

## CONFIRMATION FROM THE RESPONSIBLE PERSONS

We, Chief Executive Officer of Šiaulių bankas AB Vytautas Sinius and Chief Accountant Vita Adomaitytė, confirm hereby that the provided consolidated financial statements of Šiaulių bankas AB for 2015 are compiled in compliance with applicable accounting standards, correspond to the reality and correctly reveal the assets, liabilities, financial status, activity result and cash flows of Šiaulių bankas AB and its Group of Companies, moreover, we confirm that the review of the business development and activities, the status of the Bank and the Group, alongside with the description of the key risks and indeterminacies incurred, are correctly revealed in the consolidated annual report.

Chief Executive Officer



Vytautas Sinius

Chief Accountant



Vita Adomaitytė

8 March 2016



INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS AND  
ANNUAL REPORT

31 December 2015

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## **Independent Auditor's Report**

To the shareholders of Šiaulių Bankas AB

### **Report on the financial statements**

We have audited the accompanying stand-alone and consolidated financial statements of Šiaulių Bankas AB ("the Bank") and its subsidiaries ("the Group") set out on pages 5 to 100, which comprise the stand-alone and consolidated statements of financial position as of 31 December 2015 and the stand-alone and consolidated income statements, statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information ("the financial statements").

#### *Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these 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.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank and the Group as of 31 December 2015, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



### **Report on other legal and regulatory requirements**

Furthermore, we have read the consolidated annual report for the year ended 31 December 2015 set out on pages 101 to 157 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2015.

On behalf of PricewaterhouseCoopers UAB

A blue ink signature of Rimvydas Jogėla, consisting of a large, stylized 'R' followed by a series of loops and a long horizontal stroke.

Rimvydas Jogėla  
Partner  
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania  
8 March 2016

A blue ink signature of Vytenis Lazauskas, consisting of a large, stylized 'V' followed by a series of loops and a long horizontal stroke.

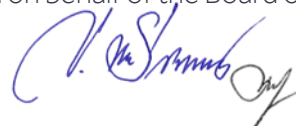
Vytenis Lazauskas  
Auditor's Certificate No.000536

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

	Notes	31 December 2015		31 December 2014	
		Group	Bank	Group	Bank
<b>Continuing operations</b>					
Interest and similar income	1	65,795	57,929	63,211	55,113
Interest expense and similar charges	1	(16,976)	(16,981)	(23,424)	(23,436)
<b>Net interest income</b>		<b>48,819</b>	<b>40,948</b>	<b>39,787</b>	<b>31,677</b>
Fee and commission income	2	12,158	12,002	10,759	10,718
Fee and commission expense	2	(4,119)	(3,743)	(4,254)	(3,635)
<b>Net fee and commission income</b>		<b>8,039</b>	<b>8,259</b>	<b>6,505</b>	<b>7,083</b>
Net gain from operations with securities	3	1,087	866	3,323	2,703
Net foreign exchange gain		3,213	2,689	3,657	3,163
Net loss from derivatives	12	(1,632)	(1,855)	(2,830)	(2,919)
Net gain (loss) from changes in fair value of subordinated loan		(1,165)	(1,165)	330	330
Net gain from derecognition of financial assets	6	4,825	4,825	7,456	7,456
Net gain from disposal of tangible assets	6	2,690	2,765	828	342
Revenue related to other activities of Group companies	5	14,376	-	12,489	-
Other operating income	6	1,861	683	2,154	1,023
Salaries and related expenses		(16,644)	(13,292)	(14,856)	(11,389)
Depreciation and amortization expenses		(1,595)	(1,140)	(1,506)	(1,137)
Expenses related to other activities of Group companies	5	(13,824)	-	(11,711)	-
Other operating expenses	4	(10,818)	(7,993)	(9,185)	(7,177)
<b>Operating profit before impairment losses</b>		<b>39,232</b>	<b>35,590</b>	<b>36,441</b>	<b>31,155</b>
Allowance for impairment losses on loans and other assets	7	(23,032)	(16,918)	(20,764)	(17,141)
Allowance for impairment losses on investments in subsidiaries and loss on remeasurement of subsidiaries classified as held for sale	7, 20	-	(15,163)	-	(7,401)
Dividends from investments in subsidiaries and subsidiaries classified as held for sale	20, 29	-	18,374	-	6,097
<b>Profit from continuing operations before income tax</b>		<b>16,200</b>	<b>21,883</b>	<b>15,677</b>	<b>12,710</b>
Income tax expense	8	(1,019)	(953)	(2,009)	(1,814)
<b>Profit from continuing operations</b>		<b>15,181</b>	<b>20,930</b>	<b>13,668</b>	<b>10,896</b>
Profit (loss) from discontinued operations, net of tax	20	8,638	221	(1,894)	(292)
<b>Net profit for the year</b>		<b>23,819</b>	<b>21,151</b>	<b>11,774</b>	<b>10,604</b>
<b>Net profit attributable to:</b>					
Owners of the Bank		23,819	21,151	11,774	10,604
From continuing operations		15,181	20,930	13,668	10,896
From discontinued operations		8,638	221	(1,894)	(292)
Non-controlling interest		-	-	-	-
<b>Basic earnings per share (in EUR per share) attributable to owners of the Bank</b>		<b>0.08</b>		<b>0.04</b>	
From continuing operations	9	0.05		0.05	
From discontinued operations	9	0.03		(0.01)	
<b>Diluted earnings per share (in EUR per share) attributable to owners of the Bank</b>		<b>0.08</b>		<b>0.04</b>	
From continuing operations	9	0.05		0.05	
From discontinued operations	9	0.03		(0.01)	

These financial statements were approved by the Bank's Board and signed on behalf of the Board on 8 March 2016 by:

Chief Executive Officer



Vytautas Sinius

Chief accountant

Vita Adomaitytė

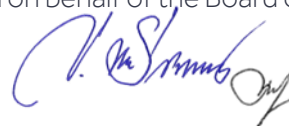
The accounting policies and notes on pages 10 to 100 constitute an integral part of these financial statements.

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

	Notes	31 December 2015		31 December 2014	
		Group	Bank	Group	Bank
<b>Net profit for the year</b>		<b>23,819</b>	<b>21,151</b>	<b>11,774</b>	<b>10,604</b>
<b>Other comprehensive income (loss)</b>					
Items that may be subsequently reclassified to profit or loss:					
Financial assets valuation gains taken to equity	15	790	868	2,559	2,559
Financial assets valuation result transferred to profit or loss	15	(287)	(365)	(1,167)	(1,167)
Amortisation of revaluation related to portfolio reclassified to held-to-maturity category	15	(57)	(57)	(104)	(104)
Deferred income tax on gain from revaluation of financial assets	8, 15	(66)	(66)	(196)	(196)
<b>Other comprehensive income, net of deferred tax</b>		<b>380</b>	<b>380</b>	<b>1,092</b>	<b>1,092</b>
<b>Total comprehensive income for the year</b>		<b>24,199</b>	<b>21,531</b>	<b>12,866</b>	<b>11,696</b>
<b>Total comprehensive income (loss) attributable to:</b>					
Owners of the Bank		24,199	21,531	12,866	11,696
From continuing operations		15,561	21,310	14,760	11,988
From discontinued operations		8,638	221	(1,894)	(292)
Non-controlling interest (from continuing operations)		-	-	-	-
		24,199	21,531	12,866	11,696

These financial statements were approved by the Bank's Board and signed on behalf of the Board on 8 March 2016 by:

Chief Executive Officer



Vytautas Sinius

Chief accountant

Vita Adomaitytė

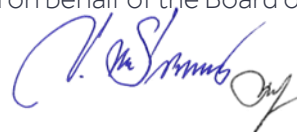
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**THE GROUP'S AND THE BANK'S STATEMENTS OF FINANCIAL POSITION**

	31 December 2015			31 December 2014	
	Notes	Group	Bank	Group	Bank
ASSETS					
Cash and cash equivalents	10	105,012	104,286	197,436	196,481
Securities at fair value through profit or loss	12	71,116	42,726	52,098	56,068
Due from other banks	11	6,529	6,499	5,665	5,265
Derivative financial instruments	12	9,292	8,754	7,097	6,650
Loans to customers	13	851,296	912,669	720,191	790,756
Finance lease receivables	14	57,812	1,145	53,670	3,068
Investment securities:					
available-for-sale -	15	20,468	19,821	22,118	21,844
held-to-maturity -	15	494,645	494,645	454,116	447,757
Investments in subsidiaries and associates	16	-	32,175	-	29,686
Intangible assets	17	3,770	798	3,325	412
Property, plant and equipment	18	10,946	10,023	11,223	10,083
Investment property	26	18,348	3,291	20,166	3,303
Current income tax prepayment		46	-	83	-
Deferred income tax asset	8	1,385	46	622	-
Inventories	19	30,490	-	35,542	-
Other financial assets	19	2,551	2,169	667	135
Other non-financial assets	19	11,064	4,922	18,433	10,978
Assets classified as held for sale	20	270	13,888	37,557	27,620
Total assets		1,695,040	1,657,857	1,640,009	1,610,106
LIABILITIES					
Due to other banks and financial institutions	21	50,376	53,383	55,839	61,979
Derivative financial instruments	12	136	136	-	-
Due to customers	22	1,436,388	1,436,712	1,415,313	1,415,716
Special and lending funds	23	8,191	8,191	2,499	2,499
Subordinated loan	30	20,457	20,457	19,295	19,295
Current income tax liabilities		1,322	947	919	535
Deferred income tax liabilities	8	977	-	1,360	108
Liabilities related to insurance activities	24	23,515	-	19,945	-
Other financial liabilities	25	8,412	5,034	7,094	3,936
Other non-financial liabilities	25	4,673	484	7,235	1,309
Liabilities related to assets classified as held for sale	20	3,529	-	3,898	-
Total liabilities		1,557,976	1,525,344	1,533,397	1,505,377
EQUITY					
Share capital	27	91,226	91,226	78,197	78,197
Share premium	27	-	-	3,684	3,684
Reserve capital	27	756	756	756	756
Statutory reserve	27	2,468	2,290	1,450	1,275
Financial assets revaluation reserve		896	896	516	516
Retained earnings		41,718	37,345	22,009	20,301
Non-controlling interest		-	-	-	-
Total equity		137,064	132,513	106,612	104,729
Total liabilities and equity		1,695,040	1,657,857	1,640,009	1,610,106

These financial statements were approved by the Bank's Board and signed on behalf of the Board on 8 March 2016 by:

Chief Executive Officer



Vytautas Sinius

Chief accountant

Vita Adomaitytė

The accounting policies and notes on pages 10 to 100 constitute an integral part of these financial statements.



