



KPMG Baltics, UAB
Konstitucijos pr. 29,
LT-08105 Vilnius
Lithuania

Telephone
Email
Internet

+370 (5) 210 2600
vilnius@kpmg.lt
www.kpmg.lt

Board of AB Šiaulių Bankas
AB Šiaulių bankas
Tilžės g.149, LT-76348 Šiauliai

30 August 2018

Dear Sir or Madam,

Background

KPMG Baltics UAB ("KPMG") was retained pursuant to the terms of the engagement letter ("Engagement Letter") dated 28 August 2018 by AB Šiaulių bankas ("the Bank" or "the Client") to prepare a report on analysis performed in relation to planned conversion of subordinated loan from the European Bank for Reconstruction and Development ("EBRD") to AB Šiaulių bankas dated 30 August 2018 (the "Report").

A 10-year subordinated convertible loan agreement ("Loan agreement") between the Bank and EBRD was signed on 23 February 2013. According to the Loan agreement, an amount of EUR 20 million was granted by EBRD to the Bank. The Loan agreement included a right for EBRD to convert the loan into ordinary shares of the Bank at its sole discretion.

EBRD provided the Bank with a conversion notice dated 6 August 2018, requesting the Bank to convert the whole principal amount of the loan.

According to the conversion notice, EBRD stated that the conversion price equals EUR 0.327 per share, based on annual audited financial statements as at 31 December 2017 and data contained in semi-annual financial statements as at 30 June 2018. No calculation details were provided. However, EBRD has offered a higher conversion price, equal to EUR 0.35 per share.

The Bank has provided its own calculations based on the Loan agreement, which show that the conversion price equal to EUR 0.35 per share.

Our analysis

KPMG has performed an analysis of Bank's calculation and its conformity to the loan contract, including:

- Overview of loan contract and new issue terms;
- Analysis of calculations provided by the Bank and their conformity to the loan contract.

KPMG has identified several points of discussion that have been noted to the Board

of the Bank.

Comments

Based upon and subject to the foregoing, we summarize our findings below:

- i) It shall be noted that the Bank's calculation of conversion price at a level of EUR 0.35 (rounded) conforms to the conversion formula 3 presented in the Loan agreement, with two exceptions:
 - a. if the opinion of the Bank or EBRD in relation to adjusting the conversion formula by including the value of derivative differ, this could have an effect on the overall calculation of the conversion price;
 - b. If the actual financial results for the period of 1 July 2018 to 6 August 2018 differ from the estimated results, this could have an effect on the overall calculation of the conversion price.
- ii) The conversion of the subordinated loan is likely to have a positive effect on Bank's capital:
 - a. Following conversion of the loan, the total equity of the Bank should increase by approximately EUR 30.8 million;
 - b. There will be a positive effect on Tier 1 capital, as the newly issued shares will increase the paid up share capital (incl. share premium) by EUR 20 million; furthermore, the equity of the Bank will increase by EUR 10.8 million due to the fact that the losses accrued from changes in fair value of subordinated loan will be offset; this is due to the fact that the Bank had accounted the derivative part of the subordinated loan since 2013, and recognized a net loss from the changes of its fair value to reflect for a loan conversion option;
 - c. Based on 30 June 2018 data, the book value per share will increase from EUR 0.413 to EUR 0.425; at the same time the debt-to-equity ratio will decrease, allowing for further development of the Bank.

Purpose

This letter ("Letter") is not intended for general use, circulation or publication other than for the purposes of the shareholders of the Client and their advisers, as described in the above referenced Engagement Letter, and solely for their benefit in connection with the planned loan conversion.

The Letter shall be viewed in conjunction with the Report on analysis performed in relation to planned conversion of subordinated loan, dated 30 August 2018, and is subject to all assumptions and limitations as disclosed in the Report, and which is prepared under the agreed terms of the engagement.

The Letter may not be used or relied upon by any other person or persons. No duties or responsibilities are accepted by KPMG in connection with this Letter to any person or persons other than the Client.

In providing our Letter, KPMG is not making any recommendations to any person regarding the loan conversion in whole or in part and is not expressing an opinion to any party.

Assumptions and limitations

The conclusions expressed in this Letter are subject to the following assumptions, qualifications and limitations:

- (a) The conclusions expressed in this Letter relate only to the analysis of agreed terms between AB Šiaulių Bankas and EBRD, and do not address any other aspect or implication of the planned loan conversion or any other agreement, arrangement or understanding entered into in connection with the loan conversion or otherwise, including, without limitation, the fairness of the amount or nature of, or any other aspect relating to, any compensation to any officers, directors or employees of any party, or class of such persons, nor does the Letter constitute advice or a recommendation to Client and its shareholders or any other party with respect to how to vote or act on any matter relating to the loan conversion or otherwise.
- (b) In arriving at our conclusions, we have relied upon and assumed, without independent verification, the accuracy and completeness of all financial and other information that was publicly available or furnished to us by the Client.
- (c) We have relied upon and assumed, without independent verification, that there has been no material change in the business, assets, liabilities, financial condition, results of operations, cash flows or prospects of AB Šiaulių bankas since the date of the most recent financial statements provided to us, and that there is no information or any facts that would make any of the information reviewed by us incomplete or misleading.
- (d) Our Letter does not constitute a view regarding the solvency of AB Šiaulių bankas or any other person prior to or subsequent to loan conversion. KPMG has performed no procedures to determine the solvency of the AB Šiaulių bankas or any other person. As such, this Letter does not constitute a solvency opinion, and should not be relied upon for such purposes.
- (e) Our Letter does not address, and should not be construed to address, the underlying business decision to execute the loan conversion. We express no view as to the legal, regulatory, accounting, insurance or state or local tax matters affecting the Client.
- (f) Our work did not include analysis of legal issues that may be relevant to the contemplated loan conversion.
- (g) Our Letter is based on financial, business, economic, market and other conditions as they exist on, and the information made available to us, as at 30 August 2018 or as of the date of the information provided to us.

- (h) This Letter is effective as of the date hereof. We have not undertaken and are under no obligation to update, amend, revise, reaffirm or withdraw the conclusions and expressly disclaim any responsibility to do so.

We will receive a fee as compensation for our services in rendering this Letter, no portion of which is contingent upon the conclusions reached in this Letter or the consummation of the loan conversion. KPMG has no interest in any of the parties involved in the loan conversion, and has not acted for any of them in connection with the proposed transaction other than provided services related to this opinion.

We and our affiliates have in the past provided, and may in the future provide, services to the Client and/or its respective affiliates for which we and our affiliates have received, and would expect to receive, compensation.

KPMG is acting exclusively for the Client and for no one else in connection with our Letter and will not be responsible to anyone other than the Client for any opinion expressed in this Letter.

Based on the Engagement Letter, the entire liability of KPMG towards the Client with respect to this Letter is limited and our liability towards third parties is also excluded.

Yours sincerely,



Darius Klimašauskas

Director, Advisory, KPMG Baltics, UAB