

NOTICE OF THE BOARD

REGARDING REVOCATION OF THE PRE-EMPTIVE RIGHT OF THE SHAREHOLDERS OF LIMITED LIABILITY PUBLIC COMPANY OF ŠIAULIŲ BANKAS TO ACQUIRE NEWLY ISSUED SHARES AND PROVISION OF GROUNDS FOR PRICE OF TO-BE-ISSUED SHARE ISSUE

During the Extraordinary General Meeting of Shareholders of limited liability public company Šiaulių Bankas (hereinafter referred to as the Bank) to be held on 24 September 2018 it is planned to discuss the issue regarding revocation of the pre-emptive right of the Bank's shareholders to acquire 57 142 857 units of newly issued ordinary registered shares with nominal value of EUR 0.29 each.

In compliance with Article 57(6) of Law on Companies of the Republic of Lithuania the Management Board of the Bank submits this notice to the Bank's Extraordinary General Meeting of Shareholders.

REASONS FOR REVOCATION OF THE PRE-EMPTIVE RIGHT; PERSON, TO WHOM IT IS PROPOSED TO PROVIDE THE RIGHT TO ACQUIRE BANK'S NEWLY ISSUED SHARES

23 February 2013 The Bank and the European Bank for Reconstruction and Development (hereinafter - EBRD) concluded a subordinated convertible loan agreement (hereinafter - the "Agreement"). Under this Agreement the Bank received a subordinated loan of EUR 20,000,000. The Agreement was concluded of necessity to ensure a sufficient level of the calculated capital when the Bank negotiated regarding the agreement on the transfer of assets, rights, transactions and liabilities of Ūkio bankas.

After ensuring a sufficient amount of the calculated capital, the Bank successfully completed the acquisition of Ūkio bankas assets, rights, transactions and liabilities, and continued to grow, strengthened its financial position and market share. This also reflected in the dynamics of the Bank's share price - at the end of 2016 the stock market price began to exceed the nominal value of the share.

The Agreement provides for EBRD's right to request the conversion of the granted loan to the Bank's shares in certain cases discussed in the Agreement (dissemination of a new share issue, capital strengthening if capital adequacy ratio falls below the specified limit, in the event of a large share transfer or in five years after the loan has been disbursed). The Agreement also provides for how the ratio of the loan to the Bank's shares should be determined, i.e. the loan conversion formula which depends on the basis of the loan conversion.

On 06 August 2018 the Bank received a notice from EBRD on EBRD's intention to exercise the loan conversion right in accordance with the Agreement. The notice requires the conversion of the total outstanding loan amount of EUR 20,000,000, with a conversion price of EUR 0.35 per share.

In order to implement EBRD's loan conversion right in accordance with the Agreement, it is necessary to issue a new share issue, to revoke the Bank's shareholders' pre-emptive right to acquire the shares issued by the Bank and to

give the pre-emptive right to EBRD to acquire them by converting the granted subordinated loan.

Considering that

- conversion of the loan is provided for in the Agreement;
- loan conversion option and its impact have been consistently and properly disclosed in the Bank's financial statements;
- with less than 5 years remaining to maturity, the share of the subordinated loan included into the Bank's capital for the purpose of the capital adequacy calculation is constantly decreasing while the interest remains unchanged. Costs relating to the non-converted subordinated loan interest, which are high due to the specifics of the loan, would reduce the equity of all shareholders of the Bank, and the loan itself would have a lesser effect on calculated capital that can be used for the Bank's development;
- in case the conversion is declined, EBRD could potentially apply to the Bank for reimbursement of losses incurred as a result of the failure to execute the Agreement;

it is proposed to revoke the pre-emptive right from the Bank's shareholders to acquire new share issue and to grant the exclusive right to acquire new share issue to the European Bank for Reconstruction and Development, with the registered office on One Exchange Square, London EC2A 2JN, United Kingdom, represented by Francis Malige (*personal code and place of residence must not be published*).

The loan conversion in the circumstances described would have the following consequences for the Bank and the Bank's shareholders¹:

1. 57,142,857 ordinary registered shares would be provided to EBRD. As a result, EBRD's share would increase by 7.8 percentage points - from 18.2% before conversion to 26.0 % after conversion.
2. After the conversion the Group's Shareholders' equity would increase by 13.7% - from EUR 224 million up to EUR 255 million.
3. The conversion price indicated by EBRD in the Conversion Notice (0.35 EUR per share) has a more favourable effect on other shareholders' equity than the unadjusted conversion price (0.327 EUR per share) specified by EBRD in the Conversion Notice. With the unadjusted conversion price indicated by EBRD, the equity holdings of the remaining shareholders would decrease by 10.1 per cent, whereas with the adjusted price - by 9.5 per cent.
4. Upon completion of the conversion, the revaluation result of the loan conversion right recognized in the fair value of the subordinated loan would be transferred from liabilities to the equity of all the shareholders. The book value per share (BV) for all shareholders would increase by 2.9% from EUR 0.413 / share to EUR 0.425 / share.
5. The loan conversion would improve compliance with the Bank's supervisory capital ratios - total capital adequacy ratio would increase by 0.9 percentage points and Tier 1 capital adequacy ratio would increase by 2.3 percentage points.
6. If the Meeting of Shareholders fails to approve the conversion, EBRD could potentially apply to the Bank for reimbursement of losses incurred as a

¹ Unless otherwise stated, the provided illustrative figures are based on the unaudited Interim Financial Statements of the Bank as of 2018 June 30. Estimations provided before the conversion date may vary based on the changes in the financial data.

result of the failure to execute the Agreement and would apply the increased interest. Such reimbursement of losses could reduce the value of the all Bank's shareholders equity, whereas the accumulated revaluation of the subordinated loan conversion right would not increase all Bank's shareholders equity.