## 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									
<b>1 January 2014</b>	<b>72,405</b>	<b>9,476</b>	<b>756</b>	<b>(576)</b>	<b>939</b>	<b>10,746</b>	<b>93,746</b>	<b>145</b>	<b>93,891</b>
Transfer to statutory reserve	-	-	-	-	511	(511)	-	-	-
Increase in share capital through bonus issue of shares	27 5,792	(5,792)	-	-	-	-	-	-	-
Acquisition of subsidiary	-	-	-	-	-	-	-	(145)	(145)
Total comprehensive income:	-	-	-	1,092	-	11,774	12,866	-	12,866
Net profit	-	-	-	-	-	11,774	11,774	-	11,774
Other comprehensive income	-	-	-	1,092	-	-	1,092	-	1,092
<b>31 December 2014</b>	<b>78,197</b>	<b>3,684</b>	<b>756</b>	<b>516</b>	<b>1,450</b>	<b>22,009</b>	<b>106,612</b>	<b>-</b>	<b>106,612</b>
Transfer to statutory reserve	-	-	-	-	1,018	(1,018)	-	-	-
Payment of dividends	29 -	-	-	-	-	(196)	(196)	-	(196)
Increase in share capital through bonus issue of shares	27 6,734	(3,684)	-	-	-	(3,050)	-	-	-
Increase in share capital on business combination	6,192	-	-	-	-	257	6,449	-	6,449
Currency change of share capital	27 103	-	-	-	-	(103)	-	-	-
Total comprehensive income:	-	-	-	380	-	23,819	24,199	-	24,199
Net profit	-	-	-	-	-	23,819	23,819	-	23,819
Other comprehensive income	-	-	-	380	-	-	380	-	380
<b>31 December 2015</b>	<b>91,226</b>	<b>-</b>	<b>756</b>	<b>896</b>	<b>2,468</b>	<b>41,718</b>	<b>137,064</b>	<b>-</b>	<b>137,064</b>

## THE BANK'S STATEMENT OF CHANGES IN EQUITY

Notes	Share capital	Share premium	Reserve capital	Financial assets revaluation	Statutory reserve	Retained earnings	Total
<b>1 January 2014</b>	<b>72,405</b>	<b>9,476</b>	<b>756</b>	<b>(576)</b>	<b>764</b>	<b>10,208</b>	<b>93,033</b>
Transfer to statutory reserve	-	-	-	-	511	(511)	-
Increase in share capital through bonus issue of shares	27 5,792	(5,792)	-	-	-	-	-
Total comprehensive income:	-	-	-	1,092	-	10,604	11,696
Net profit	-	-	-	-	-	10,604	10,604
Other comprehensive income	-	-	-	1,092	-	-	1,092
<b>31 December 2014</b>	<b>78,197</b>	<b>3,684</b>	<b>756</b>	<b>516</b>	<b>1,275</b>	<b>20,301</b>	<b>104,729</b>
Transfer to statutory reserve	-	-	-	-	1,015	(1,015)	-
Payment of dividends	29 -	-	-	-	-	(196)	(196)
Increase in share capital through bonus issue of shares	27 6,734	(3,684)	-	-	-	(3,050)	-
Increase in share capital on business combination	6,192	-	-	-	-	257	6,449
Currency change of share capital	27 103	-	-	-	-	(103)	-
Total comprehensive income:	-	-	-	380	-	21,151	21,531
Net profit	-	-	-	-	-	21,151	21,151
Other comprehensive income	-	-	-	380	-	-	380
<b>31 December 2015</b>	<b>91,226</b>	<b>-</b>	<b>756</b>	<b>896</b>	<b>2,290</b>	<b>37,345</b>	<b>132,513</b>

The accounting policies and notes on pages 10 to 100 constitute an integral part of these financial statements.

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

	Year ended				
	31 December 2015		31 December 2014		
	Notes	Group	Bank	Group	Bank
<b>Operating activities</b>					
Interest received on loans and advances		49,937	41,700	50,104	40,815
Interest received on debt securities at fair value through profit or loss		2,760	2,758	918	918
Interest paid		(19,087)	(19,092)	(23,424)	(23,436)
Fees and commissions received		12,158	12,002	9,425	9,384
Fees and commissions paid		(4,119)	(3,743)	(4,254)	(3,635)
Cash inflows from trade in securities at fair value through profit or loss		5,747	5,303	2,542	1,852
Net inflows from foreign exchange operations		3,437	2,914	4,108	3,613
Recoveries on loans previously written off		1,178	260	1,069	37
Salaries and related payments to and on behalf of employees		(16,661)	(13,263)	(14,680)	(11,154)
Other net cash receipts (payments)		6,268	(4,143)	1,359	577
Income tax paid		(1,561)	(538)	(999)	-
<b>Net cash flow from operating activities before change in operating assets and liabilities</b>		<b>40,057</b>	<b>24,158</b>	<b>26,168</b>	<b>18,971</b>
<b>Change in operating assets and liabilities:</b>					
(Increase) decrease in securities at fair value through profit or loss		20,768	47,089	(9,601)	2,634
Increase in loans to credit and financial institutions		(546)	(1,234)	(3,195)	(3,528)
Increase in loans to customers		(131,300)	(133,359)	(5,885)	(20,227)
Decrease (Increase) in other current assets		32,540	2,951	(14,761)	(5,026)
Decrease in liabilities to credit and financial institutions		(5,597)	(8,730)	(21,005)	(25,572)
(Decrease) increase in deposits		(37,916)	(32,108)	103,555	103,731
Increase in special and lending funds		5,692	5,692	369	369
Increase (decrease) in other liabilities		531	3,046	(563)	(1,407)
<b>Change</b>		<b>(115,828)</b>	<b>(116,653)</b>	<b>48,914</b>	<b>50,974</b>
<b>Net cash flow (used in) from operating activities</b>		<b>(75,771)</b>	<b>(92,495)</b>	<b>75,082</b>	<b>69,945</b>
<b>Investing activities</b>					
Acquisition of property, plant and equipment, investment property and intangible assets		(5,993)	(3,165)	(8,247)	(950)
Disposal of property, plant and equipment, investment property and intangible assets		11,039	7,348	15,714	10,793
Acquisition of held-to-maturity securities		(165,939)	(165,939)	(165,995)	(162,773)
Proceeds from redemption of held-to-maturity securities		118,516	118,977	91,856	91,797
Interest received on held-to-maturity securities		11,795	11,754	11,845	11,762
Dividends received		85	18,459	92	6,170
Acquisition of available-for-sale securities		(24,045)	(23,625)	(37,297)	(37,271)
Sale or redemption of available-for-sale securities		25,862	25,815	71,228	71,217
Interest received on available-for-sale securities		1,056	1,056	715	715
Disposal of subsidiaries		-	2,350	666	666
Business acquisition		11,166	14,691	(114)	(114)
Instalments to cover losses and to strengthen the capital of subsidiaries	16	-	(7,226)	-	(4,779)
<b>Net cash flow from (used in) investing activities</b>		<b>(16,458)</b>	<b>495</b>	<b>(19,537)</b>	<b>(12,767)</b>
<b>Financing activities</b>					
Payment of dividends	29	(195)	(195)	(4)	(4)
Payment to minority shareholders		-	-	(145)	-
<b>Net cash flow from (used in) financing activities</b>		<b>(195)</b>	<b>(195)</b>	<b>(149)</b>	<b>(4)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>					
		<b>(92,424)</b>	<b>(92,195)</b>	<b>55,396</b>	<b>57,174</b>
<b>Cash and cash equivalents at 1 January</b>		<b>197,436</b>	<b>196,481</b>	<b>142,040</b>	<b>139,307</b>
<b>Cash and cash equivalents at 31 December</b>	<b>10</b>	<b>105,012</b>	<b>104,286</b>	<b>197,436</b>	<b>196,481</b>

The accounting policies and notes on pages 10 to 100 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 70 customer service outlets (2014: 74 outlets). As at 31 December 2015 the Bank had 719 employees (31 December 2014: 677). As at 31 December 2015 the Group (except subsidiaries held for sale) had 861 employees (31 December 2014: 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 2015 the Bank owned the following directly controlled subsidiaries:

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

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

9. Sandworks UAB (real estate management activities).

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

10. Trade Project UAB (real estate management activities),
11. Investicinio Turto Valdymas UAB (real estate management activities),
- 12-16. ŽSA 1 UAB, ŽSA 2 UAB, ŽSA 3 UAB, ŽSA 4 UAB, ŽSA 5 UAB (real estate management activities).

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

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

#### As of 31 December 2014 the Bank owned the following directly controlled subsidiaries:

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

#### As of 31 December 2014 the Bank owned the following indirectly controlled subsidiaries:

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

#### As of 31 December 2014 the Bank owned directly controlled subsidiaries held for sale:

11. Sporto Klubų Investicijos UAB (real estate management activities),
12. Trade Project UAB (real estate management activities),
13. Investicinio Turto Valdymas UAB (real estate management activities),
- 14.-18. ŽSA 1 UAB, ŽSA 2 UAB, ŽSA 3 UAB, ŽSA 4 UAB, ŽSA 5 UAB (real estate management activities).

#### As of 31 December 2014 the Bank had the indirectly controlled subsidiaries held for sale:

19. Kedainių Oda UAB (leather processing, production activities),
20. Žalgirio Sporto Arena UAB (real estate management activities),
21. Nacionalinis Futbolo Stadionas UAB (development of the football stadium).

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

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

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

### ACQUISITION OF FINASTA

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

The management of the Bank expects that acquisition and integration of these entities will allow the Bank to increase its market share, to expand the range of services provided with the investment-banking related services and to achieve the economy of scale.

### GENERAL INFORMATION (continued)

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

*Fair value of net assets acquired:*

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

**Fair value of the consideration paid in issued shares** **6,449**

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

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

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

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

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

## ACCOUNTING POLICIES

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

### Basis of preparation

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

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

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

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

### Amendments to existing standards and interpretations effective in 2015

IFRIC 21 – Levies (effective for annual periods beginning on or after 17 June 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The interpretation did not have a material impact on the Bank's and the Group's financial statements.

