	(10,022)	(28,106)
Net cash flow (used in) from operating activities		(1,475)	(5,477)	63,810	36,828
Investing activities					
Acquisition of property, plant and equipment, investment property and intangible assets		(1,450)	(1,578)	(4,044)	(2,133)
Disposal of property, plant and equipment, investment property and intangible assets		8,114	398	2,692	2,740
Acquisition of held-to-maturity securities	15	(149,508)	(149,508)	(87,659)	(87,659)
Proceeds from redemption of held-to-maturity securities	15	85,897	85,897	55,794	55,794
Interest received on held-to-maturity securities	15	13,177	13,177	13,229	13,229
Dividends received	29	15	7,425	62	9,694
Acquisition of available-for-sale securities		(15,021)	(6,306)	(5,776)	(4,758)
Sale or redemption of available-for-sale securities		17,502	12,592	10,743	10,743
Interest received on available-for-sale securities		481	465	628	580
Inflows from subsidiaries held for sale	19	-	256	-	13,942
Business acquisition		-	-	1	-
Instalments to cover losses and to strengthen the capital of subsidiaries	16	-	(1,000)	-	(550)
Net cash flow from (used in) from investing activities		(40,793)	(38,182)	(14,330)	11,622
Financing activities					
Payment of dividends	29	(1,864)	(1,864)	(625)	(625)
Issue of debt securities	23	20,003	20,003	-	-
Net cash flow (used in) financing activities		18,139	18,139	(625)	(625)
Net increase (decrease) in cash and cash equivalents		(24,129)	(25,520)	48,855	47,825
Cash and cash equivalents at 1 January		153,867	152,111	105,012	104,286
Cash and cash equivalents at 31 December	10	129,738	126,591	153,867	152,111

The accounting policies and notes on pages 16 to 109 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 65 customer service outlets (2016: 68 outlets). As at 31 December 2017 the Bank had 702 employees (31 December 2016: 722). As at 31 December 2017 the Group had 805 employees (31 December 2016 (except subsidiaries held for sale): 829 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 2017 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 2017 the Bank owned the following indirectly controlled subsidiaries:

9. Apželdinimas UAB (real estate management activities),
10. Sandworks UAB (real estate management activities),
11. ŽSA 5 UAB (activities of head offices).

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 2016 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).

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 19 *Other assets*.

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

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.

Amendments to existing standards and interpretations effective in 2017

Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2017). 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 amendment did not have any impact on the Bank's and the Group's financial statements.

Disclosure Initiative - Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The amendment resulted in additional disclosures in the explanatory notes to the Group's financial statements (see Note 23).

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

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

IFRS 9, Financial Instruments:

a) Description of the standard

The standard is effective for annual periods beginning on or after 1 January 2018 and replaces IAS 39, Financial Instruments: Recognition and Measurement. 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.

b) Aggregate impact on equity

The Group expects the new standard to have a material impact on its financial statements. The Group has assessed the estimated impact that the initial application of IFRS9 will have on its financial statements. The actual impact of adopting IFRS9 at 1 January 2018 may change because the Group has not finalised the testing and assessment of controls over its new IT systems and the new accounting policies are subject to change until the Group presents its first full financial statements that include the date of initial application.

The estimated impact of the adoption of IFRS9 on the Group's and the Bank's equity as at 1 January 2018 is based on assessments undertaken to date and is summarised in the table below:

			The Group			*The Bank*
	As reported at 31 December 2017	Estimated adjustments due to adoption of IFRS9	Estimated adjusted opening balance at 1 January 2018	As reported at 31 December 2017	Estimated adjustments due to adoption of IFRS9	Estimated adjusted opening balance at 1 January 2018
Financial instruments revaluation reserve	530	(898)	(368)	290	(658)	(368)
transfer to retained earnings	-	(546)	-	-	(306)	-
transfer from retained earnings	-	(352)	-	-	(352)	-
Retained earnings	70,147	(8,194)	61,953	62,476	(6,472)	56,004
transfer to financial instruments revaluation reserve	-	352	-	-	352	-
transfer from financial instruments revaluation reserve	-	546	-	-	306	-
recognition of additional impairment	-	(9,193)	-	-	(7,231)	-
derecognition of embedded derivatives	-	101	-	-	101	-
Other equity items	139,299	-	139,299	139,193	-	139,193
Total equity	209,976	(9,092)	200,884	201,959	(7,130)	194,829

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

Total estimated adjustment (net of tax) to the opening balance of the Group's equity at 1 January 2018 is a decrease of EUR 9,092 thousand. The principal components of the estimated adjustment are as follows:

- Part of the financial assets revaluation reserve attributable to revaluation of available-for-sale equities (EUR 546 thousand) transferred to retained earnings (financial instruments revaluation reserve decreased, retained earnings increased);

- Amount of change in the fair value of subordinated loan that is attributable to changes in the credit risk of that liability (EUR 352 thousand) transferred to financial instruments revaluation reserve (retained earnings increased, financial instruments revaluation reserve decreased);

- Retained earnings reduced by EUR 8,194 thousand (net of tax) due to:
    - increase in impairment: decrease of retained earnings by EUR 9,193 thousand;
    - derecognition of embedded derivatives: increase of retained earnings byEUR 101 thousand;
    - transfer of revaluation of available-for-sale equities: increase of retained earnings byEUR 546 thousand;
    - change in fair value of subordinated loan attributable to own credit risk: increase of retained earnings by EUR 352 thousand.

c) Impact on classification and measurement

Based on its assessment, the Group does not expect major changes in the classification of its financial assets and liabilities except for the measurement of embedded derivatives, equities and subordinated loan liability.

Embedded derivatives related to interest rate floor in variable rate loan contracts (see Note 12): as the loans that contain such conditions pass the SPPI test and are held in line with the business model, main purpose of which is to collect cash flows from the financial instrument, the Group has to apply the classification requirements on the whole instrument and therefore embedded derivatives related to interest rate floor in variable rate loan contracts are no longer recognised separately on the balance sheet. The derecognition results in decrease of value of derivatives and retained earnings by EUR 2,284 thousand for the Group and the Bank.This impact is offset by change in accrued interest as when initially recognized, value of loan was reduced by value of embedded derivative, and later the difference was included in the effective interest rate and amortized through interest income. Change in accrued interest results in an increase in loans and retained earnings by EUR 2,385 thousand. Therefore the total effect of derecognition of embedded derivatives results in increase in retained earnings by EUR 101 thousand.

Equities available for sale (see Note 15): under IFRS9, the Group chose to measure changes in fair value of these instruments through profit or loss. This results in EUR 546 thousand transfer from other comprehensive income to retained earnings.

Subordinated loan (see Note 30): subordinated loan is a financial liability at fair value through profit or loss, designated as such upon initial recognition. Under IFRS9, the amount of change in the fair value of subordinated loan that is attributable to changes in the credit risk of that liability has to be accounted for in other comprehensive income. This results in EUR 352 thousand transfer from retained earnings to other comprehensive income.

For most financial instruments not mentioned above, no changes in the measurement principles have occurred. Some instruments were reclassified to other category with no change in measurement principles. A table below provides reconciliation of such categories of financial assets:

IAS 39 category	*IFRS9 category*
Financial assets measured at fair value through other comprehensive income:	*Financial assets measured at fair value through other comprehensive income:*
Investment securities available-for-sale (debt securities)	*Debt securities measured at fair value through other comprehensive income*
Financial assets measured at amortized cost:	*Financial assets measured at amortized cost:*
Investment securities held-to-maturity	*Investment securities held to collect cash flows*

d) Impact on impairment

The Group designed and implemented an ECL measurement model, which covers four main groups of financial assets: loan and finance lease portfolio; debt securities; due from banks; other financial assets. Model for loan and finance lease portfolio ECL measurement is based on Group's historical credit loss experience (for calculation of probabilities of default based on internal ratings – 7 years, for calculation of loss given default based on recovery ratios of different types of collateral – 5 years) adjusted by factors to reflect the differences between the economic conditions of the period of which historical data was used, and economic developments expected over the next 12 months or estimated life of instruments. The Group performed ECL calculations for segments of customers that share similar risk characteristics (segments of corporate customers were defined using economic sector, individual customers were split between consumer financing and other). Model for other financial assets uses simplified assumptions from the loan and finance lease portfolio model. Models for debt securities and due from banks rely on external ratings and probability of default and recovery rate data of Moody's Investors Service.

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

ACCOUNTING POLICIES (continued)

Total estimated impact on impairment is summarised in the table below:

	Group	Bank
Increase in impairment of loans and finance leases	9,695	7,757
Increase in impairment of other balance sheet items	625	601
Increase in impairment, before taxes	10,320	8,358
Change in deferred tax assets, attributable to increase in impairment	(1,127)	(1,127)
Increase in impairment, after taxes	9,193	7,231

e) Impact on disclosures

IFRS9 will require extensive new disclosures, in particular about credit risk and expected credit losses. The Group is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data. The Group chose the option of not restating the comparative information for prior periods. Differences in the carrying amounts of financial assets resulting from adoption of IFRS9 will be recognised in retained earnings and reserves as at 1 January 2018.

f) Impact on prudential requirements

Adoption of IFRS9 did not result in breaches of any prudential requirements. The Bank decided to use the option of transitional arrangements that allow institutions to include in their Common Equity Tier 1 capital a portion of the increased expected credit loss provisions for a transitional period of 5 years. Had the Bank opted not to use transitional arrangements, it would anyway have been compliant with all prudential requirements.

Other standards and amendments:

IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018, replaces IAS 18). 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 new standard is not expected to have a material impact on the Bank's and the Group's financial statements as the accounting principles for the absolute majority of Group's revenues are the same under the newIFRS 15 regulations.

Amendments to IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018). 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 amendments are not expected to have a material impact on Group's financial statements.

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019). 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.

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)

Classification and Measurement of Share-based Payment Transactions -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.

IFRIC 23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the interpretation on its financial statements.

Prepayment Features with Negative Compensation - Amendments to IFRS 9 (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Group is currently assessing the impact of the amendments on its financial statements.

Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in the investee. The Group does not expect a material impact of the amendments on its financial statements.

ACCOUNTING POLICIES (continued)

Annual Improvements to IFRSs 2015-2017 cycle (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, eg in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 17, Insurance Contracts (effective for annual periods beginning on or after 1 January 2021; not yet adopted by the EU). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare the financial performance of similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group is currently assessing the impact of the new standard on its financial statements.

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). 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'). (2) 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's entity engaged in life insurance will use the second approach – i.e. an exemption from applying IFRS 9 until 2021.

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 is currently assessing the impact of the amendments 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.

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.

Taxation

a) Income tax

In accordance with the Lithuanian Law on Corporate Profit Tax, taxable profit for 2017 and 2016 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.

Securities at fair value through profit or loss are initially recognised at fair value, which is based on transaction price and 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).

ACCOUNTING POLICIES (continued)

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.

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

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.

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 2017 and 2016 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 2016	25,515	643	18,263	6,609
Change for the period	1,717	(59)	3,343	(1,567)
At 31 December 2017	27,232	584	21,606	5,042

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.

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).

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.

FINANCIAL RISK MANAGEMENT (continued)

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 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.

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)

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 2017 – the Group EUR 100,979 thousand; the Bank EUR 91,573 thousand; 31 December 2016 – the Group EUR 155,315 thousand; the Bank EUR 143,578 thousand.

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

		2017		*2016*
	Group	Bank	Group	Bank
Loans and advances to banks	2,218	2,218	5,337	5,337
Loans and advances to customers:	1,098,327	1,102,927	953,609	994,156
Loans and advances to financial institutions	18	39,756	17	58,862
Loans to individuals (Retail):	133,441	77,455	116,564	67,458
Consumer loans	*70,454*	*16,456*	*59,207*	*10,322*
Mortgages	*42,153*	*42,153*	*36,562*	*36,562*
Credit cards	*3,090*	*1,102*	*1,312*	*1,113*
Other (reverse repurchase agreements, other loans backed by securities, other)	*17,744*	*17,744*	*19,483*	*19,461*
Loans to business customers:	964,868	985,716	837,028	867,836
Large corporates	*89,087*	*89,087*	*55,842*	*55,842*
SME	*699,679*	*720,527*	*591,194*	*622,002*
Central and local authorities, administrative bodies and other	*176,102*	*176,102*	*189,992*	*189,992*
Finance lease receivables	91,139	90,898	69,808	48,170
Individuals	15,993	15,889	12,111	7,319
Business customers	75,146	75,009	57,697	40,851
Securities at fair value through profit or loss:	30,589	17,755	39,785	25,658
Debt securities	30,589	17,755	39,785	25,658
Derivative financial instruments	3,031	3,031	8,983	8,687
Securities available for sale	11,322	10,914	17,034	16,631
Debt securities	11,322	10,914	17,034	16,631
Investment securities held to maturity	576,260	576,260	524,054	524,054
Debt securities	576,260	576,260	524,054	524,054
Other financial assets	10,485	9,616	4,136	3,078
Credit risk exposures relating to off –balance sheet items are as follows:				
Financial guarantees	33,787	33,814	21,253	21,320
Letters of credit	262	262	2,185	2,185
Loan commitments and other credit related liabilities	173,233	188,725	116,403	140,416
At 31 December	2,030,653	2,036,420	1,762,587	1,789,692

The table above represents a worst case scenario of credit risk exposure at 31 December 2017 and 2016, 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)

1.5. Loans and advances

Loans and advances are summarised as follows:

	2017		2016	
	Group	Bank	Group	Bank
Loans to business customers	1,006,859	1,067,488	885,074	974,736
Loans to individuals	139,738	80,027	123,939	70,461
*Subtract: Difference between acquisition value and gross value **	(15,035)	(15,035)	(18,602)	(18,602)
Gross	1,131,562	1,132,480	990,411	1,026,595
Subtract: Allowance for impairment	(33,235)	(29,553)	(36,802)	(32,440)
of which: for individually assessed loans	*(32,097)*	*(28,786)*	*(35,435)*	*(31,500)*
of which:collective allowances for incurrred but not reported losses	*(1,138)*	*(767)*	*(1,367)*	*(940)*
Net	1,098,327	1,102,927	953,609	994,155

* 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 2017

	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	988,182	18	963,623	39,756
Past due but not individually impaired	90,714	-	83,663	-
Individually impaired	52,648	-	45,438	-
Gross	1,131,544	18	1,092,724	39,756
Less: allowance for impairment	(33,235)	-	(29,553)	-
of which: for individually assessed loans	*(32,097)*	-	*(28,786)*	-
of which: collective allowances for incurrred but not reported losses	*(1,138)*	-	*(767)*	-
Net	1,098,309	18	1,063,171	39,756

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

During the year ended 31 December 2017, the Group's gross loans and advances increased by 15%. The Group's total impairment provision for loans and advances amounts to EUR 33,277 thousand (2016: EUR 36,802 thousand) and it accounts for 2.94% of the respective portfolio (2016: 3.72%).The Group's impaired loans and advances to customers comprise 4.66% of the total portfolio (2016: 5.91%).

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.

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.

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

FINANCIAL RISK MANAGEMENT (continued)

31 December 2017

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Standard	59,766	31,761	2,747	8,748	103,022
Watch	37	3,316	16	3,568	6,937
Substandard	-	2,954	-	874	3,828
Gross	59,803	38,031	2,763	13,190	113,787
Collective allowances for incurrred but not reported losses	(246)	(28)	(10)	(10)	(294)
Net	59,557	38,003	2,753	13,180	113,493

	Group loans to business customers				
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Standard	294,263	62,295	18	124,625	481,201
Watch	305,697	13,696	-	45,937	365,330
Substandard	26,294	-	-	1,588	27,882
Total	626,254	75,991	18	172,150	874,413
Collective allowances for incurrred but not reported losses	(460)	(56)	-	(127)	(643)
Net	625,794	75,935	18	172,023	873,770

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 2017

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Standard	15,658	31,761	1,037	8,748	57,204
Watch	37	3,316	16	3,568	6,937
Substandard	-	2,954	-	874	3,828
Total	15,695	38,031	1,053	13,190	67,969
Collective allowances for incurrred but not reported losses	(12)	(28)	(1)	(10)	(51)
Net	15,683	38,003	1,052	13,180	67,918

	Bank loans to business customers				
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Standard	293,268	62,295	39,756	124,625	519,944
Watch	327,951	13,696	-	45,937	387,584
Substandard	26,294	-	-	1,588	27,882
Total	647,513	75,991	39,756	172,150	935,410
Collective allowances for incurrred but not reported losses	(460)	(56)	-	(127)	(643)
Net	647,053	75,935	39,756	172,023	934,767

(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
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**

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 2017

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Past due up to 30 days	7,089	2,173	41	3,226	12,529
Past due 30-60 days	33	281	147	183	644
Past due 60-90 days	-	366	-	169	535
Past due more than 90 days	6	313	-	401	720
Gross	**7,128**	**3,133**	**188**	**3,979**	**14,428**
Collective allowances for incurrred but not reported losses	(125)	(2)	(3)	(3)	(133)
Net	**7,003**	**3,131**	**185**	**3,976**	**14,295**
Fair value of collateral	24	3,092	-	3,885	7,001

	Group loans to business customers			
	SME	Large corporates	Central and local authorities and other	Total
Past due up to 30 days	42,694	13,020	3,096	58,809
Past due 30-60 days	2,038	-	22	2,060
Past due 60-90 days	3,569	-	-	3,569
Past due more than 90 days	11,847	-	-	11,847
Gross	**60,148**	**13,020**	**3,118**	**76,286**
Collective allowances for incurrred but not reported losses	(44)	(10)	(2)	(56)
Net	**60,104**	**13,010**	**3,116**	**76,230**
Fair value of collateral	58,770	10,305	25	69,100

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

FINANCIAL RISK MANAGEMENT (continued)

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

31 December 2017

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Past due up to 30 days	629	2,173	41	3,226	6,069
Past due 30-60 days	-	281	-	183	464
Past due 60-90 days	-	366	-	169	535
Past due more than 90 days	6	313	-	401	720
Gross	635	3,133	41	3,979	7,788
Collective allowances for incurrred but not reported losses	-	(2)	-	(3)	(5)
Net	635	3,131	41	3,976	7,783
Fair value of collateral	24	3,092	-	3,885	7,001

	Bank loans to business customers			
	SME	Large corporates	Central and local authorities and other	Total
Past due up to 30 days	42,694	13,020	3,096	58,810
Past due 30-60 days	2,038	-	22	2,060
Past due 60-90 days	3,569	-	-	3,569
Past due more than 90 days	11,436	-	-	11,436
Gross	59,737	13,020	3,118	75,875
Collective allowances for incurrred but not reported losses	(44)	(10)	(2)	(56)
Net	59,693	13,010	3,116	75,819
Fair value of collateral	58,770	10,305	25	69,100

(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
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	-

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 2017

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Impaired loans	7,157	2,029	382	1,125	10,693
Allowance for impairment of individually assessed loans	(3,263)	(1,009)	(230)	(537)	(5,039)
Collective allowances for incurrred but not reported losses	-	(1)	-	-	(1)
Net	**3,894**	**1,019**	**152**	**588**	**5,653**
Fair value of collateral	4	1,466	-	595	2,065

	Group loans to business customers			
	SME	Large corporates	Central and local authorities and other	Total
Impaired loans	40,125	161	1,669	41,955
Allowance for impairment of individually assessed loans	(26,334)	(19)	(705)	(27,058)
Collective allowances for incurrred but not reported losses	(10)	-	(1)	(11)
Net	**13,781**	**142**	**963**	**14,886**
Fair value of collateral	29,234	161	1,623	31,018

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

FINANCIAL RISK MANAGEMENT (continued)

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

31 December 2017

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Impaired loans	251	2,029	57	1,104	3,441
Allowance for impairment of individually assessed loans	(113)	(1,009)	(48)	(516)	(1,686)
Collective allowances for incurrred but not reported losses	-	(1)	-	-	(1)
Net	**138**	**1,019**	**9**	**588**	**1,754**
Fair value of collateral	4	1,466	-	595	2,065

	Bank loans to business customers			
	SME	Large corporates	Central and local authorities and other	Total
Impaired loans	40,167	161	1,669	41,997
Allowance for impairment of individually assessed loans	(26,376)	(19)	(705)	(27,100)
Collective allowances for incurrred but not reported losses	(10)	-	(1)	(11)
Net	**13,781**	**142**	**963**	**14,886**
Fair value of collateral	29,234	161	1,623	31,018

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

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

FINANCIAL RISK MANAGEMENT (continued)

During 2017 the Bank's estimated interest income on individually impaired loans amounted to EUR 665 thousand (2016: EUR 2,244 thousand).

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

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 2017 amounted to EUR 17.3 million (2016: EUR 17.5 million).

Renegotiated loans by the class of financial assets:

31 December 2017

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Renegotiated loans	-	64	-	117	181

	Bank loans to business customers			
	SME	Large corporates	Central and local authorities and other	Total
Renegotiated loans	15,490	-	1,588	17,078

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

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 2017 amounted to EUR 61 million (2016: EUR 78 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 2017

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Unsecured loans	74,078	1,545	3,332	3,504	82,459
Loans collateralised by:	10	41,649	-	14,791	56,450
residential real estate -	1	39,064	-	6,130	45,195
other real estate -	-	1,878	-	7,352	9,230
securities -	-	23	-	1	24
guarantees -	9	684	-	1,154	1,847
cash deposits -	-	-	-	149	149
other assets -	-	-	-	5	5
Total	74,088	43,194	3,332	18,295	138,909

	Group loans to business customers				
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Unsecured loans	50,517	4,230	15	164,958	219,720
Loans collateralised by:	676,010	84,941	3	11,979	772,933
residential real estate -	29,260	79	-	436	29,775
other real estate -	527,563	72,712	3	11,268	611,546
securities -	126	654	-	81	861
guarantees -	84,947	307	-	194	85,448
cash deposits -	2,992	-	-	-	2,992
other assets -	31,122	11,189	-	-	42,311
Total	726,527	89,171	18	176,937	992,653

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

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

FINANCIAL RISK MANAGEMENT (continued)

31 December 2017

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Unsecured loans	16,570	1,545	1,150	3,483	22,748
Loans collateralised by:	**10**	**41,649**	**-**	**14,791**	**56,450**
residential real estate -	1	39,064	-	6,130	45,195
other real estate -	-	1,878	-	7,352	9,230
securities -	-	23	-	1	24
guarantees -	9	684	-	1,154	1,847
cash deposits -	-	-	-	149	149
other assets -	-	-	-	5	5
Total	**16,580**	**43,194**	**1,150**	**18,274**	**79,198**

	Bank loans to business customers				
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Unsecured loans	71,389	4,230	39,753	164,958	280,330
Loans collateralised by:	**676,029**	**84,941**	**3**	**11,979**	**772,952**
residential real estate -	29,260	79	-	436	29,775
other real estate -	527,582	72,712	3	11,268	611,565
securities -	126	654	-	81	861
guarantees -	84,947	307	-	194	85,448
cash deposits -	2,992	-	-	-	2,992
other assets -	31,122	11,189	-	-	42,311
Total	**747,418**	**89,171**	**39,756**	**176,937**	**1,053,282**

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**

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

1.6. Finance lease receivables

Finance lease receivables are summarised as follows:

	2017		2016	
	Group	Bank	Group	Bank
Business customers	76,482	75,590	59,401	41,541
Individuals	16,068	15,925	12,211	7,327
*Subtract: Difference between acquisition value and gross value **	(13)	(13)	(497)	(497)
Gross	**92,537**	**91,502**	**71,115**	**48,371**
Subtract: Allowance for impairment	(1,398)	(604)	(1,308)	(201)
of which: for individually assessed finance lease receivables	(1,330)	(536)	(1,256)	(150)
of which: collective allowances for incurrred but not reported losses	(68)	(68)	(52)	(51)
Net	**91,139**	**90,898**	**69,807**	**48,170**

* 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

	2017			2016		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Neither past due nor individually impaired	12,678	52,873	65,551	9,594	43,510	53,104
Past due but not individually impaired	3,266	21,845	25,111	2,487	13,701	16,188
Individually impaired	124	1,751	1,875	130	1,693	1,823
Gross	**16,068**	**76,469**	**92,537**	**12,211**	**58,904**	**71,115**
Less: allowance for impairment	(76)	(1,322)	(1,398)	(98)	(1,210)	(1,308)
of which: for individually assessed finance lease receivables	(63)	(1,267)	(1,330)	(90)	(1,166)	(1,256)
of which: collective allowances for incurrred but not reported losses	(13)	(55)	(68)	(8)	(44)	(52)
Net	**15,992**	**75,147**	**91,139**	**12,113**	**57,694**	**69,807**

The Bank

	2017			2016		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Neither past due nor impaired	12,604	52,861	65,465	5,818	29,843	35,661
Past due but not impaired	3,237	21,803	25,040	1,509	10,960	12,469
Impaired	84	913	997	-	241	241
Gross	**15,925**	**75,577**	**91,502**	**7,327**	**41,044**	**48,371**
Less: allowance for impairment	(38)	(566)	(604)	(8)	(193)	(201)
of which: for individually assessed finance lease receivables	(25)	(511)	(536)	-	(150)	(150)
of which: collective allowances for incurrred but not reported losses	(13)	(55)	(68)	(8)	(43)	(51)
Net	**15,887**	**75,011**	**90,898**	**7,319**	**40,851**	**48,170**

During the year ended 31 December 2017, finance lease receivables portfolio of the Group increased by 30.6%. Total impairment provisions for finance lease receivables of the Group amount to EUR 1,398 thousand (2016: EUR 1.308 thousand) and account for 1.51% of the respective portfolio (2016: 1.84%).

(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

	2017			2016		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Standard	12,457	25,036	37,493	9,442	23,440	32,882
Watch	139	24,179	24,318	144	16,701	16,845
Substandard	82	3,658	3,740	8	3,369	3,377
Total	12,678	52,873	65,551	9,594	43,510	53,104
Collective allowances for incurrred but not reported losses	(11)	(39)	(50)	(6)	(33)	(39)
Net	12,667	52,834	65,501	9,588	43,477	53,065

The Bank

	2017			2016		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Standard	12,383	25,024	37,407	5,718	16,224	21,942
Watch	139	24,179	24,318	100	13,097	13,197
Substandard	82	3,658	3,740	-	522	522
Total	12,604	52,861	65,465	5,818	29,843	35,661
Collective allowances for incurrred but not reported losses	(11)	(39)	(50)	(6)	(32)	(38)
Net	12,593	52,822	65,415	5,812	29,811	35,623

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

	2017			2016		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Past due up to 3 days	717	14,990	15,707	839	8,263	9,102
Past due 4-40 days	2,205	5,615	7,820	1,447	4,628	6,075
Past due 41-90 days	249	314	563	153	246	399
Past due more than 90 days	95	926	1,021	48	564	612
Gross	3,266	21,845	25,111	2,487	13,701	16,188
Collective allowances for incurrred but not reported losses	(2)	(16)	(18)	(2)	(11)	(13)
Net	3,264	21,829	25,093	2,485	13,690	16,175
Fair value of the collateral	3,260	21,710	24,970	2,481	13,692	16,173

The Bank

	2017			2016		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Past due up to 3 days	716	14,991	15,707	736	7,345	8,081
Past due 4-40 days	2,179	5,615	7,794	731	3,435	4,166
Past due 41-90 days	249	277	526	42	136	178
Past due more than 90 days	93	920	1,013	-	44	44
Total	3,237	21,803	25,040	1,509	10,960	12,469
Collective allowances for incurrred but not reported losses	(2)	(16)	(18)	(2)	(11)	(13)
Net	3,235	21,787	25,022	1,507	10,949	12,456
Fair value of the collateral	3,232	21,667	24,899	1,507	10,958	12,465

(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 2017						
Individually impaired	124	1,751	1,875	84	913	997
Allowance for impairment of individually assessed finance lease receivables	(63)	(1,267)	(1,330)	(25)	(511)	(536)
Net	61	484	545	59	402	461
Fair value of collateral	82	1,744	1,826	73	913	986
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

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	2017			2016		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Unsecured finance lease receivables	198	4,520	4,718	346	3,453	3,799
Finance lease receivables secured by:						
transport vehicles -	14,844	35,013	49,857	10,924	23,729	34,653
real estate -	886	26,503	27,389	820	24,047	24,867
airplanes -	-	-	-	-	625	625
production equipment -	-	834	834	-	1,437	1,437
other equipment -	76	9,599	9,675	55	5,569	5,624
other assets -	65	-	65	66	44	110
Total	16,069	76,469	92,538	12,211	58,904	71,115

The Bank	2017			2016		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Unsecured finance lease receivables	165	4,514	4,679	125	2,585	2,710
Finance lease receivables secured by:						
transport vehicles -	14,820	35,005	49,825	6,501	18,014	24,515
real estate -	886	26,493	27,379	682	16,463	17,145
airplanes -	-	-	-	-	-	-
production equipment -	-	-	-	-	-	-
other equipment -	55	9,564	9,619	19	3,982	4,001
other assets -	-	-	-	-	-	-
Total	15,926	75,576	91,502	7,327	41,044	48,371

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

FINANCIAL RISK MANAGEMENT (continued)

1.7. Other financial assets

Other financial assets consist of amounts receivable.

