

UAB MEDICINOS BANKAS

BANK'S SEPARATE AND CONSOLIDATED CONDENSED INTERIM
FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD AS AT 30TH
SEPTEMBER 2018 PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
(UNAUDITED)

SEPARATE AND CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD AS AT 30TH SEPTEMBER 2018

(All amounts in EUR thousand unless otherwise stated)

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UAB MEDICINOS BANKAS

Legal entity code 112027077, Pamėnkalnio St. 40, LT-01114 Vilnius

SEPARATE AND CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD AS AT 30TH SEPTEMBER 2018

(All amounts in EUR thousand unless otherwise stated)

CONDENSED SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The Group		Assets	Notes	The Bank	
30 September 2018	31 December 2017			30 September 2018	31 December 2017
		Cash and due from central bank			
28,079	24,478	Cash		28,079	24,478
28,765	29,042	Placements with the central bank		28,765	29,042
56,844	53,520			56,844	53,520
11,567	11,539	Placements with banks and other credit institutions		11,513	11,496
		Financial assets at fair value through profit or loss			
1	7	Derivative financial instruments		1	7
-	-	Debt securities		-	-
1	7			1	7
66,526	39,860	Debt securities	3	66,526	39,860
153,650	147,280	Loans to customers		152,533	147,123
1,279	2,923	Receivables with deferred payment		1,051	2,657
1,603	1,636	Loans to bank and financial institutions		1,603	1,835
12,095	11,839	Finance lease receivable		12,095	11,839
168,627	163,678			167,282	163,454
-	-	Investments in subsidiaries	5	7,216	6,439
4,352	6,213	Investment property	4	1,796	1,370
5,606	5,343	Property and equipment		5,603	5,338
208	264	Intangible assets		175	243
		Tax assets			
6	15	Current taxes		6	15
1,897	1,897	Deferred taxes		1,897	1,897
1,903	1,912			1,903	1,912
2,046	2,849	Other assets	6	1,964	2,529
317,680	285,185	Total assets		320,823	286,168

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The accompanying notes on pages 14 to 41 are an integral part of these financial statements.

SEPARATE AND CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD AS AT 30TH SEPTEMBER 2018

(All amounts in EUR thousand unless otherwise stated)

CONDENSED SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)

The Group		Liabilities	Notes	The Bank	
30 September 2018	31 December 2017			31 September 2018	31 December 2017
271	3,600	Due to banks and other credit institutions	7	271	4,435
36	31	Derivative financial instruments		36	19
276,162	251,855	Due to customers	8	279,524	232,702
1,002	1,000	Subordinated loans	9	1,002	1,000
2,123	-	Debt securities issued	9	2,123	-
-	-	Tax liabilities		-	21
-	-	Current taxes		-	-
-	-	Deferred taxes		-	21
8,335	1,258	Other liabilities	10	8,085	1,152
39	-	Impairment		39	-
287,968	257,744	Total liabilities		291,080	258,703
Equity					
19,948	19,948	Share capital	11	19,948	19,948
1,247	828	Retained earnings		1,278	852
339	339	Revaluation reserve of property and equipment		339	339
8,178	6,326	Other reserves	11	8,178	6,326
29,712	27,441	Total shareholders' equity		29,743	27,465
317,680	285,185	Total liabilities and shareholders' equity		320,823	286,168


The accompanying notes on pages 14 to 41 are an integral part of these financial statements.

Acting Chairman of the
Board and Chief Executive
Officer

D. Klišauskienė

Director of Accounting and
Reporting Department,
Chief Accountant

A. Tonkich



SEPARATE AND CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD AS AT 30TH SEPTEMBER 2018

(All amounts in EUR thousand unless otherwise stated)

CONDENSED SEPARATE AND CONSOLIDATED INCOME STATEMENTS

The Group		Notes	The Bank	
30 September 2018	30 September 2017		30 September 2018	30 September 2017
6,888	5,975	12	6,813	5,961
(1,307)	(1,205)	12	(1,307)	(1,205)
5,581	4 770		5,506	4,756
4,013	2,762	13	4,013	2,766
(343)	(325)	13	(323)	(325)
3,670	2,437		3,690	2,441
-	(29)		-	(29)
-	9		-	9
3,536	2,801	14	3,536	2,801
(94)	28		(94)	28
-	-	5	(923)	(284)
(790)	(301)	4, 15	(199)	(21)
116	248		100	177
12,019	10,021		11,616	9,878
(1,050)	123		(1,055)	(146)
10,969	10,144		10,561	9,732
(5,715)	(4,967)	16	(5,488)	(4,870)
(359)	(279)		(359)	(279)
(140)	(140)		(127)	(140)
(3,166)	(3,425)	16	(2,991)	(2,984)
(9,380)	(8,811)		(8,965)	(8,273)
1,589	1,333		1,596	1,459
(16)	(19)		(16)	(19)
1,573	1,314		1,580	1,440
1,573	1,314		1,580	1,440

The accompanying notes on pages 14 to 41 are an integral part of these financial statements.

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SEPARATE AND CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD AS AT 30TH SEPTEMBER 2018

(All amounts in EUR thousand unless otherwise stated)

CONDENSED SEPARATE AND CONSOLIDATED INCOME STATEMENTS FOR QUARTER

The Group			Notes	The Bank	
01-07-2018- 30-09-2018	01-07-2017- 30-09-2017			01-07-2018- 30-09-2018	01-07-2017- 30-09-2017
2,356	2,299	Interest income	12	2,320	2,297
(444)	(303)	Interest expenses	12	(444)	(303)
1,912	1,996	Net interest income		1,876	1,994
1,512	892	Service fee and commission income	13	1,512	896
(124)	(127)	Service fee and commission expenses	13	(119)	(127)
1,388	765	Net service fee and commission income		1,393	769
-	29	Net result on equity securities trading		-	(29)
-	13	Net result on securities trading		-	13
1,410	1,152	Net foreign exchange gain	14	1,410	1,152
(35)	(72)	Net result from operations with derivatives		(35)	(72)
-	-	Impairment of investments into subsidiaries	5	(205)	(33)
(255)	(269)	Net result on operations on investment property	4, 15	(150)	(15)
43	224	Other income		34	151
4,463	3,838	Total operating income		4,323	3,930
(294)	(3)	Impairment of loans and other financial assets		(294)	(3)
4,169	3,835	Operating income after impairment		4,029	3,927
(1,998)	(1,705)	Salaries and benefits	16	(1,928)	(1,670)
(126)	(100)	Depreciation		(126)	(100)
(46)	(50)	Amortisation		(41)	(50)
(1,115)	(1,051)	Other operating expenses	16	(1,062)	(1,085)
(3,285)	(2,906)	Total operating expenses		(3,157)	(2,905)
884	929	Operating profit (loss)		872	1,022
(3)	(12)	Income tax expense		(3)	(12)
881	917	Profit (loss) at the end of the reporting period		869	1,010
881	917	Attributable to equity holders of the Bank		869	1,010

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SEPARATE AND CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD AS AT 30TH SEPTEMBER 2018

(All amounts in EUR thousand unless otherwise stated)

CONDENSED SEPARATE AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
The Bank

	<u>30 September 2018</u>	<u>30 September 2017</u>
Items that will never be reclassified to profit or loss		
Change in PPE revaluation	-	-
Transfer of depreciation for PPE net of tax	-	-
Other	-	-
Items that are or may be reclassified to profit or loss	-	-
Net amount transferred to profit or loss (available-for-sale financial assets)	-	-
Related tax	-	-
Other comprehensive income (expenses), net of tax	-	-
Profit (loss) at the end of the reporting period	1,580	1,440
Total comprehensive income	<u>1,580</u>	<u>1,440</u>
Attributable to:		
Equity holders of the Bank	1,580	

The Group

	<u>30 September 2018</u>	<u>30 September 2017</u>
Items that will never be reclassified to profit or loss		
Change in PPE revaluation	-	-
Transfer of depreciation for PPE net of tax	-	-
Other	-	-
Items that are or may be reclassified to profit or loss	-	-
Related tax	-	-
Other comprehensive income (expenses), net of tax	-	-
Profit (loss) at the end of the reporting period	1,573	1,314
Total comprehensive income	<u>1,573</u>	<u>1,314</u>
Attributable to:		
Equity holders of the Bank	1,573	1,314

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SEPARATE AND CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD AS AT 30TH SEPTEMBER 2018

(All amounts in EUR thousand unless otherwise stated)

CONDENSED SEPARATE AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR QUARTER
The Bank