Annual Improvements to IFRSs 2013 (effective for annual periods beginning on or after 1 January 2015). The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The amendments did not have a material impact on the Bank's and the Group's financial statements.

## ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

**Equity Method in Separate Financial Statements - Amendments to IAS 27** (effective for annual periods beginning on or after 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Group is currently assessing if the alternative accounting treatment of the amendments will be introduced to its separate financial statements.

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

### ACCOUNTING POLICIES (continued)

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

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

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

IFRS 9, Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). Key features of the new standard are:

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

The Group is currently starting to prepare for the introduction of this new accounting standard.



## ACCOUNTING POLICIES (continued)

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

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

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

### 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.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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.



## ACCOUNTING POLICIES (continued)

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

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

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

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

### Foreign currency translation

#### *(a) Functional and presentation currency*

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

#### *(b) Transactions and balances*

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

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

### Off-setting financial instruments

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

### Recognition of income and expenses

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

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

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

### Dividend income

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

## ACCOUNTING POLICIES (continued)

### Taxation

#### a) *Income tax*

In accordance with the Lithuanian Law on Corporate Profit Tax, taxable profit for 2014 and 2015 period is subject to income tax at a rate of 15%. Expenses related to taxation charges and included in these financial statements are based on calculations made by the management in accordance with the Lithuanian regulatory legislation on taxes.

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

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

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

#### b) *Other taxes*

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

### 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.

## ACCOUNTING POLICIES (continued)

### **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.

## ACCOUNTING POLICIES (continued)

### Impairment of non-financial assets

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

### Reverse repurchase transactions

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

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

### Intangible assets

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

### Property, plant and equipment

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

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

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

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

### Leases

#### *a) Group company is the lessee*

##### Operating leases

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

#### *b) Group company is the lessor*

##### Operating leases

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

##### Finance leases

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

## ACCOUNTING POLICIES (continued)

### 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.

## ACCOUNTING POLICIES (continued)

### 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. 3.5% p.a. of guaranteed interest rate is applied for agreements signed in the year 2002, 0.86 % p.a. of maximum technical interest rate – for agreements signed from 1 October 2000 to 31 December 2001 and from 1 January 2003 to 31 August 2015, 0.75% of guaranteed interest rate – for agreements signed from 1 September 2015 to 31 December 2015. Maximum technical interest rate as of 31 December 2015 was 0.86% (31 December 2014: 1.53%).

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

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

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

## Insurance contracts

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

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

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

Benefits are recorded as expenses when they are incurred.

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

## ACCOUNTING POLICIES (continued)

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 as 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 2015 and 2014 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 2014	19,634	485	12,657	6,492
Change for the period	3,686	101	3,201	383
At 31 December 2015	23,320	586	15,858	6,875

### Dividends

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

### Employee benefits

#### a) Social security contributions

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

#### b) Termination benefits

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



## ACCOUNTING POLICIES (continued)

### Segment information

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

The Group has seven main business segments:

- Šiauliai region – includes banking operations (retail and corporate banking) performed in Šiauliai region;
- Vilnius region – includes banking operations (retail and corporate banking) performed in Vilnius region;
- Klaipėda region – includes banking operations (retail and corporate banking) performed in Klaipėda region;
- Kaunas region – includes banking operations (retail and corporate banking) performed in Kaunas region;
- Headquarters – incorporates treasury and support services (IT, management, administration and other services) provided to other banking operations segments of the Group;
- Leasing activities – includes finance, operating lease and consumer financing services provided to customers of the Group (includes financial information of Šiaulių Banko Lizingas UAB and SB Lizingas UAB);
- Other – includes development of real estate projects, life insurance and other businesses (includes financial information of subsidiaries 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 judgment 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.



## ACCOUNTING POLICIES (continued)

### 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 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 relevantly be divided into two types:

- 1) Measures that help to avoid decisions to grant unsecured loans;
- 2) Measures ensuring the effective monitoring system of the Bank's asset quality.

Measures that help to avoid decisions to grant unwarrantably risky credits include:

- 1) Multi-stage decision-making and its approval system;
- 2) Risk allocation among structural levels – limit establishment;
- 3) Security measures for credit repayment (collateral).

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

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

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

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

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

#### (b) Debt securities

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

#### (c) Credit-related commitments

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

## FINANCIAL RISK MANAGEMENT (continued)

### 1.2. Risk limit control and mitigation policies

#### (a) Concentrations

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

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

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

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

Some other specific control and mitigation measures are outlined below.

#### b) Collateral

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

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

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

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

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

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

### 1.3. Impairment and provisioning policies

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

The Group and the Bank carries out valuation of assets on a monthly basis, based on valuation policies approved by the Board of the Bank. The amount of impairment provision 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 following loss events are considered by the Group and the Bank when estimating provision for loan impairment. Events that may cause loss in future cannot be recognized as a loss event on the loan evaluation day.

### FINANCIAL RISK MANAGEMENT (continued)

The list of loss events:

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

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

	2015		2014	
	Group	Bank	Group	Bank
<b>Loans and advances to banks</b>	<b>6,529</b>	<b>6,499</b>	<b>5,665</b>	<b>5,265</b>
<b>Loans and advances to customers:</b>	<b>851,296</b>	<b>912,669</b>	<b>720,191</b>	<b>790,756</b>
Loans and advances to financial institutions	27	98,986	9	58,600
Loans to individuals (Retail):	110,019	61,528	103,114	56,233
Consumer loans	55,580	7,487	53,089	7,224
Mortgages	31,380	31,380	28,371	28,371
Credit cards	1,327	931	1,920	907
Other (reverse repurchase agreements, other loans backed by securities, other)	21,732	21,730	19,734	19,731
Loans to business customers:	741,250	752,155	617,068	675,923
Large corporates	45,263	45,263	46,204	46,204
SME	499,598	510,503	464,967	523,826
Central and local authorities, administrative bodies and other	196,389	196,389	105,897	105,893
<b>Finance lease receivables</b>	<b>57,812</b>	<b>1,145</b>	<b>53,670</b>	<b>3,068</b>
Individuals	8,328	-	5,328	-
Business customers	49,484	1,145	48,342	3,068
<b>Securities at fair value through profit or loss:</b>	<b>55,730</b>	<b>42,388</b>	<b>38,770</b>	<b>55,956</b>
Debt securities	55,730	42,388	38,770	55,956
<b>Derivative financial instruments</b>	<b>9,292</b>	<b>8,754</b>	<b>7,097</b>	<b>6,650</b>
<b>Securities available for sale</b>	<b>18,014</b>	<b>17,612</b>	<b>21,316</b>	<b>21,316</b>
Debt securities	18,014	17,612	21,316	21,316
<b>Investment securities held to maturity</b>	<b>494,645</b>	<b>494,645</b>	<b>454,116</b>	<b>447,757</b>
Debt securities	494,645	494,645	454,116	447,757
<b>Other assets subject to credit risk</b>	<b>6,658</b>	<b>5,557</b>	<b>4,474</b>	<b>3,435</b>
Credit risk exposures relating to off-balance sheet items are as follows:				
Financial guarantees	22,255	22,282	29,202	29,219
Letters of credit	5,929	5,929	315	315
Loan commitments and other credit related liabilities	111,967	116,259	101,444	103,704
<b>At 31 December</b>	<b>1,640,127</b>	<b>1,633,739</b>	<b>1,436,260</b>	<b>1,467,441</b>

The table above represents a worst case scenario of credit risk exposure at 31 December 2015 and 2014, 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.

### FINANCIAL RISK MANAGEMENT (continued)

#### 1.5. Loans and advances

Loans and advances are summarised as follows:

	2015		2014	
	Group	Bank	Group	Bank
Loans to business customers	849,105	958,899	760,392	876,630
Loans to individuals	117,765	64,618	111,133	59,488
Subtract: Difference between acquisition value and gross value *	(72,908)	(72,908)	(103,698)	(103,698)
<b>Gross</b>	<b>893,962</b>	<b>950,609</b>	<b>767,827</b>	<b>832,420</b>
Subtract: Allowance for impairment	(42,666)	(37,940)	(47,636)	(41,664)
of which: for individually assessed loans	(41,395)	(37,000)	(47,261)	(41,664)
of which: for collectively assessed loans	(1,271)	(940)	(375)	-
<b>Net</b>	<b>851,296</b>	<b>912,669</b>	<b>720,191</b>	<b>790,756</b>

\* 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 2015

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

31 December 2014

	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	609,683	9	628,490	58,600
Past due but not individually impaired	84,323	-	80,215	-
Individually impaired	73,812	-	65,115	-
<b>Gross</b>	<b>767,818</b>	<b>9</b>	<b>773,820</b>	<b>58,600</b>
Less: allowance for impairment	(47,636)	-	(41,664)	-
of which: for individually assessed loans	(47,261)	-	(41,664)	-
of which: for collectively assessed loans	(375)	-	-	-
<b>Net</b>	<b>720,182</b>	<b>9</b>	<b>732,156</b>	<b>58,600</b>

During the year ended 31 December 2015, the Group's gross loans and advances increased by 16.43%. The Group's total impairment provision for loans and advances amounts to EUR 42,666 thousand (2014: EUR 47,636 thousand) and it accounts for 4.77% of the respective portfolio (2014: 6.20%). The Group's impaired loans and advances to customers comprise 7.60% of the total portfolio (2014: 9.61%).

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.