The Group

	2017			2016		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Neither past due nor impaired	94	10,391	10,485	103	4,033	4,136
Past due but not impaired	-	-	-	-	-	-
Impaired	7	8	15	7	23	30
Gross	101	10,399	10,500	110	4,056	4,166
Less: allowance for impairment	(7)	(8)	(15)	(7)	(23)	(30)
Net	94	10,391	10,485	103	4,033	4,136

The Bank

	2017			2016		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Neither past due nor impaired	26	9,590	9,616	79	2,999	3,078
Past due but not impaired	-	-	-	-	-	-
Impaired	7	8	15	7	8	15
Gross	33	9,598	9,631	86	3,007	3,093
Less: allowance for impairment	(7)	(8)	(15)	(7)	(8)	(15)
Net	26	9,590	9,616	79	2,999	3,078

a) Amounts receivable neither past due nor impaired

The Group

	2017			2016		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Standard	94	10,391	10,485	103	4,033	4,136
Watch	-	-	-	-	-	-
Sub-standard	-	-	-	-	-	-
Total	94	10,391	10,485	103	4,033	4,136

The Bank

	2017			2016		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Standard	26	9,590	9,616	79	2,999	3,078
Watch	-	-	-	-	-	-
Sub-standard	-	-	-	-	-	-
Total	26	9,590	9,616	79	2,999	3,078

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)

FINANCIAL RISK MANAGEMENT (continued)

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

Industry sectors

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
At 31 December 2017:												
Loans and advances to banks	2,218	-	-	-	-	-	-	-	-	-	-	2,218
Loans and advances to customers:	5,546	127,342	130,242	153,160	93,974	95,974	90,458	25,632	32,105	133,441	210,453	1,098,327
Loans and advances to financial institutions	18	-	-	-	-	-	-	-	-	-	-	18
Loans to individuals (Retail):	-	-	-	-	-	-	-	-	-	133,441	-	133,441
Consumer loans -	-	-	-	-	-	-	-	-	-	70,454	-	70,454
Mortgages -	-	-	-	-	-	-	-	-	-	42,153	-	42,153
Credit cards -	-	-	-	-	-	-	-	-	-	3,090	-	3,090
Other -	-	-	-	-	-	-	-	-	-	17,744	-	17,744
Loans to business customers:	5,528	127,342	130,242	153,160	93,974	95,974	90,458	25,632	32,105	-	210,453	964,868
Large corporates -	-	7,449	57,965	-	8,007	-	-	-	15,497	-	169	89,087
SME -	5,528	119,893	72,277	153,160	85,371	95,974	494	19,858	13,855	-	133,269	699,679
Central and local authorities, administrative bodies and other -	-	-	-	-	596	-	89,964	5,774	2,753	-	77,015	176,102
Finance lease receivables:	2,935	15,539	5,945	6,181	6,269	4,132	577	11,388	718	37,445	10	91,139
Individuals -	-	-	-	-	-	-	-	-	-	15,993	-	15,993
Business customers -	2,935	15,539	5,945	6,181	6,269	4,132	577	11,388	718	21,452	10	75,146
Securities at fair value through profit or loss:	25,708	719	3,800	305	-	421	13,406	167	414	-	4,235	49,175
Debt securities -	18,225	20	36	43	-	-	-	-	25	-	237	18,586
Equity securities -	7,483	699	3,764	262	-	421	13,406	167	389	-	3,998	30,589
Derivative financial instruments	727	225	153	399	166	296	46	23	40	631	325	3,031
Securities available for sale:	10,668	-	2,358	393	-	-	-	-	-	-	3,053	16,472
Equity securities -	4,317	-	-	393	-	-	-	-	-	-	440	5,150
Debt securities -	6,351	-	2,358	-	-	-	-	-	-	-	2,613	11,322
Investment securities held-to-maturity:	54,161	1,302	34,882	1,009	-	-	418,063	2,006	4,533	-	60,304	576,260
Debt securities -	54,161	1,302	34,882	1,009	-	-	418,063	2,006	4,533	-	60,304	576,260
Other financial assets	203	27	10	-	10	6	-	3	1	101	10,124	10,485
Credit risk exposures relating to off –balance sheet items are as follows:												
Financial guarantees -	1,079	6,313	3,928	805	12,910	91	-	779	30	-	7,852	33,787
Letters of credit -	-	60	114	-	-	-	-	-	-	-	88	262
Loan commitments and other credit related liabilities -	3,442	20,583	36,232	9,263	20,937	14,798	5,192	831	1,053	4,744	56,158	173,233
Total at 31 December2017	106,687	172,110	217,664	171,515	134,266	115,718	527,742	40,829	38,894	176,362	352,602	2,054,389
At 31 December 2016:												
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
Total 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

(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
At 31 December 2017:												
Loans and advances to banks	2,218	-	-	-	-	-	-	-	-	-	-	2,218
Loans and advances to customers:	49,057	127,342	130,242	167,283	99,313	95,974	90,458	25,632	32,105	77,455	208,066	1,102,927
Loans and advances to financial institutions	39,756	-	-	-	-	-	-	-	-	-	-	39,756
Loans to individuals (Retail):	-	-	-	-	-	-	-	-	-	77,455	-	77,455
Consumer loans -	-	-	-	-	-	-	-	-	-	16,456	-	16,456
Mortgages -	-	-	-	-	-	-	-	-	-	42,153	-	42,153
Credit cards -	-	-	-	-	-	-	-	-	-	1,102	-	1,102
Other -	-	-	-	-	-	-	-	-	-	17,744	-	17,744
Loans to business customers:	9,301	127,342	130,242	167,283	99,313	95,974	90,458	25,632	32,105	-	208,066	985,716
Large corporates -	-	7,449	57,965	-	8,007	-	-	-	15,497	-	169	89,087
SME -	9,301	119,893	72,277	167,283	90,710	95,974	494	19,858	13,855	-	130,882	720,527
Central and local authorities, administrative bodies and other -	-	-	-	-	596	-	89,964	5,774	2,753	-	77,015	176,102
Finance lease receivables:	2,935	15,533	5,879	6,181	6,269	4,116	577	11,349	718	15,889	21,452	90,898
Individuals -	-	-	-	-	-	-	-	-	-	15,889	-	15,889
Business customers -	2,935	15,533	5,879	6,181	6,269	4,116	577	11,349	718	-	21,452	75,009
Securities at fair value through profit or loss:	5,676	619	3,026	43	-	-	5,905	-	414	-	2,601	18,284
Debt securities -	167	20	36	43	-	-	-	-	25	-	238	529
Equity securities -	5,509	599	2,990	-	-	-	5,905	-	389	-	2,363	17,755
Derivative financial instruments	727	225	153	399	166	296	46	23	40	631	325	3,031
Securities available for sale:	6,535	-	2,358	11	-	-	-	-	-	-	2,638	11,542
Equity securities -	593	-	-	11	-	-	-	-	-	-	24	628
Debt securities -	5,942	-	2,358	-	-	-	-	-	-	-	2,614	10,914
Investment securities held-to-maturity:	54,161	1,302	34,882	1,009	-	-	418,063	2,006	4,533	-	60,304	576,260
debt securities -	54,161	1,302	34,882	1,009	-	-	418,063	2,006	4,533	-	60,304	576,260
Other financial assets	203	27	10	-	10	6	-	3	1	26	9,330	9,616
Credit risk exposures relating to off –balance sheet items are as follows:												
Financial guarantees -	1,146	6,273	3,928	805	12,910	91	-	779	30	-	7,852	33,814
Letters of credit -	-	60	114	-	-	-	-	-	-	-	88	262
Loan commitments and other credit related liabilities -	15,107	20,583	36,232	12,270	21,764	14,798	5,192	831	1,053	4,744	56,151	188,725
Total at 31 December 2017:	137,765	171,964	216,824	188,001	140,432	115,281	520,241	40,623	38,894	98,745	368,807	2,037,577
At 31 December 2016:												
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
Total 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

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 2017 the Group and the Bank were compliant with the above limits.

FINANCIAL RISK MANAGEMENT (continued)

Concentration exposure
As at 31 December 2017, 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 33.7 million, i.e. 18.43% of the Bank's calculated capital (2016: EUR 20.7 million or 12.18% 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 2017 the Group's ONOP to capital ratio was 0.29% (2016: 0.17%), the Bank's ONOP to capital ratio was 0.23% (2016: 0.10%).

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

FINANCIAL RISK MANAGEMENT (continued)

Open positions

The Group's open positions of prevailing currencies were as follows:

	USD	Other currencies	Total currencies	EUR	Total
At 31 December 2017:					
Assets					
Cash and cash equivalents	11,730	59,806	71,536	58,202	129,738
Due from other banks	398	-	398	1,820	2,218
Securities at fair value through profit or loss	9,010	187	9,197	39,978	49,175
Derivative financial instruments	5	-	5	3,026	3,031
Loans granted to customers, finance lease receivables	10,520	-	10,520	1,178,946	1,189,466
Investment securities					
available-for-sale securities -	3,094	-	3,094	13,378	16,472
held-to-maturity securities -	5,123	-	5,123	571,137	576,260
Intangible assets	-	-	-	4,535	4,535
Property, plant and equipment and investment property	-	-	-	22,932	22,932
Other assets	60	1	61	36,874	36,935
Total assets	39,940	59,994	99,934	1,930,828	2,030,762
Liabilities and shareholders' equity					
Due to other banks and financial institutions	55	-	55	55,662	55,717
Derivative financial instruments	-	-	-	1,894	1,894
Due to customers	93,864	12,851	106,715	1,541,338	1,648,053
Special and lending funds	-	-	-	13,336	13,336
Debt securities in issue	-	-	-	20,003	20,003
Subordinated loan	-	-		34,203	34,203
Liabilities related to insurance activities	5,762	188	5,950	21,282	27,232
Other liabilities	2	-	2	20,346	20,348
Shareholders' equity	382	-	382	209,594	209,976
Total liabilities and shareholders' equity	100,065	13,039	113,104	1,917,658	2,030,762
Net balance sheet position	(60,125)	46,955	(13,170)	13,170	-
Open currency exchange transactions	60,253	(46,571)	13,682	(14,614)	(932)
Net open position	128	384	512	(1,444)	(932)
At 31 December 2016:					
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

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

FINANCIAL RISK MANAGEMENT (continued)

The Bank's open positions of prevailing currencies were as follows:

	USD	Other currencies	Total currencies	EUR	Total
At 31 December 2017:					
Assets					
Cash and cash equivalents	11,684	59,806	71,490	55,101	126,591
Due from other banks	398	-	398	1,820	2,218
Securities at fair value through profit or loss	3,167	-	3,167	15,117	18,284
Derivative financial instruments	5	-	5	3,026	3,031
Loans granted to customers, finance lease receivables	10,520	-	10,520	1,183,305	1,193,825
Investment securities					
available-for-sale securities -	3,094	-	3,094	8,448	11,542
held-to-maturity securities -	5,123	-	5,123	571,137	576,260
Investments in subsidiaries	-	-	-	26,895	26,895
Intangible assets	-	-	-	1,684	1,684
Property, plant and equipment and investment property	-	-	-	13,839	13,839
Other assets	60	1	61	15,736	15,797
Total assets	34,051	59,807	93,858	1,896,108	1,989,966
Liabilities and shareholders' equity					
Due to other banks and financial institutions	55	-	55	57,829	57,884
Derivative financial instruments	-	-	-	1,894	1,894
Due to customers	93,864	12,851	106,715	1,542,102	1,648,817
Debt securities in issue	-	-	-	20,003	20,003
Special and lending funds	-	-	-	13,336	13,336
Subordinated loan	-	-	-	34,203	34,203
Other liabilities	2	-	2	11,868	11,870
Shareholders' equity	382	-	382	201,577	201,959
Total liabilities and shareholders' equity	94,303	12,851	107,154	1,882,812	1,989,966
Net balance sheet position	(60,252)	46,956	(13,296)	13,296	-
Open currency exchange transactions	60,253	(46,571)	13,682	(14,614)	(932)
Net open position	1	385	386	(1,318)	(932)
At 31 December 2016:					
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

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

FINANCIAL RISK MANAGEMENT (continued)

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.

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 2017 and forecast that exchange rate fluctuations will have the same trends in 2018.

Currency	Annual reasonable shift, 2017	Annual reasonable shift, 2016
CHF	5.5%	2.5%
DKK	0.5%	0.5%
GBP	8%	15%
SEK	4%	5%
USD	7.5%	6%
Other currencies	4%	4%
CIS countries currencies	9%	10%

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 2017		*31 December 2016*	
Impact on profit or loss and equity	Group	Bank	Group	Bank
USD	10	-	7	3
GBP	2	2	6	6
CHF	2	2	-	-
DKK	1	1	-	-
SEK	1	1	-	-
Other currencies	10	10	5	5
CIS countries currencies	2	2	1	1
Total	**28**	**18**	**19**	**15**

The impact of presumable FX rate change on the Group's / Bank's profit for the year is at acceptable level. In 2017for the Group and for the Bank it equals to EUR 28 thousand (2016: EUR 19 thousand) and EUR 18 thousand (2016: EUR 15 thousand) respectively.

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 were updated in 2017 to introduce a system of internal risk limits and indicators, 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 is evaluated using a system of internal key risk indicator;
- Risk Management and Reporting Department provides the information on regular basis to Risk Management Committee about compliance with internal risk limits.

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

FINANCIAL RISK MANAGEMENT (continued)

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 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
31 December 2017:							
Assets							
Cash and cash equivalents	-	-	-	-	-	129,738	129,738
Due from other banks	364	87	-	-	-	1,767	2,218
Securities at fair value through profit or loss	27	453	427	1,410	28,273	18,585	49,175
Derivative financial instruments	-	-	-	-	-	3,031	3,031
Loans to customers, finance lease receivables	188,100	313,445	483,295	35,423	138,717	30,486	1,189,466
Investment securities							
available-for-sale securities -	8	19	840	21	10,434	5,150	16,472
held-to-maturity securities -	3,138	22,084	14,003	21,536	515,499	-	576,260
Intangible assets	-	-	-	-	-	4,535	4,535
Property, plant and equipment and investment property	-	-	-	-	-	22,932	22,932
Other assets	-	-	-	-	-	36,935	36,935
Total assets	191,637	336,088	498,565	58,390	692,923	253,159	2,030,762
Due to other banks and financial institutions	18,482	5,052	5,164	6,918	400	19,701	55,717
Due to customers, special and lending funds	92,027	128,531	181,357	297,473	169,240	792,761	1,661,389
Debt securities in issue	-	-	-	-	20,003	-	20,003
Subordinated loan	-	20,000	-	-	-	14,203	34,203
Liabilities related to insurance activities	347	85	125	423	26,252	-	27,232
Other liabilities	-	-	-	-	-	22,242	22,242
Shareholders' equity	-	-	-	-	-	209,976	209,976
Total liabilities and shareholders' equity	110,856	153,668	186,646	304,814	215,895	1,058,883	2,030,762
Interest rate sensitivity gap	80,781	182,420	311,919	(246,424)	477,028	(805,724)	-
31 December 2016:							
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)	-

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

FINANCIAL RISK MANAGEMENT (continued)

Details of the Bank's interest rate risk 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
At 31 December 2017:							
Assets							
Cash and cash equivalents	-	-	-	-	-	126,591	126,591
Due from other banks	364	87	-	-	-	1,767	2,218
Securities at fair value through profit or loss	17	398	151	1,062	16,127	529	18,284
Derivative financial instruments	-	-	-	-	-	3,031	3,031
Loans to customers, finance lease receivables	184,858	346,445	485,858	32,319	118,038	26,307	1,193,825
Investment securities							
- available-for-sale securities	-	19	840	21	10,034	628	11,542
- held-to-maturity securities	3,138	22,084	14,003	21,536	515,499	-	576,260
Investments in subsidiaries	-	-	-	-	-	26,895	26,895
Intangible assets	-	-	-	-	-	1,684	1,684
Property, plant and equipment and investment property	-	-	-	-	-	13,839	13,839
Other assets	-	-	-	-	-	15,797	15,797
Total assets	188,377	369,033	500,852	54,938	659,698	217,068	1,989,966
Due to other banks and financial institutions	18,506	5,052	5,204	6,918	1,000	21,204	57,884
Due to customers, special and lending funds	92,027	128,531	181,357	297,473	169,240	793,525	1,662,153
Debt securities in issue	-	-	-	-	20,003	-	20,003
Subordinated loan	-	20,000	-	-	-	14,203	34,203
Other liabilities	-	-	-	-	-	13,764	13,764
Shareholders' equity	-	-	-	-	-	201,959	201,959
Total liabilities and shareholders' equity	110,533	153,583	186,561	304,391	190,243	1,044,655	1,989,966
Interest rate sensitivity gap	77,844	215,450	314,291	(249,453)	469,455	(827,587)	-
At 31 December 2016:							
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)	-

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

FINANCIAL RISK MANAGEMENT (continued)

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 2017							
Total interest rate sensitive assets	191,637	336,088	498,565	58,390	692,923	199,242	1,976,845
Total interest rate sensitive liabilities	110,856	153,668	186,646	304,814	215,895	860,437	1,832,316
Net interest sensitivity gap at 31 December 2017	80,781	182,420	311,919	(246,424)	477,028	(661,195)	144,529
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

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.

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 2017 and 31 December 2016.

	31 December 2017		*31 December 2016*	
	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.	2,670	(702)	552	(661)
Interest rate decrease by 1p.p.	(2,670)	702	(552)	661

The shift of yield curve according to above mentioned parameters creates significant impact on Group's total comprehensive income and makes EUR 1,968 thousand in 2017 (2016: EUR 109 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 2017							
Total interest rate sensitive assets	188,377	369,033	500,852	54,938	659,698	168,469	1,941,367
Total interest rate sensitive liabilities	110,533	153,583	186,561	304,391	190,243	858,774	1,804,085
Net interest sensitivity gap at 31 December 2017	77,844	215,450	314,291	(249,453)	469,455	(690,305)	137,282
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

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 2017 and 31 December 2016.

	31 December 2017		*31 December 2016*	
	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.	3,153	(693)	1,116	(661)
Interest rate decrease by 1p.p.	(3,153)	693	(1,116)	661

The shift of yield curve according to above mentioned parameters creates significant impact on Bank's total comprehensive income and makes EUR 2,460 thousand in 2017 (2016: EUR 455 thousand) higher/lower impact on comprehensive income.

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

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:

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

				2017				2016
	Name of the country	Sovereign	Corporate	Total	Name of the country	Sovereign	Corporate	Total
1.	Lithuania	288,060	234	288,294	Lithuania	340,524	617	341,141
2.	USA	-	40,194	40,194	Romania	26,039	-	26,039
3.	Poland	32,354	-	32,354	Poland	24,321	-	24,321
4.	France	1,864	24,111	25,975	USA	-	18,045	18,045
5.	Romania	25,190	-	25,190	Netherlands	-	16,581	16,581
6.	Netherlands	-	22,744	22,744	Italy	8,354	4,638	12,992
7.	Italy	11,842	7,880	19,722	Bulgaria	10,654	549	11,203
8.	Ireland	13,647	3,073	16,720	France	-	10,207	10,207
9.	Mexico	6,024	7,427	13,451	Spain	7,935	1,291	9,226
10.	Slovenia	13,092	-	13,092	Ireland	4,005	4,029	8,034
11.	Sweden	-	12,835	12,835	Slovenia	7,274	-	7,274
12.	Spain	7,932	4,552	12,484	Latvia	4,511	2,310	6,821
13.	Bulgaria	9,381	1,331	10,712	Mexico	1,373	5,132	6,505
14.	Great Britain	-	9,397	9,397	Sweden	-	6,494	6,494
15.	Slovakia	9,051	-	9,051	Great Britain	-	6,279	6,279
16.	Czech Republic	1,044	6,779	7,823	Czech Republic	1,041	4,858	5,899
17.	Germany	-	7,031	7,031	Luxembourg	-	5,334	5,334
18.	Finland	999	5,268	6,267	Turkey	1,982	2,362	4,344
19.	Latvia	3,266	431	3,697	Chile	157	4,080	4,237
20.	Estonia	-	3,672	3,672	Germany	-	4,155	4,155
	Other countries	7,724	29,742	37,466	Other countries	9,675	36,067	45,742
	Total	431,470	186,701	618,171	Total	447,845	133,028	580,873

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

				2017				2016
	Name of the country	Sovereign	Corporate	Total	Name of the country	Sovereign	Corporate	Total
1.	Lithuania	287,690	234	287,924	Lithuania	340,247	214	340,461
2.	USA	-	40,194	40,194	Romania	25,335	-	25,335
3.	Poland	31,377	-	31,377	Poland	23,195	-	23,195
4.	France	1,864	23,898	25,762	USA	-	17,735	17,735
5.	Romania	24,756	-	24,756	Netherlands	-	15,977	15,977
6.	Netherlands	-	22,341	22,341	Italy	7,491	4,488	11,979
7.	Italy	10,886	7,880	18,766	Bulgaria	10,139	549	10,688
8.	Ireland	13,647	3,073	16,720	France	-	10,000	10,000
9.	Slovenia	13,013	-	13,013	Spain	7,935	1,070	9,005
10.	Sweden	-	12,685	12,685	Ireland	4,005	4,029	8,034
11.	Mexico	5,137	7,264	12,401	Slovenia	7,010	0	7,010
12.	Spain	7,696	4,552	12,248	Sweden	-	6,494	6,494
13.	Bulgaria	9,066	1,164	10,230	Latvia	4,144	2,310	6,454
14.	Slovakia	9,051	-	9,051	Great Britain	-	5,705	5,705
15.	Great Britain	-	8,619	8,619	Luxembourg	-	5,334	5,334
16.	Czech Republic	1,044	6,779	7,823	Mexico	196	5,132	5,328
17.	Germany	-	6,652	6,652	Czech Republic	1,041	4,271	5,312
18.	Finland	999	5,268	6,267	Chile	-	4,080	4,080
19.	Estonia	-	3,391	3,391	Finland	-	3,717	3,717
20.	Luxembourg	-	3,079	3,079	Germany	-	3,681	3,681
	Other countries	7,742	23,888	31,630	Other countries	8,148	32,671	40,819
	Total	423,968	180,961	604,929	Total	438,886	127,457	566,343

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

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 2017		*31 December 2016*
	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.	(958)	(702)	(1,809)	(661)
Interest rate decrease by 1p.p.	958	702	1,809	661
Bank:				
Interest rate increase by 1p.p.	(729)	(693)	(1,456)	(661)
Interest rate decrease by 1p.p.	729	693	1,456	661

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 is set at 100%). As of 31 December 2017, Bank's LCR ratio (aggregate for all currencies) stood at 307% (31 December 2016: 324%).

Internal liquidity limit system was updated in 2017. It includes such ratios as internal liquidity ratio, minimum negative liquidity gap ratio, liquid assets requirement. As 31 December 2017 and 31 December 2016 the Bank complied with all the internal liquidity ratios.

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

FINANCIAL RISK MANAGEMENT (continued)

3.2. Structure of assets and liabilities by maturity

The structure of the Group's assets and liabilities by maturity 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
At 31 December 2017:									
Assets									
Cash and cash equivalents	129,738	-	-	-	-	-	-	-	129,738
Due from other banks	-	466	87	1	538	151	94	881	2,218
Securities at fair value through profit or loss	-	26	453	427	1,410	8,332	19,940	18,587	49,175
Derivative financial instruments	-	265	333	283	476	1,400	274	-	3,031
Loans to customers, finance lease receivables	-	27,556	46,994	72,803	110,349	401,472	493,173	37,119	1,189,466
Investment securities									
available-for-sale securities -	-	8	19	840	1,821	2,257	10,101	1,426	16,472
held-to-maturity securities -	-	3,137	22,083	14,003	21,536	180,523	334,978	0	576,260
Intangible assets	-	-	-	-	-	-	-	4,535	4,535
Property, plant and equipment and investment property	-	-	-	-	-	-	-	22,932	22,932
Other assets	7,426	2,137	403	664	4,233	10,215	4,234	7,623	36,935
Total assets	**137,164**	**33,595**	**70,372**	**89,021**	**140,363**	**604,350**	**862,794**	**93,103**	**2,030,762**
Due to other banks and financial institutions	14,023	8,277	380	5,695	8,184	11,282	7,876	-	55,717
Due to customers	736,912	111,344	131,218	185,005	304,159	164,101	15,314	-	1,648,053
Special and lending funds	13,336	-	-	-	-	-	-	-	13,336
Debt securities in issue	-	-	-	-	-	20,003	-	-	20,003
Subordinated loan	-	-	74	-	34,129	-	-	-	34,203
Liabilities related to insurance activities	-	347	85	125	422	1,237	25,016	-	27,232
Other liabilities	2,609	6,801	1,072	893	3,862	1,732	5,273	-	22,242
Shareholders' equity	-	-	-	-	-	-	-	209,976	209,976
Total liabilities and shareholders' equity	766,880	126,769	132,829	191,718	350,756	198,355	53,479	209,976	2,030,762
Net liquidity gap	(629,716)	(93,174)	(62,457)	(102,697)	(210,393)	405,995	809,315	(116,873)	-
At 31 December 2016:									
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)	-

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

FINANCIAL RISK MANAGEMENT (continued)

The structure of the Bank's assets and liabilities by maturity 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
At 31 December 2017:									
Assets									
Cash and cash equivalents	126,591	-	-	-	-	-	-	-	126,591
Due from other banks	-	466	87	1	538	151	94	881	2,218
Securities at fair value through profit or loss	-	17	398	151	1,062	4,831	11,296	529	18,284
Derivative financial instruments	-	265	333	283	476	1,400	274	-	3,031
Loans granted to customers, finance lease receivables	-	24,165	79,915	75,308	106,614	390,405	483,575	33,843	1,193,825
Investment securities									
available-for-sale securities -	-	-	19	840	21	1,857	8,177	628	11,542
held-to-maturity securities -	-	3,137	22,083	14,003	21,536	180,523	334,978	-	576,260
Investments in subsidiaries	-	-	-	-	-	-	-	26,895	26,895
Intangible assets	-	-	-	-	-	-	-	1,684	1,684
Property, plant and equipment and investment property	-	-	-	-	-	-	-	13,839	13,839
Other assets	7,427	1,257	271	136	148	80	26	6,452	15,797
Total assets	134,018	29,307	103,106	90,722	130,395	579,247	838,420	84,751	1,989,966
Due to other banks and financial institutions	15,116	8,277	382	5,735	8,184	11,914	8,276	-	57,884
Due to customers	737,676	111,344	131,218	185,005	304,159	164,101	15,314	-	1,648,817
Debt securities in issue	-	-	-	-	-	20,003	-	-	20,003
Special and lending funds	13,336	-	-	-	-	-	-	-	13,336
Subordinated loan	-	-	74	-	34,129	-	-	-	34,203
Other liabilities	2,016	1,701	546	451	3,492	551	5,007	-	13,764
Shareholders' equity	-	-	-	-	-	-	-	201,959	201,959
Total liabilities and shareholders' equity	768,144	121,322	132,220	191,191	349,964	196,569	28,597	201,959	1,989,966
Net liquidity gap	(634,126)	(92,015)	(29,114)	(100,469)	(219,569)	382,678	809,823	(117,208)	-
At 31 December 2016:									
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)	-

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

FINANCIAL RISK MANAGEMENT (continued)