	<u>01-07-2018 - 30-09-2018</u>	<u>01-07-2017 - 30-09-2017</u>
Items that will never be reclassified to profit or loss		
Change in PPE revaluation	-	-
Transfer of depreciation for PPE net of tax	-	-
Other	-	-
Items that are or may be reclassified to profit or loss	-	-
Net amount transferred to profit or loss (available-for-sale financial assets)	-	-
Related tax	-	-
Other comprehensive income (expenses), net of tax	-	-
Profit (loss) at the end of the reporting period	869	1,010
Total comprehensive income	<u>869</u>	<u>1,010</u>
Attributable to:		
Equity holders of the Bank	869	1,010

The Group

	<u>01-07-2018 - 30-09-2018</u>	<u>01-07-2017 - 30-09-2017</u>
Items that will never be reclassified to profit or loss		
Change in PPE revaluation	-	-
Transfer of depreciation for PPE net of tax	-	-
Other	-	-
Items that are or may be reclassified to profit or loss	-	-
Related tax	-	-
Other comprehensive income (expenses), net of tax	-	-
Profit (loss) at the end of the reporting period	881	917
Total comprehensive income	<u>881</u>	<u>917</u>
Attributable to:		
Equity holders of the Bank	881	917

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(All amounts in EUR thousand unless otherwise stated)

CONDENSED SEPARATE AND CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
The Bank

	Share capital	Retained earnings (restated)	Revaluation reserve of property and equipment	Financial assets revaluation reserve	Other reserves	Total
At 1 January 2017, as previously reported	19,948	283	343	-	5,243	25,817
Profit or loss, restated	-	1,440	-	-	-	1,440
Other comprehensive income (expenses)	-	(1)	-	-	-	(1)
Transactions with owners of the Bank						
Transfer to reserves	-	(1,083)	-	-	1,083	-
At 30 September 2017, restated	19,948	639	343	-	6,326	27,256
Total comprehensive income, restated						
Profit or loss, restated	-	207	-	-	-	207
Other comprehensive income (expenses)	-	6	(4)	-	-	2
At 31 December 2017, restated	19,948	852	339	-	6,326	27,465
Profit or loss	-	1,580	-	-	-	1,580
Other comprehensive income (expenses)	-	(302)	-	-	-	(302)
Transactions with owners of the Bank						
Transfer to reserves	-	(852)	-	-	1,852	1,000
At 30 September 2018	19,948	1,278	339	-	8,178	29,743

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SEPARATE AND CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD AS AT 30TH SEPTEMBER 2018

(All amounts in EUR thousand unless otherwise stated)

CONDENSED SEPARATE AND CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONT'D)
The Group

	Share capital	Retained earnings (restated)	Revaluation reserve of property and equipment	Financial assets revaluation reserve	Other reserves	Total
At 1 January 2017, as previously reported	19,948	1,039	348	-	4,205	25,540
Profit or loss	-	1,314	-	-	-	1,314
Other comprehensive income (expenses)	-	(1)	-	-	-	(1)
Transactions with owners of the Bank						
Transfer to reserves	-	(1,083)	-	-	1,083	-
At 30 September 2017, restated	19,948	511	343	-	6,326	27,128
Total comprehensive income, restated						
Profit or loss	-	312	-	-	-	312
Other comprehensive income (expenses)	-	5	(4)	-	-	1
At 31 December 2017, restated	19,948	828	339	-	6,326	27,441
Profit or loss	-	1,573	-	-	-	1,573
Other comprehensive income (expenses)	-	(302)	-	-	-	(302)
Transactions with owners of the Bank						
Transfer to reserves	-	(852)	-	-	1,852	1,000
At 30 September 2018	19,948	1,247	339	-	8,178	29,712

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SEPARATE AND CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD AS AT 30TH SEPTEMBER 2018

(All amounts in EUR thousand unless otherwise stated)

CONDENSED SEPARATE AND CONSOLIDATED CASH FLOW STATEMENTS

The Group			The Bank	
30 September 2018	30 September 2017		30 September 2018	30 September 2017
		Notes		
		Operating activities		
1,573	1,314	Profit (loss) at the end of the reporting period	1,580	1,440
		Adjustments to reconcile net profit or loss to net cash:		
499	419	Depreciation and amortisation	486	419
(84)	(29)	(Gain) loss on disposal of property and equipment and investment property	(84)	(29)
1,050	(123)	Impairment of loans	1,055	146
-	-	Impairment of investments in subsidiaries	923	284
(170)	63	Impairment of investment property	102	(35)
11	7	Derivatives revaluation	11	7
(16)	(21)	Elimination of accrued vacation pay	(16)	(21)
16	19	Income tax expenses	16	19
760	(270)	Elimination of other non-cash items	760	1,280
3,639	1,379	Cash flows from (to) operating activities before changes in operating assets and liabilities	4,833	3,510
		Changes in operating assets and liabilities:		
-	7,763	Changes in trading debt securities	-	7,763
(153)	72	Changes in compulsory reserves	(153)	72
(1,167)	-	Changes in amounts due from banks	(1,167)	-
(10,546)	(7,332)	Loans to customers	(9,366)	(6,820)
1,510	(18,330)	Purchased loan portfolio	1,510	(18,330)
1,644	519	Receivables with deferred payment	1,606	-
233	3,813	Loans to financial institutions	232	3,819
(256)	(559)	Finance lease receivable	(256)	(559)
(3,329)	(570)	Changes in due to banks and other credit institutions	(3,329)	(570)
21,655	(5,915)	Changes in due to customers	23,952	(10,187)
7,892	2,300	Changes in other assets and liabilities	7,510	(1,001)
21,122	(16,860)	Net cash flows from operating activities before income tax	25,372	(22,303)
-	-	Income tax (paid)	-	-
21,122	(16,860)	Net cash flows from operating activities after income tax	25,372	(22,303)
		Investing activities		
(752)	(1,660)	(Acquisitions) of intangible assets and property and equipment	(727)	(1,660)
(2)	-	(Acquisitions) of investment property	(2)	-
3,553	2,897	Proceeds from sale of property and equipment and investment property	967	690
-	-	Investments in subsidiaries	(1,700)	-
-	-	Disposal of subsidiaries	-	7,650
(48 421)	(9 561)	(Acquisitions) of debt securities	(48 421)	(9 561)
21 755	11 647	Redemption of debt securities	21 755	11 647
(23,867)	3,323	Net cash flows to investing activities	(28,128)	8,766

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Legal entity code 112027077, Pamėnkalnio St. 40, LT-01114 Vilnius

SEPARATE AND CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD AS AT 30TH SEPTEMBER 2018

(All amounts in EUR thousand unless otherwise stated)

CONDENSED SEPARATE AND CONSOLIDATED CASH FLOW STATEMENTS (CONT'D)

The Group				The Bank	
30 September 2018	30 September 2017		Notes	30 September 2018	30 September 2017
		Financing activities			-
2,123	-	Bonds issued		2,123	-
-	-	Bonds (redeemed)		-	-
-	-	Subordinated loans received		-	-
7,155	6,762	Loans received		7,155	6,762
(4,566)	(2,375)	Loans (repaid)		(4,566)	(2,375)
4,712	4,387	Net cash flows from (to) financing activities		4,712	4,387
65	(227)	Effect of exchange rate changes on cash and cash equivalents		65	(227)
2,032	(9,377)	Net increase (decrease) in cash and cash equivalents		2,021	(9,377)
63,050	52,735	Cash and cash equivalents at 1 January		63,007	52,734
65 082	43,358	Cash and cash equivalents at 30 September	17	65,028	43,357
Additional information to operating cash flows					
6,727	7,196	Interest received		6,629	7,182
(1,080)	(1,115)	Interest (paid)		(1,080)	(1,115)

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UAB MEDICINOS BANKAS

SEPARATE AND CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD AS AT 30TH SEPTEMBER 2018

(All amounts in EUR thousand unless otherwise stated)

Note 1 Background information

UAB Medicinos Bankas (hereinafter referred to as the Bank) was established on 24 November 1992 (as KB Ancorobank) and on 16 January 1997 was reorganised to UAB Medicinos Bankas. The address of its registered office is as follows:

Pamėnkalnio St. 40,
Vilnius, Lithuania.

The Bank accepts deposits, grants loans, performs monetary and documentary settlements, exchanges currencies and issues guarantees for its clients. The Bank also trades in securities, provides consulting and custody services. The Bank provides services to both corporate and retail sectors.

At the end of the third quarter of 2018 the Bank had 52 customer service units in different regions of Lithuania.