### FINANCIAL RISK MANAGEMENT (continued)

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

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

31 December 2015

<i>Group loans to individuals (retail)</i>					
	Consumer loans	Mortgages	Credit cards	Other	Total
Standard	49,222	20,293	1,102	12,761	83,378
Watch	50	4,110	20	4,095	8,275
Substandard	2	3,201	4	2,500	5,707
<b>Gross</b>	<b>49,274</b>	<b>27,604</b>	<b>1,126</b>	<b>19,356</b>	<b>97,360</b>
Allowance for impairment of collectively assessed loans	(273)	(28)	(1)	(20)	(322)
<b>Net</b>	<b>49,001</b>	<b>27,576</b>	<b>1,125</b>	<b>19,336</b>	<b>97,038</b>

<i>Group loans to business customers</i>					
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Standard	253,129	36,253	27	80,694	370,103
Watch	165,675	7,058	-	60,274	233,007
Substandard	20,162	-	-	283	20,445
<b>Total</b>	<b>438,966</b>	<b>43,311</b>	<b>27</b>	<b>141,251</b>	<b>623,555</b>
Allowance for impairment of collectively assessed loans	(565)	(45)	-	(145)	(755)
<b>Net</b>	<b>438,401</b>	<b>43,266</b>	<b>27</b>	<b>141,106</b>	<b>622,800</b>

31 December 2014

<i>Group loans to individuals (retail)</i>					
	Consumer loans	Mortgages	Credit cards	Other	Total
Standard	46,627	18,366	1,579	6,951	73,523
Watch	75	3,576	28	8,233	11,912
Substandard	3	2,708	17	2,432	5,160
<b>Gross</b>	<b>46,705</b>	<b>24,650</b>	<b>1,624</b>	<b>17,616</b>	<b>90,595</b>
Allowance for impairment of collectively assessed loans	(281)	-	(2)	-	(283)
<b>Net</b>	<b>46,424</b>	<b>24,650</b>	<b>1,622</b>	<b>17,616</b>	<b>90,312</b>

<i>Group loans to business customers</i>					
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Standard	197,085	29,435	9	76,199	302,728
Watch	175,404	14,406	-	13,248	203,058
Substandard	12,117	-	-	1,194	13,311
<b>Total</b>	<b>384,606</b>	<b>43,841</b>	<b>9</b>	<b>90,641</b>	<b>519,097</b>

31 December 2015

<i>Bank loans to individuals (retail)</i>					
	Consumer loans	Mortgages	Credit cards	Other	Total
Standard	6,900	20,293	907	12,761	40,861
Watch	50	4,110	15	4,095	8,270
Substandard	2	3,201	-	2,500	5,703
<b>Total</b>	<b>6,952</b>	<b>27,604</b>	<b>922</b>	<b>19,356</b>	<b>54,834</b>
Allowance for impairment of collectively assessed loans	(7)	(28)	(1)	(20)	(56)
<b>Net</b>	<b>6,945</b>	<b>27,576</b>	<b>921</b>	<b>19,336</b>	<b>54,778</b>

<i>Bank loans to business customers</i>					
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Standard	261,249	36,253	98,986	80,694	477,182
Watch	170,838	7,058	-	60,274	238,170
Substandard	17,833	-	-	283	18,116
<b>Total</b>	<b>449,920</b>	<b>43,311</b>	<b>98,986</b>	<b>141,251</b>	<b>733,468</b>
Allowance for impairment of collectively assessed loans	(565)	(45)	-	(145)	(755)
<b>Net</b>	<b>449,355</b>	<b>43,266</b>	<b>98,986</b>	<b>141,106</b>	<b>732,713</b>

### FINANCIAL RISK MANAGEMENT (continued)

31 December 2014

<i>Bank loans to individuals (retail)</i>					
	Consumer loans	Mortgages	Credit cards	Other	Total
<i>Standard</i>	6,447	18,366	878	6,951	32,642
<i>Watch</i>	75	3,576	11	8,233	11,895
<i>Substandard</i>	3	2,708	-	2,432	5,143
<b>Total</b>	<b>6,525</b>	<b>24,650</b>	<b>889</b>	<b>17,616</b>	<b>49,680</b>

<i>Bank loans to business customers</i>					
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
<i>Standard</i>	254,903	29,435	58,600	76,195	419,133
<i>Watch</i>	177,313	14,406	-	13,248	204,967
<i>Substandard</i>	12,116	-	-	1,194	13,310
<b>Total</b>	<b>444,332</b>	<b>43,841</b>	<b>58,600</b>	<b>90,637</b>	<b>637,410</b>

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 2015

<i>Group loans to individuals (retail)</i>					
	Consumer loans	Mortgages	Credit cards	Other	Total
<i>Past due up to 30 days</i>	3,071	1,743	13	1,113	5,940
<i>Past due 30-60 days</i>	8	203	-	314	525
<i>Past due 60-90 days</i>	4	196	-	104	304
<i>Past due more than 90 days</i>	11	848	-	443	1,302
<b>Gross</b>	<b>3,094</b>	<b>2,990</b>	<b>13</b>	<b>1,974</b>	<b>8,071</b>
<i>Allowance for impairment of collectively assessed loans</i>	(65)	(3)	-	(2)	(70)
<b>Net</b>	<b>3,029</b>	<b>2,987</b>	<b>13</b>	<b>1,972</b>	<b>8,001</b>
<i>Fair value of collateral</i>	106	2,890	-	1,779	4,775

<i>Group loans to business customers</i>				
	SME	Large corporates	Central and local authorities and other	Total
<i>Past due up to 30 days</i>	19,267	1,696	54,015	74,978
<i>Past due 30-60 days</i>	1,632	18	-	1,650
<i>Past due 60-90 days</i>	1,201	-	68	1,269
<i>Past due more than 90 days</i>	18,858	285	-	19,143
<b>Gross</b>	<b>40,958</b>	<b>1,999</b>	<b>54,083</b>	<b>97,040</b>
<i>Allowance for impairment of collectively assessed loans</i>	(42)	(2)	(57)	(101)
<b>Net</b>	<b>40,916</b>	<b>1,997</b>	<b>54,026</b>	<b>96,939</b>
<i>Fair value of collateral</i>	39,970	1,996	99	42,065



### FINANCIAL RISK MANAGEMENT (continued)

31 December 2014

<i>Group loans to individuals (retail)</i>					
	Consumer loans	Mortgages	Credit cards	Other	Total
<i>Past due up to 30 days</i>	3,309	1,443	34	1,381	6,167
<i>Past due 30-60 days</i>	12	377	-	84	473
<i>Past due 60-90 days</i>	3	103	-	84	190
<i>Past due more than 90 days</i>	13	763	-	122	898
<b>Gross</b>	<b>3,337</b>	<b>2,686</b>	<b>34</b>	<b>1,671</b>	<b>7,728</b>
<i>Allowance for impairment of collectively assessed loans</i>	(91)	-	(1)	-	(92)
<b>Net</b>	<b>3,246</b>	<b>2,686</b>	<b>33</b>	<b>1,671</b>	<b>7,636</b>
<i>Fair value of collateral</i>	206	2,674	-	1,621	4,501

<i>Group loans to business customers</i>				
	SME	Large corporates	Central and local authorities and other	Total
<i>Past due up to 30 days</i>	17,504	2,094	14,930	34,528
<i>Past due 30-60 days</i>	13,363	270	-	13,633
<i>Past due 60-90 days</i>	2,497	-	-	2,497
<i>Past due more than 90 days</i>	25,856	-	81	25,937
<b>Total</b>	<b>59,220</b>	<b>2,364</b>	<b>15,011</b>	<b>76,595</b>
<i>Fair value of collateral</i>	57,179	2,258	81	59,518

31 December 2015

<i>Bank loans to individuals (retail)</i>					
	Consumer loans	Mortgages	Credit cards	Other	Total
<i>Past due up to 30 days</i>	392	1,743	5	1,113	3,253
<i>Past due 30-60 days</i>	3	203	-	314	520
<i>Past due 60-90 days</i>	-	196	-	104	300
<i>Past due more than 90 days</i>	7	848	-	441	1,296
<b>Gross</b>	<b>402</b>	<b>2,990</b>	<b>5</b>	<b>1,972</b>	<b>5,369</b>
<i>Allowance for impairment of collectively assessed loans</i>	-	(3)	-	(2)	(5)
<b>Net</b>	<b>402</b>	<b>2,987</b>	<b>5</b>	<b>1,970</b>	<b>5,364</b>
<i>Fair value of collateral</i>	106	2,890	-	1,779	4,775

<i>Bank loans to business customers</i>				
	SME	Large corporates	Central and local authorities and other	Total
<i>Past due up to 30 days</i>	19,267	1,696	54,015	74,978
<i>Past due 30-60 days</i>	1,632	18	-	1,650
<i>Past due 60-90 days</i>	1,201	-	68	1,269
<i>Past due more than 90 days</i>	18,858	285	-	19,143
<b>Gross</b>	<b>40,958</b>	<b>1,999</b>	<b>54,083</b>	<b>97,040</b>
<i>Allowance for impairment of collectively assessed loans</i>	(42)	(2)	(57)	(101)
<b>Net</b>	<b>40,916</b>	<b>1,997</b>	<b>54,026</b>	<b>96,939</b>
<i>Fair value of collateral</i>	39,970	1,996	99	42,065

31 December 2014

<i>Bank loans to individuals (retail)</i>					
	Consumer loans	Mortgages	Credit cards	Other	Total
<i>Past due up to 30 days</i>	519	1,444	1	1,381	3,345
<i>Past due 30-60 days</i>	5	378	-	84	467
<i>Past due 60-90 days</i>	2	103	-	84	189
<i>Past due more than 90 days</i>	9	763	-	122	894
<b>Total</b>	<b>535</b>	<b>2,688</b>	<b>1</b>	<b>1,671</b>	<b>4,895</b>
<i>Fair value of collateral</i>	206	2,674	-	1,621	4,501

<i>Bank loans to business customers</i>				
	SME	Large corporates	Central and local authorities and other	Total
<i>Past due up to 30 days</i>	17,504	2,094	14,930	34,528
<i>Past due 30-60 days</i>	13,363	270	-	13,633
<i>Past due 60-90 days</i>	1,290	-	-	1,290
<i>Past due more than 90 days</i>	25,788	-	81	25,869
<b>Total</b>	<b>57,945</b>	<b>2,364</b>	<b>15,011</b>	<b>75,320</b>
<i>Fair value of collateral</i>	55,991	2,258	81	58,330

### FINANCIAL RISK MANAGEMENT (continued)

#### 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 2015

<i>Group loans to individuals (retail)</i>					
	Consumer loans	Mortgages	Credit cards	Other	Total
<i>Impaired loans</i>	7,571	1,822	639	1,280	11,312
<i>Allowance for impairment of individually assessed loans</i>	(4,021)	(1,004)	(450)	(856)	(6,331)
<i>Allowance for impairment of collectively assessed loans</i>	-	(1)	-	-	(1)
<b>Net</b>	<b>3,550</b>	<b>817</b>	<b>189</b>	<b>424</b>	<b>4,980</b>
<i>Fair value of collateral</i>	70	1,061	-	569	1,700