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 2017	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Due to banks	-	22,316	369	13,277	14,016	5,787	55,765
Due to customers	-	848,378	131,446	490,607	180,233	2,732	1,653,396
Debt securities in issue	-	-	-	120	20,237	-	20,357
Subordinated loan	-	-	246	21,352	-	-	21,598
Special and lending funds	-	13,336	-	-	-	-	13,336
Liabilities related to insurance activities	-	347	85	547	3,508	22,745	27,232
Total liabilities (contractual maturity dates)	-	884,377	132,146	525,903	217,994	31,264	1,791,684

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

Bank

31 December 2017	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Due to banks	-	23,410	371	13,949	14,416	5,787	57,933
Due to customers	-	849,144	131,446	490,607	180,233	2,732	1,654,162
Debt securities in issue	-	-	-	120	20,237	-	20,357
Subordinated loan	-	-	246	21,352	-	-	21,598
Special and lending funds	-	13,336	-	-	-	-	13,336
Total liabilities (contractual maturity dates)	-	885,890	132,063	526,028	214,886	8,519	1,767,386

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

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

FINANCIAL RISK MANAGEMENT (continued)

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 2017	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	171,868	-	-	-	-	-	171,868
Guarantees	33,787	-	-	-	-	-	33,787
Operating lease commitments	96	190	270	485	1,299	122	2,462
Other commitments	-	1,451	113	7	-	56	1,627
Total	205,751	1,641	383	492	1,299	178	209,744

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

Bank

At 31 December 2017	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	187,367	-	-	-	-	-	187,367
Guarantees	33,814	-	-	-	-	-	33,814
Operating lease commitments	98	194	276	491	1,321	122	2,502
Other commitments	-	1,451	113	-	-	56	1,620
Total	221,279	1,645	389	491	1,321	178	225,303

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

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, due to customers, debt securities in issue 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, debt securities in issue 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 2017		As of 31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Due from other banks	2,218	2,218	5,337	5,339
Loans	1,098,327	1,117,065	953,609	971,648
Loans to individuals:	133,441	136,519	116,564	119,725
Consumer loans -	70,454	71,624	59,207	61,135
Mortgages -	42,153	44,068	36,562	37,807
Credit cards -	3,090	3,083	1,312	1,300
Other -	17,744	17,744	19,483	19,483
Loans to business customers	964,868	980,528	837,028	851,906
Central and other authorities -	176,102	177,298	189,992	190,527
Large corporates -	89,087	88,907	55,842	55,663
SME -	699,679	714,323	591,194	605,716
Loans and advances to financial institutions	18	18	17	17
Finance lease receivables	91,139	91,558	69,807	71,068
Investment securities held-to-maturity	576,260	602,990	524,054	555,368
Government bonds -	418,063	440,753	420,755	448,376
Corporate bonds -	158,197	162,237	103,299	106,992
Other financial assets	10,485	10,485	4,189	4,189
Liabilities				
Due to other banks and financial institutions	55,717	55,956	89,793	90,031
Due to customers	1,648,053	1,656,140	1,495,087	1,503,174
Due to individuals	1,132,861	1,140,658	1,123,634	1,131,431
Due to private companies	336,410	336,656	267,905	268,151
Due to other enterprises	178,782	178,826	103,548	103,592
Debt securities in issue	20,003	20,003	-	-
Special and lending funds	13,336	13,336	28,326	28,326

Bank

	As of 31 December 2017		As of 31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Due from other banks	2,218	2,218	5,337	5,339
Loans	1,102,927	1,121,417	994,155	1,011,032
Loans to individuals:	77,455	80,214	67,458	69,427
Consumer loans -	16,456	17,815	10,322	11,253
Mortgages -	42,153	44,068	36,562	37,807
Credit cards -	1,102	1,095	1,113	1,106
Other -	17,744	17,236	19,461	19,261
Loans to business customers	985,716	1,001,340	867,835	882,662
Central and other authorities -	176,102	177,298	189,992	190,527
Large corporates -	89,087	88,907	55,842	55,663
SME -	720,527	735,135	622,001	636,472
Loans and advances to financial institutions	39,756	39,863	58,862	58,943
Finance lease receivables	90,898	91,453	48,170	49,894
Investment securities held-to-maturity	576,260	602,990	524,054	555,368
Government bonds -	418,063	440,753	420,755	448,376
Corporate bonds -	158,197	162,237	103,299	106,992
Other financial assets	9,616	9,616	3,078	3,078
Liabilities				
Due to other banks and financial institutions	57,884	58,123	92,079	92,317
Due to customers	1,648,817	1,656,904	1,495,478	1,503,565
Due to individuals	1,132,861	1,140,658	1,123,634	1,131,431
Due to private companies	336,843	337,089	268,281	268,527
Other	179,113	179,157	103,563	103,607
Debt securities in issue	20,003	20,003	-	-
Special and lending funds	13,336	13,336	28,326	28,326

(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, average price quotations 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

		2017		2016
	Group	Bank	Group	Bank
LEVEL I				
Financial assets at fair value through profit or loss				
Listed equity securities	470	470	409	409
Units of investment funds	18,112	55	17,228	31
Government bonds	13,406	5,905	27,040	18,081
Corporate bonds	16,574	11,241	12,695	7,527
Available for sale financial assets				
Government bonds	-	-	-	-
Corporate bonds	10,914	10,914	17,034	16,631
Investment fund units	3,938	214	1,047	107
Total Level I financial assets	63,414	28,799	75,453	42,786
LEVEL II				
Financial assets at fair value through profit or loss				
Derivative financial instruments	747	747	3,417	3,417
Total Level II financial assets	747	747	3,417	3,417
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	(1,894)	(1,894)	(175)	(175)
Total Level II financial liabilities	(1,894)	(1,894)	(175)	(175)
LEVEL III				
Financial assets at fair value through profit or loss				
Derivative financial instruments	2,284	2,284	5,566	5,270
Corporate bonds	609	609	50	50
Unlisted equity securities	4	4	5	5
Available for sale financial assets				
Corporate bonds	408	-	-	-
Unlisted equity securities	1,212	414	1,087	766
Total Level III financial assets	4,517	3,311	6,708	6,091
Financial liabilities at fair value through profit or loss				
Subordinated loans	(34,203)	(34,203)	(22,064)	(22,064)
Total Level III financial liabilities	(34,203)	(34,203)	(22,064)	(22,064)

There were no transfers between fair value hierarchy levels during 2017 and 2016.

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

The following table presents the changes in Level III instruments during 2017 and 2016:

The Group

	Securities at fair value through profit or loss		*Securities available for sale*		*Derivatives*		*Financial liabilities at fair value through profit or loss*	
	2017	2016	2017	2016	2017	2016	2017	2016
Value as of 1 January	55	25	1,087	2,314	5,566	8,183	22,064	20,457
Additions / Recognition	2,062	50	580	655	-	-	-	-
Disposals	(1,509)	-	-	(1,821)	-	-	-	-
Redemptions	-	(18)	-	-	-	-	-	-
Derecognition	-	-	-	-	(392)	(699)	-	-
Changes due to interest accrued/paid	5	(2)	8	-	-	-	-	(37)
Revaluations through other comprehensive income	-	-	(55)	(61)	-	-	-	-
Revaluations through profit or loss	-	-	-	-	(2,890)	(1,918)	12,139	1,644
Value as of 31 December	613	55	1,620	1,087	2,284	5,566	34,203	22,064

The Bank

	Securities at fair value through profit or loss		*Securities available for sale*		*Derivatives*		*Financial liabilities at fair value through profit or loss*	
	2017	2016	2017	2016	2017	2016	2017	2016
Value as of 1 January	55	25	766	2,069	5,270	7,645	22,064	20,457
Additions / Recognition	2,062	50	-	400	-	-	-	-
Disposals	(1,509)	-	(297)	(1,642)	-	-	-	-
Redemptions	-	(18)	-	-	-	-	-	-
Derecognition	-	-	-	-	(392)	(699)	-	-
Changes due to interest accrued/paid	5	(2)	-	-	-	-	-	(37)
Revaluations through other comprehensive income	-	-	(55)	(61)	-	-	-	-
Revaluations through profit or loss	-	-	-	-	(2,594)	(1,676)	12,139	1,644
Value as of 31 December	613	55	414	766	2,284	5,270	34,203	22,064

	2017		*2016*	
	Group	Bank	Group	Bank
Total result from revaluation of Level III instruments included in the income statement	(15,029)	(14,733)	(3,562)	(3,320)

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 2,221 thousand for the Group and the Bank (2016: EUR 3,077 thousand for the Group and EUR 2,980 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 2,274 thousand for the Group and the Bank (2016: EUR 5,037 thousand for the Group and EUR 4,876 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 44 thousand for the Group and the Bank (2016: EUR 88 thousand for the Group and EUR 85 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 39 thousand for the Group and the Bank (2016: EUR 68 thousand for the Group and EUR 66 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.

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

FINANCIAL RISK MANAGEMENT (continued)

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. The measurement of subordinated loan in 2017 financial statements is based on the assumption that EBRD will use its conversion option and convert the subordinated loan to shares in 2018. 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 significant increase in the value of derivative part of the financial liability was mainly affected by the increase in the share price of the Bank during year 2017 (it increased by 57% during year 2017). 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 2.00% (2016: 6.70%) (i.e. input calculated based on expert judgement of Group's employees) was used for the calculation. The decreased discount rate is mainly affected by the improved credit rating of the Bank in 2017 and the change in assumption of when the loan is expected to be repaid.

Subordinated loan fair value consists of:

	2017	2016
Derivative part of the financial liability	12,990	3,132
Debt part of the financial liability	21,213	18,932
Total value of financial liability at fair value through profit or loss	34,203	22,064

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

31 December 2017:

	Change in factor	Impact on fair value of the liability
Risk-free rate	Increase by 50 bps	Increase by EUR 37 thousand
	Decrease by 50 bps	Decrease by EUR 37 thousand
Current price of shares	Increase by 10%	Increase by EUR 3,309 thousand
	Decrease by 10%	Decrease by EUR 3,309 thousand
Projected BV per share*	Increase by 10%	Decrease by EUR 2,998 thousand
	Decrease by 10%	Increase by EUR 3,665 thousand
Discount rate used to discount the future cash flows of the debt part	Increase by 100 bps	Decrease by EUR 187 thousand
	Decrease by 100 bps	Increase by EUR 191 thousand
Part of the revaluation attributable to own credit risk	Credit rating increased by 1 notch (from Ba1 to Baa3)	Increase by EUR 40 thousand

**book value*

Had the scenario used in previous financial statements remained unchanged (i.e. the management would have expected the loan to be repaid in 2023), the fair value of the subordinated loan would have been higher by EUR 324 thousand because discounted value of the debt part of the financial liability would have been higher.

31 December 2016:

	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.

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

4.3. Offsetting financial assets and financial liabilities

As of 31 December 2017 and 31 December 2016, only currency derivative instruments were subject to master netting arrangements and similar arrangements. As of 31 December 2017, derivative financial instruments classified as assets in amount of EUR 125 thousand and derivative financial instruments classified as liabilities in amount of EUR 1,207 thousand were subject to those agreements. 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.

The Group receives collateral in the form of marketable securities in respect of reverse repurchase agreements, which are included in loans to customers. Gross amount of reverse repurchase agreements: 31 December 2017: EUR 2,314 thousand; 31 December 2016: EUR 1,031 thousand. Securities received as a collateral for reverse repurchase agreements can be pledged or sold during the term of transaction but have to be returned on maturity of the transaction.

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 2017		*31 December 2016*	
	Group	Bank	Group	Bank
FINANCIAL ASSETS				
Financial assets mandatorily measured at fair value through profit or loss:				
Trading securities	29,632	18,284	38,759	26,103
government bonds -	*11,920*	*5,905*	*25,619*	*18,131*
corporate bonds -	*17,183*	*11,850*	*12,695*	*7,527*
equities -	*529*	*529*	*445*	*445*
Securities at fair value through profit or loss,designated as such upon initial ecognition	19,543	-	18,668	-
government bonds -	*1,486*	*-*	*1,471*	*-*
corporate bonds -	*-*	*-*	*-*	*-*
equities -	*18,057*	*-*	*17,197*	*-*
Derivative financial instruments	3,031	3,031	8,983	8,687
Financial assets measured at fair value through other comprehensive income:				
Investment securities available-for-sale	16,472	11,542	19,168	17,504
government bonds -	*-*	*-*	*-*	*-*
corporate bonds -	*11,322*	*10,914*	*17,034*	*16,631*
equities -	*5,150*	*628*	*2,134*	*873*
Financial assets measured at amortized cost:				
Cash and cash equivalents	129,738	126,591	153,867	152,111
Due from other banks	2,218	2,218	5,337	5,337
Loans to customers	1,098,327	1,102,927	953,609	994,155
loans to financial institutions -	*18*	*39,756*	*17*	*58,862*
loans to individuals (retail): consumer loans -	*70,454*	*16,456*	*59,207*	*10,322*
loans to individuals (retail): mortgages -	*42,153*	*42,153*	*36,562*	*36,562*
loans to individuals (retail): credit cards -	*3,090*	*1,102*	*1,312*	*1,113*
loans to individuals (retail): other -	*17,744*	*17,744*	*19,483*	*19,461*
loans to business customers: SME -	*699,679*	*720,527*	*591,194*	*622,001*
loans to business customers: large corporates -	*89,087*	*89,087*	*55,842*	*55,842*
loans to business customers: central and local authorities and other -	*176,102*	*176,102*	*189,992*	*189,992*
Finance lease receivables	91,139	90,898	69,807	48,170
individuals -	*15,993*	*15,889*	*12,113*	*7,319*
business customers -	*75,146*	*75,009*	*57,694*	*40,851*
Investment securities held-to-maturity	576,260	576,260	524,054	524,054
government bonds -	*418,063*	*418,063*	*420,755*	*420,755*
corporate bonds -	*158,197*	*158,197*	*103,299*	*103,299*
Other financial assets	10,485	9,616	4,189	3,078
Total financial assets	1,976,845	1,941,367	1,796,441	1,779,199
FINANCIAL LIABILITIES				
Financial liabilities mandatorily measured at fair value through profit or loss:				
Derivative financial instruments	1,894	1,894	175	175
Financial liabilities at fair value through profit or loss, designated as such upon initial recognition:				
Subordinated loan	34,203	34,203	22,064	22,064
Financial liabilities measured at amortised cost:				
Due to banks and financial institutions	55,717	57,884	89,793	92,079
Due to customers	1,648,053	1,648,817	1,495,087	1,495,478
due to individuals -	*1,132,861*	*1,132,861*	*1,123,634*	*1,123,634*
due to private companies -	*336,410*	*336,843*	*267,905*	*268,281*
other -	*178,782*	*179,113*	*103,548*	*103,563*
Special and lending funds	13,336	13,336	28,326	28,326
Debt securities in issue	20,003	20,003	-	-
Other financial liabilities	11,876	7,945	11,781	7,544
Total financial liabilities	1,785,082	1,784,082	1,647,226	1,645,666

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

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:

	2017	2016
Maturity	4.18%	4.81%
Death	30.56%	29.73%
Critical illness	10.72%	10.94%
Death in case of accident	12.88%	11.96%
Trauma	41.66%	42.56%

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 2017

Variable	*Change in variable*	*Change in profit/loss*	*Change in insurance liability*
Mortality	10%	(415)	415
Longevity	10%	(13)	13
Disability/Morbidity	10%	(293)	293
Lapse rate	10%	(211)	211
Expense rate	10%	(721)	721
Discount rate	100 bp	1,129	(1,129)
	(100 bp)	(1,519)	1,519

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

Loss rate according to insurance groups:

	2017 (%)	2016 (%)
Non–life insurance		
Casualty insurance	-	(598.5)
Life insurance		
Unit-linked insurance	14.6	14.4
Term life insurance	6.5	(24.6)
Endowment insurance	14.6	10.9
Scholarship insurance	135.3	50.6
Pension insurance	18.7	11.6
Overall loss rate	16.0	13.7

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 7 thousand (2016 – EUR 11 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 (2017: 7.7%, 2016: 5.8%), 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. Operational risk management procedure is subject to continuous improvement.

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. The Bank set out the regulations on the principles for reliable and appropriate internal control system, guidelines for the business continuity organization.

In 2017 the Bank continued to develop systems of operational risk management and internal control, renewed the process for conducting investigations on very important operational risk events. The organization of business continuity was improved, i.e. the business continuity instructions for main processes and critical IT systems were prepared. The scope of risk indicators was reviewed and expanded. Employees perception of operational risk was strengthened by organizing operational risk training of new employees.

In 2018, the Bank will further strengthen its opartional risk management and internal control systems. Attention will be allocated towards Bank's business continuity management – i.e. improvement of processes for extreme situations and Bank's information system incidents management.

7. IT risk

The importance of IT risk management remains high, as Bank's activity is very dependent on IT solutions. At the end of 2016 IT risk management procedure was introduced, where objectives, directions and instruments of IT risk management were defined. According to this procedure, IT risk indicators are monitored and reported monthly to Risk management committee. Also, according to this procedure, Bank IT system user's survey was carried out, exposing most risky IT areas from their perspective. Bank's IT disaster recovery plan was renewed in 2017, ensuring Banks's main IT systems continuity in case of incidents and disasters. As in earlier years, significant efforts remain devoted towards proper process documentation, establishment of efficient procedures, educating users and IT staff, access management and digital security.

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) and Bank of Lithuania guidelines and positions. 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 and informs Bank's management about the identified risks and their mitigation measures. During 2017, the compliance function was active in area of anti-money laundering (AML) and terrorist financing prevention implementing the updated requirements of Lithuanian AML and terrorist financing prevention regulation, which are related to the Fourth Anti-Money Laundering Directive adopted by European Parliament. Substantial attention was also allocated to implementation of process changes in the Bank related to two areas: MiFID II regulation, which changes the provision of investment services and changes personal data regulations.

9. Model risk

The Bank defines model risk as the risk to incur a financial loss or to make incorrect business decisions, publish false reporting disclosures because of the usage of models. In the end of 2017, model risk management procedure was approved in the Bank and in 2018 the Bank plans to take steps towards its implementation including listing all the models used in the Bank and starting the model validation processes.

10. 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.

11. 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.

In addition to minimal capital requirements, which continues to apply 8%, the Bank has to comply with additional capital buffer requirements:

- Capital conservation buffer: rate of 2.5% is applied to all institutions operating in EU. The aim of the buffer is to oblige the banks to accumulate additional capital to cover unexpected losses;
- Institution-specific countercyclical capital buffer: regulators in EU countries may set a countercyclical capital buffer at their discretion aiming to reduce the risk of unsustainable credit growth to the banking sector and the economy. Rate currently applied in Lithuania is 0%, from 31 December 2018 it will be increased to 0.5%;
- Systemically important institutions buffers. The Bank is subject to an other systemically important institution buffer (O-SII), which aims to oblige the banks that are systemically important to EU or local economy to accumulate additional capital. The O-SII buffer is set individually. The Bank is subject to O-SII buffer of 0.5%.
- Systemic risk reserve buffer. This reserve requirement aims to improve the resilience of institutions to structural systemic risk. Currently systemic risk reserve is applied mostly in North and Middle Europe countries, based on the concentration of banking sector and its importance to economy. For positions in Lithuania no systemic risk reserve buffer requirement is set.

Additional capital requirement of 1.9% (31 December 2016: 1.9%) 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).

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

FINANCIAL RISK MANAGEMENT (continued)

Therefore, at 31 December 2017 the Bank is subject to a CET1 ratio of 9.4%, Tier1 capital ratio of 10.9% and total capital ratio of 12.9% (i.e. requirements remain unchanged from 31 December 2016).

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.

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.

		2017		*2016*
	Group	Bank	Group	Bank
Common equity tier 1 capital eligible as CET1 Capital				
Paid up capital instruments	131,366	131,366	109,472	109,472
Share premium	-	-	-	-
Previous years retained earnings	38,020	31,586	21,155	16,604
Interim profit eligible for inclusion	-	-	24,811	27,176
Current year loss	-	-	-	-
Statutory reserve	7,177	7,071	4,157	4,157
Other reserves	756	756	756	756
Part of financial assets revaluation reserve	402	232	187	166
(-) Goodwill	(2,752)	-	(2,752)	-
(-) Intangible assets	(1,783)	(1,684)	(1,428)	(1,210)
(-) Deferred tax asets that rely on future profitability	(49)	-	(87)	-
(-) Value adjustements due to requirements for prudent valuation	(49)	(33)	(67)	(52)
(-) Other deductions from CET1 capital	(5,083)	(6,528)	(3,470)	(7,535)
TIER 1 CAPITAL	168,005	162,766	152,734	149,534
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	101	58	124	111
TIER 2 CAPITAL	20,101	20,058	20,124	20,111
OWN FUNDS	188,106	182,824	172,858	169,645
Own funds requirements for:				
Risk weighted exposure amount for credit risk under the Standardised Approach	1,035,748	1,061,709	839,425	872,393
Risk weighted exposure amount for the trading book instruments	27,533	18,096	31,814	21,818
Operational risk under the Basic Indicator Approach	147,881	113,086	143,577	110,372
Other capital requirements (credit value adjustment risk)	338	338	63	63
Total risk exposure amount	1,211,500	1,193,229	1,014,879	1,004,646
CET1 Capital ratio	13.87%	13.64%	15.05%	14.88%
T1 Capital ratio	13.87%	13.64%	15.05%	14.88%
Total capital ratio	15.53%	15.32%	17.03%	16.89%

The profit of the current year is not included in Tier 1 capital until it is verified by independent auditors. If the profit for the year 2017 was included in Owns funds of the Group and the Bank as of 31 December 2017, it would cause the Total capital ratio to increase to 18.60% and 18.46%, respectively.

During the years ended 31 December 2017 and 31 December 2016, 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 1,052 thousand for the Group and the Bank (2016: Group EUR 249 thousand, Bank EUR 241 thousand) . The decrease in estimated cash flows by 5 per cent (other factors held constant) would result in additional impairment loss of EUR 445 thousand for the Group and the Bank (2016: Group EUR 554 thousand, Bank EUR 522 thousand). 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 1,206 thousand at 31 December 2017 (2016: EUR 1,419 thousand). However due to inherent limitations of the methodology, the calculated impairment loss as at 31 December 2017 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 2017 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 2017 by 5 percentage points (other factors held constant) would result in additional impairment expense of EUR 357 thousand (2016: EUR 325 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 2,672 thousand (although it would not result in goodwill impairment) (2016: EUR 2,201 thousand). Decrease of estimated cash flows by 20% (other factors held constant) would decrease the net present value of cash-generating unit by EUR 2,966 thousand (although it would not result in goodwill impairment) (2016: EUR 2,243 thousand).

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 2017 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 2017 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 19 for details) are included in the column "Eliminations".

	Traditional banking operations and lending	*Treasury*	*Non-core banking activities*	*Other activities*	*Eliminations*	*Total*
Internal	2,252	-	699	13	(2,964)	-
External	54,076	11,939	260	803	-	67,078
Interest income	**56,328**	**11,939**	**959**	**816**	**(2,964)**	**67,078**
Internal	(2,296)	-	-	(707)	3,003	-
External	(5,818)	(4,041)	(49)	(13)	-	(9,921)
Interest expenses	**(8,114)**	**(4,041)**	**(49)**	**(720)**	**3,003**	**(9,921)**
Internal	(44)	-	699	(694)	39	-
External	48,258	7,898	211	790	-	57,157
Net interest income	**48,214**	**7,898**	**910**	**96**	**39**	**57,157**
Internal	216	-	-	(157)	(59)	-
External	10,948	-	-	4	-	10,952
Net fee and commission income	**11,164**	**-**	**-**	**(153)**	**(59)**	**10,952**
Internal	172	-	699	(851)	(20)	-
External	59,206	7,898	211	794	-	68,109
Net interest, fee and commissions income	**59,378**	**7,898**	**910**	**(57)**	**(20)**	**68,109**
Internal	(140)	(9)		(22)	171	-
External	(25,077)	(2,421)	-	(11,663)	(10)	(39,171)
Operating expenses	**(25,217)**	**(2,430)**	**-**	**(11,685)**	**161**	**(39,171)**
Amortisation charges	(398)	(39)	-	(55)	-	(492)
Depreciation charges	(1,104)	(112)	-	(155)	-	(1,371)
Internal	-	-	(1,292)	(558)	1,850	-
External	2,549	-	-	(575)	-	1,974
Impairment expenses	**2,549**	**-**	**(1,292)**	**(1,133)**	**1,850**	**1,974**
Internal	25	-	7,949	10	(7,984)	-
External	3,012	1,556	(8,920)	15,060	-	10,708
Net other income	**3,037**	**1,556**	**(971)**	**15,070**	**(7,984)**	**10,708**
Profit (loss) before tax	**38,245**	**6,873**	**(1,353)**	**1,985**	**(5,993)**	**39,757**
Income tax	(6,612)	(645)	-	(373)	-	(7,630)
Profit (loss) per segment after tax	**31,633**	**6,228**	**(1,353)**	**1,612**	**(5,993)**	**32,127**
Non-controlling interest	-	-	-	-	-	-
Profit (loss) for the year attributable to the owners of the Bank	31,633	6,228	(1,353)	1,612	(5,993)	32,127
Total segment assets	1,277,972	734,912	37,023	74,290	(93,435)	2,030,762
Total segment liabilities	1,139,600	660,327	33,265	56,578	(68,984)	1,820,786
Net segment assets (shareholders' equity)	138,372	74,585	3,758	17,712	(24,451)	209,976

(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 2016 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
Internal	2,679	-	1,419	6	(4,104)	-
External	48,803	12,099	4,217	815		65,934
Interest income	**51,482**	**12,099**	**5,636**	**821**	**(4,104)**	**65,934**
Internal	(3,393)	-	-	(781)	4,174	-
External	(6,777)	(4,656)	(580)	-	-	(12,013)
Interest expenses	**(10,170)**	**(4,656)**	**(580)**	**(781)**	**4,174**	**(12,013)**
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	(9,910)	35
External	2,579	4,871	11,977	17,859	-	37,286
Net other income	**2,607**	**4,871**	**21,859**	**17,894**	**(9,910)**	**37,321**
Profit (loss) before tax	**21,606**	**9,941**	**20,509**	**1,741**	**(3,473)**	**50,324**
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

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

	2017		2016	
	Group	Bank	Group	Bank
Interest income:				
on loans to other banks and financial institutions and placements with credit institutions	94	2,426	523	3,911
on loans to customers	50,303	40,420	49,118	41,388
on debt securities	12,300	11,884	12,550	12,066
held to maturity -	*11,332*	*11,332*	*11,209*	*11,209*
available for sale -	*329*	*308*	*448*	*430*
at fair value through profit or loss -	*639*	*244*	*893*	*427*
on finance leases	4,381	3,406	3,743	1,204
Total interest income	67,078	58,136	65,934	58,569
Interest expense:				
on financial liabilities designated at fair value through profit or loss	(992)	(992)	(1,394)	(1,394)
on financial liabilities measured at amortised cost	(8,719)	(8,713)	(10,597)	(10,603)
on other liabilities	(210)	(210)	(22)	(22)
Total interest expense	(9,921)	(9,915)	(12,013)	(12,019)
Net interest income	57,157	48,221	53,921	46,550

NOTE 2
NET FEE AND COMMISSION INCOME

	2017		2016	
	Group	Bank	Group	Bank
Fee and commission income:				
for administration of loans of third parties	3,571	3,571	4,178	4,178
for settlement services	3,894	3,901	3,749	3,780
for cash operations	3,287	3,287	2,570	2,570
for account administration	2,307	2,307	1,058	1,058
for guarantees, letters of credit, documentary collection	377	377	388	388
for collection of utility and similar payments	279	288	420	440
for services related to securities	1,168	1,306	918	1,055
other fee and commission income	869	257	834	242
Total fee and commission income	15,752	15,294	14,115	13,711
Fee and commission expense:				
for payment cards	(2,863)	(2,861)	(2,645)	(2,645)
for cash operations	(848)	(848)	(797)	(797)
for correspondent bank and payment system fees	(370)	(237)	(526)	(203)
for services of financial data vendors	(176)	(176)	(183)	(183)
for services related to securities	(362)	(357)	(271)	(271)
other fee and commission expenses	(181)	(181)	(280)	(265)
Total fee and commission expense	(4,800)	(4,660)	(4,702)	(4,364)
Net fee and commission income	10,952	10,634	9,413	9,347

(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

	2017		2016	
	Group	Bank	Group	Bank
Securities at fair value through profit or loss:				
Realised gain (loss) on equity securities	14	34	(26)	9
Unrealised gain (loss) on equity securities	1,275	(22)	1,253	(15)
Realised gain on debt securities	312	314	888	894
Unrealised gain on debt securities	526	413	86	2
Net gain on securities at fair value through profit or loss	2,127	739	2,201	890
Realised gain on available-for-sale equities	131	152	1,852	1,871
Realised gain on available-for-sale debt securities	257	257	258	258
Realised gain on held-to-maturity debt securites	393	393	1,791	1,791
Dividend and other income from equity securities at fair value through profit or loss	11	11	8	8
Dividend and other income from available-for-sale equity securities	4	4	54	54
Total	2,923	1,556	6,164	4,872

NET GAIN FROM FOREIGN EXCHANGE AND RELATED DERIVATIVES

	2017		2016	
	Group	Bank	Group	Bank
Net gain from foreign exchange	12,390	13,075	1,507	1,278
Net gain (loss) from derivatives related with foreign exchange	(7,561)	(7,561)	2,970	2,970
Total	4,829	5,514	4,477	4,248

NET LOSS FROM OTHER DERIVATIVES

	2017		2016	
	Group	Bank	Group	Bank
Net (loss) from derivatives related with interest rate floor in the variable rate loan contracts	(2,890)	(2,594)	(1,918)	(1,676)
Net gain from derivatives related with prices of financial instruments	5	5	5	5
Total	(2,885)	(2,589)	(1,913)	(1,671)

NOTE 4
OTHER OPERATING EXPENSES

	2017		2016	
	Group	Bank	Group	Bank
Rent of buildings and premises	(1,396)	(1,208)	(1,442)	(1,239)
Utility services for buildings and premises	(653)	(591)	(727)	(665)
Other expenses related to buildings and premises	(258)	(256)	(366)	(353)
Transportation expenses	(439)	(406)	(408)	(441)
Legal costs	(63)	(63)	(47)	(47)
Personnel and training expenses	(305)	(209)	(246)	(222)
IT and communication expenses	(2,097)	(1,890)	(2,054)	(1,849)
Marketing and charity expenses	(2,078)	(1,231)	(1,381)	(452)
Service organisation expenses	(1,141)	(993)	(943)	(871)
Non-income taxes, fines	(550)	(37)	(780)	(96)
Costs incurred due to debt recovery	(417)	(285)	(361)	(193)
Other expenses	(896)	(405)	(922)	(407)
Total	(10,293)	(7,574)	(9,677)	(6,835)

(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

	2017		2016	
	Group	Bank	Group	Bank
Revenue related to insurance activities	6,390	-	6,176	-
Revenue from sale of apartments	4,149	-	9,082	-
Profit from discontinued operations	-	-	35	-
Total	10,539	-	15,293	-

EXPENSES RELATED TO OTHER ACTIVITIES OF GROUP COMPANIES

	2017		2016	
	Group	Bank	Group	Bank
Expenses related to insurance activities:	(4,999)	-	(4,652)	-
*change of the technical insurance provisions that covers the result of investment of assets under unit-linked contracts**	*(650)*	*-*	*(1,481)*	*-*
*other changes of the technical insurance provisions***	*(840)*	*-*	*(502)*	*-*
insurance benefits paid	*(3,116)*	*-*	*(2,306)*	*-*
commission expenses incurred and other	*(393)*	*-*	*(363)*	*-*
Cost of apartments sold	(3,677)	-	(8,114)	-
Loss from discontinued operations	(10)		-	-
		-		-
Total	(8,686)	-	(12,766)	-

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

	2017		2016	
	Group	Bank	Group	Bank
Interest and similar income	42	-	48	-
Net gain (loss) from operations with securities	1,269	-	1,211	-
Net gain (loss) from foreign exchange	(661)		222	-
		-		-
Total	650	-	1,481	-

** 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 FROM DISPOSAL OF TANGIBLE ASSETS

In 2017 net gain on disposal of tangible assets (mostly real estate, accounted for as Property, plant and equipment, Investment property or Inventories in the statement of financial position) at the Group amounted to EUR 2,897 thousand (Bank: net gain of EUR 37 thousand). 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).