The financial statements of the Group include the financial statements of the Bank and its fully owned subsidiaries UAB MB Turtas, UAB MB Valda, UAB MB Investicija, UAB TG Invest-1, SIA Nida Capital (main activity of the companies – real estate management and development) and UAB Saugus Kreditas (main activity of the company – granting of consumer credit to natural persons), which were established on 12 August 2009, 30 November 2009 and 16 December 2011 respectively. UAB TG Invest-1 was bought on 17 May 2013, SIA Nida Capital was established on 31 March 2014, and UAB Saugus Kreditas was acquired 17 October 2017.

As at 30 September 2018 the Bank employed 389 employees (383 employees as at 31 December 2017). As at 31 September 2018 the Group employed 402 employees (396 employees as at 31 December 2017).

As at 30 September 2018 and 31 December 2017 the shareholders of the Bank were as follows:

	Ordinary shares held	Per cent of ownership
Mr. Saulius Karosas	123,850	89.91
Western Petroleum Ltd.	13,600	9.87
Other	300	0.22
Total	137,750	100.00

The issued share capital consists of 137,750 ordinary shares with the par value of EUR 144.81 each. As at 30 September 2018 and 31 December 2017, all shares were fully paid.

Note 2 Basis of preparation and significant accounting policies

Statement of compliance

The separate and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial assets at fair value through profit or loss, available-for-sale financial assets and investment property, measured at fair value, and buildings measured at revalued amounts.

Functional and presentation currency

These financial statements are presented in EUR, which is the Bank's and its subsidiaries' functional currency unless otherwise stated. On 1 January 2015, the Republic of Lithuania joined the euro area and the Lithuanian national currency litas was replaced by the euro.

The official exchange rates of the main currencies, used for the revaluation of the items in the statement of financial position as at the year-end were as follows (EUR units to currency unit):

	30 September 2018	31 December 2017
USD	1,1576	1,1993

SEPARATE AND CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD AS AT 30TH SEPTEMBER 2018

(All amounts in EUR thousand unless otherwise stated)

Note 2 Basis of preparation and significant accounting policies (cont.)

The expected credit loss impairment model

From 1 January 2018 the Bank and the Group adopted IFRS 9. The Group prepared and implemented model of expected credit loss (ECL) evaluation which is applied to financial instruments such as loans to customers, finance lease receivables, debt securities, placements with banks and other financial assets.

Expected credit loss is evaluated depending on changes in credit risk of exposure since the initial recognition, taking into account unbiased future oriented information even if no actual loss was incurred. ECL model is based on past events, current conditions and forecast of future economic conditions which can make impact on expected future cash flows. Therefore credit loss impairment allowances now are more sensitive to changes in forecasts of future economic conditions and can fluctuate more than before the adoption of IFRS 9.

The expected credit loss impairment model is based on the actual credit loss experience over the past seven years. Loan portfolio exposures were segmented to corporates or individuals, and corporates were segmented as those that are linked to the real estate industry (real estate development, rent or selling) or not.

Off-balance sheet exposures are divided into 3 stages the same way as appropriate balance-sheet exposures. ECL's are calculated in the same way as for appropriate balance-sheet exposures.

Estimated impact of IFRS 9 application for the 1 January 2018 is disclosed in the tables below.

Impact of IFRS 9 application on impairment

The Bank	31 December 2017 IAS 39	1 January 2018 IFRS 9	Change
Loans and receivables	5,745	6,002	257
Debt securities	0	24	24
Placements with central and other banks	0	20	20
Other financial assets	0	1	1
Impairment of financial assets	5,745	6,047	302

The Group	31 December 2017 IAS 39	1 January 2018 IFRS 9	Change
Loans and receivables	5,792	6,049	257
Debt securities	0	24	24
Placements with central and other banks	0	20	20
Other financial assets	0	1	1
Impairment of financial assets	5,792	6,094	302

UAB MEDICINOS BANKAS

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Note 3 Debt securities

Held-to-maturity investments are as follows:

The Group			The Bank		
30 September 2018	31 December 2017		30 September 2018	31 December 2017	
34,834	18,017	Government bonds of the Republic of Lithuania	34,834	18,017	
801	1,220	Non-financial company bonds	801	1,220	
1,565	1,600	Government bonds of the Republic of Iceland	1,565	1,600	
1,002	1,869	Government bonds of the Kingdom of Spain	1,002	1,869	
-	1,943	Government bonds of the Republic of Belgium	-	1,943	
-	1,058	Government bonds of the Republic of Croatia	-	1,058	
10,126	1,003	Government bonds of the Republic of Latvia	10,126	1,003	
2,099	2,127	Government bonds of the Republic of Poland	2,099	2,127	
3,164	2,075	Government bonds of the Republic of Romania	3,164	2,075	
3,492	2,565	Government bonds of the Republic of Slovenia	3,492	2,565	
4,754	3,347	Government bonds of the Republic of Sweden	4,754	3,347	
3,026	1,668	Government bonds of the Republic of Finland	3,026	1,668	
1,663	1,368	Government bonds of the Republic of Hungary	1,663	1,368	
66,526	39,860	Debt securities	66,526	39,860	

Note 4 Investment property

	The Bank 30 September 2018	The Bank 31 december 2017
Balance at the beginning of year	1,370	913
Additions	1,367	1,070
Disposals	(761)	(568)
Changes in fair value	(180)	(45)
Balance at the end of the reporting period	1,796	1,370

	The Group 30 September 2018	The Group 31 december 2017
Balance at the beginning of year	6,213	8,354
Additions	1,392	1,871
Disposals	(2,297)	(3,332)
Changes in fair value	(956)	(680)
Balance at the end of the reporting period	4,352	6,213

The fair value of investment properties owned by subsidiaries:

	30 September 2018	31 december 2017
UAB MB Turtas	101	401
UAB MB Valda	561	831
UAB MB Investicija	337	554
UAB TG Invest-1	1,390	2,470
SIA Nida Capital	167	586
Total	2,556	4,842

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Note 5 Investment in subsidiaries

The main activities of established subsidiaries are real estate management and development.

	The Bank 30 September 2018	The Bank 31 December 2017
Balance at the beginning of the year	6,439	14,494
Additions	-	764
Increase of authorized capital	1,700	-
Disposal (nominal value)	-	(13,056)
Reversal of impairment of the disposed assets	-	5,377
Additional impairment of investment in subsidiaries	(923)	(1,140)
	777	(8,055)
Balance at the end of the report period	7,216	6,439

Balance as at 31 December 2017	Ownership (%)	Direct ownership (%)	Nominal amount	Impairment	Carrying value
UAB MB Turtas	100	22.46	753	(458)	295
UAB MB Valda	100	32.52	1,150	(239)	911
UAB MB Investicija	100	47.94	1,481	(395)	1,086
UAB TG Invest-1	100	73.22	3,567	(903)	2,664
SIA Nida capital	100	100	850	(324)	526
UAB Saugus Kreditas	100	100	1,765	(31)	1,734
Total			9,566	(2,350)	7,216

Balance as at 31 December 2016	Ownership (%)	Direct ownership (%)	Nominal amount	Impairment	Carrying value
UAB MB Turtas	100	22.46	753	(304)	449
UAB MB Valda	100	32.52	1,150	(116)	1,034
UAB MB Investicija	100	47.94	1,481	(150)	1,331
UAB TG Invest-1	100	73.22	3,567	(527)	3,040
SIA Nida Capital	100	100	850	(298)	552
UAB Saugus Kreditas	100	100	64	(31)	33
Total			7,865	(1,426)	6,439

Note 6 Other assets

Other assets comprise:

The Group 30 September 2018	The Group 31 December 2017		The Bank 30 September 2018	The Bank 31 December 2017
1,497	2,006	Prepayments	1,483	1,997
78	484	Receivables from customers	26	223
203	80	Receivable value added tax	193	56
177	108	Deferred expenses	176	108
91	209	Other	86	183
2,046	2,887		1,964	2,567
-	(38)	Less: impairment for losses from receivables	-	(38)
2,046	2,849	Other assets	1,964	2,529

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Note 7 Due to banks and other credit institutions

The Group			The Bank	
30 September 2018	31 December 2017		30 September 2018	31 December 2017
-	-	Term deposits	-	-
-	3,000	Deposits CB (ECB Open market operations)	-	3,000
271	600	Current accounts and overnight deposits	271	600
<u>271</u>	<u>3,600</u>	Amounts due to banks and other credit institutions	<u>271</u>	<u>3,600</u>

Note 8 Due to customers

Amounts due to customers comprise:

The Group			The Bank	
30 September 2018	31 December 2017		30 September 2018	31 December 2017
170,902	165,306	Term deposits	170,902	165,306
93,149	77,025	Bank accounts	96,511	78,090
		Lending funds		
12,101	9,426	UAB Investicijų ir Verslo Garantijos	12,101	9,426
10	98	Rural Credit Guarantee Fund (UAB Žemės Ūkio Paskolų Garantijų Fondas)	10	98
<u>276,162</u>	<u>251,855</u>	Amounts due to customers	<u>279,524</u>	<u>252,920</u>

Note 9 Subordinated loans and issued debt securities (the Bank)

Subordinated loans

In November 2016 the Bank received a subordinated loan of EUR 1 million from the major shareholder of the Bank. The term of the subordinated loan is until 1 December 2023 with a fixed 2 percent annual interest rate.