<i>Group loans to business customers</i>				
	SME	Large corporates	Central and local authorities and other	Total
<i>Impaired loans</i>	54,699	-	1,925	56,624
<i>Allowance for impairment of individually assessed loans</i>	(34,397)	-	(667)	(35,064)
<i>Allowance for impairment of collectively assessed loans</i>	(21)	-	(1)	(22)
<b>Net</b>	<b>20,281</b>	<b>-</b>	<b>1,257</b>	<b>21,538</b>
<i>Fair value of collateral</i>	37,716	-	1,889	39,605

31 December 2014

<i>Group loans to individuals (retail)</i>					
	Consumer loans	Mortgages	Credit cards	Other	Total
<i>Impaired loans</i>	7,264	2,313	1,031	1,047	11,655
<i>Allowance for impairment of individually assessed loans</i>	(3,845)	(1,279)	(765)	(600)	(6,489)
<b>Net</b>	<b>3,419</b>	<b>1,034</b>	<b>266</b>	<b>447</b>	<b>5,166</b>
<i>Fair value of collateral</i>	148	1,312	-	482	1,942

<i>Group loans to business customers</i>				
	SME	Large corporates	Central and local authorities and other	Total
<i>Impaired loans</i>	61,578	-	579	62,157
<i>Allowance for impairment of individually assessed loans</i>	(40,437)	-	(335)	(40,772)
<b>Net</b>	<b>21,141</b>	<b>-</b>	<b>244</b>	<b>21,385</b>
<i>Fair value of collateral</i>	34,187	-	579	34,766

31 December 2015

<i>Bank loans to individuals (retail)</i>					
	Consumer loans	Mortgages	Credit cards	Other	Total
<i>Impaired loans</i>	292	1,822	27	1,252	3,393
<i>Allowance for impairment of individually assessed loans</i>	(152)	(1,004)	(22)	(828)	(2,006)
<i>Allowance for impairment of collectively assessed loans</i>	-	(1)	-	-	(1)
<b>Net</b>	<b>140</b>	<b>817</b>	<b>5</b>	<b>424</b>	<b>1,386</b>
<i>Fair value of collateral</i>	70	1,061	-	569	1,700

<i>Bank loans to business customers</i>				
	SME	Large corporates	Central and local authorities and other	Total
<i>Impaired loans</i>	54,580	-	1,925	56,505
<i>Allowance for impairment of individually assessed loans</i>	(34,327)	-	(667)	(34,994)
<i>Allowance for impairment of collectively assessed loans</i>	(21)	-	(1)	(22)
<b>Net</b>	<b>20,232</b>	<b>-</b>	<b>1,257</b>	<b>21,489</b>
<i>Fair value of collateral</i>	37,716	-	1,889	39,605

### FINANCIAL RISK MANAGEMENT (continued)

31 December 2014

<i>Bank loans to individuals (retail)</i>					
	Consumer loans	Mortgages	Credit cards	Other	Total
<i>Impaired loans</i>	407	2,312	48	991	3,758
<i>Allowance for impairment of individually assessed loans</i>	(242)	(1,279)	(32)	(547)	(2,100)
<b>Net</b>	<b>165</b>	<b>1,033</b>	<b>16</b>	<b>444</b>	<b>1,658</b>
<i>Fair value of collateral</i>	148	1,311	-	441	1,900

<i>Bank loans to business customers</i>				
	SME	Large corporates	Central and local authorities and other	Total
<i>Impaired loans</i>	60,778	-	579	61,357
<i>Allowance for impairment of individually assessed loans</i>	(39,229)	-	(335)	(39,564)
<b>Net</b>	<b>21,549</b>	<b>-</b>	<b>244</b>	<b>21,793</b>
<i>Fair value of collateral</i>	35,334	-	579	35,913

During 2015 the Bank's estimated interest income on individually impaired loans amounted to EUR 1,060 thousand (2014: EUR 2,260 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 2015 amounted to EUR 13.6 million (2014: EUR 8.3 million).

Renegotiated loans by the class of financial assets:

31 December 2015

<i>Bank loans to individuals (retail)</i>					
	Consumer loans	Mortgages	Credit cards	Other	Total
<i>Renegotiated loans</i>	2	195	-	908	1,105

<i>Bank loans to business customers</i>				
	SME	Large corporates	Central and local authorities and other	Total
<i>Renegotiated loans</i>	12,194	-	277	12,471

31 December 2014

<i>Bank loans to individuals (retail)</i>					
	Consumer loans	Mortgages	Credit cards	Other	Total
<i>Renegotiated loans</i>	3	180	-	170	353

<i>Bank loans to business customers</i>				
	SME	Large corporates	Central and local authorities and other	Total
<i>Renegotiated loans</i>	6,739	-	1,161	7,900

#### 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 warranties, 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 2015 amounted to EUR 75 million (2014: EUR 73 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 ratio dependant on the type of collateral.

### FINANCIAL RISK MANAGEMENT (continued)

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

31 December 2015

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

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

31 December 2014

<i>Group loans to individuals (retail)</i>					
	Consumer loans	Mortgages	Credit cards	Other	Total
<i>Unsecured loans</i>	55,836	1,775	2,689	5,933	66,233
<b><i>Loans collateralised by:</i></b>	<b>1,469</b>	<b>27,875</b>	<b>-</b>	<b>14,401</b>	<b>43,745</b>
<i>residential real estate -</i>	1	24,665	-	5,849	30,515
<i>other real estate -</i>	-	2,067	-	6,411	8,478
<i>securities -</i>	-	38	-	705	743
<i>guarantees -</i>	1,468	1,105	-	1,277	3,850
<i>cash deposits -</i>	-	-	-	81	81
<i>other assets -</i>	-	-	-	78	78
<b>Total</b>	<b>57,305</b>	<b>29,650</b>	<b>2,689</b>	<b>20,334</b>	<b>109,978</b>

<i>Group loans to business customers</i>					
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
<i>Unsecured loans</i>	76,282	3,013	3	93,038	172,336
<b><i>Loans collateralised by:</i></b>	<b>429,120</b>	<b>43,192</b>	<b>7</b>	<b>13,194</b>	<b>485,513</b>
<i>residential real estate -</i>	21,004	275	-	598	21,877
<i>other real estate -</i>	290,683	36,921	7	11,648	339,259
<i>securities -</i>	8,824	2,644	-	90	11,558
<i>guarantees -</i>	68,115	1,679	-	741	70,535
<i>cash deposits -</i>	3,360	-	-	47	3,407
<i>other assets -</i>	37,134	1,673	-	70	38,877
<b>Total</b>	<b>505,402</b>	<b>46,205</b>	<b>10</b>	<b>106,232</b>	<b>657,849</b>

### FINANCIAL RISK MANAGEMENT (continued)

31 December 2015

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

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

31 December 2014

<i>Bank loans to individuals (retail)</i>					
	Consumer loans	Mortgages	Credit cards	Other	Total
<i>Unsecured loans</i>	5,999	1,774	938	5,918	14,629
<b><i>Loans collateralised by:</i></b>	<b>1,469</b>	<b>27,876</b>	<b>-</b>	<b>14,361</b>	<b>43,706</b>
<i>residential real estate -</i>	1	24,666	-	5,850	30,517
<i>other real estate -</i>	-	2,067	-	6,370	8,437
<i>securities -</i>	-	38	-	705	743
<i>guarantees -</i>	1,468	1,105	-	1,277	3,850
<i>cash deposits -</i>	-	-	-	81	81
<i>other assets -</i>	-	-	-	78	78
<b>Total</b>	<b>7,468</b>	<b>29,650</b>	<b>938</b>	<b>20,279</b>	<b>58,335</b>

<i>Bank loans to business customers</i>					
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
<i>Unsecured loans</i>	130,364	3,013	58,594	93,032	285,003
<b><i>Loans collateralised by:</i></b>	<b>432,691</b>	<b>43,191</b>	<b>6</b>	<b>13,194</b>	<b>489,082</b>
<i>residential real estate -</i>	21,004	274	-	597	21,875
<i>other real estate -</i>	297,243	36,921	6	11,649	345,819
<i>securities -</i>	5,638	2,644	-	90	8,372
<i>guarantees -</i>	68,115	1,679	-	741	70,535
<i>cash deposits -</i>	3,360	-	-	47	3,407
<i>other assets -</i>	37,331	1,673	-	70	39,074
<b>Total</b>	<b>563,055</b>	<b>46,204</b>	<b>58,600</b>	<b>106,226</b>	<b>774,085</b>

### FINANCIAL RISK MANAGEMENT (continued)

#### 1.6. Finance lease receivables

Finance lease receivables are summarised as follows:

	2015		2014	
	Group	Bank	Group	Bank
<i>Business customers</i>	61,281	11,759	65,918	19,011
<i>Individuals</i>	8,533	-	5,577	-
<i>Subtract: Difference between acquisition value and gross value *</i>	(10,552)	(10,552)	(15,882)	(15,882)
<b>Gross</b>	<b>59,262</b>	<b>1,207</b>	<b>55,613</b>	<b>3,129</b>
<i>Subtract: Allowance for impairment</i>	(1,450)	(62)	(1,943)	(61)
<i>of which: for individually assessed finance lease receivables</i>	(1,447)	(61)	(1,939)	(61)
<i>of which: for collectively assessed finance lease receivables</i>	(3)	(1)	(4)	-
<b>Net</b>	<b>57,812</b>	<b>1,145</b>	<b>53,670</b>	<b>3,068</b>

\* 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						
	2015			2014		
	Individuals	Business customers	Total	Individuals	Business customers	Total
<i>Neither past due nor individually impaired</i>	6,341	37,984	44,325	4,536	33,898	38,434
<i>Past due but not individually impaired</i>	1,937	10,204	12,141	740	13,806	14,546
<i>Individually impaired</i>	255	2,541	2,796	301	2,332	2,633
<b>Gross</b>	<b>8,533</b>	<b>50,729</b>	<b>59,262</b>	<b>5,577</b>	<b>50,036</b>	<b>55,613</b>
<i>Less: allowance for impairment</i>	(205)	(1,245)	(1,450)	(248)	(1,695)	(1,943)
<i>of which: for individually assessed finance lease receivables</i>	(203)	(1,244)	(1,447)	(244)	(1,695)	(1,939)
<i>of which: for collectively assessed finance lease receivables</i>	(2)	(1)	(3)	(4)	-	(4)
<b>Net</b>	<b>8,328</b>	<b>49,484</b>	<b>57,812</b>	<b>5,329</b>	<b>48,341</b>	<b>53,670</b>

The Bank						
	2015			2014		
	Individuals	Business customers	Total	Individuals	Business customers	Total
<i>Neither past due nor impaired</i>	-	1,095	1,095	-	2,747	2,747
<i>Past due but not impaired</i>	-	1	1	-	271	271
<i>Impaired</i>	-	111	111	-	111	111
<b>Gross</b>	<b>-</b>	<b>1,207</b>	<b>1,207</b>	<b>-</b>	<b>3,129</b>	<b>3,129</b>
<i>Less: allowance for impairment</i>	-	(62)	(62)	-	(61)	(61)
<i>of which: for individually assessed finance lease receivables</i>	-	(61)	(61)	-	(61)	(61)
<i>of which: for collectively assessed finance lease receivables</i>	-	(1)	(1)	-	-	-
<b>Net</b>	<b>-</b>	<b>1,145</b>	<b>1,145</b>	<b>-</b>	<b>3,068</b>	<b>3,068</b>

During the year ended 31 December 2015, finance lease receivables portfolio of the Group increased by 6.56%. Total impairment provisions for finance lease receivables of the Group amount to EUR 1,450 thousand (2014: EUR 1,943 thousand) and account for 2.45% of the respective portfolio (2014: 3.49%).