NET GAIN FROM DERECOGNITION OF FINANCIAL ASSETS

Net gain from derecognition of financial assets (for the year ended 31 December 2017: Group EUR 3,178 thousand, Bank EUR 3,070 thousand; for the year ended 31 December 2016: Group EUR 12,644 thousand, Bank EUR 12,671 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

	2017		2016	
	Group	Bank	Group	Bank
Income from rent of investment property and other income from investment property	692	49	868	61
Income from rent of other assets	208	112	196	118
Other income	466	219	624	364
Total	1,366	380	1,688	543

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

NOTE 7
IMPAIRMENT LOSSES

	2017		2016	
	Group	Bank	Group	Bank
Impairment losses on loans:				
Impairment charge for the year	4,069	3,447	18,730	17,892
Reversal of impairment charge for the year	(5,382)	(4,939)	(10,449)	(10,360)
Recoveries of loans previously written off	(1,104)	(555)	(831)	(139)
Total impairment losses (reversals) on loans	(2,417)	(2,047)	7,450	7,393
Impairment losses on finance lease receivables:				
Impairment charge for the year	365	60	117	100
Reversal of impairment charge for the year	(264)	(31)	(238)	(42)
Recovered previously written-off finance lease receivables	(141)	-	(144)	-
Total impairment losses (reversals) on finance lease receivables	(40)	29	(265)	58
Total impairment losses (reversals) on loans and finance lease receivables	(2,457)	(2,018)	7,185	7,451
Impairment losses on other assets:				
Other financial assets: impairment charge	96	-	27	-
Other financial assets: reversal of impairment charge	(28)	-	(39)	-
Provisions for pending legal issues: charge	-	-	-	-
Provisions for pending legal issues: reversal	-	-	(58)	(14)
Other non-financial assets: impairment charge	553	-	1,236	60
Other non-financial assets: reversal of impairment charge / reclassification	(138)	(25)	(576)	(1)
Other non-financial assets: recoveries of assets previously written-off	-	-	-	-
Total impairment losses on other assets	483	(25)	590	45
Impairment losses on subsidiaries:				
Investments in subsidiaries: impairment charge	-	3,021	-	6,060
Investments in subsidiaries: reversal of impairment charge	-	(1,760)	-	-
Total impairment losses on subsidiaries	-	1,261	-	6,060
Total	(1,974)	(782)	7,775	13,556

NOTE 8
INCOME TAX

	2017		2016	
	Group	Bank	Group	Bank
Current tax	7,609	6,633	6,967	6,043
Deferred taxes	(41)	(249)	(320)	185
Adjustment of previous year income tax	62	62	11	11
Total	7,630	6,446	6,658	6,239

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:

	2017		2016	
	Group	Bank	Group	Bank
Profit before income tax from continuing operations	39,757	37,336	50,289	47,916
Tax calculated at a tax rate of 15%	5,964	5,600	7,543	7,187
Income not subject to tax	(2,264)	(1,321)	(3,034)	(2,082)
Expenses not deductible for tax purposes	4,651	2,639	2,041	1,237
(Utilisation of) tax losses for which no deferred tax asset was recognized	(452)	(472)	(98)	(103)
Unrecognized deferred tax assets for recognized tax losses	(269)	-	206	-
Income tax charge	7,630	6,446	6,658	6,239

(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	*Revaluation of investment property and inventories*	*Accruals*	*Tax losses carried forwardi*	*Total*	*Accruals*	*Tax losses carried forwardi*	*Total*
At 1 January 2016	(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)
To be credited/(charged) to net profit	304	-	(41)	28	291	(33)	-	(33)
Reclassifications	180	(403)	-	-	(223)	-	-	-
To be credited/ (charged) to other comprehensive income	-	-	-	-	-	-	-	-
At 31 December 2017	-	(403)	(278)	(59)	(740)	(256)	-	(256)

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 2016	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
To be credited/(charged) to net profit	(149)	-	(149)	(216)
Reclassification	(462)	533	71	-
To be credited/ (charged) to other comprehensive income	-	14	14	1
At 31 December 2017	-	547	547	38

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:

	2017		*2016*	
	Group	Bank	Group	Bank
Up to 1 year	389	229	320	197
2-5 years	351	27	488	26
Total	740	256	808	223

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:

	2017		*2016*	
	Group	Bank	Group	Bank
Deferred tax assets	(718)	(218)	(665)	-
Deferred tax liabilities	525	-	468	30

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 2017 and 31 December 2016 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 2017 was 452,986 thousand (2016, retrospectively adjusted by the new shares that were issued in 2017 as a result of bonus issue: 452,986 thousand). Weighted average number of shares in issue for the year ended 31 December 2017 was 452,986 thousand, for the year ended 31 December 2016 (retrospectively adjusted by the new shares that were issued in 2017 as a result of bonus issue) – 452,986 thousand.

Basic earnings per share

Group

	2017	*2016*
Net profit from continuing operations attributable to equity holders	32,137	43,631
Net profit (loss) from discontinued operations attributable to equity holders	(10)	35
Net profit attributable to equity holders	**32,127**	**43,666**
Weighted average number of shares in issue during the period (thousand units)	452,986	452,986
Basic earnings per share (EUR)	0.07	0.10
Basic earnings per share (EUR) from continuing operations	0.07	0.10
Basic earnings per share (EUR) from discontinued operations	(0.00)	0.00

NOTE 10
CASH AND CASH EQUIVALENTS

		2017		*2016*
	Group	Bank	Group	Bank
Cash and other valuables	38,844	38,669	29,220	29,066
Balances in bank deposit accounts	-	-	-	-
Balances in bank correspondent accounts	73,167	70,195	36,023	34,421
Placements with Central Bank:				
Deposits in Central Bank	-	-	-	-
Correspondent account with Central Bank	2,932	2,932	74,624	74,624
Mandatory reserves in local currency	14,795	14,795	14,000	14,000
Total placements with Central Bank	17,727	17,727	88,624	88,624
Total	**129,738**	**126,591**	**153,867**	**152,111**

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 *

		2017		*2016*
	Group	Bank	Group	Bank
From AA- to AA+	9,301	8,317	21,589	20,158
From A- to A+	47,014	45,027	5,540	5,370
From BBB- to BBB+	4,544	4,544	4,321	4,321
Lower than BBB-	2,556	2,556	865	865
No external credit rating (Standard internal rating)	9,752	9,751	3,708	3,707
Total	**73,167**	**70,195**	**36,023**	**34,421**

* 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 2017 and 2016.

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

NOTE 11
DUE FROM OTHER BANKS

	2017			2016
	Group	Bank	Group	Bank
Pledged deposits	983	983	814	814
Term deposits	784	784	2,004	2,004
Loans	451	451	2,519	2,519
Total	2,218	2,218	5,337	5,337
Breakdown due from other banks by the maturity:				
Short-term (up to 1 year)	1,092	1,092	3,638	3,638
Long-term (over 1 year)	1,126	1,126	1,699	1,699
Total	2,218	2,218	5,337	5,337

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

As of 31 December 2017, term deposits amounting to EUR 784 (31 December 2016: EUR 2,004) 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 *

	2017			2016
	Group	Bank	Group	Bank
From AA- to AA+	975	975	904	904
From A- to A+	792	792	-	-
From BBB- to BBB+	372	372	1,914	1,914
Lower than BBB-	-	-	2,397	2,397
No external credit rating (Standard internal rating)	79	79	122	122
Total	2,218	2,218	5,337	5,337

* 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:

	2017			2016
	Group	Bank	Group	Bank
Assets:				
Derivatives:	3,031	3,031	8,983	8,687
derivatives related to interest rate floor in variable rate loan contracts	*2,284*	*2,284*	*5,566*	*5,270*
currency derivatives	*143*	*143*	*3,279*	*3,279*
derivatives related to prices of financial instruments	*604*	*604*	*138*	*138*
Securities at fair value through profit or loss	49,175	18,284	57,427	26,103
Liabilities:				
Derivatives:	(1,894)	(1,894)	(175)	(175)
currency derivatives	*(1,223)*	*(1,223)*	*(37)*	*(37)*
derivatives related to prices of financial instruments	*(671)*	*(671)*	*(138)*	*(138)*
Subordinated loan	(34,203)	(34,203)	(22,064)	(22,064)

(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:

		2017		*2016*
	Group	Bank	Group	Bank
Initial recognition				
Value of the embedded derivative	-	-	-	-
Credit to loans granted	-	-	-	-
Subsequent measurement				
Increase (decrease) in the fair value of the derivative (gain (loss) in profit or loss)	(2,890)	(2,594)	(1,918)	(1,676)
Derecognition				
Value of the embedded derivative on derecognition	(392)	(392)	(699)	(699)
Debit to loans granted	392	392	699	699
Fair value of the derivative as of 1 January	5,566	5,270	8,183	7,645
Additions	-	-	-	-
Revaluations through profit or loss	(2,890)	(2,594)	(1,918)	(1,676)
Derecognition	(392)	(392)	(699)	(699)
Fair value of the derivative as of 31 December	2,284	2,284	5,566	5,270

Derivative Financial Instruments – Currency Derivatives

As of 31 December 2017 and 31 December 2016, 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.

		2017		*2016*
	Group	Bank	Group	Bank
Currency forwards:				
Assets	143	143	3,270	3,270
Liabilities	(1,223)	(1,223)	(37)	(37)
Notional amount	125,782	125,782	72,826	72,826
Net gain (loss) from currency derivatives in profit or loss	(7,561)	(7,561)	2,970	2,970

(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 Financial 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 or other financial 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 financial instruments are presented below:

	2017		2016	
	Group	Bank	Group	Bank
Options bought				
Assets (carrying amount of the options bought)	604	604	138	138
Potential maximal inflow for the options bought	2,788	2,788	770	770
Revaluation of the options bought through profit or loss	77	77	(14)	(14)
Options sold				
Liabilities (carrying amount of the options sold)	(671)	(671)	(138)	(138)
Potential maximal outflow for the options sold	3,075	3,075	1,571	1,571
Revaluation of the options sold through profit or loss	(72)	(72)	19	19
Net gain from derivatives related to prices of financial instruments in profit or loss	5	5	5	5

Securities at Fair Value through Profit or Loss

	2017		2016	
	Group	Bank	Group	Bank
Trading debt securities:				
Government bonds	11,920	5,905	25,619	18,131
Corporate bonds	17,183	11,850	12,695	7,527
Debt securities designated at fair value through profit or loss at initial recognition:				
Government bonds	1,486	-	1,471	-
Total debt securities	30,589	17,755	39,785	25,658
Trading equity securities	529	529	445	445
Equity securities designated at fair value through profit or loss at initial recognition	18,057	-	17,197	-
Total equity securities	18,586	529	17,642	445
Total securities at fair value through profit or loss	49,175	18,284	57,427	26,103
Breakdown of debt securities by time remaining to maturity:				
Short-term (up to 1 year)	2,122	1,628	3,464	2,816
Long-term (over 1 year)	28,467	16,127	36,321	22,842
Total	30,589	17,755	39,785	25,658

Securities at fair value through profit or loss have not been pledged as at 31 December 2017 and 2016.

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 2017 and 2016:

	2017		2016	
	Group	Bank	Group	Bank
Trading securities:				
Debt securities	29,103	17,755	38,314	25,658
AAA	-	-	-	-
from AA- to AA+	1,209	1,209	4,356	4,356
from A- to A+	8,703	5,970	12,897	11,023
from BBB- to BBB+	12,549	6,576	15,231	7,580
from BB- to BB+	4,395	1,753	5,313	2,315
lower than BB-	543	543	253	120
no rating	1,704	1,704	264	264
Equities	529	529	445	445
listed	470	470	409	409
unlisted	4	4	5	5
units of investment funds	55	55	31	31
Total trading securities	29,632	18,284	38,759	26,103
Securities designated at fair value through profit or loss at initial recognition:				
Debt securities	1,486	-	1,471	-
AAA	-	-	-	-
from AA- to AA+	-	-	125	-
from A- to A+	936	-	430	-
from BBB- to BBB+	550	-	916	-
from BB- to BB+	-	-	-	-
lower than BB-	-	-	-	-
no rating	-	-	-	-
Equities	18,057	-	17,197	-
listed	-	-	-	-
unlisted	-	-	-	-
units of investment funds	18,057	-	17,197	-
Total securities designated at fair value through profit or loss at initial recognition	19,543	-	18,668	-
TOTAL	49,175	18,284	57,427	26,103

Subordinated Loan

The Group/Bank has a subordinated loan received, carrying value of which was EUR 34,203 thousand as of 31 December 2017 (31 December 2016: EUR 22,064 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

	2017 Group	2017 Bank	2016 Group	2016 Bank
Gross loans to customers	1,131,562	1,132,480	990,411	1,026,595
Allowance for loan impairment	(33,235)	(29,553)	(36,802)	(32,440)
of which: for individually assessed loans	*(32,097)*	*(28,786)*	*(35,435)*	*(31,500)*
of which: collective allowances for incurrred but not reported losses	*(1,138)*	*(767)*	*(1,367)*	*(940)*
NET LOANS TO CUSTOMERS	1,098,327	1,102,927	953,609	994,155
Breakdown of loans to customers according to maturity				
Short-term (up to 1 year)	229,611	258,041	255,995	313,488
Long-term (over 1 year)	868,716	844,886	697,614	680,667
Total	1,098,327	1,102,927	953,609	994,155

	Group	*Bank*
Allowance for loan impairment as at 1 January 2016	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 in allowance for loan impairment (Note 7)	8,281	7,532
Allowance for loan impairment as at 31 December 2016	36,802	32,440
Allowance for impairment of loans written off during the year as uncollectible	(2,252)	(1,397)
Currency translation differences and other adjustments	(2)	2
Increase (decrease) in allowance for loan impairment (Note 7)	(1,313)	(1,492)
Allowance for loan impairment as at 31 December 2017	33,235	29,553

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 2016	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
Change in allowance for loan impairment	183	(7)	31	38	245
Loans written off during the year	(845)	(84)	(40)	(346)	(1,315)
Other adjustments	73	-	(20)	(8)	45
As at 31 December 2017	3,634	1,040	243	550	5,467

	Group loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 1 January 2016	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
Change in allowance for loan impairment	55	(1,713)	100	(1,558)
Loans written off during the year	-	(879)	(58)	(937)
Other adjustments	-	(47)	-	(47)
As at 31 December 2017	85	26,848	835	27,768

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

NOTE 13
LOANS TO CUSTOMERS (continued)

Bank:

					Bank loans to individuals (retail)
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 1 January 2016	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
Change in allowance for loan impairment	8	(7)	45	38	84
Loans written off during the year	(15)	(84)	(15)	(346)	(460)
Other adjustments	-	-	-	-	-
As at 31 December 2017	125	1,040	49	529	1,743

				Bank loans to business customers
	Large corporates	SME	Central and local authorities and other	Total
As at 1 January 2016	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
Change in allowance for loan impairment	55	(1,731)	100	(1,576)
Loans written off during the year	-	(879)	(58)	(937)
Other adjustments	-	2	-	2
As at 31 December 2017	85	26,890	835	27,810

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 2016	22,541	48,443	7,594	78,578
Change during 2017	5,311	21,721	(4,431)	22,601
Balance at 31 December 2017	27,852	70,164	3,163	101,179
Unearned finance income on finance leases:				
Balance at 31 December 2016	(2,807)	(4,388)	(268)	(7,463)
Change during 2017	(596)	(827)	244	(1,179)
Balance at 31 December 2017	(3,403)	(5,215)	(24)	(8,642)
Net investments in leasing before provisions:				
At 31 December 2016	19,734	44,055	7,326	71,115
At 31 December 2017	24,449	64,949	3,139	92,537
Changes in provisions:				
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)
Balance at 1 January 2017	(812)	(439)	(57)	(1,308)
Provisions reversed / (additional provisions charged)	(146)	313	(268)	(101)
Provisions for finance lease debts written off	15	-	-	15
Other adjustments	(4)	-	-	(4)
Balance at 31 December 2017	(947)	(126)	(325)	(1,398)
Net investments in leasing after provisions:				
At 31 December 2016	18,922	43,616	7,269	69,807
At 31 December 2017	23,502	64,823	2,814	91,139

(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 2016	13,502	33,333	6,990	53,825
Change during 2017	13,332	36,803	-3,827	46,308
Balance at 31 December 2017	26,834	70,136	3,163	100,133
Unearned finance income on finance leases:				
Balance at 31 December 2016	(1,893)	(3,338)	(223)	(5,454)
Change during 2017	(1,501)	(1,875)	199	(3,177)
Balance at 31 December 2017	(3,394)	(5,213)	(24)	(8,631)
Net investments in leasing before provisions:				
At 31 December 2016	11,609	29,995	6,767	48,371
At 31 December 2017	23,440	64,923	3,139	91,502
Changes in provisions:				
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)
Balance at 1 January 2017	(86)	(58)	(57)	(201)
Provisions reversed / (additional provisions charged)	(29)	-	-	(29)
Provisions for finance lease debts written off	-	-	-	-
Provisions for finance lease receivables transferred from the subsidiary	(38)	(68)	(268)	(374)
Balance at 31 December 2017	(153)	(126)	(325)	(604)
Net investments in leasing after provisions:				
At 31 December 2016	11,523	29,937	6,710	48,170
At 31 December 2017	23,287	64,797	2,814	90,898

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

Group

			2017			*2016*
	Individuals	*Business customers*	*Total*	*Individuals*	*Business customers*	*Total*
As at 1 January	98	1,210	1,308	205	1,245	1,450
Change in allowance for finance lease impairment	(19)	120	101	(105)	(16)	(121)
Amounts written off during the year	(3)	(12)	(15)	(2)	(19)	(21)
Other adjustments	-	4	4	-	-	-
As at 31 December	76	1,322	1,398	98	1,210	1,308

Bank

			2017			*2016*
	Individuals	*Business customers*	*Total*	*Individuals*	*Business customers*	*Total*
As at 1 January	10	191	201	-	62	62
Change in allowance for finance lease impairment	14	15	29	10	48	58
Amounts written off during the year	-	-	-	-	(19)	(19)
Provisions for finance lease receivables transferred from the subsidiary	14	360	374	-	100	100
As at 31 December	38	566	604	10	191	201

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

NOTE 15
INVESTMENT SECURITIES

	2017		2016	
	Group	Bank	Group	Bank
Securities available for sale:				
Debt securities:	11,322	10,914	17,034	16,631
Government bonds	-	-	-	-
Corporate bonds	11,322	10,914	17,034	16,631
Equity securities	5,150	628	2,134	873
Total securities available for sale	16,472	11,542	19,168	17,504
Held-to-maturity securities:				
Debt securities:	576,260	576,260	524,054	524,054
Government bonds	418,063	418,063	420,755	420,755
Corporate bonds	158,197	158,197	103,299	103,299
Total held-to-maturity securities	576,260	576,260	524,054	524,054
Breakdown of debt securities by time remaining to maturity:				
Debt securities available for sale:				
Short-term (up to 1 year)	889	881	567	164
Long-term (over 1 year)	10,433	10,033	16,467	16,467
Total debt securities available for sale	11,322	10,914	17,034	16,631
Held-to-maturity debt securities:				
Short-term (up to 1 year)	60,759	60,759	92,171	92,171
Long-term (over 1 year)	515,501	515,501	431,883	431,883
Total held-to-maturity debt securities	576,260	576,260	524,054	524,054
Credit quality of debt securities:				
Debt securities available-for-sale	11,322	10,914	17,034	16,631
Neither past due nor individually impaired	11,322	10,914	17,034	16,631
Past due but not individually impaired	-	-	-	-
Individually impaired	-	-	-	-
Held-to-maturity securities	576,260	576,260	524,054	524,054
Neither past due nor individually impaired	576,260	576,260	524,054	524,054
Past due but not individually impaired	-	-	-	-
Individually impaired	-	-	-	-
Individually impaired, gross value	1,022	-	1,022	-
Impairment provisions for individually impaired securities	(1,022)	-	(1,022)	-

Individually impaired debt securities consist of unrated corporate bonds.

As at 31 December 2017, held-to-maturity government bonds with a carrying value of EUR 5,722 thousand (31 December 2016 – EUR 5,178 thousand) were pledged as collateral for currency forwards (Note 12), held-to-maturity government bonds with a carrying value of EUR 15,766 thousand (31 December 2016 – 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 2017 and 2016, this collateral was placed so that the Bank could borrow the funds immediately when needed).

(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 2017 and 2016:

	2017		2016	
	Group	Bank	Group	Bank
Securities available for sale:				
Debt securities	11,322	10,914	17,034	16,631
AAA	-	-	-	-
from AA- to AA+	-	-	483	483
from A- to A+	3,760	3,760	4,350	4,350
from BBB- to BBB+	6,992	6,992	9,715	9,715
from BB- to BB+	162	162	2,083	2,083
lower than BB-	-	-	-	-
no rating	408	-	403	-
Equities	5,150	628	2,134	873
listed	-	-	-	-
unlisted	1,212	414	1,087	766
units of investment funds	3,938	214	1,047	107
Total securities available for sale	16,472	11,542	19,168	17,504
Held-to-maturity securities:				
Debt securities	576,260	576,260	524,054	524,054
AAA	-	-	-	-
from AA- to AA+	14,034	14,034	10,349	10,349
from A- to A+	404,663	404,663	402,509	402,509
from BBB- to BBB+	153,905	153,905	100,236	100,236
from BB- to BB+	3,658	3,658	8,295	8,295
lower than BB-	-	-	2,665	2,665
no rating	-	-	-	-
Total held-to-maturity securities	576,260	576,260	524,054	524,054

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 2016 and 2017). Management of the bank has assessed that it has an intention to hold these securities to their maturity. As of 31 December 2017, total book value of securities reclassified from available for sale to held-to-maturity portfolio was EUR 26,284 thousand (31 December 2016: EUR 30,154 thousand). During 2017 other comprehensive expenses recognized in relation to the amortisation of revaluation reserve of reclassified debt securities amounted to EUR 45 thousand (during 2016 - EUR 57 thousand). If the reclassification had not been performed, other comprehensive loss recognized in 2017 in relation to these securities would be equal to EUR 950 thousand (in 2016 – other comprehensive income of EUR 284 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 2016	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
Revaluation	690	-	690	469	-	469
Sale or redemption	(388)	-	(388)	(409)	-	(409)
Amortisation of revaluation related to held-to-maturity investments	(45)	-	(45)	(45)	-	(45)
Deferred income tax	-	(38)	(38)	-	(2)	(2)
31 December 2017	622	(92)	530	340	(50)	290

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

	2017	2016
As at 1 January	524,054	494,645
Acquisitions	149,508	91,492
Redemptions	(85,897)	(54,003)
Disposals	(6,656)	(2,317)
Accrued interest	9,263	11,257
Received coupon payment	(13,177)	(13,229)
Amortisation of revaluation reserve	(45)	(57)
Foreign currency exchange rate impact	(734)	(3,776)
Reclassifications	(56)	42
As at 31 December	576,260	524,054

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

NOTE 16
INVESTMENTS IN SUBSIDIARIES

2017

	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%	6,165	(2,599)	3,566
Pavasaris UAB	100.00%	10,456	(10,337)	119
SB Lizingas UAB	100.00%	8,862	-	8,862
SBTF UAB	100.00%	1,029	(450)	579
Šiaulių Banko Investicijų Valdymas UAB	100.00%	5,479	(4,732)	747
Šiaulių Banko Lizingas UAB	100.00%	4,460	(3,391)	1,069
Šiaulių Banko Turto Fondas UAB	100.00%	3,999	(445)	3,554
Total		**48,849**	**(21,954)**	**26,895**

	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%	35	-	35
*ŽSA 5 UAB ***	100.00%	308	-	308

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

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

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 2017, the Bank recognized an impairment loss of EUR 2,996 thousand in investment in Pavasaris UAB (value of the investment reduced after dividends (total amount EUR 3,116 thousand) were paid by Pavasaris UAB and recognised in the income statement of the Bank). The Bank reversed an EUR 760 thousand impairment to investment in Šiaulių Banko Turto Fondas UAB (due to the improved financial performance of subsidiary) and an EUR 1,000 thousand impairment to investment in Šiaulių Banko Lizingas UAB (due to the increase in recoverable amount from the investment).

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 2017, the Bank transfered ŽSA 5 UAB from the subsidiaries held for sale to the consolidated subsidiaries. In 2016, the Group acquired an indirectly controlled subsidiary Apželdinimas UAB. Details are presented below in this note.