PROVISION OF GROUNDS FOR PRICE OF NEW SHARE ISSUE TO-BE-ISSUED BY THE BANK

The conversion price specified in EBRD's Notice is based on one of the loan conversion formulas provided in the Agreement according to which EBRD has the right to require a conversion of a loan at a price equal to 75% of the Bank' Group's net asset value (but not less than the nominal value of the share).

According to EBRD, calculation of the net asset value was carried out with the adjustments which increased the conversion price in a favourable way towards other Bank's shareholders from EUR 0.327 per share (unadjusted conversion price) to EUR 0.35 per share (conversion price). The assumptions of the Bank's Management Board as to how the conversion price was calculated are provided below²:

No.	Component	Calculation	Amount
1.	Group's net asset value as of 31 December 2017	Financial statements (audited) as of 31 December 2017, line "Total equity" (page 13) of Statement of Financial Position	209 976 thousand EUR
2	Group's net profit for the period of January - June 2018	Condensed interim financial statements (unaudited) for the six month period ended 30 June 2018, line "Net profit for the period" (page 5) of Income Statement	27 050 thousand EUR
3	Number of the Bank's ordinary registered shares	Condensed interim financial statements (unaudited) for the six month period ended 30 June 2018, Note 6 (page 19)	543 583 thousand units
4	Group's unadjusted net assets on the date of submission of the	1 + 2.	237 026 thousand EUR

² The figures in the table reflect the Bank Board's best assessment according to assumptions that are in line with the information available. Unless otherwise specified in the definition, the amounts are rounded up to thousands according to the arithmetic rules with the exception of indicators related to the share price, which are rounded up according to arithmetic rules up to three decimal places.

	Conversion Notice		
5	Group's unadjusted net assets per share on the date of submission of the Conversion Notice	4 / 3.	EUR 0.436 / share
6	Unadjusted conversion price, as calculated by EBRD - 75% of Group's net asset value per share at the date of submission of the conversion notice, but not less than the nominal value of the share	0.75 * 5. (but not less than EUR 0.29/ share)	EUR 0.327 / share
7	Estimated net profit for the period from 1 July to the date of submission of the conversion notice (the extrapolated net profit according to the number of calendar days, after eliminating the effect of subordinated loan revaluation)	(Number of days from 1 July to 6 August inclusive (37 days) / Number of days of the six month period ended 30 June 2018 (181 days)) *(2. - Condensed interim financial statements (unaudited) for the six month period ended 30 June 2018, line "Net gain (loss) from changes in fair value of subordinated loan" (page 5) of Income Statement)	5 020 thousand EUR
8	Value of derivative part in the subordinated loan financial liability	Condensed interim financial statements (unaudited) for the six month period ended 30 June 2018, Note 12 (page 24)	10 786 thousand EUR
9	Total adjustment to Group's net asset value	7 + 8.	15 806 thousand EUR
10	Group's net assets on the date of submission of the Conversion Notice	4 + 9.	252 832 thousand EUR
11	Group's net assets per share on the date of submission of the Conversion Notice	10 / 3.	EUR 0.465 / share
12	75% of the Group's net asset value per share at the date of submission of the conversion notice, but not less than the nominal value of the share	0.75 * 11. (but not less than EUR 0.29/ share)	EUR 0.349 / share
13	Conversion price, as indicated by EBRD	12., rounded up to two decimal places according to arithmetic rules	EUR 0.35 / share

The Bank has consistently disclosed existence and effect of the subordinated loan conversion option in its annual and interim financial statements that are announced publicly. The financial statements included disclosures of the fair value of subordinated loan, including its conversion right, impact on profit (loss), main assumptions used in fair value calculation and sensitivity of the value to changes in estimates.

According to the assessment of the Bank's Board, the notice received from EBRD with its intention to exercise the loan conversion right has shown that assumptions for the calculation of the fair value of the subordinated loan have been selected properly and enabled the readers of the financial statements to assess, in all material respects, the impact of the Agreement and its conditions on the financial position of the Bank and the Group.

The assumptions of the Bank's Board revealing how the conversion price was calculated, have been reviewed by the independent audit firm "KPMG Baltics", UAB whose opinion is presented in Annex 1 to this Board's Notice.

Enclosed:

1. "KPMG Baltics", UAB letter to the Board of Šiaulių Bankas AB

Management Board of limited liability public company Šiaulių Bankas