### 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						
	2015			2014		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Standard	6,218	24,666	30,884	4,480	17,706	22,186
Watch	88	12,058	12,146	38	12,959	12,997
Substandard	35	1,260	1,295	17	3,234	3,251
<b>Total</b>	<b>6,341</b>	<b>37,984</b>	<b>44,325</b>	<b>4,535</b>	<b>33,899</b>	<b>38,434</b>
Allowance for impairment of collectively assessed finance lease receivables	(2)	(1)	(3)	-3	-	-3
<b>Net</b>	<b>6,339</b>	<b>37,983</b>	<b>44,322</b>	<b>4,532</b>	<b>33,899</b>	<b>38,431</b>

The Bank						
	2015			2014		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Standard	-	898	898	-	1,773	1,773
Watch	-	8	8	-	313	313
Substandard	-	189	189	-	661	661
<b>Total</b>	<b>-</b>	<b>1,095</b>	<b>1,095</b>	<b>-</b>	<b>2,747</b>	<b>2,747</b>
Allowance for impairment of collectively assessed finance lease receivables	-	(1)	(1)	-	-	-
<b>Net</b>	<b>-</b>	<b>1,094</b>	<b>1,094</b>	<b>-</b>	<b>2,747</b>	<b>2,747</b>

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						
	2015			2014		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Past due up to 3 days	721	1,606	2,327	129	4,337	4,466
Past due 4-40 days	1,016	4,037	5,053	573	8,419	8,992
Past due 41-90 days	100	123	223	33	769	802
Past due more than 90 days	100	4,438	4,538	5	281	286
<b>Gross</b>	<b>1,937</b>	<b>10,204</b>	<b>12,141</b>	<b>740</b>	<b>13,806</b>	<b>14,546</b>
Allowance for impairment of collectively assessed finance lease receivables	-	-	-	(1)	-	(1)
<b>Net</b>	<b>1,937</b>	<b>10,204</b>	<b>12,141</b>	<b>739</b>	<b>13,806</b>	<b>14,545</b>
Fair value of the collateral	1,908	9,004	10,912	430	8,435	8,865

The Bank						
	2015			2014		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Past due up to 3 days	-	-	-	-	-	-
Past due 4-40 days	-	-	-	-	12	12
Past due 41-90 days	-	-	-	-	-	-
Past due more than 90 days	-	1	1	-	259	259
<b>Total</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>271</b>	<b>271</b>
Fair value of the collateral	-	1	1	-	271	271

### FINANCIAL RISK MANAGEMENT (continued)

#### c) Finance lease receivables individually impaired

	The Group			The Bank		
	Individuals	Business customers	Total	Individuals	Business customers	Total
<b>31 December 2015</b>						
<i>Individually impaired</i>	255	2,541	2,796	-	111	111
<i>Allowance for impairment of individually assessed finance lease receivables</i>	(203)	(1,244)	(1,447)	-	(61)	(61)
<b>Net</b>	<b>52</b>	<b>1,297</b>	<b>1,349</b>	<b>-</b>	<b>50</b>	<b>50</b>
<i>Fair value of collateral</i>	71	1,880	1,951	-	82	82
<b>31 December 2014</b>						
<i>Individually impaired</i>	301	2,332	2,633	-	111	111
<i>Allowance for impairment of individually assessed finance lease receivables</i>	(244)	(1,695)	(1,939)	-	(61)	(61)
<b>Net</b>	<b>57</b>	<b>637</b>	<b>694</b>	<b>-</b>	<b>50</b>	<b>50</b>
<i>Fair value of collateral</i>	117	1,755	1,872	-	82	82

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

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

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

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

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

	The Group			The Bank		
	Individuals	Business customers	Total	Individuals	Business customers	Total
<b>2015</b>						
<i>Unsecured finance lease receivables</i>	441	2,355	2,796	19	323	342
<i>Finance lease receivables secured by:</i>						
<i>transport vehicles -</i>	7,056	16,947	24,003	3,789	15,439	19,228
<i>real estate -</i>	870	23,030	23,900	1,012	24,886	25,898
<i>airplanes -</i>	-	1,157	1,157	-	1,372	1,372
<i>production equipment -</i>	-	2,147	2,147	3	2,598	2,601
<i>other equipment -</i>	79	4,951	5,030	261	4,719	4,980
<i>other assets -</i>	87	142	229	493	699	1,192
<b>Total</b>	<b>8,533</b>	<b>50,729</b>	<b>59,262</b>	<b>5,577</b>	<b>50,036</b>	<b>55,613</b>
<b>2014</b>						
<i>Unsecured finance lease receivables</i>	-	28	28	-	90	90
<i>Finance lease receivables secured by:</i>						
<i>transport vehicles -</i>	-	29	29	-	29	29
<i>real estate -</i>	-	1,011	1,011	-	2,819	2,819
<i>airplanes -</i>	-	-	-	-	-	-
<i>production equipment -</i>	-	131	131	-	179	179
<i>other equipment -</i>	-	8	8	-	12	12
<i>other assets -</i>	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>1,207</b>	<b>1,207</b>	<b>-</b>	<b>3,129</b>	<b>3,129</b>



## FINANCIAL RISK MANAGEMENT (continued)

### 1.7. Other assets

Other assets subject to credit risk consist of amounts receivable and prepayments.

	The Group					
	2015			2014		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Neither past due nor impaired	24	6,524	6,548	-	4,005	4,005
Past due but not impaired	-	-	-	-	-	-
Impaired	1,785	134	1,919	2,247	-	2,247
<b>Gross</b>	<b>1,809</b>	<b>6,658</b>	<b>8,467</b>	<b>2,247</b>	<b>4,005</b>	<b>6,252</b>
Less: allowance for impairment	(1,785)	(24)	(1,809)	(1,778)	-	(1,778)
<b>Net</b>	<b>24</b>	<b>6,634</b>	<b>6,658</b>	<b>469</b>	<b>4,005</b>	<b>4,474</b>

	The Bank					
	2015			2014		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Neither past due nor impaired	-	5,447	5,447	-	3,435	3,435
Past due but not impaired	-	-	-	-	-	-
Impaired	1,785	134	1,919	1,713	-	1,713
<b>Gross</b>	<b>1,785</b>	<b>5,581</b>	<b>7,366</b>	<b>1,713</b>	<b>3,435</b>	<b>5,148</b>
Less: allowance for impairment	(1,785)	(24)	(1,809)	(1,713)	-	(1,713)
<b>Net</b>	<b>-</b>	<b>5,557</b>	<b>5,557</b>	<b>-</b>	<b>3,435</b>	<b>3,435</b>

#### a) Amounts receivable neither past due nor impaired

	2015				2014	
	Group		Bank		Group	Bank
	Individuals	Business customers	Individuals	Business customers	Business customers	Business customers
Standard	24	6,524	6,548	5,447	4,005	3,435
Watch	-	-	-	-	-	-
Sub-standard	-	-	-	-	-	-
<b>Total:</b>	<b>24</b>	<b>6,524</b>	<b>6,548</b>	<b>5,447</b>	<b>4,005</b>	<b>3,435</b>

#### b) Impaired amounts receivable

100% provision for impairment is recognized for other assets that are impaired unless there are collaterals available. The amount of impaired other assets that were not provisioned against because of the impact of collateral is presented in the table below. Collateral mainly consists of real estate.

	2015		2014	
	Group	Bank	Group	Bank
Impact of collateral on impaired other assets	110	-	469	-

### FINANCIAL RISK MANAGEMENT (continued)

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

##### Industry sectors

The Group and the Bank established lending limits for loans granted to a particular industry, which are reviewed on a regular basis based on the Bank's decision. The following limits have been approved by the Board of the Bank: wholesale and retail – 14% (Group – 25%) of the total loan portfolio, loans to individuals – 10% (Group – 17%), manufacturing – 16%, construction – 10%, real estate and rent – 24% (Group – 26%), agriculture, hunting and forestry – 10%, transport, storage and communication – 6% (Group – 7%), hotels and restaurants – 5% (Group – 7%), health and social work – 6% (Group – 7%). As at 31 December 2015 the Group and the Bank were compliant with the above limits.