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

NOTE 16
INVESTMENTS IN SUBSIDIARIES (continued)

Inclusion of ŽSA5 UAB in consolidated subsidiaries

During 2017, the Bank transfered ŽSA 5 UAB from the subsidiaries held for sale to the consolidated subsidiaries. The subsidiary did not perform active operations and had no material assets or liabilities, the reason for this transfer was that the Šiaulių Bankas group needed an entity to be used as a special purpose vehicle therefore its management decided to save the costs of setting up an entity by using one of the existing entities that performed no active operations. At the moment of inclusion in consolidated subsidiaries, ŽSA5 UAB had no material external assets or liabilities, its capital was EUR 11 thousand. Later during 2017 the Bank increased its share capital by asset contibution (equities with a value of EUR 297 thousand) and sold the entity to the subsidiary Šiaulių Banko Investicijų Valdymas UAB.

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 2016:		
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**
Year ended 31 December 2017:		
Net book value at 1 January	1,428	1,210
Acquisitions	906	861
Write-offs	(59)	-
Amortisation charge	(492)	(387)
Net book value at 31 December	1,783	1,684
As at 31 December 2017:		
Cost	5,424	5,068
Accumulated amortisation	(3,641)	(3,384)
Net book value	**1,783**	**1,684**
Economic life (in years)	3 – 9	3 – 9

Goodwill

	2017	*2016*
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 12.66% and the growth rate of 2.80% were used. Growth rates used are based on the expected long run economy growth rate.

No impairment loss for goodwill was identified in 2017 and 2016 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 2016:					
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
Year ended 31 December 2017:					
Net book value at 1 January	7,548	1,845	1,943	133	11,469
Acquisitions	31	550	174	125	880
Reclassifications	(27)	-	1	(168)	(194)
Disposals and write-offs	(19)	(155)	(13)	-	(187)
Depreciation charge	(197)	(384)	(685)	-	(1,266)
Net book value at 31 December	7,336	1,856	1,420	90	10,702
As at 31 December 2017:					
Cost	10,160	2,742	6,574	90	19,566
Accumulated depreciation	(2,824)	(886)	(5,154)	-	(8,864)
Net book value	7,336	1,856	1,420	90	10,702
Economic life (in years)	15-50	5-12	3-20	-	-

Bank	Buildings and premises	Vehicles	Office equipment	Construction in progress	Total
As at 1 January 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
Year ended 31 December 2017:					
Net book value at 1 January	7,387	1,280	1,856	9	10,532
Acquisitions	31	451	153	81	716
Disposals and write-offs	(19)	(38)	(6)	-	(63)
Depreciation charge	(191)	(249)	(650)	-	(1,090)
Reclassification	(27)	-	-	-	(27)
Net book value at 31 December	7,181	1,444	1,353	90	10,068
As at 31 December 2017:					
Cost	9,681	1,931	6,242	90	17,944
Accumulated depreciation	(2,500)	(487)	(4,889)	-	(7,876)
Net book value	7,181	1,444	1,353	90	10,068
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 assets in the tables above includes assets leased under operating lease agreements as follows:

			Group			Bank
	Vehicles	*Equipment*	*Total*	*Vehicles*	*Equipment*	*Total*
As at 1 January 2016:						
Cost	269	627	896	-	627	627
Accumulated depreciation	(41)	(564)	(605)	-	(564)	(564)
Net book value	**228**	**63**	**291**	**-**	**63**	**63**
Year ended 31 December 2016:						
Net book value at 1 January	228	63	291	-	63	63
Disposals and write-offs	-	(37)	(37)	-	(37)	(37)
Depreciation charge	(45)	(14)	(59)	-	(14)	(14)
Net book value at 31 December	183	12	195	-	12	12
As at 31 December 2016:						
Cost	269	537	806	-	537	537
Accumulated depreciation	(86)	(525)	(611)	-	(525)	(525)
Net book value	**183**	**12**	**195**	**-**	**12**	**12**
Year ended 31 December 2017:						
Net book value at 1 January	183	12	195	-	12	12
Disposals and write-offs	(122)	-	(122)	-	-	-
Depreciation charge	(33)	(11)	(44)	-	(11)	(11)
Net book value at 31 December	28	1	29	-	1	1
As at 31 December 2017:						
Cost	44	502	546	-	502	502
Accumulated depreciation	(16)	(501)	(517)	-	(501)	(501)
Net book value	**28**	**1**	**29**	**-**	**1**	**1**
Economic life (in years)	6-12	6-15	-	-	6-15	-

As at 31 December 2017 and 31 December 2016, 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):

			2017			*2016*
	up to 1 year	*1-5 years*	*over 5 years*	*up to 1 year*	*1-5 years*	*over 5 years*
Group	132	57	47	466	61	-
Bank	52	74	84	90	129	-

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

NOTE 19
OTHER ASSETS

	2017		2016	
	Group	Bank	Group	Bank
Financial assets:				
Amounts receivable	10,485	9,616	4,136	3,078
Breakdown of financial assets according to maturity				
Short-term (up to 1 year)	9,430	8,556	2,305	1,613
Long-term (over 1 year)	1,055	1,060	1,831	1,465
Non-financial assets:				
Breakdown of non-financial assets according to maturity				
Short-term (up to 1 year)	5,409	649	11,187	3,959
Long-term (over 1 year)	20,307	5,314	20,515	962
Inventories	18,316	-	24,936	-
Deferred charges	888	859	615	539
Assets under reinsurance and insurance contracts	650	-	697	-
Prepayments	4,188	3,607	3,979	3,428
Foreclosed assets	764	712	989	628
Assets held for sale	-	-	-	58
Other	910	785	486	268
TOTAL OTHER ASSETS	**36,201**	**15,579**	**35,838**	**7,999**

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 and Pavasaris UAB.

Breakdown of inventories according to type:

	2017		2016	
	Group	Bank	Group	Bank
Apartments held for sale	47	-	3,635	-
Property held for sale or development	18,269	-	21,301	-
Total inventories	18,316	-	24,936	-

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

Investment in subsidiaries classified as held for sale and result of discontinued operations:

	2017		2016	
	Group	Bank	Group	Bank
Assets held for sale	-	-	-	58
Liabilities attributable to assets held for sale	-	-	4	-
Profit (loss) of the year from discontinued operations	(10)	-	35	-
of which: gain on disposal of entities	-	-	-	-
Dividends paid to the Bank	-	256	-	832
Remeasurement of investment in subsidiaries held for sale	-	(55)	-	-

At 31 December 2016, the companies held for sale (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. These companies paid dividends (EUR 256 thousand) to the Bank and were prepared to be liquidated. The Bank incurred a loss of EUR 55 thousand on revaluation of subsidiaries held for sale (the book value of these subsidiaries was reduced to nil). No result from dividends and remeasurement was included in the Group's income statement as they were eliminated in the process of consolidation.

During year 2017, Žalgirio Sporto Arena UAB, ŽSA1 UAB, ŽSA2 UAB, ŽSA3 UAB, ŽSA4 UAB paid dividends to the Bank and were liquidated. In 2017 the Bank transfered ŽSA 5 UAB from the subsidiaries held for sale to the consolidated subsidiaries (see Note 16 for more information).

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

NOTE 20
DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	2017		2016	
	Group	Bank	Group	Bank
Correspondent accounts and deposits of other banks and financial institutions:				
Correspondent accounts and demand deposits	12,066	13,159	4,838	6,456
Time deposits	14,245	15,319	53,184	53,852
Total correspondent accounts and deposits of other banks and financial institutions	26,311	28,478	58,022	60,308
Loans received from:				
Other banks	-	-	1,429	1,429
Other organisations	9,242	9,242	12,270	12,270
International organisations	20,164	20,164	18,072	18,072
Total loans received	29,406	29,406	31,771	31,771
Total	55,717	57,884	89,793	92,079
Breakdown of due to other banks and financial institutions according to maturity				
Short-term (up to 1 year)	36,559	37,694	75,417	77,077
Long-term (over 1 year)	19,158	20,190	14,376	15,002
Total	55,717	57,884	89,793	92,079

NOTE 21
DUE TO CUSTOMERS

	2017		2016	
	Group	Bank	Group	Bank
Demand deposits:				
National government institutions	21,553	21,553	10,543	10,543
Local government institutions	75,060	75,060	42,682	42,682
Governmental and municipal companies	23,431	23,431	5,780	5,780
Corporate entities	274,888	275,321	230,215	230,591
Non-profit organisations	13,309	13,309	10,602	10,602
Individuals	305,237	305,237	270,241	270,241
Unallocated amounts due to customers	40,099	40,430	29,445	29,460
Total demand deposits	753,577	754,341	599,508	599,899
Time deposits:				
National government institutions	231	231	359	359
Local government institutions	948	948	1,067	1,067
Governmental and municipality companies	1,718	1,718	615	615
Corporate entities	61,522	61,522	37,690	37,690
Non-profit organisations	2,433	2,433	2,455	2,455
Individuals	827,624	827,624	853,393	853,393
Total time deposits	894,476	894,476	895,579	895,579
Total	1,648,053	1,648,817	1,495,087	1,495,478
Breakdown of due to customers according to maturity				
Short-term (up to 1 year)	1,468,638	1,469,402	1,339,938	1,340,329
Long-term (over 1 year)	179,415	179,415	155,149	155,149
Total	1,648,053	1,648,817	1,495,087	1,495,478

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

NOTE 22
SPECIAL AND LENDING FUNDS

	2017		2016	
	Group	Bank	Group	Bank
Special funds	13,336	13,336	28,326	28,326
Lending funds	-	-	-	-
Total	**13,336**	**13,336**	**28,326**	**28,326**
Breakdown of special and lending funds according to maturity				
Short-term (up to 1 year)	13,336	13,336	28,326	28,326
Long-term (over 1 year)	-	-	-	-
	13,336	**13,336**	**28,326**	**28,326**

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 23
DEBT SECURITIES IN ISSUE

At 31 December 2017, the Bank had EUR 20,003 thousand debt securities issued, which consisted of a 3 year bond issue of EUR 20,000 thousand. Privately placed bonds were issued on 21 December 2017, annual interest rate is 0.60%. The Bank has a right to call the bonds after 2 years. The issue terms includes listing of the issued bonds on a regulated market - within 12 months from the date of distribution they are intended to be admitted to the Nasdaq Baltic Debt Securities List. The Bank had no debt securities in issue at 31 December 2016.

Cash flows and other movements of issued debt securities:

	2017		2016	
	Group	Bank	Group	Bank
As at 1 January	-	-	58	58
Issuance	20,000	20,000		
Redemptions	-	-	(58)	(58)
Accrued interest	3	3	-	-
Coupon payments	-	-	-	-
As at 31 December	20,003	20,003	-	-

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 2017 and 2016 the technical insurance provisions and their changes were as follows:

	Unearned premiums	Claims outstanding	Loss cover (mathematical)	Unit-linked	Total
Gross:					
At 1 January 2016	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
Change for the period	1	21	667	1,028	1,717
At 31 December 2017	16	216	7,040	19,960	27,232
Reinsurance share:					
At 1 January 2016	(16)	-	(10)	-	(26)
Change for the period	(2)	-	-	-	(2)
At 31 December 2016	(18)	-	(10)	-	(28)
Change for the period	(1)	(20)	-	-	(21)
At 31 December 2017	(19)	(20)	(10)	-	(49)
Net value					
At 31 December 2016	**(3)**	**195**	**6,363**	**18,932**	**25,487**
At 31 December 2017	**(3)**	**196**	**7,030**	**19,960**	**27,183**

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 2017: securities EUR 19,543 thousand, cash EUR 417 thousand, 31 December 2016: securities EUR 18,668 thousand, cash EUR 264 thousand).

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

NOTE 25
OTHER LIABILITIES

	2017		2016	
	Group	Bank	Group	Bank
Financial liabilities:				
Trade payables	2,933	250	4,054	483
Accrued charges	8,943	7,695	7,727	7,061
Total financial liabilities	11,876	7,945	11,781	7,544
Breakdown of other financial liabilities according to maturity				
Short-term (up to 1 year)	6,799	3,049	6,975	2,807
Long-term (over 1 year)	5,077	4,896	4,806	4,737
Non-financial liabilities:				
Advance amounts received from the buyers of assets	788	-	2,648	-
Deferred income	706	187	404	157
Provisions	60	60	72	-
Liabilities attributable to assets held for sale	-	-	4	-
Other liabilities	2,658	238	634	193
Total non-financial liabilities	4,212	485	3,762	350
Breakdown of other non-financial liabilities according to maturity				
Short-term (up to 1 year)	2,967	321	3,285	301
Long-term (over 1 year)	1,245	164	477	49
Total non-financial liabilities	4,212	485	3,762	350

NOTE 26
INVESTMENT PROPERTY

Investment property

	Group	Bank
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
Year ended 31 December 2017:		
Carrying amount at 1 January	16,804	1,112
Acquisitions	-	-
Reclassifications	2,892	2,724
Impairment	(513)	-
Depreciation charge	(105)	(33)
Disposals and write-offs	(6,848)	(32)
Carrying amount at 31 December 2017	12,230	3,771
Estimated fair value at 31 December 2017	12,663	4,009

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 115 thousand in 2017, EUR 90 thousand in 2016; Bank: EUR 34 thousand in 2017, EUR 26 thousand in 2016) 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 2017, 62% of the carrying value of the investment property was tested for impairment using valuations from external independent certified appraisers; as of 31 December 2016 – 93%). Income or comparative price methods, i.e. valuation techniques attributable to Level 3 (income method) or Level 2 (comparative price method) 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 2017 the Bank's share capital amounted to EUR 131,365,989.88, it comprised 452,986,172 ordinary registered shares with par value of EUR 0.29 each (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).

The ordinary meeting of shareholders of Šiaulių bankas that took place on 30 March 2017 passed a resolution to increase Bank's share capital by EUR 21,894 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 6 June 2017, 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 2017).

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).

The shareholders holding over 5% of the Bank's shares are listed in the table below:

	Share of the authorized capital held, % 31 December 2017	Share of the authorized capital held, % 31 December 2016
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 2017, this group possessed 38.52 percent (31 December 2016: 39.10 percent) of the authorised capital and votes of the Bank.

As at 31 December 2017, the Bank had 4,496 shareholders (as at 31 December 2016: 3,401).

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 2013 to 2017. 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.

Guarantees issued, letters of credit, commitments to grant loans and other commitments

		2017		*2016*
	Group	Bank	Group	Bank
Financial guarantees issued	33,787	33,814	21,253	21,320
Letters of credit	262	262	2,185	2,185
Commitments to grant loans	171,868	187,367	115,758	140,001
Operating lease commitments	2,462	2,502	2,513	2,830
Other commitments	1,365	1,358	645	415
Total	**209,744**	**225,303**	**142,354**	**166,751**

Fair value of the guarantees amounts to EUR 163 thousand at 31 December 2017 (31 December 2016: EUR 151 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 2017 the ordinary general meeting of shareholders made a decision to pay EUR 0.005 (i.e. 1.72%) dividends per one ordinary registered share with EUR 0.29 nominal value each. Total amount of dividends was EUR 1,887 thousand. 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.

In 2017, Bank's 100%-owned subsidiary SB Lizingas UAB paid dividends of EUR 3,300 thousand to the Bank; Bank's 100%-owned subsidiary Pavasaris UAB paid dividends of EUR 3,116 thousand to the Bank; Bank's 100 owned subsidiary Bonum Publicum GD UAB paid dividends of EUR 800 thousand to the Bank; Bank's 100 owned subsidiary Šiaulių Banko Lizingas UAB paid dividends of EUR 200 thousand to the Bank and Bank's subsidiaries held for sale (see Note 19 for details) paid dividends of EUR 256 thousand to the Bank.

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 19 for details) paid dividends of EUR 832 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, 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 2017 and 2016, 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*	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Members of the Council and the Board	2,036	952	0.00-0.50	0.00-0.60	82	958	0.47-17.00	0.48-3.00	51	51
Other related parties (excluding subsidiaries of the Bank)	19,667	14,770	0.00-0.40	0.00-0.60	52,818	49,722	1.23-3.87	1.28-3.87	517	3,725
Total	21,703	15,722	-	-	52,900	50,680	-	-	568	3,776
% of regulatory capital	11.87%	9.27%	-	-	28.93%	29.87%	-	-	0.31%	2.23%

As at 31 December 2017, 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 234 thousand for the Group and the Bank, interest rate was 3.50%. 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%.

Except for the debt securities exposure mentioned above, at 31 December 2017 and 2016, Bank's subsidiaries had no material transactions with the related parties except for the Bank and its subsidiaries.

As at 31 December 2017 and 2016, 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 34,203 thousand as of 31 December 2017 (31 December 2016: EUR 22,064 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. 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.

Subordinated loan related interest expenses amounted to EUR 992 thousand, a loss of EUR 12,139 thousand related to revaluation of the liability to fair value was recorded in profit (loss) statement in 2017 (2016: interest expenses EUR 1,394 thousand, revaluation loss EUR 1,644 thousand).

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*	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Non-financial institutions	434	401	0.00	0.00-0.05	26,027	36,796	2.3	2.3	6,143	2,927
Financial institutions	2,497	2,276	0.00-1.90	0.00-1.00	39,738	58,845	5.0	3.2-5.0	9,429	21,318

(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 19 for details on subsidiaries held for sale):

	2017	2016
Assets		
Loans	65,765	95,641
Other assets	21	88
Bank's investment in subsidiaries	26,895	26,665
Bank's investment in subsidiaries classified as assets held for sale	-	58
Liabilities and shareholders' equity		
Term deposits	1,074	668
Demand deposits	1,857	2,009
Other liabilities	-	646

Income and expenses arising from transactions with subsidiaries:

	2017	2016
Income		
Interest	2,988	4,054
Commission income	242	263
Income from foreign exchange operations	9	1
Dividends	7,672	9,632
Other income	161	242
Expenses		
Interest	(7)	(5)
Operating expenses	(91)	(191)
Impairment of loans	(31)	(5)
Impairment of an investment to subsidiaries	(1,261)	(6,060)

As at 31 December 2017 balance of individual allowances for impairment losses that are related to balances of loans to subsidiaries was EUR 42 thousand (as at 31 December 2016: EUR 11 thousand).

Remuneration of the management of the Group/Bank

During 2017 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 1,931 thousand (2016: EUR 1,484 thousand). Liabilities related to long term benefits related to remuneration are presented in the table below:

	2017	2016
Short-term (up to 1 year)	747	185
Long-term (over 1 year)	906	261
Total	**1,653**	**446**

	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 2017:									
for year 2014 salaries and bonuses	48	-	-	48	121	-	-	121	169
for year 2015 salaries and bonuses	75	75	-	150	175	175	-	350	500
for year 2016 salaries and bonuses	128	128	128	384	200	200	200	600	984
Total liability at 31 December 2017	**251**	**203**	**128**	**582**	**496**	**375**	**200**	**1,071**	**1,653**
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**

(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 2017 and 31 December 2016, 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 2017		*31 December 2016*	
	Fin. Group	Bank	Fin. Group	Bank
ASSETS				
Cash and cash equivalents	127,193	126,591	152,851	152,111
Due from other banks	2,218	2,218	5,337	5,337
Securities at fair value through profit or loss	18,284	18,284	26,103	26,103
Derivative financial instruments	3,031	3,031	8,983	8,687
Loans to customers	1,112,395	1,102,927	975,316	994,155
Finance lease receivables	91,139	90,898	69,807	48,170
Investment securities:				
available-for-sale -	15,793	11,542	18,966	17,504
held to maturity -	576,260	576,260	524,054	524,054
Investments in subsidiaries	13,006	26,895	14,931	26,665
Intangible assets	1,740	1,684	1,375	1,210
Property, plant and equipment	10,333	10,068	10,974	10,532
Investment property	7,245	3,771	4,633	1,112
Current income tax prepayment	-	-	70	-
Deferred income tax asset	505	218	493	-
Other assets	21,884	15,579	18,403	7,999
Total assets	2,001,026	1,989,966	1,832,296	1,823,639
LIABILITIES				
Due to other banks and financial institutions	56,763	57,884	90,428	92,079
Derivative financial instruments	1,894	1,894	175	175
Due to customers	1,648,810	1,648,817	1,495,477	1,495,478
Debt securities in issue	20,003	20,003	-	-
Special and lending funds	13,336	13,336	28,326	28,326
Subordinated loan	34,203	34,203	22,064	22,064
Current income tax liabilities	3,542	3,440	4,721	4,650
Deferred income tax liabilities	466	-	217	30
Other liabilities	14,037	8,430	13,177	7,894
Total liabilities	1,793,054	1,788,007	1,654,585	1,650,696
EQUITY				
Capital and reserves attributable to owners of the Bank				
Share capital	131,366	131,366	109,472	109,472
Reserve capital	756	756	756	756
Statutory reserve	7,071	7,071	4,157	4,157
Financial assets revaluation reserve	401	290	311	277
Retained earnings	68,378	62,476	63,015	58,281
Total equity	207,972	201,959	177,711	172,943
Total liabilities and equity	2,001,026	1,989,966	1,832,296	1,823,639

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

NOTE 31
FINANCIAL GROUP INFORMATION (continued)

INCOME STATEMENT

	2017 Fin. Group	2017 Bank	2016 Fin. Group	2016 Bank
Interest and similar income	67,036	58,136	65,810	58,569
Interest expense and similar charges	(9,915)	(9,915)	(12,039)	(12,019)
Net interest income	**57,121**	**48,221**	**53,771**	**46,550**
Fee and commission income	15,885	15,294	14,232	13,711
Fee and commission expense	(4,778)	(4,660)	(4,657)	(4,364)
Net fee and commission income	**11,107**	**10,634**	**9,575**	**9,347**
Net gain from operations with securities	1,687	1,556	4,853	4,872
Net gain from foreign exchange and related derivatives	5,514	5,514	4,248	4,248
Net loss from other derivatives	(2,885)	(2,589)	(1,913)	(1,671)
Net loss from changes in fair value of subordinated loan	(12,139)	(12,139)	(1,644)	(1,644)
Net gain from derecognition of financial assets	3,178	3,070	12,644	12,671
Net gain from disposal of tangible assets	1,770	37	499	656
Other operating income	882	380	944	543
Salaries and related expenses	(18,884)	(16,727)	(17,240)	(15,558)
Depreciation and amortization expenses	(1,753)	(1,510)	(1,584)	(1,339)
Other operating expenses	(9,465)	(7,574)	(8,552)	(6,835)
Operating profit before impairment losses	**36,133**	**28,873**	**55,601**	**51,840**
Allowance for impairment losses on loans and other assets	2,523	2,043	(7,855)	(7,496)
Allowance for impairment losses on investments in subsidiaries	(3,321)	(1,261)	(4,750)	(6,060)
Dividends from investments in subsidiaries and subsidiaries classified as held for sale	4,181	7,681	6,332	9,632
Profit from before income tax	**39,516**	**37,336**	**49,328**	**47,916**
Income tax expense	(7,458)	(6,446)	(6,418)	(6,239)
Net profit for the year	**32,058**	**30,890**	**42,910**	**41,677**
Net profit attributable to:				
Owners of the Bank	32,058	30,890	42,910	41,677
Non-controlling interest	-	-	-	-
	32,058	30,890	42,910	41,677

STATEMENT OF COMPREHENSIVE INCOME

	2017 Fin. Group	2017 Bank	2016 Fin. Group	2016 Bank
Profit for the year	**32,058**	**30,890**	**42,910**	**41,677**
Other comprehensive income (loss)				
Items that may be subsequently reclassified to profit or loss:				
Financial assets valuation gains taken to equity	690	469	1,479	1,458
Financial assets valuation result transferred to profit or loss	(540)	(409)	(2,110)	(2,129)
Amortisation of revaluation related to held-to-maturity investments	(45)	(45)	(57)	(57)
Deferred income tax on gain (loss) from revaluation of financial assets	(15)	(2)	103	109
Other comprehensive income (loss), net of deferred tax	**90**	**13**	**(585)**	**(619)**
Total comprehensive income	**32,148**	**30,903**	**42,325**	**41,058**
Total comprehensive income (loss) attributable to:				
Owners of the Bank	32,148	30,903	42,325	41,058
Non-controlling interest	-	-	-	-
	32,148	30,903	42,325	41,058

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

NOTE 31
FINANCIAL GROUP INFORMATION (continued)

STATEMENT OF CASH FLOWS

	Year ended			
	31 December 2017		31 December 2016	
	Fin. Group	Bank	Fin. Group	Bank
Operating activities				
Interest received on loans and advances	55,705	48,309	54,309	46,835
Interest received on debt securities at fair value through profit or loss	901	901	1,382	1,382
Interest paid	(9,641)	(9,641)	(13,132)	(13,112)
Fees and commissions received	15,885	15,294	14,232	13,711
Fees and commissions paid	(4,778)	(4,660)	(4,657)	(4,364)
Net cash inflows from trade in securities at fair value through profit or loss	7,239	7,365	16,558	16,558
Net inflows from foreign exchange operations	9,837	9,837	4,583	4,583
Net inflows from derecognition of financial assets	2,026	1,918	17,441	17,441
Net inflows from disposal of tangible assets	7,064	362	4,032	3,093
Cash inflows related to other activities of Group companies	882	380	1,014	543
Recoveries on loans previously written off	1,245	555	975	139
Salaries and related payments to and on behalf of employees	(18,667)	(16,488)	(17,135)	(15,408)
Payments related to operating and other expenses	(9,410)	(7,506)	(6,494)	(4,750)
Income tax (paid)	(8,345)	(7,901)	(2,279)	(1,717)
Net cash flow from operating activities before change in operating assets and liabilities	49,943	38,725	70,829	64,934
Change in operating assets and liabilities:				
Decrease in due from other banks	3,119	3,119	1,162	1,162
(Increase) in loans to customers and finance lease receivables	(148,171)	(140,816)	(145,067)	(140,921)
Decrease (Increase) in other assets	(12,877)	(10,698)	(1,331)	(7,137)
Increase (decrease) in due to banks and financial institutions	(34,134)	(34,664)	39,725	38,476
Increase (decrease) in due to customers	153,528	153,534	60,044	59,984
Increase (decrease) in special and lending funds	(14,990)	(14,990)	20,135	20,135
Increase (decrease) in other liabilities	659	313	(2,787)	195
Change	(52,866)	(44,202)	(28,119)	(28,106)
Net cash flow (used in) from operating activities	(2,923)	(5,477)	42,710	36,828

Investing activities				
(Acquisition) of property, plant and equipment, investment property and intangible assets	(1,647)	(1,578)	(3,181)	(2,133)
Disposal of property, plant and equipment, investment property and intangible assets	789	398	2,228	2,740
(Acquisition) of held-to-maturity securities	(149,508)	(149,508)	(87,659)	(87,659)
Proceeds from redemption of held-to-maturity securities	85,897	85,897	55,794	55,794
Interest received on held-to-maturity securities	13,177	13,177	13,229	13,229
Dividends received	3,940	7,425	6,394	9,694
(Acquisition) of available-for-sale securities	(14,841)	(6,306)	(5,619)	(4,758)
Sale or redemption of available-for-sale securities	18,359	12,592	10,743	10,743
Interest received on available-for-sale securities	481	465	580	580
Disposal of subsidiaries, inflows from subsidiaries held for sale	3,479	256	13,942	13,942
Business acquisition	-	-	(300)	-
Instalments to cover losses and to strengthen the capital of subsidiaries	(1,000)	(1,000)	-	(550)
Net cash flow (used in) from investing activities	(40,874)	(38,182)	6,151	11,622

Financing activities				
Payment of dividends	(1,864)	(1,864)	(625)	(625)
Issue of debt securities	20,003	20,003	-	-
Net cash flow from (used in) financing activities	18,139	18,139	(625)	(625)

Net increase (decrease) in cash and cash equivalents	(25,658)	(25,520)	48,236	47,825
Cash and cash equivalents at 1 January	152,851	152,111	104,615	104,286
Cash and cash equivalents at 31 December	127,193	126,591	152,851	152,111

(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 2016	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
Transfer to statutory reserve	-				2,914	(2,914)	-
Increase in share capital through bonus issue of shares	21,894	-	-	-	-	(21,894)	-
Payment of dividends	-	-	-	-	-	(1,887)	(1,887)
Total comprehensive income:	-	-	-	90	-	32,058	32,148
Net profit	-	-	-	-	-	*32,058*	*32,058*
Other comprehensive income	-	-	-	*90*	-	-	*90*
31 December 2017	131,366	-	756	401	7,071	68,378	207,972

CAPITAL RATIOS AND COMPLIANCE WITH PRUDENTIAL REQUIREMENTS

	31 December 2017		*31 December 2016*	
	Fin. Group	Bank	Fin. Group	Bank
Common equity tier 1 capital eligible as CET1 Capital				
Paid up capital instruments	131,366	131,366	109,472	109,472
Share premium	-	-	-	-
Previous years retained earnings	36,320	31,586	20,105	16,604
Interim profit eligible for inclusion	-	-	25,724	27,176
Other reserves	756	756	756	756
Statutory reserve	7,071	7,071	4,157	4,157
Part of financial assets revaluation reserve	321	232	187	166
(-) Goodwill	(14)	-	(14)	-
(-) Intangible assets	(1,726)	(1,684)	(1,361)	(1,210)
(-) Deferred tax assets that rely on future profitability	(49)	-	(87)	-
(-) Value adjustements due to requirements for prudent valuation	(37)	(33)	(54)	(52)
(-) Other deductions from CET1 capital	(7,840)	(6,528)	(7,024)	(7,535)
TIER 1 CAPITAL	166,168	162,766	151,861	149,534
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	80	58	124	111
TIER 2 CAPITAL	20,080	20,058	20,124	20,111
OWN FUNDS	186,248	182,824	171,985	169,645
Own funds requirements for:				
Risk weighted exposure amount for credit risk under the Standardised Approach	1,056,590	1,061,709	860,131	872,393
Risk weighted exposure amount for the trading book instruments	18,096	18,096	21,818	21,818
Operational risk under the Basic Indicator Approach	124,073	113,086	118,005	110,372
Other capital requirements (credit value adjustment risk)	338	338	63	63
Total risk exposure amount	1,199,097	1,193,229	1,000,017	1,004,646
CET1 Capital ratio	13.86%	13.64%	15.19%	14.88%
T1 Capital ratio	13.86%	13.64%	15.19%	14.88%
Total capital ratio	15.53%	15.32%	17.20%	16.89%

During the years ended 31 December 2017 and 31 December 2016, 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 2017 was included in Owns funds of the Financial group and the Bank as of 31 December 2017, it would cause the Total capital ratio to increase to 18.86% and 18.46%, respectively.