According to the regulations of the Board of the Bank of Lithuania, the Bank had a permission to include this subordinated loan in the Bank's Tier 2 capital.

Debt securities issued

In July 2018 bank have issued subordinated debt securities emission. As of 30 September 2018 net value of issued debt securities is 2 123 thous. EUR. From 1 August 2018 debt securities of UAB Medicinos bankas are listed in Nasdaq stock exchange – ISIN code LT0000432114 (ticker: OPMB070025A).

UAB Medicinos bankas debt securities issue value – 2 210 000 EUR. Nominal value – 1000 EUR. Coupon – 7%, coupon payment twice a year. Maturity date – 24 July 2025.

As at 31 December 2017, the Bank and the Group have no bonds issued.

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Note 10 Other liabilities

Other liabilities comprise:

The Group			The Bank	
30 September 2018	31 December 2017		30 September 2018	31 December 2017
5,312	-	Customers funds in transit	5,312	-
		Due to customers according to insurance events		
1,230	-	related with Deposit and investment insurance	1,230	-
864	510	Accrued payments to employees	842	510
27	30	Prepayments (advance payments)	-	-
122	142	Accrued expenses	122	130
88	158	Deferred income	88	158
196	184	Fee payable to the State Social Insurance Board	192	184
103	-	Liabilities to the State Tax Inspectorate	101	-
		Payable to the Latvian and Estonian Road		
41	30	Transport Administration	41	30
352	204	Other	157	140
8,335	1,258	Other liabilities	8,085	1,152

Note 11 Shareholders' equity

As at 31 December 2017 and 2016, the share capital of the Group and the Bank consisted of 137,750 ordinary shares with the par value of EUR 144.81 each. All shares are issued, authorised and fully paid. The shares are not listed.

Each share has the right, equally, to vote, to dividends and to participate in residual assets in the event of a winding-up.

Other reserves of the Group and the Bank were as follows:

The Group			The Bank	
30 September 2018	31 December 2017		30 September 2018	31 December 2017
2,528	2,528	Special reserve to cover possible losses	2,528	2,528
184	141	Legal reserve	184	141
5,466	3,657	Reserve capital	5,466	3,657
8,178	6,326	Total other reserves	8,178	6,326

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Note 12 Net interest income

The Group			The Bank	
2018-09-30	2017-09-30		2018-09-30	2017-09-30
5,458	4,643	On loans to customers	5,383	4,629
419	449	On impaired loans to customers	419	449
402	335	Leasing	402	335
161	81	Delinquency	161	81
390	439	For debt securities	390	439
-	-	On available-for-sale investments	-	-
58	28	On placements with the banks and other credit institutions	58	28
-	32	On investments at fair value through profit or loss	-	32
6,888	5,975	Interest revenue	6,813	5,961
(907)	(691)	On obligations to customers, including letters of credit	(907)	(691)
(198)	(435)	Deposit insurance	(198)	(435)
(15)	(15)	On subordinated loans	(15)	(15)
(130)	(64)	On obligations to banks and other credit institutions	(130)	(64)
(32)	-	For issued debt securities	(32)	-
(25)	-	Other	(25)	-
(1,307)	(1,205)	Interest expenses	(1,307)	(1,205)
5,581	4,770	Net interest income	5,506	4,756

Note 13 Net service fee and commission income

Net fee and commission income comprises:

The Group			The Bank	
2018-09-30	2017-09-30		2018-09-30	2017-09-30
1,448	513	Payment services	1,448	513
953	940	Collection of payments	953	940
380	331	Cash operations	380	331
320	179	Administration of bank accounts	320	179
347	293	Commission income from currency exchange	347	293
247	433	Brokerage income	247	433
318	73	Other	318	77
4,013	2,762	Service fee and commission income	4,013	2,766
(60)	(88)	Rent fee according to agreements	(60)	(88)
(195)	(170)	Cash operations	(195)	(170)
(88)	(67)	Other	(68)	(67)
(343)	(325)	Service fee and commission expense	(323)	(325)
3,670	2,437	Net service fee and commission income	3,690	2,441

Note 14 Net foreign exchange gain

The Group			The Bank	
2018-09-30	2017-09-30		2018-09-30	2017-09-30
3,471	2,928	Gain on dealing in foreign currencies	3,471	2,928
65	(127)	Revaluation of items in statement of financial position, net	65	(127)
3,536	2,801	Net foreign exchange gain	3,536	2,801

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Note 15 Net result on operations with investment property

The Group			The Bank	
2018-09-30	2017-09-30		2018-09-30	2017-09-30
166	(238)	Realised gain (loss)	(19)	(21)
(956)	(63)	Changes in fair value	(180)	-
(790)	(301)	Net result on operations on investment property	(199)	(21)

Note 16 Operating expenses

Salaries and benefits and other operating expenses are as follows:

The Group			The Bank	
2018-09-30	2017-09-30		2018-09-30	2017-09-30
Salaries and benefits				
(4,391)	(3,789)	Salaries and related costs	(4,218)	(3,715)
(1,324)	(1,178)	Social security costs	(1,270)	(1,155)
(5,715)	(4,967)	Total salaries and benefits	(5,488)	(4,870)
Other operating expenses				
(642)	(625)	Rent expenses	(631)	(624)
(383)	(323)	IT maintenance taxes	(383)	(323)
(265)	(209)	Expenses for service providers for the bank	(265)	(209)
(419)	(473)	Taxes other than income tax	(383)	(401)
(190)	(160)	Communication	(188)	(160)
(54)	(50)	Debtors management costs	(54)	(50)
(321)	(277)	Transport fuel, maintenance, repairs, collection	(321)	(277)
(90)	(104)	Expenses related with investment property	(18)	(15)
(76)	(72)	Security systems maintenance costs	(76)	(72)
(171)	(80)	Marketing and advertising	(165)	(80)
(25)	(8)	Banks legal services costs	(25)	(8)
(13)	(19)	Personnel training	(13)	(19)
(37)	(25)	Representation	(36)	(25)
-	(235)	Fine imposed by the Bank of Lithuania	-	(235)
(30)	(81)	Disposable items	(30)	(81)
(20)	(21)	Stationary supplies	(20)	(21)
(81)	(44)	Employees insurance expenses	(81)	(44)
(17)	(13)	Participation fees	(17)	(13)
(332)	(606)	Other	(285)	(327)
(3,166)	(3,425)	Total other operating expenses	(2,991)	(2,984)

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Note 17 Cash and cash equivalents

Cash and cash equivalents for the purpose of the statement of cash flows comprise:

The Group			The Bank	
30 September 2018	31 December 2017		30 September 2018	31 December 2017
28,079	24,478	Cash on hand	28,079	24,478
26,669	27,099	Current accounts with the Bank of Lithuania	26,669	27,099
7,053	6,929	Current accounts with other credit institutions	6,999	6,886
3,281	4,544	Term deposits with credit institutions up to 90 days	3,281	4,544
65,082	63,050	Cash and cash equivalents	65,028	63,007

Note 18 Fair values of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in a forced transaction, involuntary liquidation or distress sale. As no readily available market exists for a large part of the Bank's and the Group's financial instruments, judgment is necessary in arriving at a fair value, based on current economic conditions and the specific risks attributable to the instrument.

For financial assets and financial liabilities that have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to variable rate financial instruments, as the Group and the Bank did not identify significant increases in credit spreads.

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing loans and deposits is based on discounted cash flow using prevailing market interest rates for debts with similar credit risk and maturity.

The following describes the methodologies and assumptions used to determine the fair value for those financial instruments:

Cash. Represents cash on hand for which the carrying amount is its fair value.