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

##### 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
<b>Loans and advances to banks</b>	<b>6,499</b>	-	-	-	-	-	-	-	-	-	-	<b>6,499</b>
<b>Loans and advances to customers:</b>	<b>105,836</b>	<b>78,874</b>	<b>81,429</b>	<b>110,609</b>	<b>80,262</b>	<b>66,934</b>	<b>134,436</b>	<b>26,688</b>	<b>31,392</b>	<b>61,528</b>	<b>134,681</b>	<b>912,669</b>
<b>Loans and advances to financial institutions</b>	<b>98,986</b>	-	-	-	-	-	-	-	-	-	-	<b>98,986</b>
<b>Loans to individuals (Retail):</b>	-	-	-	-	-	-	-	-	-	<b>61,528</b>	-	<b>61,528</b>
Mortgages -	-	-	-	-	-	-	-	-	-	31,380	-	31,380
Consumer loans -	-	-	-	-	-	-	-	-	-	7,487	-	7,487
Credit cards -	-	-	-	-	-	-	-	-	-	931	-	931
Other -	-	-	-	-	-	-	-	-	-	21,730	-	21,730
<b>Loans to business customers:</b>	<b>6,850</b>	<b>78,874</b>	<b>81,429</b>	<b>110,609</b>	<b>80,262</b>	<b>66,934</b>	<b>134,436</b>	<b>26,688</b>	<b>31,392</b>	-	<b>134,681</b>	<b>752,155</b>
SME -	6,850	77,150	58,662	110,609	77,678	66,889	-	23,678	9,856	-	79,131	510,503
Large corporates -	-	1,724	22,767	-	2,279	45	-	13	18,334	-	101	45,263
Central and local authorities, administrative bodies and other -	-	-	-	-	305	-	134,436	2,997	3,202	-	55,449	196,389
<b>Finance lease receivables:</b>	-	-	<b>1,138</b>	-	-	<b>7</b>	-	-	-	-	-	<b>1,145</b>
Individuals -	-	-	-	-	-	-	-	-	-	-	-	-
Business customers -	-	-	1,138	-	-	7	-	-	-	-	-	1,145
<b>Securities at fair value through profit or loss:</b>	<b>7,854</b>	-	<b>59</b>	<b>33</b>	-	-	<b>29,634</b>	<b>3</b>	-	-	<b>5,143</b>	<b>42,726</b>
Debt securities -	7,758	-	-	-	-	-	29,634	-	-	-	4,996	42,388
Equity securities -	96	-	59	33	-	-	-	3	-	-	147	338
<b>Derivative financial instruments</b>	<b>1,012</b>	<b>726</b>	<b>765</b>	<b>912</b>	<b>1,188</b>	<b>1,449</b>	-	<b>304</b>	<b>131</b>	<b>1,413</b>	<b>854</b>	<b>8,754</b>
<b>Securities available for sale:</b>	<b>9,438</b>	-	-	<b>8</b>	-	-	<b>256</b>	<b>966</b>	-	-	<b>9,153</b>	<b>19,821</b>
Equity securities -	1,814	-	-	8	-	-	-	-	-	-	387	2,209
Debt securities -	7,624	-	-	-	-	-	256	966	-	-	8,766	17,612
<b>Investment securities held-to-maturity:</b>	<b>57,250</b>	<b>2,384</b>	<b>10,479</b>	-	-	-	<b>381,943</b>	<b>2,555</b>	<b>559</b>	-	<b>39,475</b>	<b>494,645</b>
debt securities -	57,250	2,384	10,479	-	-	-	381,943	2,555	559	-	39,475	494,645
<b>Other assets subject to credit risk</b>	<b>4,752</b>	<b>39</b>	<b>11</b>	<b>54</b>	<b>25</b>	-	-	-	-	-	<b>676</b>	<b>5,557</b>
<b>Credit risk exposures relating to off-balance sheet items are as follows:</b>												
Financial guarantees -	2,969	5,871	2,618	538	4,469	105	1,674	293	15	-	3,730	22,282
Letters of credit -	-	5,789	-	-	80	60	-	-	-	-	-	5,929
Loan commitments and other credit related liabilities -	3,499	21,687	23,838	6,286	11,215	16,708	10,953	4,199	5,224	3,217	9,433	116,259
<b>At 31 December 2015</b>	<b>199,109</b>	<b>115,370</b>	<b>120,337</b>	<b>118,440</b>	<b>97,239</b>	<b>85,263</b>	<b>558,896</b>	<b>35,008</b>	<b>37,321</b>	<b>66,158</b>	<b>203,145</b>	<b>1,636,286</b>
<b>At 31 December 2014</b>	<b>156,133</b>	<b>102,085</b>	<b>151,540</b>	<b>187,044</b>	<b>81,425</b>	<b>50,051</b>	<b>449,883</b>	<b>39,077</b>	<b>28,567</b>	<b>60,119</b>	<b>158,855</b>	<b>1,464,779</b>

### FINANCIAL RISK MANAGEMENT (continued)

#### 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
<b>Loans and advances to banks</b>	<b>6,529</b>	-	-	-	-	-	-	-	-	-	-	<b>6,529</b>
<b>Loans and advances to customers:</b>	<b>6,533</b>	<b>78,877</b>	<b>81,431</b>	<b>104,185</b>	<b>73,598</b>	<b>66,942</b>	<b>134,436</b>	<b>26,688</b>	<b>31,392</b>	<b>110,019</b>	<b>137,195</b>	<b>851,296</b>
<b>Loans and advances to financial institutions</b>	<b>27</b>	-	-	-	-	-	-	-	-	-	-	<b>27</b>
<b>Loans to individuals (Retail):</b>	-	-	-	-	-	-	-	-	-	<b>110,019</b>	-	<b>110,019</b>
Mortgages -	-	-	-	-	-	-	-	-	-	31,380	-	31,380
Consumer loans -	-	-	-	-	-	-	-	-	-	55,580	-	55,580
Credit cards -	-	-	-	-	-	-	-	-	-	1,327	-	1,327
Other -	-	-	-	-	-	-	-	-	-	21,732	-	21,732
<b>Loans to business customers:</b>	<b>6,506</b>	<b>78,877</b>	<b>81,431</b>	<b>104,185</b>	<b>73,598</b>	<b>66,942</b>	<b>134,436</b>	<b>26,688</b>	<b>31,392</b>	-	<b>137,195</b>	<b>741,250</b>
SME -	6,506	77,153	58,664	104,185	71,014	66,897	-	23,678	9,856	-	81,645	499,598
Large corporates -	-	1,724	22,767	-	2,279	45	-	13	18,334	-	101	45,263
Central and local authorities, administrative bodies and other -	-	-	-	-	305	-	134,436	2,997	3,202	-	55,449	196,389
<b>Finance lease receivables:</b>	<b>4,081</b>	<b>9,768</b>	<b>4,930</b>	<b>6,663</b>	<b>2,712</b>	<b>2,248</b>	<b>385</b>	<b>7,691</b>	<b>445</b>	<b>8,328</b>	<b>10,561</b>	<b>57,812</b>
Individuals -	-	-	-	-	-	-	-	-	-	8,328	-	8,328
Business customers -	4,081	9,768	4,930	6,663	2,712	2,248	385	7,691	445	-	10,561	49,484
<b>Securities at fair value through profit or loss:</b>	<b>25,088</b>	-	<b>290</b>	<b>255</b>	-	-	<b>37,597</b>	<b>58</b>	-	-	<b>7,828</b>	<b>71,116</b>
Debt securities -	9,944	-	231	222	-	-	37,597	55	-	-	7,681	55,730
Equity securities -	15,144	-	59	33	-	-	-	3	-	-	147	15,386
<b>Derivative financial instruments</b>	<b>1,046</b>	<b>796</b>	<b>816</b>	<b>975</b>	<b>1,224</b>	<b>1,480</b>	-	<b>394</b>	<b>136</b>	<b>1,496</b>	<b>929</b>	<b>9,292</b>
<b>Securities available for sale:</b>	<b>9,840</b>	-	-	<b>53</b>	-	-	<b>256</b>	<b>966</b>	<b>200</b>	-	<b>9,153</b>	<b>20,468</b>
Equity securities -	1,814	-	-	53	-	-	-	-	200	-	387	2,454
Debt securities -	8,026	-	-	-	-	-	256	966	-	-	8,766	18,014
<b>Investment securities held-to-maturity:</b>	<b>57,250</b>	<b>2,384</b>	<b>10,479</b>	-	-	-	<b>381,943</b>	<b>2,555</b>	<b>559</b>	-	<b>39,475</b>	<b>494,645</b>
Debt securities -	57,250	2,384	10,479	-	-	-	381,943	2,555	559	-	39,475	494,645
<b>Other assets subject to credit risk</b>	<b>4,741</b>	<b>473</b>	<b>41</b>	<b>52</b>	<b>97</b>	<b>4</b>	-	<b>7</b>	<b>2</b>	<b>24</b>	<b>1,217</b>	<b>6,658</b>
<b>Credit risk exposures relating to off-balance sheet items are as follows:</b>												
Financial guarantees -	2,942	5,871	2,618	538	4,469	105	1,674	293	15	-	3,730	22,255
Letters of credit -	-	5,789	-	-	80	60	-	-	-	-	-	5,929
Loan commitments and other credit related liabilities -	1,493	21,687	23,838	3,713	10,713	16,708	10,953	4,199	5,224	3,326	10,113	111,967
<b>At 31 December 2015</b>	<b>119,543</b>	<b>125,645</b>	<b>124,443</b>	<b>116,434</b>	<b>92,893</b>	<b>87,547</b>	<b>567,244</b>	<b>42,851</b>	<b>37,973</b>	<b>123,193</b>	<b>220,201</b>	<b>1,657,967</b>
<b>At 31 December 2014</b>	<b>79,581</b>	<b>110,683</b>	<b>157,346</b>	<b>153,819</b>	<b>72,006</b>	<b>52,443</b>	<b>457,269</b>	<b>48,333</b>	<b>28,978</b>	<b>113,033</b>	<b>173,093</b>	<b>1,446,584</b>

#### Concentration exposure

As at 31 December 2015, the largest single exposure comprising loans to several related borrowers treated as a single borrower not secured by the Lithuanian Government guarantees, amounted to EUR 20.7 million, i.e. 14.56% of the Bank's calculated capital (2014: EUR 19.8 million or 17.47% 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 equities prices (equity risk). The most significant market risk for a Group is interest rate risk 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 2015 the Group's ONOP to capital ratio was 0.37% (2014: 0.86%), the Bank's ONOP to capital ratio was 0.36% (2014: 0.58%).