CONSOLIDATED ANNUAL REPORT OF ŠIAULIŲ BANKAS AB FOR 2017

The consolidated report of Šiaulių Bankas AB (hereinafter — the Bank) covers the period 01 January 2017 to 31 December 2017.

INFORMATION ON THE PERFOMANCE RESULTS

Sustainable results of the Bank, improved profitability and capital ratios as well as growing awareness among investors at international level have increased the Bank's share price on the Nasdaq Vilnius Stock Exchange. The price of the bank's shares rose 57 per cent during 2017. Trading in Šiaulių Bankas shares reached a record and ensured a leading position – turnover on the Nasdaq Baltic Market exceeded 44 million euros and the stock was most liquid on the exchange.

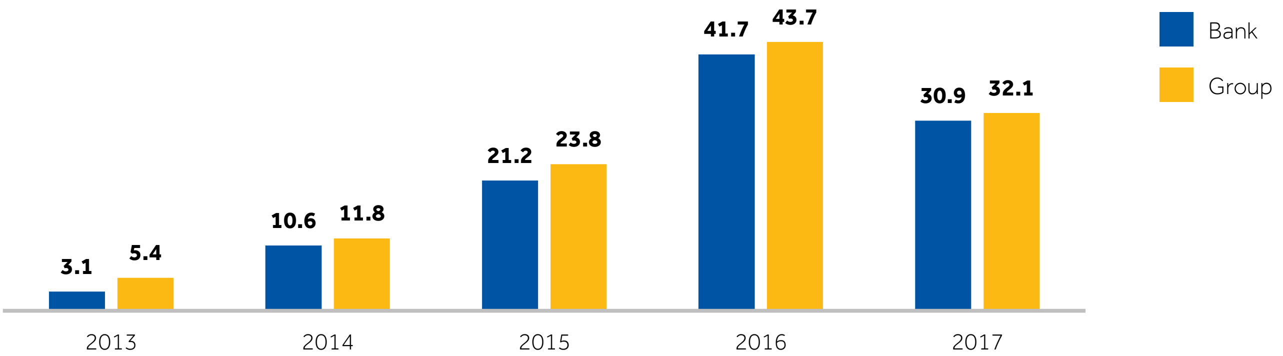
Consistently improving Bank's performance, credit risk management and financial stability, strong macroeconomic parameters of Lithuania as well as their positive trends were assessed by the international rating agency Moody's Investors Service, which assigned an investment-grade rating Baa3 with a positive outlook on 23 October:

- Long-term credit rating - Baa3;
- Short-term credit rating - P-3;
- Rating outlook - positive.

The investment rating will assist improving conditions for attracting funds which will be used to issue loans to corporate customers and to finance consumption.

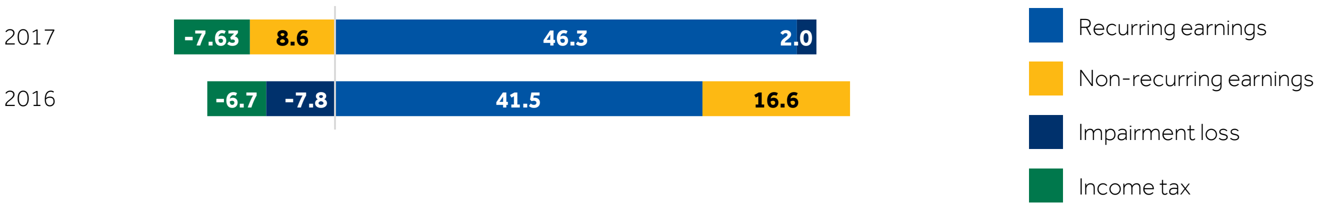
For the ninth year in a row the results of research conducted by Dive Lietuva showed that the customer service indicator at Šiaulių Bankas corresponds to the highest quality level - last year it reached a record of 98.1 per cent and ensured the second position in the banking sector with the average of 87.7 per cent. Almost all criteria attributed to the Bank were assessed at 90% and a higher score.

Net Profit earned by the Bank and Group, in thousand euros



In 2017, the Group earned 32.1 million euro, the Bank - 30.9 million euro of unaudited net profit.

Recurring /Non-recurring earnings (m Eur)

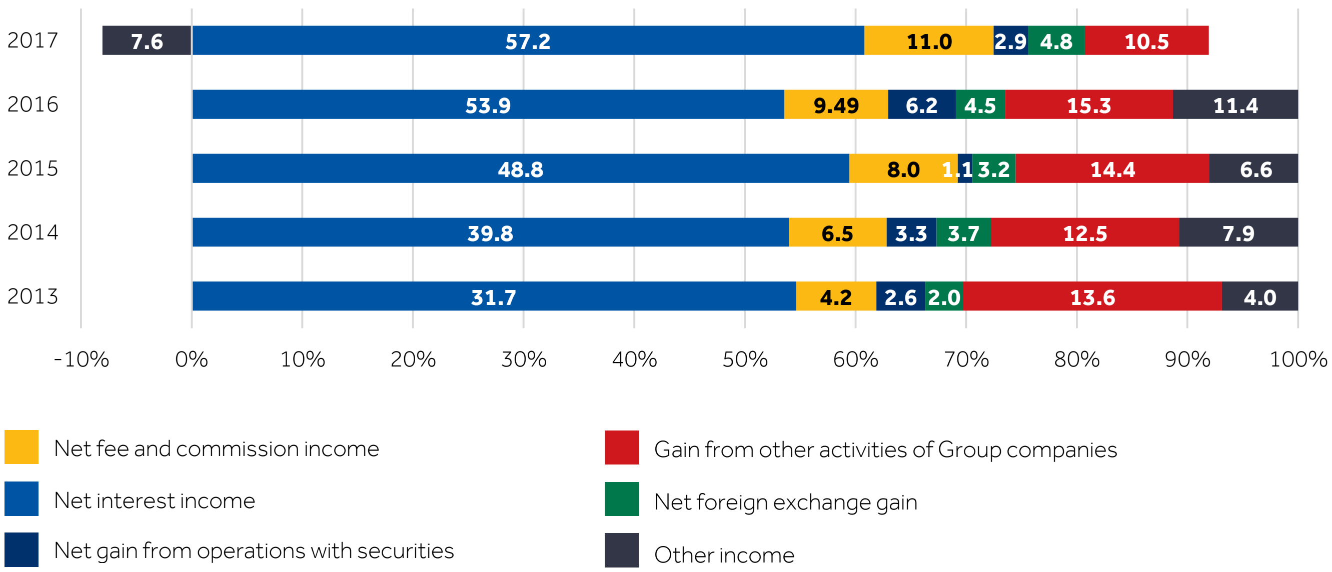


Non-recurring earnings is a non-IFRS performance measure used for Bank's analysis. It aims to show a part of earnings that is attributable to one-off transactions or transactions that are not typical to the Group's main activity. Reconciliation of operating profit before impairment losses to recurring and non-recurring earnings is presented in the table below:

				2017				2016
		Group		Bank		Group		Bank
	Recurring earnings	Non-recurring earnings	Recurring earnings	Non-recurring earnings	Recurring earnings	Non-recurring earnings	Recurring earnings	Non-recurring earnings
Net interest income	57,157	-	48,221	-	50,514	3,407	43,143	3,407
Net fee and commission income	10,952	-	10,634	-	9,413	-	9,347	-
Net gain from operations with securities	2,530	393	1,163	393	2,624	3,540	1,332	3,540
Net gain from foreign exchange and related derivatives	4,829	-	5,514	-	4,477	-	4,248	-
Net loss from other derivatives	-	(2,885)	-	(2,589)	-	(1,913)	-	(1,671)
Net loss from changes in fair value of subordinated loan	-	(12,139)	-	(12,139)	-	(1,644)	-	(1,644)
Net gain from derecognition of financial assets	-	3,178	-	3,070	-	12,644	-	12,671
Net gain from disposal of tangible assets	-	2,897	-	37	-	612	-	656
Revenue related to other activities of Group companies	10,539	-	-	-	15,293	-	-	-
Other operating income	1,366	-	380	-	1,688	-	543	-
Salaries and related expenses	(20,192)	-	(16,727)	-	(18,340)	-	(15,558)	-
Depreciation and amortization expenses	(1,863)	-	(1,510)	-	(1,773)	-	(1,339)	-
Expenses related to other activities of Group companies	(8,686)	-	-	-	(12,766)	-	-	-
Other operating expenses	(10,293)	-	(7,574)	-	(9,677)	-	(6,835)	-
Operating profit before impairment losses	46,339	(8,556)	40,101	(11,228)	41,453	16,646	34,881	16,959

Compared to 2016, the group's revenue for recurring activities grew 12 per cent last year. The biggest factor behind that change was net interest income, which grew 6 per cent during the year to 57.2 million euros as lending increased and resource costs shrank. Amid larger payment volumes and steady levels of cash operations, net service fees and commission income increased 16 per cent in 2017. Significant here was strong client activity in choosing the new service plans for private and corporate clients which were introduced at the start of the year. Profit from foreign exchange operations grew 8 per cent during the year to more than 4.8 million euros.

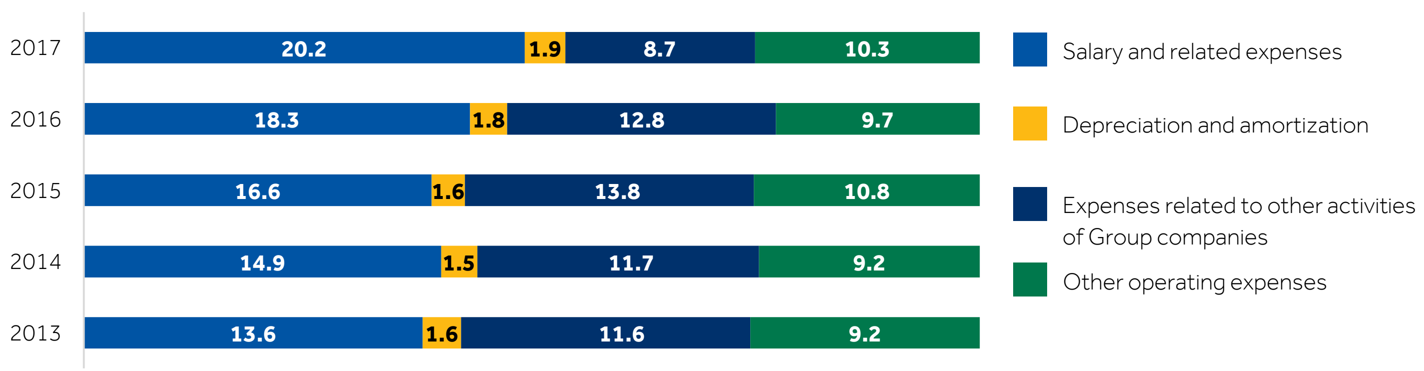
Structure of the Group's Operating Income (m Eur)



Due to growth in the market price of the bank's shares, the value of the conversion option embedded in the subordinated loan from the EBRD increased. Growth in the value of the subordinated loan during 2017 had an unrealized negative effect of 12.1 million euros on other income. If the conversion option is exercised in the future, the accumulated negative effect would increase the equity of the bank's shareholders by a corresponding amount.

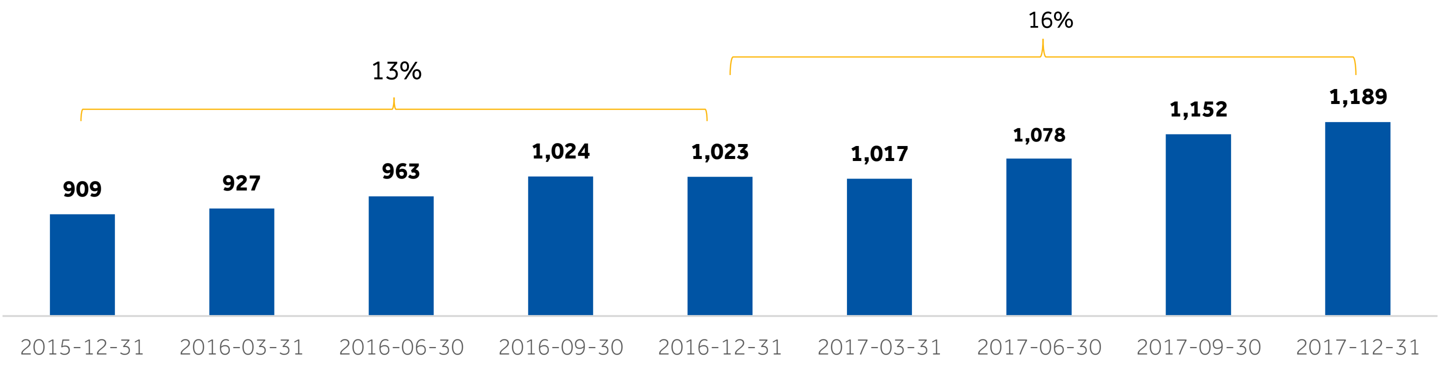
Despite growing needs and pressure on salary costs, the Group succeeds in balancing the rate of expenditure growth - it increased by 9% (not including the result of the other activities of the group companies).

Structure of the Group's Operating Expenses (m EUR)



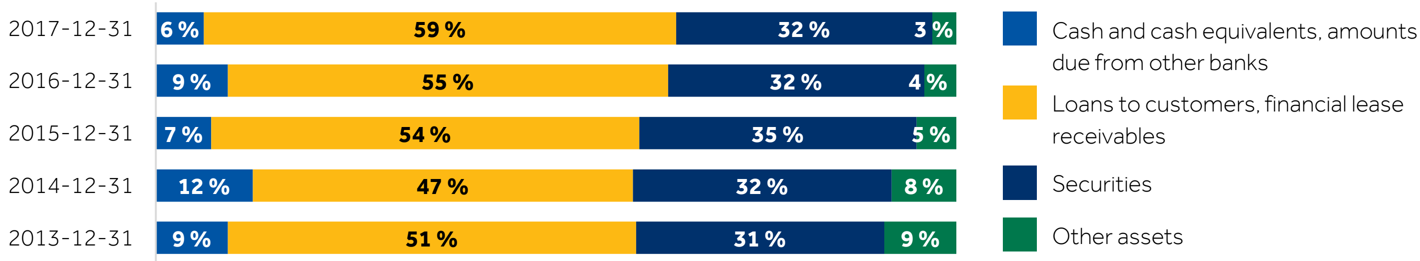
Successful activities related to the problem loans not only resulted in the overall improvement in the loan portfolio quality, but also had a positive impact on the performance of the Group - return of of 2 million euros of impairment costs relating to loans and other assets was recorded in the income statement for 2017.

Loan and Lease Porfolio (m Eur)



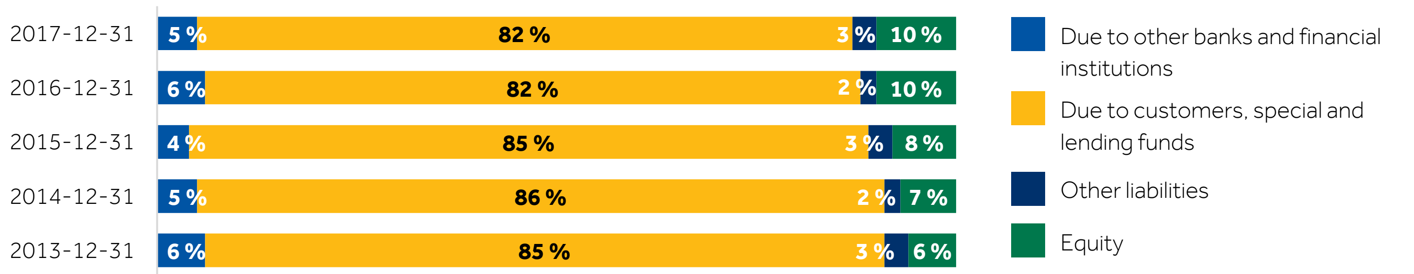
In 2017, much attention was paid to the development and quality of the Bank's key areas of activities - corporate and consumer finance. The group's loan and financial lease portfolio grew 16 per cent in 2017 to more than 1.18 billion euros at year-end. During the year, 650 million euros of new loan agreements were signed. Credit volumes have increased thanks to the choice of flexible and innovative financing solutions that the bank has continually offered clients. As an example, at the end of the year Šiaulių Bankas launched a new automated loan origination and processing system which shortened the time it takes for a client to get consumer credit. There are plans in future to also use the system to reduce the time it takes to grant other types of credit.

The Group's Asset Structure, in per cent



The group's deposit portfolio grew 9 per cent in 2017 and at the end of December exceeded 1.6 billion euros. A new saving solution – fixed-term deposits with extra interest tied to changes in the price of a certain financial asset – significantly contributed to deposit growth. Three such deposit issues were offered during the year.

The Group's Liability Structure, in per cent.



The Group maintained strong operational efficiency. The cost-to-income ratio was 52 per cent, while return on capital exceeded 16 per cent. Information on the profitability ratios is available on the Bank's internet site at:
Home page › About bank › To Bank's Investors › Financial statements, ratios and prospectuses › Alternative performance measures

ACTIVITY PLANS AND FUTURE OUTLOOK

- The Group aims to maintain the annual return on equity above 15%, the recurring activities cost-to-income ratio below 45%, and, taking into account regulatory requirements, the capital adequacy ratio above the barrier of 15%.
- 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.
- With less than 5 years before maturity of the subordinated loan from the European Bank for Reconstruction and Development, the Bank will seek for solutions allowing to maintain the efficiency of Tier 2 capital.
- Internal control and risk management systems will be subject to further development, much attention will be paid to improve current operational processes.

AUTHORIZED CAPITAL AND SHAREHOLDERS OF THE BANK

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.

As of 31 December 2017, the authorized capital of the Bank totalled to EUR 131,365,989.88 and is comprised of 452 986 172 units of ordinary registered shares with a nominal value of EUR 0.29 each.

The shares issued by the Bank are included in the *Nasdaq* indexes:

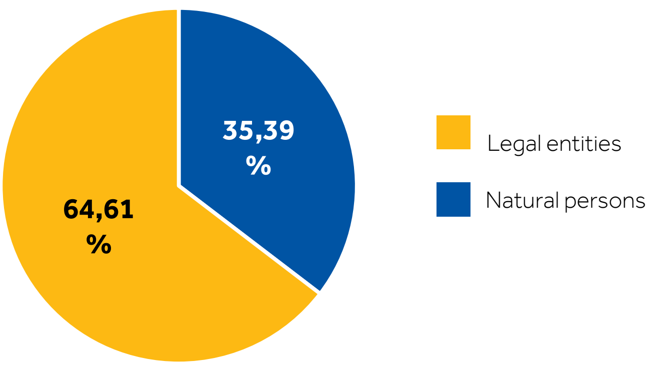
- *OMX Baltic Benchmark (OMXBB) - the Baltic benchmark index consists of the largest and most traded stocks on the Nasdaq Baltic Market representing all sectors;*
- *OMX Baltic 10 (OMXB10) - is a tradable index of the Baltic states consisting of the 10 most actively traded stocks on the Baltic exchanges;*
- *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.*

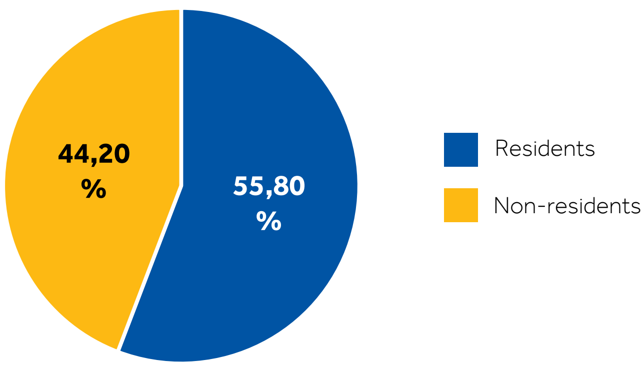
As of 31 December 2017 the number if the Bank's shareholders was 4 496 (at the end of 2016 m - 3401). All issued shares grant the shareholders equal rights foreseen by the Law on Companies of the Republic of Lithuania and the Charter of the Bank.

Structure of the Bank's authorized capital as of 31 December 2017 (in per cent):

By types of shareholders



By place of residence



The Bank's shareholders owning more than 5 per cent of the Bank's shares as of 31 December 2017 are as follows:

	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 (EBRD)	82,638,438	18.24	18.24	38.52
Invalda INVL AB	30,749,372	6.79	6.79	-
Gintaras Kateiva	26,356,752	5.82	5.82	38.52

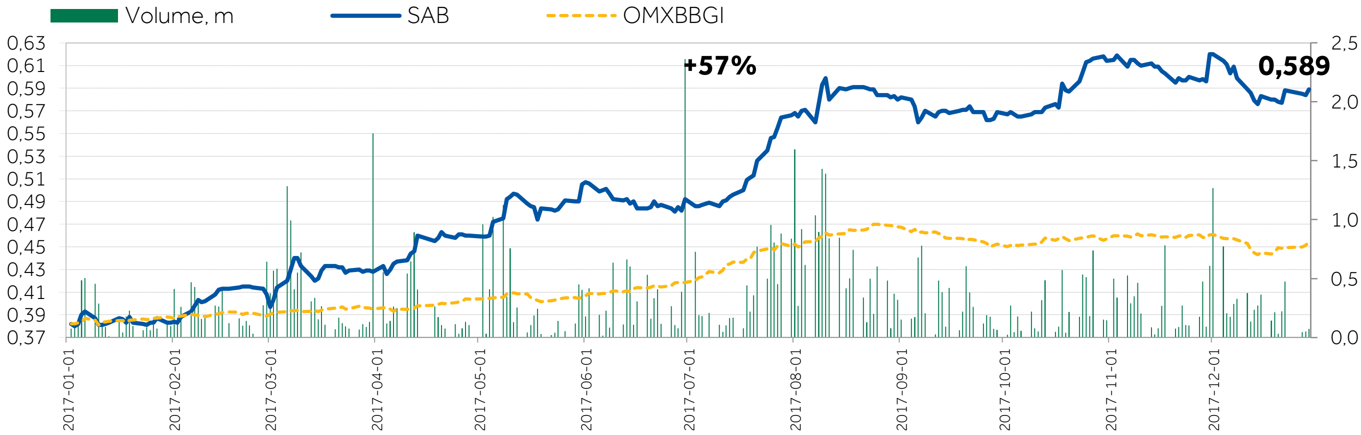
EBRD, Trade House Aiva UAB, Mintaka UAB, Enterprise group Alita AB, Sigitas Baguckas, Algirdas Butkus, Vigintas Butkus, Vytautas Junevičius, Gintaras Kateiva, Arvydas Salda ir Kastytis Jonas Vyšniauskas who have signed the Shareholders' Agreement as well as other shareholders whose votes are calculated together in compliance with the law of the Republic of Lithuania form a group that owned 38.52 per cent of the Bank's authorized capital and votes as of 31 December 2017.

General meeting of shareholders held on 30 March 2017 passed a resolution to increase the authorized capital of the Bank by EUR 21,894,331.55 from unallocated profit issuing 75,497,695 ordinary registered shares with EUR 0.29 nominal value and to distribute issued shares to the shareholders in proportion to the total nominal value of shares owned by them on the day of accounting of rights - on 13 April 2017. On 6 June 2017 amendments to the Charter related to the increase of the capital were registered with the Register of Legal Entities. Shareholders who owned the shares on the aforementioned day of accounting of the rights received 20 per cent of new shares to their personal securities accounts.

Authorized capital:

	2013-05-31	*2014-06-03*	*2015-05-26*	*2015-09-14*	*2016-05-26*	*2017-06-06*
Capital, EUR	72,500,000	78,300,000	85,033,800	91,226,382	109,471,658	131,365,990

Turnover and price of the Bank's shares:



Information on shares:

	2012	*2013*	*2014*	*2015*	*2016*	*2017*
Capitalisation, mEur	54.2	66.5	71.8	93.7	169.5	266.8
Turnover, mEur	2.8	5.5	8.1	12.7	23.1	44.5
P/BV	0.6	0.7	0.7	0.7	1.0	1.3
P/E	14.3	12.4	6.1	3.9	3.9	8.3
Capital increase from retained earnings, %	6.5	8.0	8.6	20.0	20.0	n/d
Dividend yield, %	0.6	-	0.3	0.7	1.1	n/d

A description of the alternative performance indicators presented in the document is available on the Bank's website: Home page › About bank › To Bank's Investors › Financial statements, ratios and prospectuses › Alternative performance measures

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. The shares to those employees who in compliance with the Bank's Remuneration Policy should receive the shares are purchased at the Nasdaq Vilnius stock exchange on behalf of the group by the joint order which is covered from the Bank's funds.

Dividends

The Bank does not have an established procedure for allocation of dividends. The General Shareholders' Meeting annually decides either to pay dividends or not while allocating the Bank's profit.

Information on the dividends paid:

The year of dividend assignment and payment	*2013*	*2014*	*2015*	*2016*	*2017*
Percentage from nominal value	0.50	0.00	0.25	0.69	1.72
Dividend amount per share, Eur	0.00145	0.00	0.000725	0.002	0.005
Dividend Amount, Eur	340 097	0.00	195 750	629 147	1 887 442
Dividend to net profit ratio,%	7.89	0.00	1.84	2.97	4.53

Agrrements with inermediaries in public circulation of securities

The Bank has no agreements with public trading intermediaries regarding accounting of securities issued by the Bank, their accounting is carried out by the Bank's Securities Accounting Unit. Also, there are no market-making agreements with respect to the securities issued by the Bank.

The Bank itself, being a public trading intermediary, as of 31 December 2017 carried out accounting of more than 340 securities issues under agreements with the securities issuing companies and market-making of 13 securities issues in the Nasdaq Baltic market (5 issues - according to the market making program, 8 issues - under agreements with the issuers).

Information on malicious transactions

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 have been entered during the reporting period. Moreover, there were no transactions entered in terms of conflict of interest among the senior managers of the Bank, controlling shareholders or other related parties' positions to the Bank and their private interests and (or) positions.

MANAGEMENT OF THE BANK

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.