Amounts due from and to credit institutions. For assets maturing within three months, the carrying amount approximates the fair value due to the relatively short-term maturity of these financial instruments. For longer-term deposits, due to the re-pricing of assets to the market interest rates, the interest rates applicable approximate market rates and, consequently, the fair value approximate the carrying amounts.

Loans to customers. The estimate was made by discounting of scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as at the respective end of third quarter.

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Note 18 Fair values of financial instruments (cont'd)

Amounts due to customers. For balances maturing within three months the carrying amount approximates the fair value due to the relatively short maturity of these financial instruments. For longer term fixed interest bearing deposits and other borrowings the estimated fair value is based on discounted cash flows using interest rates for new debts with similar remaining maturity and credit quality.

Debt securities issued and subordinated loan. The fair value is calculated discounting of scheduled future cash flows using current market rates.

In the table below the carrying amounts and fair values of financial instruments which are not carried at fair value in the financial statements are presented. This table does not include the fair values of non-financial assets and non-financial liabilities.

The Bank	2018-09-30		2017-12-31	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and due from central bank	56,844	56,844	53,520	53,520
Placements with banks and other credit institutions	11,513	11,513	11,496	11,496
Debt securities	66,526	67,026	39,860	40,462
Loans and receivables	167,282	168,006	163,454	167,120
Other assets	1,964	1,964	2,529	2,529
Total financial assets	304,129	305,353	270,859	275,127
Financial liabilities				
Due to banks and other credit institutions	271	271	3,600	3,600
Due to customers, including letters of credit	279,524	284,342	252,920	254,196
Debt securities issued	2,123	-	-	-
Subordinated loans	1,002	1,002	1,000	1,000
Other liabilities	8,085	8,085	1,152	1,152
Total financial liabilities	291,005	293,700	258,672	259,948
The Group	2018-09-30		2017-12-31	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and due from central bank	56,844	56,844	53,520	53,520
Placements with banks and other credit institutions	11,567	11,567	11,539	11,539
Debt securities	66,526	67,026	39,860	40,462
Loans and receivables	168,627	169,351	163,678	167,344
Other assets	2,046	2,046	2,849	2,849
Total financial assets	305,610	308,834	271,446	275,714
Financial liabilities				
Due to banks and other credit institutions	271	271	3,600	3,600
Due to customers, including letters of credit	276,162	280,980	251,855	253,131
Debt securities issued	2,123	-	-	-
Subordinated loans	1,002	1,002	1,000	1,000
Other liabilities	8,335	8,335	1,258	1,258
Total financial liabilities	287,893	290,588	257,713	258,989

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Note 18 Fair values of financial instruments (cont'd)

Financial instruments which are carried at fair value in the financial statements are distributed by 3 levels:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable in the market, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair values that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by the level of the fair value hierarchy:

The Bank (Group)

As at 30 September 2018	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	1	-	1
Financial liabilities				
Derivative financial instruments	-	36	-	36
As at 31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	7	-	7
Financial liabilities				
Derivative financial instruments	-	31	-	31

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Note 18 Fair values of financial instruments (cont'd)

Financial instruments not measured at fair value

The following table sets out financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy.

Bank

30 September 2018	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Cash and due from banks	56,844	11,513	-	68,357
Debt securities	-	66,526	-	66,526
Loans to customers	-	145,747	6,786	152,533
Receivables with deferred payment	-	1,051	-	1,051
Loans to financial institutions	-	1,603	-	1,603
Receivables from leasing	-	10,193	1,902	12,095
Other assets	-	1,964	-	1,964
Total financial assets	56,844	238,597	8,688	304,129
Liabilities				
Due to banks and other credit institutions	-	271	-	271
Due to customers	-	279,524	-	279,524
Debt securities issued	-	2,123	-	2,123
Subordinated loan	-	1,002	-	1,002
Other liabilities	-	8,085	-	8,085
Total financial liabilities	-	291,005	-	291,005

31 December 2017	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Cash and due from banks	53,520	11,496	-	65,016
Debt securities	-	39,860	-	39,860
Loans to customers	-	137,910	9,213	147,123
Receivables with deferred payment	-	2,657	-	2,657
Loans to financial institutions	-	1,835	-	1,835
Receivables from leasing	-	11,821	18	11,839
Other assets	-	2,529	-	2,529
Total financial assets	53,520	208,108	9,231	270,859
Liabilities				
Due to banks and other credit institutions	-	3,600	-	3,600
Due to customers	-	252,920	-	252,920
Debt securities issued	-	-	-	-
Subordinated loans	-	1,000	-	1,000
Other liabilities	-	1,152	-	1,152
Total financial liabilities	-	258,672	-	258,672

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Note 18 Fair values of financial instruments (cont'd)

Group

				Total carrying amount
30 September 2018	Level 1	Level 2	Level 3	
Assets				
Cash and due from banks	56,844	11,567	-	68,411
Debt securities	-	66,526	-	66,526
Loans to customers	-	146,864	6,786	153,650
Receivables with deferred payment	-	1,279	-	1,279
Loans to financial institutions	-	1,603	-	1,603
Receivables from leasing	-	10,193	1,902	12,095
Other assets	-	2,046	-	2,046
Total financial assets	56,844	240,078	8,688	305,610
Liabilities				
Due to banks and other credit institutions	-	271	-	271
Due to customers	-	276,162	-	276,162
Debt securities issued	-	2,123	-	2,123
Subordinated loan	-	1,002	-	1,002
Other liabilities	-	8,335	-	8,335
Total financial liabilities	-	287,893	-	287,893
31 December 2017	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Cash and due from banks	53,520	11,539	-	65,059
Debt securities	-	39,860	-	39,860
Loans to customers	-	138,017	9,263	147,280
Receivables with deferred payment	-	2,923	-	2,923
Loans to financial institutions	-	1,636	-	1,636
Receivables from leasing	-	11,821	18	11,839
Other assets	-	2,849	-	2,849
Total financial assets	53,520	208,645	9,281	271,446
Liabilities				
Due to banks and other credit institutions	-	3,600	-	3,600
Due to customers	-	251,855	-	251,855
Debt securities issued	-	-	-	-
Subordinated loans	-	1,000	-	1,000
Other liabilities	-	1,258	-	1,258
Total financial liabilities	-	257,713	-	257,713

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Note 19 Related party transactions

Transactions between the Group and the Bank and their related parties, respectively, were effected on normal commercial terms and conditions as transactions with unrelated parties.

The outstanding balances of loans, term deposits and bonds issued at the year end, and related expense and income for the year are as follows:

			Key management personnel	Other*
The Bank, 2018	Shareholders	Subsidiaries		
Loans outstanding as at 30 September 2018, net	-	-	38	4,437
Interest rate, %	-	-	0-2.66	2.0-4.5
Impairment of loans	-	-	-	(11)
Term deposits as at 30 September 2018	-	-	3	260
Interest rate, %	-	-	0.3	0.05-6.5
Bank accounts as at 30 September 2018	-	3,361	70	2,858
Bonds issued as at 30 September 2018	96	-	-	-
Interest rate, %	7	-	-	-
Subordinated loans as at 31 December 2018	1 002	-	-	-
Interest rate, %	2	-	-	-
For nine months period which ended at 30 September 2018				
Loan interest income	-	2	1	91
Deposit interest expenses	-	-	-	(2)
Bond interest expenses	(1)	-	-	-
Subordinated loans interest expenses	(15)	-	-	-
Service fee and commission revenue	1	1	-	13
Service fee and commission expenses	-	-	-	(2)
The Bank, 2017	Shareholders	Subsidiaries	Key management personnel	Other*
Loans outstanding as at 31 December 2017, net	-	-	45	3,894
Interest rate, %	-	-	0-3.0	0-5.84
Impairment of loans	-	-	-	253
Term deposits as at 31 December 2017	-	-	3	362
Interest rate, %	-	-	0.25-0.50	0.15-6.5
Bank accounts as at 31 December 2017	80	5,893	38	4,185
Bonds issued as at 31 December 2017	-	-	-	-
Interest rate, %	-	-	-	-
Subordinated loans as at 31 December 2017	1,000	-	-	-
Interest rate, %	2	-	-	-
For nine months period which ended at 30 September 2017				
Loan interest income	-	-	1	129
Deposit interest expenses	-	-	-	(2)
Bond interest expenses	-	-	-	-
Subordinated loans interest expenses	(15)	-	-	-
Service fee and commission revenue	-	-	-	11
Service fee and commission expenses	-	-	-	(2)

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SEPARATE AND CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD AS AT 30TH SEPTEMBER 2018