Exclusively the General Shareholders' Meeting:

- amends Charter of the Bank, except in cases, provided in the laws;
- changes domicile of the Bank;
- 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 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:
- issues of convertible bonds;
- cancels the preference right to purchase shares or convertible bonds of the Bank of a given emission to all of the shareholders;
- converses of the Bank's shares of one class into another, approves the conversion order;
- allocates profit (loss);
- making, use, reduction and cancellation of reserves;
- increases authorized capital;
- reduces 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;
- restructures of the Bank;
- liquidates of the Bank, cancels 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 shares that grant 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 such 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 such number of votes which is 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;
- adopt Supervisory Council's work regulation;
- 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 borrowing 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.

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 debt liabilities;
- 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 incorporator, 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 surety 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 activity and implementation of its aims;
- the Bank's financial position;
- results of economic activities, income and expenditure estimates, stock-taking data and other records of valuables.

The Board shall also analysis, assess the Bank's draft annual financial statements and draft of the profit (loss) allocation 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 CEO:

- 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 CEO 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 Urbonienė 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.

Supervisory Council of the Bank

Arvydas Salda	Gintaras Kateiva	Valdas Vitkauskas	Ramunė Vilija Zabulienė	Darius Šulnis	Martynas Česnavičius	Miha Košak
						
Member since 1991 , Chairman since 1999	Member since 2008	Member since 2014	Independent member since 2012	Member since 2016	Member since 2016	Member since 2017
Beginning / end of tenure - 30/03/2016/2020	Beginning / end of tenure - 30/03/2016/2020	Beginning / end of tenure - 30/03/2016/2020	Beginning / end of tenure - 30/03/2016/ 2020	Beginning / end of tenure - 09/05/2016/2020	Beginning / end of tenure - 09/05/2016/2020	Beginning / end of tenure - 26/06/2017/2020
Share of capital under the right of ownership, % (31/12/2017)						
2.28	5.82	0.00	0.00	0.00	0.00	0.00
Share of votes together with the related persons, % (31/12/2017)						
38.52	38.52	0.00	0.00	38.52	38.52	0.00

30 March 2017 Peter Reiniger resigned from the Bank's Supervisory Council members. During the General meeting of shareholders held on 30 March 2017 **Miha Košak** was elected as a new member of the Supervisory Council who started taking his office from 26 June 2017 upon receiving the permission from the Bank of Lithuania.

Board of the Bank

Algirdas Butkus	Vytautas Sinius	Donatas Savickas	Daiva Šorienė	Vita Urbonienė	Jonas Bartkus	Ilona Baranauskienė
						
Chairman since 1999, (Chairman of the Council between 1991 and 1999) Deputy Chief Executive Officer	Deputy Chairman of the Board since 2014 (In the Board - since 2011) Chief Executive Officer	Deputy Chairman of the Board since 1995 Deputy Chief Executive Officer, Head of Finance and Risk Management Division	Member since 2005 Deputy Chief Executive Officer, Head of Business Development Division	Member since 2011 Chief Financial Officer, Head of Accounting and Tax Division	Member since 2012 Head of IT Division	Member since 2014 Head of Assets Restructuring Division
Beginning / end of tenure - 30/03/2016/2020	Beginning / end of tenure - 30/03/2016/2020	Beginning / end of tenure - 30/03/2016/2020	Beginning / end of tenure - 30/03/2016/2020	Beginning / end of tenure - 30/03/2016/2020	Beginning / end of tenure - 30/03/2016/2020	Beginning / end of tenure - 30/03/2016/2020
Share of capital under the right of ownership, % (31/12/2017)						
3.05	0.15	0.12	0.04	0.08	0.10	0.02
Share of votes together with the related persons, % (31/12/2017)						
38.52	38.52	38.52	38.52	38.52	38.52	38.52

Total and average gross remuneration (excluding payments to social security and guarantee fund) for members of collegial bodies:

		Amounts of funds calculated in total, thou EUR		Average, thou EUR	
Members of the Management Bodies	*Number of people*	*2,016*	*2,017*	*2,016*	*2,017*
The Supervisory Council of the Bank	7	205	370	29	53
The members of the Board of the Bank	7	1,132	1,472	162	210
CEO and chief accountant	2	366	478	183	239

COMMITTEES FORMED WITHIN THE BANK

Functions, procedures of formation and the policy of activities of the bank's 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.

Information on the members of the committees as of 31 December 2017:

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.

	Name, surname
Chairperson	Darius Šulnis
Members:	Miha Košak
	Arvydas Salda

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. Following the laws and legal act if the supervisory authority 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.

	Name, surname
Chairperson	Ramunė Vilija Zabulienė
Members:	Martynas Česnavičius
	Valdas Vitkauskas

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.

	Name, surname
Chairperson	Valdas Vitkauskas
Members:	Ramunė Vilija Zabulienė
	Darius Šulnis

The Remuneration 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.

	Name, surname
Chairperson	Gintaras Kateiva
Members:	Martynas Česnavičius
	Arvydas Salda

The Loan Committee analyses loan application documents, decides regarding granting of loans and amendment of their terms, suggests regarding loan granting, improvement of loan administration procedures and performs other functions foreseen by its provisions.

	Name, surname	Position
Chairperson	Vytautas Sinius	Chief Executive Officer
Members:	Edas Mirijauskas (Deputy)	Director of Credit Risk Department
	Giedrius Sarapinas	Deputy Director of Credit Risk Department
	Daiva Šorienė	Head of Business Development Division
	Donatas Savickas	Head of Finance and Risk Management Division
	Aurelija Geležiūnė	Director of the Legal Department
	Mindaugas Rudys (deputizing member)	Deputy Head of Business Development

The Risk Management Committee carries out functions related to the organization, coordination and control of the Bank's risk management system, the assessment and assurance of the risk level that is acceptable to the Bank and accepts the risk tolerance, as well as performs other functions provided for in its regulations:

	Name, surname	Position
Chairperson	Donatas Savickas	Head of Finance and Risk Management Division
Members:	Algimantas Gaulia (Deputy)	Director of Risk Management and Reporting Department
	Pranas Gedgaudas	Deputy Director of Markets and Treasury Department
	Edas Mirijauskas	Director of Credit Risk Department
	Jolanta Dūdaitė	Director of Risk Management Unit
	Morena Liachauskienė	Director of Operational Risk Department

RISK MANAGEMENT, COMPLIANCE WITH PRUDENTIAL REQUIREMENTS

A complete disclosure of all significant risks incurred by the Group is provided in Financial Risk Management section of the explanatory notes to the 2017 annual financial statements.

According to the data as of 31 December 2017 the Bank complied with all the prudential requirements. The information is kept up-to-date and available on the Bank's website www.sb.lt at: *About bank › To Bank's Investors -› Financial statements, ratios and prospectuses - Profitability ratios.*

INTERNAL CONTROL ASSESSMENT

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 a 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 assigned compliance officers in charge of 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 Bank 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.

THE EXTERNAL AUDIT

In 2017 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.

On 28 March 2014 the Bank's General meeting of shareholders 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.

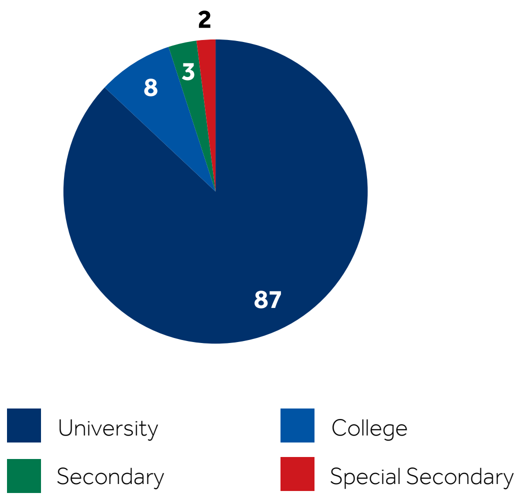
in EUR thou excluding VAT costs	*Group*	*The Bank*
Services of financial statement audit under agreements	88	56
Costs of collateral and other related services	-	-
Costs for tax advice issues	1	1
Costs for other services	18	17
Total	107	74

EMPLOYEES

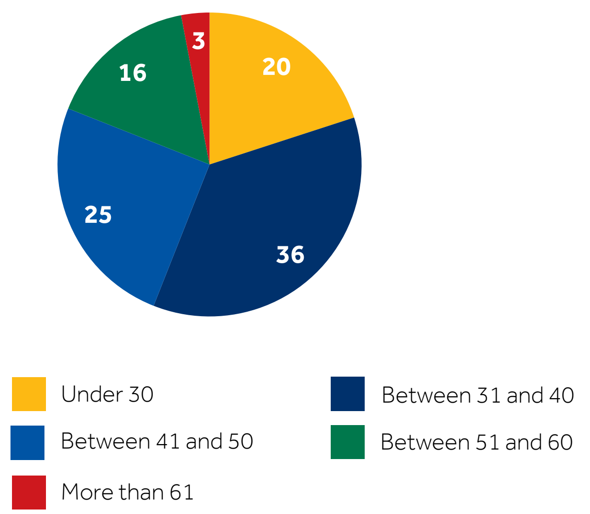
As of 31 December 2017, the Bank employed 702 employees and together with the Group's companies they amounted to 805. Compared to 31 December 2016 the number of employees decreased by 2.8 per cent while together with the Group's companies the number decreased by 2.9 per cent.

As of 31 December 2017 the Group employed 80 per cent of women and 20 per cent of men.

Employees by education (in per cent.):



Employees by age (in per cent.):



Personnel

The Bank aims to create an environment that allows attracting, selecting and keeping professional and loyal employees that achieve very good results.

Relations with the employees

The Bank fosters long-term relationships with its employees. As of 31 December 2017 nearly 33 per cent of the Bank's employees have been working for more than 10 years. The staff turnover in 2017 comprised 14.5 per cent (in 2016 the total turnover of employees was 13.8 per cent).

The performance management system

The Bank continues to develop its operational management system as one of the key tools for effective work with subordinates. Discussion and evaluation of the annual activities of the employees are carried out once a year in accordance with the Procedure of Annual Appraisals. During these appraisals, direct supervisors discuss the results of annual goals and implemented projects with their subordinates, they analyse employee's competencies, highlight strong areas and ones that should be developed, identify specific educational tools, and career opportunities. These conversation are based on mutual feedback, open and value-based communication and collaboration. So that each employee could feel contributing to and influencing the overall results of the bank and, also, to show that all efforts go in one direction, during the appraisal the direct supervisor and employee set annual goals that would contribute to the overall performance.

Organizational structure

In order to enhance the efficiency the Bank has been implementing the departmental structural changes in 2015. The structure of the Bank's network remained the same.

Employee training

Successful integration of new employees continued to be a priority in 2017 - due importance was shown to that process and the value of preparation for effective work. The Bank devoted a lot of attention to providing employees with all possibilities to accumulate knowledge about existing and new banking products, related developments and innovations. For this purpose in 2017, 10 unique training programs prepared and presented by internal lecturers were organized. Also, a unique two-part session (in spring and autumn) program "Funding Solutions Forum" to update knowledge and skills was launched for lending specialists, project managers and executives. In 2017, seeking for sustainable development of the organization, education of the leaders was considered to be a priority. For this purpose the Leaders' Academy was organized, with the main topics covering the effective leadership, development of a professional team, and emotional intelligence. The top and middle level leaders of the Bank participated in this program. The Head office employees increased their qualifications in external trainings.

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.

The number of interns who have performed compulsory or voluntary practice in various branches of the Bank throughout Lithuania has consistently increased in the Bank. In 2017, the number of interns compared to 2016 increased by more than 13%. Most interns gained their experience at customer 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 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, the sales promotion system has been launched allowing the Bank to figure out the best Bank's network employees and to motivate them.

Employees of the Group can accumulate additional pension at exceptional terms when part if the payment is paid by the employee himself and another - by the employer. A long-term incentive program *Accumulate Together* is prepared together with the Bank's subsidiary life insurance company Bonum Publicum UAB. More than 26 per cent of the employees take part in the aforementioned programme.

Additional benefits to the Bank's employees include the following:

- ability to participate in basketball, volleyball and karting teams in the interbank and other tournaments as well as in annual summer holiday;
- on personal occasions, on the events significant to the Bank or in case of accident in the employee's family, the employees receive the lump-sum payouts (allowances).
- free vaccination against influenza, two first days of the sick leave paid by the Bank in 100 per cent,
- partial coverage of the gym memberships and other discounts of the bank's partners.

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.

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, Labour Code of the Republic of Lithuania, Charter of the Bank, and resolutions of the Management Board and Supervisory Council of the Bank as well as other Bank's internal legislation.

The composition of the Remuneration Committee is subject to the Supervisory Council's approval, the list of the Committee members and the areas of their performance are provided in this report in chapter *the Committees formed within the Bank.* 2 (two) meetings of the Remuneration Committee took place in 2017.

The Remuneration Policy is approved by the Supervisory Council of the Bank, while the Board of the Bank bears responsibility for its implementation.

The Remuneration policy was reviewed in 2017, however, no amendments were planned, therefore, the Bank followed the Remuneration Policy approved by the resolution of the Supervisory Council of the Bank on 29 October 2015 which has been effective since 01 January 2016.

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 limit 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. Variable remuneration allocation conditions are the same 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 applied at the Bank are prepared to meet the Bank's business strategy, purposes, values, long-term continuous activity interests, stimulate reliable and efficient risk management and to facilitate avoiding a conflict of interest. These models are developed not to induce the employees to assume the excessive risks unacceptable to the Bank, thus, to ensure 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. While evaluating 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.

Given the potential risks associated with the annual performance results of the employees whose professional activities and (or) decisions can have a significant impact on the Bank's risk exposure, no less than 40 per cent of variable remuneration is deferred, paying it in equal instalments within three (3) years, 50 per cent of immediately distributed and deferred variable remuneration is paid in cash, 50 per cent in the Bank's shares, which are set the twelve (12) months transfer right postponement period. This period is determined by combining the long-term bank or bank's financial group company's continuing operations interests with staff inducement.

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 a share of the variable remuneration is based on the same criteria of the assessment of the performance as applicable to the monetary share.

The reasons and criteria of assignment of part of the variable remuneration and all the other benefits received not in cash

Following regulatory and the Remuneration Policy requirements 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.

Aggregate quantitative information on remuneration results

Implementing regulatory requirements 34 employees whose professional activities and decisions may have a major impact on the nature of the risks undertaken by the Bank were identified as of 31 December 2017 - 28 of whom were employees of the Bank, 4 - employees of SB Lizingas UAB, 1 - employee of Šiaulių banko investicijų valdymas UAB, and 1 - employee of Šiaulių banko turto fondas UAB.

The monthly average salary of the respective group of employees before taxes:

	Leading employees		*Other employees*	
	Average number of employees	Average monthly salary, in EUR	Average number of employees	Average monthly salary, in EUR
2015	85	3,058	546	836
2016	87	3,528	581	921
2017	87	4,274	577	972

Information on the variable remuneration without Sodra and the guarantee fund of the employees of the companies of the Bank's financial group, whose professional activities and (or) decisions may have a major impact on the nature of the risks undertaken by the Bank:

	Cash payment, in thou EUR	*Bank's shares, in thou units*
Outstanding deferred variable remuneration as of 31/12/2015	193	598
Variable remuneration assigned for 2015	487	1,617
Variable remuneration paid over 2016	396	1,248
Outstanding deferred variable remuneration as of 31/12/2016	284	967
Variable remuneration assigned for 2016	855	1,888
Variable remuneration paid over 2017	632	1,311
Outstanding deferred variable remuneration as of 31/12/2017	507	1,544

Assignment of payments relating to termination of agreements in the Group, number of their beneficiaries and largest exposure per person:

2017	*Pay-outs related to contract termination, thousand EUR*	*Largest exposure per party, thou EUR*	*Number of beneficiaries*
The senior management (members of the Board)	0	0	0
Employees whose professional activities and (or) decisions can have a significant impact on the risk assumed by the Bank	0	0	0
Other employees	84	17	20
SB Lizingas UAB	1	1	1
Šiaulių Banko Lizingas UAB	10	7	2
Total	95	25	23

2016	*Pay-outs related to contract termination, thousand EUR*	*Largest exposure per party, thou EUR*	*Number of beneficiaries*
The senior management (members of the Board)	0	0	0
Employees whose professional activities and (or) decisions can have a significant impact on the risk assumed by the Bank	29	29	1
Other employees	97	34	17
Bonum Publicum GD UAB	5	2	3
Minera UAB	3	3	1
Šiaulių Banko Lizingas UAB	2	2	1
Total	136	70	23

The general quantitative information about remuneration in terms of business areas

Information on the remuneration of employees of the Bank is broken down by business area including payments to Sodra and the Guarantee Fund:

	Traditional banking and lending		*Treasury and other activities*		*Business management function*	
	Remuneration in total, thou EUR	Number of beneficiaries	Remuneration in total, thou EUR	Number of beneficiaries	Remuneration in total, thou EUR	Number of beneficiaries
2016-12-31	5,985	461	1,827	91	4,949	243
2017-12-31	6,559	461	2,079	94	5,612	243

The following information is about the remuneration **of the employees of the Bank group**, whose professional activities and (or) decisions may have a major impact on the nature of the risks undertaken by the Bank:

2017	*Part of variable remuneration in cash payments, in thou EUR*	*Part of variable remuneration in Bank's shares, thou units*	*Part of fixed remuneration in cash payments, thou EUR*	*Number of beneficiaries*
Traditional banking and lending	231	293	790	18
Treasury and other activities	267	54	493	9
Business management function	387	481	1,204	17

2016	*Part of variable remuneration in cash payments, in thou EUR*	*Part of variable remuneration in Bank's shares, thou units*	*Part of fixed remuneration in cash payments, thou EUR*	*Number of beneficiaries*
Traditional banking and lending	164	183	687	18
Treasury and other activities	157	7	497	8
Business management function	215	234	1,122	17

MAJOR INVESTMENTS MADE OVER THE REPORTING PERIOD

The table below shows the main investments made by the Group during the reporting period, in EUR thousand:

Acquisition of property, plant and equipment, investment property and intangible assets	1,450
Acquisition of held-to-maturity securities	149,508
Acquisition of available-for-sale securities	15,021

INVOLVEMENT IN ASSOCIATED STRUCTURES

The Bank participates in the activities of the following organizations, associations, and associated structures:

- Association of Lithuanian Banks
- Society for Worldwide Interbank Financial Telecommunication (SWIFT)
- Nasdaq Baltic Stock Exchanges (Nasdaq Vilnius, Nasdaq Riga and Nasdaq Tallinn)
- MasterCard Worldwide International Payment Card Organization
- Visa Inc. Europe International Payment Card Association
- ISACA
- Lithuanian Employers' Confederation
- Šiauliai Chamber of Commerce, Industry and Crafts
- Šiauliai Association of Industrialists
- Kelmė region Association of of Entrepreneurs
- Klaipeda Chamber of Commerce, Industry and Crafts
- Klaipeda Association of Industrialists
- Mazeikiai Association of of Entrepreneurs
- Akmenė Association of of Entrepreneurs
- Kaunas Chamber of Commerce, Industry and Crafts
- Panevezys Chamber of Commerce, Industry and Crafts Utena branch;
- Tauragė Association of of Entrepreneurs
- Panevezys Chamber of Commerce, Industry and Crafts
- Vilnius Chamber of Commerce, Industry and Crafts
- Šilalė region Association of of Entrepreneurs
- Association of Lithuanian Financial Brokers
- Association of Human Resources Professionals
- Lithuanian Association of Accountants and Auditors
- BNI recommended marketing services

GROUP OF THE BANK'S COMPANIES

	Nature of activities	*Registration date*	*Company code*	*Address*	*Tel.*	*E-mail, website*
Šiaulių Bankas AB	commercial banking	04/02/1992	112025254	Tilžės str. 149, 76348 Šiauliai	+370 41 595 607	info@sb.lt, www.sb.lt

The Bank directly controls the following subsidiaries:

SB Lizingas UAB	finance lease, consumer credits	14/07/1997	234995490	Laisvės al. 80, LT-44249 Kaunas	+370 37 407 200	info@sbl.lt, www.sblizingas.lt
Šiaulių Banko Lizingas UAB	finance and operating lease	16/08/1999	145569548	Vilniaus str. 167, 76352 Šiauliai	(8 41) 598 010, (8 5) 272 3015	lizingas@sb.lt, www.sb.lt
Šiaulių Banko Turto Fondas UAB	real estate management	13/08/2002	145855439	Vilniaus str. 167, 76352 Šiauliai	+370 41 525 322	turtofondas@sb.lt, www.sbip.lt
SBTF UAB	management and administration of real estate and movables	24/11/2004	300069309	Vilniaus str. 167, 76352 Šiauliai	+370 41 525 322	sbtf@sb.lt, www.sbip.lt
Minera UAB	real estate management	30/09/1992	121736330	Dvaro str. 123A, LT-76208 Šiauliai	+370 41 399 423	info@minera.lt, www.sbip.lt, www.minera.lt
Pavasaris UAB	development of residential apartment area	25/09/1992	121681115	Jonažolių str. 3-113, 04138 Vilnius	+370 5 244 8096	info@pavasaris.net, www.sbip.lt, www.pavasaris.net
Bonum Publicum GD UAB	life insurance	31/08/2000	110081788	Laisvės pr. 3, LT-04215 Vilnius	+370 5 236 2723	life@bonumpublicum.lt, www.bonumpublicum.lt
Šiaulių banko investicijų valdymas UAB	Investment management	31/08/2000	145649065	Šeimyniškių str. 1A, LT-09312 Vilnius	+370 5 272 2477	sbiv@sb.lt, www.sbip.lt

The Bank indirectly controls the following subsidiaries:

*Sandworks UAB**	real estate management	10/10/2012	302896357	Skruzdynės str. 1, LT- 93123 Neringa	+370 615 34251	vaidotas@minera.lt
ŽSA 5 UAB *	headquarters' activities (supervision and management of related units)	03/10/2012	302878779	Jogailos str. 9, LT-01116 Vilnius	8 688 56660	
Apželdinimas UAB **	afforestation, landscaping	05/02/1991	132443396	A. Mickevičiaus str. 56, LT-44244 Kaunas	+370 37 391 055	

* The Bank's 100% owned subsidiary Šiaulių Banko Investicijų Valdymas UAB controlled 100% shares of companies
** The Bank's 100% owned subsidiary Šiaulių Banko Turto Fondas UAB controlled 100% shares of the company

OTHER INFORMATION, PUBLISHED INFORMATION AND MAJOR EVENTS

Transactions with related parties

Information on these transactions with related parties is provided in Note 30 to the Bank's financial statements for the year 2017.

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 website https://www.sb.lt/en at Reports on Stock Events.

Other important events are published in the Bank's website https://www.sb.lt/en at Significant events and dates.

Chief Executive Officer
7 March 2018

Vytautas Sinius

ŠIAULIŲ BANKAS

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REPORT ON THE BANK'S GOVERNANCE

(Annex No. 1 to the Consolidated Annual Report for 2017)

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 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.	Yes
COMMENTARY 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.	
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.	Yes
COMMENTARY 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.	

Principle II: The corporate governance framework

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.

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. COMMENTARY 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. COMMENTARY 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. COMMENTARY 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. COMMENTARY 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. COMMENTARY 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. COMMENTARY 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. Only the body of the Bank who elected a member of Supervisory council or a member of the Board can remove them.	Yes
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. COMMENTARY 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.

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. COMMENTARY 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
33.2. 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. COMMENTARY 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. 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. COMMENTARY 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
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. COMMENTARY 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. The members of the Supervisory Council participate in the Bank's overall management system assessment process. The members of the audit committee have knowledge in field of finance; an independent member is competent in the field of audit. 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. COMMENTARY New members shall meet with their duties, the Bank and its activity. The Nomination Committee formed in 2016 shall analyse the need for additional skills and knowledge and shall provide its proposals.	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. COMMENTARY 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: 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; 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; 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); 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); 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 of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group; 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; 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; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 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;	Yes

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. COMMENTARY 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. COMMENTARY 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. COMMENTARY 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.

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: COMMENTARY 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. a) under all circumstances maintain independence of their analysis, decision-making and actions b) do not seek and accept any unjustified privileges that might compromise their independence, and 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..	Yes
COMMENTARY 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 5 meeting were held in total. One member of the Supervisory Council did not participate in one meeting. All other participated in each meeting.	
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.	Yes / No
COMMENTARY 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.	
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.

4.13.1. Key functions of the remuneration committee should be the following:

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;

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;

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;

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;

5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;

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);

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: — Yes

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;

2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;

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.

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. COMMENTARY 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: 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); 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; 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) 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; 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. 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.	Yes / No
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. 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.	Yes / No

Principle V: The working procedure of the company's collegial bodies

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.

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. COMMENTARY 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. 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. COMMENTARY 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

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.

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. COMMENTARY 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. COMMENTARY 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 regular annual reports.	Yes
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. 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.	No / Yes
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. 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.	Yes
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. 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.	Yes

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. 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.	No

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.

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. COMMENTARY 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.

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. COMMENTARY 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.	Yes

COMMENTARY

The Remuneration Policy report provides data about all employees and management, distinguishing the shares of the fixed and variable remuneration.

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 one 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. COMMENTARY The report of the Remuneration policy is not prepared in compliance with the scope defined in the present clause.	No
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. 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.	No
8.5.1. The following remuneration and/or emoluments-related information should be disclosed: 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; 2) The remuneration and advantages received from any undertaking belonging to the same group; 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; 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; 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; 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: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 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; 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; 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: COMMENTARY According to the requirements set by the Bank of Lithuania the report reveals the average sizes of the remuneration. Other information defined in thisclause is not published. 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 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. 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. COMMENTARY 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. COMMENTARY The amount of the variable remuneration is based on the general evaluation of the employee's, outlet's or bank's activity result.	Yes
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. COMMENTARY 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. COMMENTARY 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. COMMENTARY 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. COMMENTARY 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. COMMENTARY 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. 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. COMMENTARY 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. COMMENTARY 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). COMMENTARY The share transfer is limited for a period of 12 (twelve) months. No restrictions are foreseen after this period.	No
8.16. Remuneration of non-executive or supervisory directors should not include share options. COMMENTARY The members of the Supervisory Council are not subject to any form of remuneration.	Not applicable
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. 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.	No
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. 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.	No
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. COMMENTARY See item 8.17.	No

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.

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. — Not applicable

COMMENTARY

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.

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. — Not applicable

COMMENTARY

Employees of the bank or subsidiaries are not remunerated for the work with shares or share options or the other rights to acquire shares.

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. — Not applicable

COMMENTARY

See item 8.17.

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.

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.

10.1. The company should disclose information on: — Yes

COMMENTARY

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.

1) The financial and operating results of the company;
2) Company objectives;
3) Persons holding by the right of ownership or in control of a block of shares in the company;
4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;
5) Material foreseeable risk factors;
6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;
7) Material issues regarding employees and other stakeholders;
8) Governance structures and strategy.

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.

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. COMMENTARY 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.

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. COMMENTARY 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. COMMENTARY 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

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Social Responsibility Report 2017

Prepared in accordance with the Global Reporting Initiative Standard

(Annex No. 2 to the Consolidated Annual Report for 2017)

About report

Since 2008, Šiaulių Bankas is a member of Global Compact initiated by the United Nations. Preparing social responsibility report, the bank follows principles of the Compact, and this year, for the first time, presents a report based on the recommendations of the Global Reporting Initiative (GRI).

Since 2010, the Bank provides comprehensive annual social responsibility reports publicly available on the Bank's website under the Social Responsibility section and on the Global Compact website. This part of the Bank's Consolidated Annual Report, entitled "Social Responsibility", provides the concise Bank's Social Responsibility Report for January-December 2017.

The report on socially responsible activities of Šiaulių Bankas reveals the Bank's progress in its relations with employees, customers and the community as well as its engagement in environmental protection.

Any questions and comments with regard to the socially responsible activities could be submitted via e-mail komunikacija@sb.lt

CEO's word

Being a Lithuanian bank and operating in Lithuania, we have tight links to the environment in which we operate. The economic environment in the regions, the actuality of the labour market, and the prosperity of small and medium-sized businesses - all of which have a direct impact on the activities of the bank. This law works in the other direction as well: by our actions, both related with direct activities and the extra ones we take, we can contribute to the country's economic growth, the promotion of entrepreneurship or stronger communities.