(All amounts in EUR thousand unless otherwise stated)

Note 19 Related party transactions (cont'd)

The Group, 2018	Shareholders	Key management personnel	Other*
Loans outstanding as at 30 September 2018, net	-	38	4 437
Interest rate, %	-	0-2.66	2,0-4.5
Impairment of loans	-	-	(11)
Term deposits as at 30 September 2018	-	3	260
Interest rate, %	-	0.3	0,05-6.5
Demand accounts as at 30 September 2018	-	70	2 858
Bonds issued as at 30 September 2018	96	-	-
Interest rate, %	7	-	-
Subordinated loans as at 30 September 2018	1,000	-	-
Interest rate, %	2	-	-

For nine months period which ended at 30 September 2018

Loan interest income	-	1	91
Deposit interest expenses	-	-	(2)
Bond interest expenses	(1)	-	-
Subordinated loans interest expenses	(15)	-	-
Service fee and commission revenue	1	-	13
Service fee and commission expenses	-	-	(2)

The Group, 2017	Shareholders	Key management personnel	Other*
Loans outstanding as at 31 December 2017, net	-	42	1 296
Interest rate, %	-	0-4.0	4.0-4.5
Impairment of loans	-	-	-
Term deposits as at 31 December 2017	-	3	253
Interest rate, %	-	0.2-0.6	0.15-6.5
Demand accounts as at 31 December 2017	4	82	2 994
Bonds issued as at 31 December 2017	-	-	-
Interest rate, %	-	-	-
Subordinated loans as at 31 December 2017	1,000	-	-
Interest rate, %	2	-	-

For nine months period which ended at 30 September 2017

Loan interest income	-	1	129
Deposit interest expenses	-	-	(2)
Bond interest expenses	-	-	-
Subordinated loans interest expenses	(15)	-	-
Service fee and commission revenue	-	-	11
Service fee and commission expenses	-	-	(2)

* Other related parties are entities controlled by the members of the management of the Group and the Bank or shareholders of the Bank and other related parties.

Key management personnel include members of the board and administration and management of subsidiaries.

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Note 20 Risk management

Credit risk

Credit risk is the risk that the Group and the Bank will incur loss because their customers or counterparties failed to discharge their contractual obligations. The Group and the Bank manage and control credit risk by setting limits on the amount of risk they are willing to accept for individual counterparties and for industry concentrations, and by monitoring exposures in relation to such limits. The Group and the Bank have established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revision. The credit quality review process allows the Group and the Bank to assess the potential loss to which it is exposed and to take corrective action. The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. They expose the Bank to similar risks as loans and these are mitigated by the same control processes and policies. In cases, when cash flows of nonperforming loans are based on expected cash flows to be recovered from sale of collateral, value of the collateral is an important estimate in calculating impairment losses for loans and receivables.

The Bank and the Group have to comply with the limit to large exposures (maximum exposure to single customer) set in Regulation (EU) No 575/2013 of the European Parliament and of the Council. Exposure to a customer or group of connected customers can not exceed 25 % of the Bank's and Group's eligible capital. Compliance to this requirement is disclosed in the table below:

The Group			The Bank	
30 September 2018	31 December 2017		30 September 2018	31 December 2017
5,853	4,828	Maximum exposure to a single customer or group of connected customers	5,853	4,828
26,340	21,907	Eligible capital	26,353	21,426
22.22	22.04	Maximum exposure ratio, %	22.21	22.53

Maximum exposure to credit risk without taking into account any collateral and other credit enhancement

The table below shows the maximum exposure to credit risk. The maximum exposure is shown in net value, before the effect of collateral agreements.

The Group			The Bank	
30 September 2018	31 December 2017		30 September 2018	31 December 2017
		Statement of financial position items, other than trading and investment activities		
28,765	29,042	Placements with the central bank	28,765	29 042
11,567	11,539	Placements with banks	11,513	11 496
153,650	147,280	Loans to customers	152,533	147 123
1,279	2,923	Receivables with deferred payment	1,051	2 657
1,603	1,636	Loans to bank and financial institutions	1,603	1 835
12,095	11,839	Finance lease receivable	12,095	11 839
208,959	204,259		207,560	203 992
		Off balance sheet items		
913	763	Guarantees	913	763
14,804	8,994	Loan commitments	14,804	8 994
224,676	214,016	Total balance and off balance sheet items, other than trading and investment activities	223,277	213 749
		Trading and investment activities		
1	7	Derivative financial instruments	1	7
		Financial assets at amortised cost:		
66,526	39,860	Debt securities	66,526	39,860
66,527	39,867	Total trading and investment activities	66,527	39,867
142	170	Other financial assets	142	170
291,345	254,053	Total credit risk exposure	289,946	253 ,86

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(All amounts in EUR thousand unless otherwise stated)

Note 20 Risk management (cont.)

Tables below present the breakdown of trading and investment activities by type and grade:

	The Bank (Group)	
	30 September 2018	31 December 2017
Government bonds	65,725	38,640
Baml and corporate bonds	801	1,220
Derivatives	1	7
Total	66,527	39,867

Bonds exposure by rating grade	The Bank (Group)	
	30 September 2018	31 December 2017
High grade (A-AAA)	60,898	32,690
Standard grade (B-BBB+)	5,628	7,170
Not rated	-	-
Total	66,526	39,860

Debt securities' are held-to-maturity and are measured at amortised cost. The Group and the Bank have no impaired or overdue amounts within investment activities.

The Group and the Bank have assigned bonds with ratings from international rating agencies from „AAA“ to „A“ to high grade, „BBB“ to „B“ rating bonds – to standard grade.

Credit risk assessment

When evaluating financial instruments, the Group and the Bank apply specific valuation criteria and procedures on the clients. Due to the change in credit risk since initial recognition loans are divided into three stages:

- Stage 1 – all performing loans, unless there has been a significant increase in credit risk since the initial recognition, and it's expected that the borrower has strong capacity to meet contractual future cash flows.
- Stage 2 – loans when there has been a significant increase in credit risk since initial recognition.
- Stage 3 – all defaulted loans with recognised loss events and POCI (purchased or originated credit-impaired) assets.

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(All amounts in EUR thousand unless otherwise stated)

Note 20 Risk management (cont.)

Credit risk assessment of financial instruments, other than trading activities and off balance items

The Bank 30 September 2018	Not overdue	Less than 60 days	60-89 days	90 or more days	Total
Stage 1					
Loans and receivables	141,042	5,496	0	0	146,538
Debt securities	66,526	-	-	-	66,526
Placements with central and other banks	40,278	-	-	-	40,278
Other financial assets	142	-	-	-	142
Total	247,988	5,496	0	0	253,484
Stage 2					
Loans and receivables	8,715	533	100	0	9,348
Debt securities	-	-	-	-	-
Placements with central and other banks	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	8,715	533	100	0	9,348
Stage 3					
Loans and receivables	1,584	2,512	642	6,658	11,396
Debt securities	-	-	-	-	-
Placements with central and other banks	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	1,584	2,512	642	6,658	11,396
Total credit risk exposure	258,287	8,541	742	6,658	274,228
The Bank 31 December 2017	Not overdue	Less than 60 days	60-89 days	90 or more days	Total
Stage 1					
Loans and receivables	140,312	2,622	-	-	142,934
Debt securities	39,860	-	-	-	39,860
Placements with central and other banks	40,538	-	-	-	40,538
Other financial assets	170	-	-	-	170
Total	220,880	2,622	0	0	223,502
Stage 2					
Loans and receivables	4,887	921	99	0	5,907
Debt securities	-	-	-	-	-
Placements with central and other banks	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	4,887	921	99	0	5,907
Stage 3					
Loans and receivables	1,443	3,843	464	8,863	14,613
Debt securities	-	-	-	-	-
Placements with central and other banks	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	1,443	3,843	464	8,863	14,613
Total credit risk exposure	227,210	7,386	563	8,863	244,022

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(All amounts in EUR thousand unless otherwise stated)

Note 20 Risk management (cont.)

The Group 30 September 2018	Not overdue	Less than 60 days	60-89 days	90 or more days	Total
Stage 1					
Loans and receivables	142,314	5,513	0	0	147,827
Debt securities	66,526	-	-	-	66,526
Placements with central and other banks	40,332	-	-	-	40,332
Other financial assets	142	-	-	-	142
Total	249,314	5,513	-	-	254,827
Stage 2					
Loans and receivables	8,724	545	100	0	9,369
Debt securities	-	-	-	-	-
Placements with central and other banks	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	8,724	545	100	0	9,369
Stage 3					
Loans and receivables	1,585	2,512	642	6,692	11,431
Debt securities	-	-	-	-	-
Placements with central and other banks	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	1,585	2,512	642	6,692	11,431
Total credit risk exposure	259,623	8,570	742	6,692	275,627

The Group 31 December 2017	Not overdue	Less than 60 days	60-89 days	90 or more days	Total
Stage 1					
Loans and receivables	140,455	2,643	0	0	143,098
Debt securities	39,860	-	-	-	39,860
Placements with central and other banks	40,581	-	-	-	40,581
Other financial assets	170	-	-	-	170
Total	221,066	2,643	0	0	223,709
Stage 2					
Loans and receivables	4,887	932	105	0	5,924
Debt securities	-	-	-	-	-
Placements with central and other banks	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	4,887	932	105	0	5,924
Stage 3					
Loans and receivables	1,443	3,843	464	8,906	14,656
Debt securities	-	-	-	-	-
Placements with central and other banks	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	1,443	3,843	464	8,906	14,656
Total credit risk exposure	227,396	7,418	569	8,906	224,289

Process of measurement of financial instruments' fair value is disclosed in Notes to Financial statements for the year ended 31 December 2017 and had no significant changes through the reporting period.

SEPARATE AND CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD AS AT 30TH SEPTEMBER 2018

(All amounts in EUR thousand unless otherwise stated)

Note 20 Risk management (cont.)

Breakdown of impairment for financial instruments by stages:

The Bank 30 September 2018	Collective impairment	Individual impairment	Loan commitments	Guarantees	Total
Stage 1					
Loans and receivables	384	-	36	2	422
Debt securities	40	-	-	-	40
Placements with central and other banks	6	-	-	-	6
Other financial assets	-	-	-	-	-
Total	430		36	2	468
Stage 2					
Loans and receivables	50	-	-	-	50
Debt securities	-	-	-	-	-
Placements with central and other banks	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	50				50
Stage 3					
Loans and receivables	-	6,605	-	-	6,605
Debt securities	-	-	-	-	-
Placements with central and other banks	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total		6,605			6,605
Total impairment	480	6,605	36	2	7,123
The Bank 1 January 2018	Collective impairment	Individual impairment	Loan commitments	Guarantees	Total
Stage 1					
Loans and receivables	378	-	24	2	404
Debt securities	24	-	-	-	24
Placements with central and other banks	20	-	-	-	20
Other financial assets	1	-	-	-	1
Total	423		24	2	449
Stage 2					
Loans and receivables	35	-	-	-	35
Debt securities	-	-	-	-	-
Placements with central and other banks	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	35				35
Stage 3					
Loans and receivables	-	5,563	-	-	5,563
Debt securities	-	-	-	-	-
Placements with central and other banks	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total		5,563			5,563
Total impairment	458	5,563	24	2	6,047

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(All amounts in EUR thousand unless otherwise stated)

Note 20 Risk management (cont.)

The Group 30 September 2018	Collective impairment	Individual impairment	Loan commitments	Guarantees	Total
Stage 1					
Loans and receivables	392	-	36	2	430
Debt securities	40	-	-	-	40
Placements with central and other banks	6	-	-	-	6
Other financial assets	-	-	-	-	-
Total	438	-	36	2	476
Stage 2					
Loans and receivables	50	-	-	-	50
Debt securities	-	-	-	-	-
Placements with central and other banks	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	50	-	-	-	50
Stage 3					
Loans and receivables	-	6,640	-	-	6,640
Debt securities	-	-	-	-	-
Placements with central and other banks	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	-	6,640	-	-	6,640
Total impairment	488	6,640	36	2	7,166
The Group 1 January 2018	Collective impairment	Individual impairment	Loan commitments	Guarantees	Total
Stage 1					
Loans and receivables	379	-	24	2	405
Debt securities	24	-	-	-	24
Placements with central and other banks	20	-	-	-	20
Other financial assets	1	-	-	-	1
Total	424	-	24	2	450
Stage 2					
Loans and receivables	35	2	-	-	37
Debt securities	-	-	-	-	-
Placements with central and other banks	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	35	2	-	-	37
Stage 3					
Loans and receivables	-	5,607	-	-	5,607
Debt securities	-	-	-	-	-
Placements with central and other banks	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	-	5,607	-	-	5,607
Total impairment	459	5,609	24	2	6,094

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(All amounts in EUR thousand unless otherwise stated)

Note 20 Risk management (cont.)

Change of impairment during reporting period

The Bank 30 September 2018	Collective impairment	Individual impairment	Loan commitments	Guarantees	Total
Stage 1					
Loans and receivables	6	-	12	-	18
Debt securities	16	-	-	-	16
Placements with central and other banks	(14)	-	-	-	(14)
Other financial assets	(1)	-	-	-	(1)
Total	7	-	12	-	19
Stage 2					
Loans and receivables	15	-	-	-	15
Debt securities	-	-	-	-	-
Placements with central and other banks	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	15	-	-	-	15
Stage 3					
Loans and receivables	-	1,042	-	-	1,042
Debt securities	-	-	-	-	-
Placements with central and other banks	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	-	1,042	-	-	1,042
Total impairment	22	1,042	12	-	1,076
Written-off during reporting period	-	-	-	-	102
Income on loans written off in earlier periods	-	-	-	-	(123)
Total change of impairment	-	-	-	-	1,055

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(All amounts in EUR thousand unless otherwise stated)

Note 20 Risk management (cont.)

The Group 30 September 2018	Collective impairment	Individual impairment	Loan commitments	Guarantees	Total
Stage 1					
Loans and receivables	13	-	12	-	25
Debt securities	16	-	-	-	16
Placements with central and other banks	(14)	-	-	-	(14)
Other financial assets	(1)	-	-	-	(1)
Total	14	-	12	-	26
Stage 2					
Loans and receivables	15	(2)	-	-	13
Debt securities	-	-	-	-	-
Placements with central and other banks	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	15	(2)	-	-	13
Stage 3					
Loans and receivables	-	1,033	-	-	1,033
Debt securities	-	-	-	-	-
Placements with central and other banks	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	-	1,033	-	-	1,033
Total impairment	29	1,031	12	-	1,072
Written-off during reporting period					102
Income on loans written off in earlier periods					(123)
Total change of impairment					1,051

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(All amounts in EUR thousand unless otherwise stated)

Note 20 Risk management (cont.)

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Group and the Bank perform daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Board of Directors sets limits on the minimum level of assets of different level of liquidity that should be in place to cover withdrawals at unexpected levels of demand.

The Bank and the Group is required to satisfy the minimum requirement of liquidity coverage ratio according to Regulation (EU) No 575/2013 of the European Parliament and of the Council. Liquidity coverage ratio (LCR) refers to highly liquid assets held by the Bank or the Group in order to meet short-term obligations. The Bank or the Group is required to hold an amount of highly-liquid assets, such as cash, funds in Central bank, highly rated treasury bonds and other liquid financial instruments, equal to or greater than net cash outflow over a 30-day period, i.e. liquidity coverage ratio cannot be lower than 100 percent. Liquidity coverage ratios of the Bank and the Group are as follows:

The Group			The Bank	
30 September 2018	31 December 2017		30 September 2018	31 December 2017
123,568	90,760	Liquid assets	123,568	90,760
19,560	12,423	Short-term (up to 30 days) obligations	20,347	12,575
632	731	LCR, %	607	722

The following tables provide an analysis of carrying amounts of all assets and all liabilities grouped on the basis of the remaining period from the date of the statement of financial position to the contractual maturity date:

The Bank		30 September 2018						
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	Total
Assets	63,843	32,855	9,204	55,920	70,013	66,051	22,937	320,823
Liabilities and shareholders' equity	103,343	15,990	26,556	72,637	44,982	27,530	29,785	320,823
Net gap	(39,500)	16,865	(17,352)	(16,717)	25,031	38,521	(6,848)	-
Credit commitments	-	14,768	-	-	-	-	-	14,768

		31 December 2017						
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	Total
Assets	60,406	13,106	17,215	37,493	63,701	70,637	23,610	286,168
Liabilities and shareholders' equity	78,710	18,104	23,639	92,800	28,223	17,224	27,468	286,168
Net gap	(36,085)	16,729	(17,280)	(16,439)	25,597	38,883	(11,405)	-
Credit commitments	-	8,994	-	-	-	-	-	8,994

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(All amounts in EUR thousand unless otherwise stated)

Note 20 Risk management (cont.)