That is why we consider socially responsible activities to be an integral part of our business. Its main idea lies in our vision. "The Best Financing Solutions for Business Ambitions and People's Ideas" sounds the idea that guides us in our everyday work. By our activities we aim to stimulate growth: our country's, business', or each of us.

From employee relationships to customer service quality, from small business development stimulation to community building - we have many opportunities for growth. In this report on socially responsible activities, we review the opportunities that we have used in 2017.

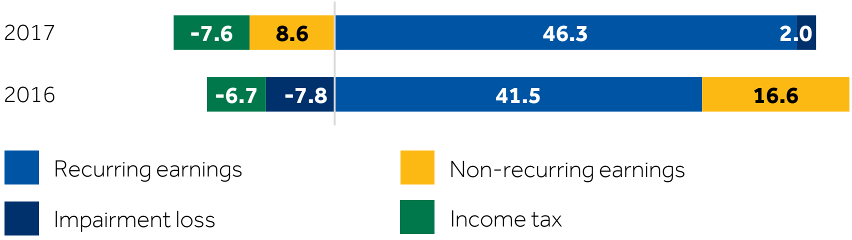
Chief Executive Officer of Šiaulių Bankas Vytautas Sinius

GRI disclosure	Description	Link
Strategy and Analysis		
102-14 A statement from the most senior decision-maker of the organizationabout the relevance of sustainability to the organization and its strategy for addressing sustainability		CEO's word
102-15 Main impact, risks and opportunities	The main areas of impact of the organization are determined taking into account the nature of the activities of the group companies and the long-term strategy. Economics The banks contributes to the country's economic growth directly and indirectly. By offering a wide range of financing instruments to small and medium-sized business , the Bank seeks to promote the development and growth of such companies. As the main partner of apartment renovation in the country, the Bank contributes to energy efficiency projects. Social area In order to promote the entrepreneurship of the population, the Bank's employees regularly read reports on business development opportunities. In order to strengthen communities, the Bank supports social or cultural projects and initiatives in the regions. Environment The Bank seeks to consistently reduce the amount of resources used and to preserve the environment which it operates in..	
Organizational profile		
102-1 Organizational profile	Founded in 1992, the Bank is a rapidly and steadily growing financial institution with the diversified shareholder base consisting of Lithuanian and foreign shareholders including the European Bank for Reconstruction and Development (EBRD) that owns 18 per cent of the bank's shares. 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.	

102-2 Activities, brands, products, and services	The bank's priority areas: ▪ Lending to small and medium-sized business ▪ Consumer financing ▪ Saving and Investments ▪ Daily banking services The following services are provided to the private and corporate customers: ▪ banking service plans for a fixed monthly fee (to private customers); ▪ 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 on-line banking system; ▪ mobile banking services; ▪ issue and administration of payment cards; ▪ granting of various short-term and long-term credits; ▪ 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; ▪ distribution of commemorative coins and numismatic sets, etc.
102-3 Location of headquarters	The Bank's head office is located in Šiauliai.
102-4 Location of operations	The Bank's units operate in all major cities and financial active regional centres of Lithuania. The Bank's services are provided throughout Lithuania.
102-5 Ownership and legal form	Šiaulių Bankas is a limited liability public company. The shares issued by the Bank are included in the Nasdaq indexes. The number of the Bank's shareholder was 4,496 as of 31 December 2017.
102-6 Markets served	The Bank's services are rendered in the Republic of Lithuania.

102-7
Scale of the organization

Recurring /Non-recurring earnings (m Eur)



In 2017, the Group earned 32.1 million euro, the bank - 30.9 million euro of unaudited net profit. Compared to 2016, last year the Group's stable income from typical activities during grew by 12%.

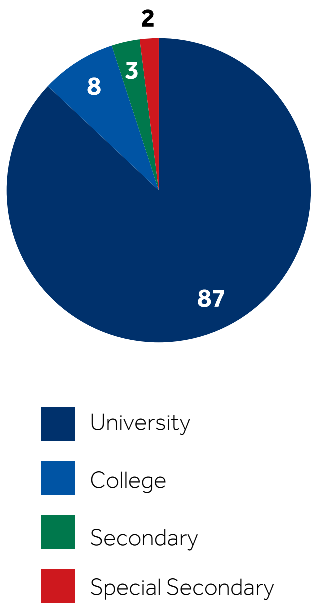
On the basis of performance, each year the General Meeting of Shareholders decides whether to pay dividends to shareholders.

Information on the dividends paid:

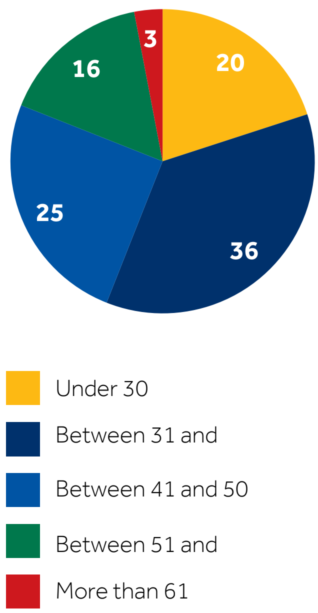
The year of dividend assignment and payment	*2013*	*2014*	*2015*	*2016*	*2017*
Percentage from nominal value	0.50	0.00	0.25	0.69	1.72
Dividend amount per share, Eur	0.00145	0.00	0.000725	0.002	0.005
Dividend Amount, Eur	340,097	0.00	195,750	629,147	1,887,442
Dividends to net profit,%	7.89	0.00	1.84	2.97	4.53

102-8
Information on employees and other workers

Employees by education (in per cent.)



Employees by age (in per cent.):



As of 31 December 2017, the Bank employed 702 employees and together with the Group's companies they amounted to 805.

As of 31 December 2017 the Group employed 80 per cent of women and 20 per cent of men.

102-11 Precautionary Principle or approach	See report disclosure 102-30	For more see: The Financial Risk Management disclosure in notes to the financial statements for the year 2017.
102-12 External initiatives	Šiaulių Bankas is a member of an international initiative Global Compact since 2010.	
102-13 Membership in associations	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 ▪ Panevezys Chamber of Commerce, Industry and Crafts ▪ Klaipeda Association of Industrialists ▪ Šiauliai Association of Industrialists ▪ Akmenė Association of of Entrepreneurs ▪ Kelmė region Association of of Entrepreneurs ▪ Mazeikiai 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	

Ethics and integrity	
102-16 Values, principles, standards, and norms of behaviour	In daily activities, the Bank's staff follows the three sets of core principles: Bank Values, Code of Ethics, and Customer Service Standards. Four values of the Bank (trust, professionalism, respect, responsibility) were sorted out by all Bank's employees together at the general Bank's conference held in 2014. From 2015 onwards, the value game has been played in order to simplify understanding and acceptance of Bank's values and descriptive behaviour for each employee. Its purpose is to identify the most appropriate behaviour in everyday situations witch would mostly correspond the Bank's valuables. The value game encourages employees to collaborate, exchange their opinions and make a common decision. Every new employee plays such a game during New Employees' Day arranged quarterly. The Bank follows the Code of Ethics. No inequality, violence, manifestations of psychological or similar pressure as well as any forms of discrimination at work are tolerated. The Bank has a general channel for anonymous reporting to Compliance Officer through which any employee can anonymously report any breach of a regulatory requirement in the bank. The report is investigated and, in case it is confirmed, prompt actions are taken to remove the violation. The Customer Service Standard defines employee behaviour while servicing customers.
102-17 Consultation mechanisms and ethics issues	The Bank applies the mechanisms of the anonymous report to the compliance officer and the chairman of the bank's appointment committee. Anonymous notifications at any time of the day can be submitted on the bank intranet site. The reporting to compliance officers mechanism is intended to alert any allegedly unlawful actions committed by the Bank group employees (including executives): theft of the property of the Bank, its clients, partners, employees, misuse of office, conflicts of interest, suspicions of violations of the Bank's code of ethics provisions or other requirements of the Bank's internal legal acts, etc. The Bank's compliance and prevention department is responsible for this mechanism. The measure of report to the chairman of the bank's appointment committee grants the possibility to report confidentially (anonymously if so desired) of any breach committed or alleged suspicion of breach of a separate Bank body member or small group of members which may harm the interests of the Bank. All messages are confidential and anonymous at the request of the notifier. New channels of reporting to all new employees are introduced during the newcomer training. Information about ethical and unethical behaviour is provided in the Bank's Code of Ethics.

Company's Governance		
102-18 Governance structure	General Meeting of the Shareholders Supervisory Council - a collegial supervising body Management Board - a collegial management body Chief Executive Officer - a single person management body	For more see the chapter "Bank's Management" in the annual report
102-22 Composition of the supreme managing body and its committees	Members of the Bank's Management Board: ▪ Algirdas Butkus – Chairman of the Board ▪ Vytautas Sinius ▪ Donatas Savickas ▪ Daiva Šorienė ▪ Vita Urbonienė ▪ Jonas Bartkus ▪ Ilona Baranauskienė The Risk, Internal Audit, Nomination, Remuneration, Loan and Risk Management Committees operate within the Bank.	For more see chapters "Bank's Management" and "Members of the Committees formed within the Bank" in the annual
102-23 Chairman of the supreme managing body	Chairman of the Bank's Management Board - Algirdas Butkus.	
102-24 Nomination and selection of the supreme managing body	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.	
102-25 Conflicts of interests	The members of the Bank's Supervisory Council and the Management Board work for the benefit of the shareholders avoiding the conflicts of interest. All transactions with the Bank's senior management are entered under the 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.	Chapter of the annual report "Transactions with related parties"
102-26 The role of the supreme managing body in defining a goal, values and strategy	The Board analyses and evaluates the material provided by the Head of the Bank on the implementation of the Bank's operational strategy, organization of the Bank's activities.	
102-27 Collective knowledge of the supreme managing body	The members of the Board regularly attend the key national economic conferences. Once a year, a strategic summit is held, where members of the board and supervisory council listen to reports on various topics from the global economic trends to social or demographic environment, innovation, strategic management, etc.	
102-28 Evaluation of performance of the supreme managing body	The Bank's nomination committee once a year evaluates the structure, size, composition and performance of the Bank's managing bodies, and, if necessary, makes recommendations for changes. The assessment of management bodies is presented in the nomination committee's annual report. One of the functions of the appointment committee is also to regularly evaluate the skills, knowledge and experience of individual directors and report this to the collegial body.	
102-29 Identifying and managing economic, environmental, and social impacts	Highest governance body plays the major role in identifying and managing economic, environmental, and social topics and their impacts.	

102-30 Effectiveness of risk management processes	The Bank analyses, evaluates, assumes and manages the risks arising from its activities. The risk management policy approved by the Bank's Supervisory Council and the procedures for managing different risks based on it help to ensure the integrity of the risk management process in the Group. The purpose of risk management policy define the risks and the principles of their management in the Group's activities. As the various risks faced by the Group are interconnected, their management is centralized - for this purpose the Risk Management Committee operates in the Bank. Organization and coordination of the experienced risk management system is one of the main goals of the Bank's Risk Management Committee. 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. The Bank's Group performs the annual self-assessment. This process analyses the risks that may arise from banking activities and have a significant impact on the Bank Group. The most important types of risks encountered by the Group include credit, market, liquidity, concentration and operational risks.	Risk Management disclosure in notes to the financial statements for the year 2017.
102-32 Highest governance body's role in sustainability reporting	The report is reviewed by the Chief Executive Officer.	
Employees		
102-35 Remuneration setting policy	The remuneration of the employees in the Bank is determined by the remuneration policy, the procedure for the allocation of supplements, the procedure for assigning, calculating and paying the variable remuneration, the rules for calculating and paying remuneration and related payments, the rules of work procedure and other internal legislation.	Chapter of the annual report "The Remuneration policy"
102-36 Remuneration setting procedure	From 2017, the bank uses the methodology of Korn Ferry Hay Group, where in setting the remuneration, particular job levels are taken into account. The levels are determined by assessing the entire country's market, also taking into account the regional differences(except the leading positions). This allows us to ensure the internal and external justice of the remuneration.	

Stakeholders engaged

102-40 List of stakeholder groups	<table><tr><th>*Stakeholders*</th><th>*Methods of inclusion*</th></tr><tr><td>*Employees*</td><td>Social initiatives Suggestion provision and realization opportunities Report to compliance officer opportunity Annual discussion of the activity</td></tr><tr><td>*Shareholders*</td><td>Regular reports Performance result presentation to investors</td></tr><tr><td>*Clients*</td><td>Client servicing quality research Communication in social networks Bank website</td></tr><tr><td>*Suppliers and partners*</td><td>-</td></tr><tr><td>*Regulation authorities*</td><td>Regular reports Meeting attendance</td></tr><tr><td>*Communities, society*</td><td>Support and sponsorship Educational activities</td></tr><tr><td>*Associated structures*</td><td>Social responsibility report</td></tr><tr><td>*Mas media*</td><td>Notifications Events</td></tr></table>
102-42 Determination and selection of stakeholders	Stakeholders have been selected based on the nature of the organization's activities and on what the organization can have impact, directly or indirectly, and what has an impact on the organization.
102-43 Attitudes towards stakeholder involvement	Customer feedback is sought through the analysis of the secret buyer and the customer recommendation index (NPS Index). Once a year, a secret buyer survey is conducted that assesses the quality of customer service in the Bank's departments. The survey evaluates the areas in which customer service employees still have to pull up and which work perfectly well. The research data is based upon during preparation for the annual training of customer service managers. The objective of the NPS indicator survey is to find out how private and business customers value Šiaulių Bankas. Other ways of stakeholder engagement are specified in disclosure 102-40.
102-44 Main topics and issues raised	In the 2017 secret buyer survey Šiaulių bankas customer service quality was estimated at 98.1%. Compared to 2016, the Bank's customer service quality grew by 2.4%. The research revealed strengths and weaknesses of customer service, the units which achieved the best result were boosted with awards. According to a NPS indicator survey, many customers were satisfied with the Bank's services, and electronic banking was the areas needing the most improvement. NPS indicator in 2017 amounted to 57.4 (NPS indicator for private customers 62.7, corporate clients 51.4).

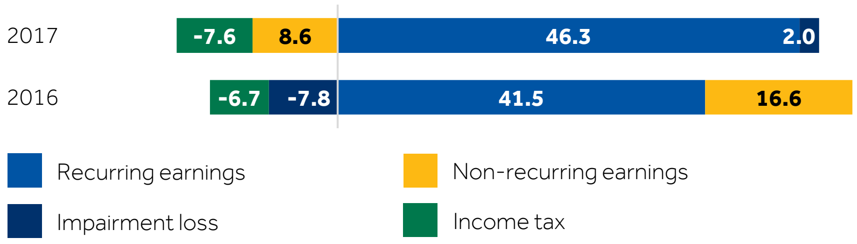
Report parameters

102-45 Subjects included in the consolidated financial accountability	Bank's subsidiaries The Bank directly controls the following subsidiaries: SB Lizingas UAB (finance lease, consumer credits) Šiaulių banko lizingas UAB (finance leases (leasing) and operating leases) Šiaulių banko turto fondas UAB (real estate management) SBTF UAB (management and administration of real estate and movables) Minera UAB (real estate management) Pavasaris UAB (development of residential apartment area) Life insurance Bonum Publicum UAB (life insurance) Šiaulių banko investicijų valdymas UAB (investment management) ŽSA 5 UAB (headquarters' activities) The Bank indirectly controls the following subsidiaries: Sandworks UAB (real estate management) Apželdinimas UB (afforestation, landscaping)	see in chapter of the annual report "Group of the Bank's Companies"
102-46 Report contents and topic limit definition	Taking into account the fact that Šiaulių Bankas provides the socially responsible activity report for GRI criteria for the first time, the topics and criteria were chosen for which the Bank has accumulated data and which can be accurately assessed. At the same time, it was assessed what data could be accumulate and present in the future by the organization.	
102-47 List of important topics	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. This report covers topics related to all of these areas.	
102-50 Reporting period	The report for 2017 was submitted.	
102-51 Date of the latest report	The report on socially responsible activities for 2016 was presented in Šiaulių bankas group 2016 consolidated annual report. This report is the first to be presented under the Global Reporting Initiative.	
102-52 Report preparation cycle	The report on socially responsible activities is produced annually.	
102-53 Contact point for issues related to the report	Any questions and comments with regard to the socially responsible activities could be submitted via e-mail komunikacija@sb.lt	
102-54 Reporting about report submission according to GRI standards	This report is based on the GRI Standards Baseline.	
102-56 External assurance	This report has been audited.	

Economic efficiency

201-1
Direct economic value generated and distributed

Recurring /Non-recurring earnings (m Eur)



In 2017, the Group earned 32.1 million euro, the bank - 30.9 million euro of unaudited net profit . Compared to 2016, last year the Group's stable income from typical activities during grew by 12%.

On the basis of performance, each year the General Meeting of Shareholders decides whether to pay dividends to shareholders.

Information on the dividends paid:

The year of dividend assignment and payment	*2013*	*2014*	*2015*	*2016*	*2017*
Percentage from nominal value	0.50	0.00	0.25	0.69	1.72
Dividend amount per share, Eur	0.00145	0.00	0.000725	0.002	0.005
Dividend Amount, Eur	340,097	0.00	195,750	629,147	1,887,442
Dividends to net profit,%	7.89	0.00	1.84	2.97	4.53

203-2
Significant indirect economic impacts

Lending to small and medium-sized business

In order to promote development of small and medium-sized business (SME) the Bank offers a wide range of financial instruments. Among other banks operating in Lithuania, Šiaulių Bankas has the largest number of products related with European Union facilities. It allows finding the right financing solution even for companies that would not be able to get regular credit and, thus, contributing to their growth.

In August 2017, Šiaulių Bankas signed a new cooperation agreement with Invega on the provision of sharing risk loans for SMEs. Under this facility Šiaulių Bankas will be able to provide 106.8 mln. euro in risk sharing loans during 2017 - 2020 . Cooperating with Invega the Bank also provides loans and leasing with the Invega portfolio guarantees under the cooperation agreement signed in May 2017.

Issued loans with the financial facilities till 31/12/2017*

	Loans with portfolio guarantee (2011-2017)	*Loans with portfolio guarantee (2017-2020)*	*Leasing with portfolio guarantee*	*Risk-sharing loans*	*Loans with individual Invega guarantee*	*Loans with individual ŽŪPGF guarantee (till 01/12/2017)*
Amount (EUR)	8,229,466	29,202,876	1,888,853	1,236,000	7,243,851	2,210,000

* Indicates the initial amount of loans, excluding repayments.

Multi-apartment renovation and regional development

The Bank seeks to promote the country's regional economic development and to reduce differences existing between them.

One of the measures is financing of multi-apartment house refurbishment (modernisation). A large number or multi-apartment renovation projects take place not in major cities. These project engage the administrative enterprises ans contribution contractors, thus, creating working places in local regions.

	Šiaulių Bankas is the leader in the financing of multi-apartment renovation - 2 out of 3 apartment buildings renovated in Lithuania are financed by Šiaulių Bankas. In 2017, the Bank signed 280 apartment building renovation agreements and 300 decisions to issue a credit were accepted.
Transparency and anti-corruption	
205-1 Assessment of corruption-related risks	*Money laundering prevention* The Bank responsible carries out prevention of money laundering and terrorist financing, consistently and purposefully implementing the existing ones and developing new measures for preventing money laundering and terrorist financing, and applying them in its activities: ▪ identification of clients, customer representatives and beneficiaries ▪ collection and verification of information on the purpose and nature of business relations (application of the "Know your customer" rule) ▪ monitoring of business relations and monetary operations ▪ identifying suspicious monetary transactions and communicating information to the Financial Crime Investigation Service, etc. Current and new money laundering prevention measures are prepared taking into account: the legislation regulating the prevention of money laundering and terrorist financing in the Republic of Lithuania, the requirements of the FATF (Financial Action Task Force), EU, UN, US legislation. *Prevention of Corruption and Conflict of Interest* Actions that can be defined as intolerable corruption cases are defined in the Šiaulių bankas Code of Ethics. In order to avoid potential conflicts of interest, the Bank's employees make declarations of economic interests each year. The Bank pays all taxes to the State of Lithuania responsibly, complies with applicable legal acts, transparently prepares and participates in tenders. The Bank implements the requirements of the Foreign Accounts Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS).
205-2 Communication and training on anti-corruption policies and procedures	The Bank's employees are committed to complying with the Šiaulių Bankas Code of Ethics, which distinguishes the following principles as the most important: ▪ *Honesty* ▪ *Responsibility and accountability* ▪ *Respect for the law, for the person and his rights* ▪ *Impartiality, objectivity and justice* ▪ *Exemplary behaviour.* The Code of Ethics regulates what acts can be considered as intolerable cases of corruption. The Code of Ethics is introduced to all new Bank employees.
205-3 Confirmed cases of corruption	In 2017, no corruption-related incidents were found.
206-1 Legal action on anti-competitive behaviour and antitrust practices	During the reporting period, no such actions were found.

Environmental protection

302-1 Power consumption in the organization	*Fuel consumption in 2017* *Fuel type* – *Quantities used* *Petrol* – 96.72 t *Diesel* – 67.70 t *Electricity consumption* In 2017 the total of 2549,443 MWh of electricity was consumed. Of this, about 1127,046 MWh were made from renewable energy sources. Electricity generated from renewable energy sources was about 44 % of all electricity purchased in 2017. *Gas consumption for heating* During the reporting period 109306 kWh of gas was consumed. *n.b. The organization uses two types of heating: central and gas. It is currently not possible to estimate the energy used for central heating.*
302-4 Reduction of energy consumption	In order to lower fuel consumption and reduce exhaust atmospheric pollution: ▪ The Bank uses an electronic ordering system for operational cars that allows you to plan business trips by groups and travel on as few cars as possible; ▪ Encourages to organize the meetings involving employees and partners working in different cities, in modern teleconference halls installed in Vilnius, Kaunas, Klaipėda and Šiauliai. In order to reduce the amount of paper used, in 2017, internal document management system was actively developed that reduces the need for printed documents, electronic signature for signing contracts was implemented.
Criteria Direct (application area 1) GHG emissions	Not calculated.
305-2 Indirect (application area 2) GHG emissions	Not calculated.
307-1 Non-compliance with environmental laws and regulations	During the reporting period, no non-observance of environmental laws and/or regulations were observed.

Relations with the employees

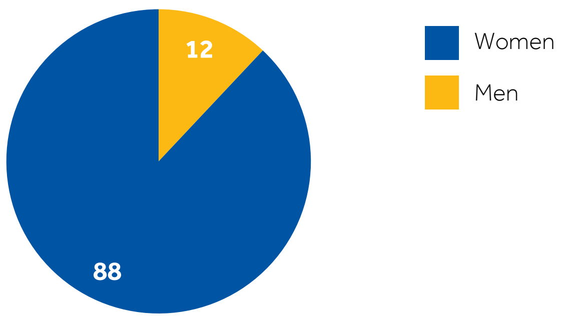
401-1
New employees hiring and staff turnover

The Bank fosters long-term relationships with its employees. As of 31 December 2017 nearly 33 per cent of the Bank's employees have been working for more than 10 years. The staff turnover in 2017 comprised 14.5 per cent (in 2016 the total turnover of employees was 13.8 per cent).

As of 31 December 2017, the Bank employed 702 people in total, whereas the Group had 805 employees. Comparing to 31 December 2016 the number of employees decreased by 2.8 per cent while together with the Group's companies the number decreased by 2.9 per cent. The total staff turnover in 2017 - 14.5 per cent.

In 2017, the Bank hired 83 new employees, i.e.e 73 women and 10 men.

New employees by gender, in 2017



Number of new wmployees by region in 2017.

Region	*Number of new employees*
Kauno reg.	22
Klaipėdos reg.	16
Šiaulių reg.	24
Vilniaus reg.	21
In total	83

401-3
On parental leave

All employees, regardless of gender, are entitled to parental leave.

*Employees taking parental leave in 2017**

Gender	*Number of employees*
Female	71
Male	2
In total	73

* This number includes both extended and prolonged parental leave in 2017.

Parental leave granted in 2017

Gender	*Number of employees*
Male	4

Number of employees who returned to work after taking parental leave in 2017 by gender

Gender	*Number of employees*
Female	22
Male	1
In total	23

404-1 Average number of training per employee per year	The average number of training days per year for the Bank's network staff is 1.5 days. The staff of the central and regional units received an average of 9.06 hours of external training per year.
404-2 Employee qualification raising and transitional period assistance programs	The workforce development system includes the process of adaptation of newcomers, vocational, specific (mandatory training, regulated by the legislation of the Republic of Lithuania), training of general competences. The Newbie Days for the Newbie Adaptation Program are a two-day event where internal lecturers introduce new employees to the company and its ongoing processes, functions and responsibilities of departments. In 2017, about 70 new employees took part in the Newbie Days. Every year, the Bank's network of employees - customer service managers, group managers are organized banking product update training and customer service skills refreshing training. The purpose of these trainings is to provide, consolidate and develop customer service, active sales skills, change employee attitudes, introduce employees to existing or new Bank products and services. In 2017, 12 such training projects took place. In 2017, a training program for credit managers, credit project managers Financing Solutions Forum was launched, in which about 115 Bank Credits employees participated. 76 employees of the central departments participated in external training, where they increased their competence in the professional fields. In 2017, the leaders preparation program - Leadership Academy - was launched. 94 top and middle managers of the Bank during the program improve the skills of leadership, emotional intelligence, teamwork. The duration of the program is 64 hours per employee. The duration of the program is 64 hours per employee.

Communities and the general public

413-1 Activities with local community involvement, impact assessments and development programs	*Entrepreneurship promotion* The Bank actively participates in, organizes and supports conferences, seminars, trainings in which local SMEs or those who are planning to start a business are introduced to business financing opportunities, for example: ▪ A free cycle of workshops organized by VIPA about financial instruments in Šilalė, Varėna, Šilutė, Raseiniai; ▪ Report in the Lithuanian-Ukrainian Business Forum ▪ Presentation of agricultural financing opportunities at the exhibition for farmers AgroVision ▪ Report in the conference Young Business: from Idea to Success ▪ At the beginning of 2017, the Bank organized meetings with business clients in the regions Business Espresso, during which consultants shared insights on the issues relevant to customers. *Cooperation with educational institutions* In 2017 the Bank: ▪ Established a scholarship of 300 Euros for a student of Vytautas Magnus University ▪ Participated in high school career days ▪ Reviewed the works of Vilnius College students ▪ Assessed the study program of Utena College's Accounting Course ▪ Organized tours and presentations for schoolchildren and students *Community building* Being a Lithuanian capital bank, the Bank pays great attention to fostering the traditions of the towns and villages of the country and promoting cultural life in the regions of Lithuania. In 2017, the Bank allocated EUR 43.7 thousand for support, larger part for the communities, cultural and sports projects: ▪ Ukmergė, Šiauliai, Plungė, Varėna, Anykščiai town holidays ▪ Rokiškis Theater Festival; ▪ Jazz Days in Tauragė ▪ Pažaislis Music Festival ▪ Sea Festival in Klaipėda ▪ International Race Competition Amber Nautical Mile ▪ Basketball club Šiauliai ▪ And other projects. *Reducing social exclusion* From 2013, in cooperation with Public Enterprise Goodwill Projects, the Bank provides clients with the opportunities: ▪ To allocate the amount of money you want for aukok.lt social projects through the online banking system; ▪ To donate cash in donation boxes in the Bank's departments. In 2017, the donation boxes collected nearly 1,700 euros, which were donated to Public Enterprise Goodwill Projects.

Compliance

417-2 Inconsistencies related to information and labelling of products and services	The Bank's Contact Centre registers customer complaints or claims regarding the provision of information about services or products. In 2017, there were no cases of non-compliance when a fine or a warning was issued to the Bank or the Group Company due to improper information about the services.
418-1 Reasonable complaints about customer privacy violations and loss of customer data	The Bank did not receive reasoned complaints regarding violation of customer privacy.
419-1 Failure to comply with laws and regulations in the field of social and economic affairs	The Bank has not established any cases of non-compliance with laws or regulations in the social or economic field.

CONFIRMATION FROM THE RESPONSIBLE PERSONS

We, Chief Executive Officer of Šiaulių bankas AB Vytautas Sinius and Chief Accountant Vita Urbonienė, confirm hereby that the provided consolidated financial statements of Šiaulių bankas AB for 2017 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 Urbonienė

7 March 2018