Grupė	30 September 2018							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	Total
Assets	63,897	32,968	9,276	56,198	70,579	66,413	18,349	317,680
Liabilities and shareholders' equity	99,982	16,239	26,556	72,637	44,982	27,530	29,754	317,680
Net gap	-36,085	16,729	-17,280	-16,439	25,597	38,883	-11,405	-
Credit commitments	-	14,768	-	-	-	-	-	14,768

	31 December 2017							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	Total
Assets	60,449	13,442	17,245	37,378	63,840	70,743	22,088	285,185
Liabilities and shareholders' equity	77,645	18,210	23,639	92,800	28,223	17,224	27,444	285,185
Net gap	(17,196)	(4,768)	(6,394)	(55,422)	35,617	53,519	(5,356)	-
Credit commitments	-	8,994	-	-	-	-	-	8,994

Overdue loans are disclosed under column "Without maturity".

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables, such as interest rates, foreign exchange rates and equity prices. The market risk is managed and controlled by continuous market monitoring and analysis of forecasted market changes.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established internal limits, monitors compliance with the required limits are monitored on a monthly basis. Interest rate risk is managed by forecasting the market interest rates and managing the mismatches between assets and liabilities from re-pricing maturities. The Group and the Bank apply the interest rate risk management methods allowing to measure the Bank's and the Group's sensitivity to interest rate changes by computing the impact to yearly net interest income in case of parallel shift by 1 percentage point in the yield curve.

The following table demonstrates the sensitivity to change in interest rates, with all other variables held constant, on the Bank's and the Group's pre-tax income (which equals the effect on net interest income):

The Bank		Effect on net interest income	
		30 September 2018	31 December 2017
Interest rate change			
EUR	+ 1%	881	502
USD	+ 1%	84	77
Other	+ 1%	4	5
EUR	- 1%	(881)	(502)
USD	- 1%	(84)	(77)
Other	- 1%	(4)	(5)

The Group		Effect on net interest income	
		30 September 2018	31 December 2017
Interest rate change			
EUR	+ 1%	885	502
USD	+ 1%	84	77
Other	+ 1%	4	5
EUR	- 1%	(885)	(502)
USD	- 1%	(84)	(77)
Other	- 1%	(4)	(5)

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(All amounts in EUR thousand unless otherwise stated)

Note 20 Risk management (cont.)

The table below summarises the Group's and the Bank's exposure to interest rate risk as of 30 September 2018 and 31 December 2017. The table below includes the Group's and the Bank's assets and liabilities at carrying amounts, classified by the earlier of contractual re-pricing or maturity dates.

	30 September 2018						Total
	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	
The Bank							
<u>Assets:</u>							
Sensitive assets to interest rate fluctuation	65,914	48,630	80,467	18,596	15,621	10,999	240,227
Non-sensitive assets to interest rate fluctuation							80,596
<u>Liabilities:</u>							
Sensitive liabilities to interest rate fluctuation	14,185	24,470	28,472	43,116	43,543	27,309	181,095
Non-sensitive liabilities and equity to interest rate fluctuation							139,728
Total interest sensitivity gap	51,729	24,160	51,995	(24,520)	(27,922)	(16,310)	-
	31 December 2017						Total
	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	
The Bank							
<u>Assets:</u>							
Sensitive assets to interest rate fluctuation	39,728	49,740	69,478	20,058	15,406	13,419	207,829
Non-sensitive assets to interest rate fluctuation							78,412
<u>Liabilities:</u>							
Sensitive liabilities to interest rate fluctuation	17,930	23,038	30,194	61,540	23,282	17,091	173,075
Non-sensitive liabilities and equity to interest rate fluctuation							113,166
Total interest sensitivity gap	21,798	26,702	39,284	(41,482)	(7,876)	(3,672)	-
	30 September 2018						Total
	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	
The Group							
<u>Assets:</u>							
Sensitive assets to interest rate fluctuation	65,945	48,702	80,745	19,162	15,983	10,999	241,536
Non-sensitive assets to interest rate fluctuation							80,596
<u>Liabilities:</u>							
Sensitive liabilities to interest rate fluctuation	14,185	24,470	28,472	43,116	43,543	27,309	181,095
Non-sensitive liabilities and equity to interest rate fluctuation							139,728
Total interest sensitivity gap	51,760	24,232	52,273	(23,954)	(27,560)	(16,310)	-

SEPARATE AND CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD AS AT 30TH SEPTEMBER 2018

(All amounts in EUR thousand unless otherwise stated)

Note 20 Risk management (cont.)

The Group	31 December 2017						Total
	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	
Assets:							
Sensitive assets to interest rate fluctuation	39,740	49,768	69,507	19,923	15,542	13,525	208,005
Non-sensitive assets to interest rate fluctuation							77,254
Liabilities:							
Sensitive liabilities to interest rate fluctuation	17,930	23,038	30,194	61,540	23,282	17,091	173,075
Non-sensitive liabilities and equity to interest rate fluctuation							112,183
Total interest sensitivity gap	21,810	26,730	39,313	(41,617)	(7,740)	(3,566)	-

Currency risk

The currency risk is managed by monitoring the risk exposure against the limits established for single open currency position. Positions are monitored on a daily basis. Our policy is to keep foreign exchange positions more or less closed.

The Group and the Bank are exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies, by branches, by subsidiaries and in total. These limits also comply with the minimum requirements of the Bank of Lithuania. The Bank's and the Group's exposure to foreign currency exchange rate risk is as follows:

The Group			The Bank	
30 September 2018	31 December 2017		30 September 2018	31 December 2017
485	320	Long positions	485	320
(125)	(260)	Short positions	(125)	(260)
26,340	21,907	Eligible capital	26,353	21,426
1.84	1.46	Overall net currency position, %	1.84	1.50

The pre-tax impact of changes in currency rates, calculated on linear basis, is presented below:

	30 September 2018	31 December 2017
Increase in FX rates by 10%	36	6
Decrease in FX rates by 10%	(36)	(6)

Note 21 Capital

The primary objectives of the Group's and the Bank's capital management are to ensure that the Group and the Bank comply with externally imposed capital requirements and that the Group and the Bank maintain healthy capital ratios in order to support their business and to maximise the shareholders' value.

The Group's and the Bank's capital management procedures are based on the regulatory capital requirements contained in the Capital Requirements Directive (CRD) and in the Capital Requirements Regulation (CRR) No. 575/2013. According to these requirements capital requirement level is determined on several levels: the minimum capital requirement on first level, an additional capital adequacy requirement to cover potential losses on the second level and a total capital requirements.

2,2 % the additional capital requirement amount is determined 30 September 2018 during supervisory review by the Bank of Lithuania and evaluation process (SREP). Capital requirement was decreased 1.2 percentage points comparing with applied value at the beginning of the year. 30 September 2018 the Group and the Bank require to maintain common equity Tier 1 capital ratio of 9.2 %, Tier 1 capital ratio of 12.7 % and a total capital adequacy ratio of 12.7 %. The Group and the Bank capital adequacy ratio exceeded the required minimum.

During third quarter 2018 the Bank increased the amount of own funds by 1 million EUR of mail shareholder contributions to the reserve capital and 2.1 million EUR of the distributed subordinated bonds on the market. These securities have increased Tier 2 capital.

SEPARATE AND CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD AS AT 30TH SEPTEMBER 2018

(All amounts in EUR thousand unless otherwise stated)

Note 21 Capital (cont.)

Capital adequacy ratio calculation summary is presented in the table below:

The Group			The Bank	
30 September 2018	31 December 2017		30 September 2018	31 December 2017
15.78	14.32	CET 1 Capital ratio	15.45	13.91
15.78	14.32	Tier 1 Capital ratio	15.45	13.91
17.90	15.01	Capital adequacy ratio	17.52	14.59

Note 22 Quality of financial assets, profitability rates and other information

Financial assets quality indicators are given in the table below:

Group			Bank	
Provisions (EUR thousands)	Provisions to financial assets ratio (%)		Provisions (EUR thousands)	Provisions to financial assets ratio (%)
6,837	4.20	Loans to customers	6,795	4.21
243	1.97	Finance lease receivable	243	1.97
40	0.06	Debt securities	40	0.06
6	0.05	Placements with banks	6	0.05
7,126	2.81	Iš viso:	7,084	2.81

Main profitability rates of the bank as at 30 September 2018 are provided in the table below:

Main Profitability Showings

	Ratio (%)
Return on assets (ROA)	0.65
Return on equity (ROE)	6.47

Action applied to the Bank

During the third quarter 2018 there were no action applied to the Medicinos Bankas.