### FINANCIAL RISK MANAGEMENT (continued)

#### Open positions

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

	USD	Other currencies	Total currencies	EUR	LTL	Total
<b>Assets</b>						
Cash and cash equivalents	29,997	13,361	43,358	61,654	-	105,012
Due from other banks	3,904	-	3,904	2,625	-	6,529
Securities at fair value through profit or loss	13,463	181	13,644	57,472	-	71,116
Derivative financial instruments	102	-	102	9,190	-	9,292
Loans granted to customers, finance lease receivables	14,211	-	14,211	894,897	-	909,108
Investment securities						
available-for-sale securities -	8,769	-	8,769	11,699	-	20,468
held-to-maturity securities -	9,899	-	9,899	484,746	-	494,645
Intangible assets	-	-	-	3,770	-	3,770
Property, plant and equipment and investment property	-	-	-	29,294	-	29,294
Other assets	39	-	39	45,767	-	45,806
<b>Total assets</b>	<b>80,384</b>	<b>13,542</b>	<b>93,926</b>	<b>1,601,114</b>	<b>-</b>	<b>1,695,040</b>
<b>Liabilities and shareholders' equity</b>						
Due to other banks and financial institutions	697	-	697	49,679	-	50,376
Due to customers	88,760	11,650	100,410	1,344,170	-	1,444,580
Subordinated loan	-	-	-	20,457	-	20,457
Liabilities related to insurance activities	6,862	184	7,046	16,469	-	23,515
Other liabilities	956	249	1,205	17,843	-	19,048
Shareholders' equity	(253)	-	(253)	137,317	-	137,064
<b>Total liabilities and shareholders' equity</b>	<b>97,022</b>	<b>12,083</b>	<b>109,105</b>	<b>1,585,935</b>	<b>-</b>	<b>1,695,040</b>
<b>Net balance sheet position</b>	<b>(16,638)</b>	<b>1,459</b>	<b>(15,179)</b>	<b>15,179</b>	<b>-</b>	<b>-</b>
Open currency exchange transactions	16,539	(1,108)	15,431	(14,411)	-	1,020
<b>Net open position</b>	<b>(99)</b>	<b>351</b>	<b>252</b>	<b>768</b>		<b>1,020</b>

The Group's open positions of prevailing currencies as at 31 December 2014 were as follows:

	USD	Other currencies	Total currencies	EUR	LTL	Total
<b>Assets</b>						
Assets	70,358	11,693	82,051	407,130	1,150,828	1,640,009
Liabilities and shareholders' equity	69,610	10,745	80,355	388,737	1,170,917	1,640,009
<b>Net balance sheet position</b>	<b>748</b>	<b>948</b>	<b>1,696</b>	<b>18,393</b>	<b>(20,089)</b>	<b>-</b>
Open currency exchange transactions	(904)	-	(904)	905	-	1
<b>Net open position</b>	<b>(156)</b>	<b>948</b>	<b>792</b>	<b>19,298</b>	<b>(20,089)</b>	<b>1</b>

### FINANCIAL RISK MANAGEMENT (continued)

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

	USD	Other currencies	Total currencies	EUR	LTL	Total
<b>Assets</b>						
Cash and cash equivalents	29,969	13,361	43,330	60,956	-	104,286
Due from other banks	3,874	-	3,874	2,625	-	6,499
Securities at fair value through profit or loss	6,492	-	6,492	36,234	-	42,726
Derivative financial instruments	102	-	102	8,652	-	8,754
Loans granted to customers, finance lease receivables	14,211	-	14,211	899,603	-	913,814
Investment securities						
available-for-sale securities -	8,769	-	8,769	11,052	-	19,821
held-to-maturity securities -	9,899	-	9,899	484,746	-	494,645
Investments in subsidiaries	-	-	-	32,175	-	32,175
Intangible assets	-	-	-	798	-	798
Property, plant and equipment and investment property	-	-	-	13,314	-	13,314
Other assets	39	-	39	20,986	-	21,025
<b>Total assets</b>	<b>73,355</b>	<b>13,361</b>	<b>86,716</b>	<b>1,571,141</b>	<b>-</b>	<b>1,657,857</b>
<b>Liabilities and shareholders' equity</b>						
Due to other banks and financial institutions	697	-	697	52,686	-	53,383
Due to customers	88,760	11,650	100,410	1,344,494	-	1,444,904
Subordinated loan	-	-	-	20,457	-	20,457
Other liabilities	956	249	1,205	5,395	-	6,600
Shareholders' equity	(253)	-	(253)	132,766	-	132,513
<b>Total liabilities and shareholders' equity</b>	<b>90,160</b>	<b>11,899</b>	<b>102,059</b>	<b>1,555,798</b>	<b>-</b>	<b>1,657,857</b>
<b>Net balance sheet position</b>	<b>(16,805)</b>	<b>1,462</b>	<b>(15,343)</b>	<b>15,343</b>	<b>-</b>	<b>-</b>
Open currency exchange transactions	16,539	(1,108)	15,431	(14,411)	-	1,020
<b>Net open position</b>	<b>(266)</b>	<b>354</b>	<b>88</b>	<b>932</b>	<b>-</b>	<b>1,020</b>

The Bank's open positions of prevailing currencies as at 31 December 2014 were as follows:

	USD	Other currencies	Total currencies	EUR	LTL	Total
<b>Assets</b>						
Liabilities and shareholders' equity	64,528	11,235	75,763	385,696	1,148,647	1,610,106
<b>Net balance sheet position</b>	<b>63,781</b>	<b>10,584</b>	<b>74,365</b>	<b>379,021</b>	<b>1,156,720</b>	<b>1,610,106</b>
<b>Net balance sheet position</b>	<b>747</b>	<b>651</b>	<b>1,398</b>	<b>6,675</b>	<b>-8,073</b>	<b>-</b>
Open currency exchange transactions	(904)	-	(904)	905	-	1
<b>Net open position</b>	<b>(157)</b>	<b>651</b>	<b>494</b>	<b>7,580</b>	<b>(8,073)</b>	<b>1</b>

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.

### FINANCIAL RISK MANAGEMENT (continued)

#### Sensitivity of foreign exchange risk

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

Currency	Annual reasonable shift, 2016	Annual reasonable shift, 2015
CHF	10%	10%
DKK	0.5%	0.5%
GBP	6%	4%
SEK	3%	5%
USD	7%	7%
Other currencies	5.5%	4.5%
CIS countries currencies	24%	20%

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:

Impact on profit or loss and equity	31 December 2015		31 December 2014	
	Group	Bank	Group	Bank
USD	7	19	11	11
GBP	7	7	5	5
CHF	12	12	-	-
DKK	-	-	2	2
SEK	1	1	7	7
Other currencies	19	19	17	4
CIS countries currencies	2	2	5	5
<b>Total</b>	<b>48</b>	<b>60</b>	<b>47</b>	<b>34</b>

The impact of presumable FX rate change on the Group's / Bank's profit for the year is at acceptable level. In 2015 for the Group and for the Bank it equals to EUR 48 thousand (2014: EUR 47 thousand) and EUR 60 thousand (2014: LTL 34 thousand) respectively.

## FINANCIAL RISK MANAGEMENT (continued)

### 2.2. Interest rate risk

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

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

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

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

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

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Non interest bearing or maturity undefined	Total
<b>Assets</b>							
Cash and cash equivalents	24,402	-	-	-	-	80,610	105,012
Due from other banks	216	-	3,726	907	934	746	6,529
Securities at fair value through profit or loss	550	785	1,746	976	51,673	15,386	71,116
Derivative financial instruments	-	-	-	-	-	9,292	9,292
Loans granted to customers, finance lease receivables	206,431	220,299	374,208	25,131	44,026	39,013	909,108
Investment securities							
available-for-sale securities -	-	70	82	246	17,616	2,454	20,468
held-to-maturity securities -	3,318	27,842	9,088	14,293	440,104	-	494,645
Intangible assets	-	-	-	-	-	3,770	3,770
Property, plant and equipment and investment property	-	-	-	-	-	29,294	29,294
Other assets	-	-	-	-	-	45,806	45,806
<b>Total assets</b>	<b>234,917</b>	<b>248,996</b>	<b>388,850</b>	<b>41,553</b>	<b>554,353</b>	<b>226,371</b>	<b>1,695,040</b>
Due to other banks and financial institutions	27,444	6,818	1,600	222	10,911	3,381	50,376
Due to customers	115,608	143,098	207,890	338,479	112,203	527,302	1,444,580
Subordinated loan		20,000				457	20,457
Liabilities related to insurance activities	209	45	122	366	22,773	-	23,515
Other liabilities				58		18,990	19,048
Shareholders' equity	-	-	-	-	-	137,064	137,064
<b>Total liabilities and shareholders' equity</b>	<b>143,261</b>	<b>169,961</b>	<b>209,612</b>	<b>339,125</b>	<b>145,887</b>	<b>687,194</b>	<b>1,695,040</b>
<b>Interest rate sensitivity gap</b>	<b>91,656</b>	<b>79,035</b>	<b>179,238</b>	<b>(297,572)</b>	<b>408,466</b>	<b>(460,823)</b>	<b>-</b>

Details of the Group's interest rate risk as at 31 December 2014 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
<b>Total assets</b>	<b>202,788</b>	<b>260,256</b>	<b>291,216</b>	<b>84,553</b>	<b>444,344</b>	<b>356,852</b>	<b>1,640,009</b>
<b>Total liabilities and shareholders' equity</b>	<b>174,430</b>	<b>210,465</b>	<b>234,920</b>	<b>376,540</b>	<b>112,644</b>	<b>531,010</b>	<b>1,640,009</b>
<b>Interest rate sensitivity gap</b>	<b>28,358</b>	<b>49,791</b>	<b>56,296</b>	<b>(291,987)</b>	<b>331,700</b>	<b>(174,158)</b>	<b>-</b>



## FINANCIAL RISK MANAGEMENT (continued)

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Non interest bearing or maturity undefined	Total
<b>Assets</b>							
Cash and cash equivalents	24,402	-	-	-	-	79,884	104,286
Due from other banks	216	-	3,726	877	934	746	6,499
Securities at fair value through profit or loss	541	75	1,390	466	39,916	338	42,726
Derivative financial instruments	-	-	-	-	-	8,754	8,754
Loans granted to customers, finance lease receivables	206,918	232,536	355,508	53,463	29,046	36,343	913,814
Investment securities							
- available-for-sale securities	-	70	82	246	17,214	2,209	19,821
- held-to-maturity securities	3,318	27,842	9,088	14,293	440,104		494,645
Investments in subsidiaries	-	-	-	-	-	32,175	32,175
Intangible assets	-	-	-	-	-	798	798
Property, plant and equipment and investment property	-	-	-	-	-	13,314	13,314
Other assets	-	-	-	-	-	21,025	21,025
<b>Total assets</b>	<b>235,395</b>	<b>260,523</b>	<b>369,794</b>	<b>69,345</b>	<b>527,214</b>	<b>195,586</b>	<b>1,657,857</b>
Due to other banks and financial institutions	27,444	6,818	1,600	222	10,911	6,388	53,383
Due to customers	115,608	143,098	207,890	338,479	112,203	527,626	1,444,904
Subordinated loan	-	20,000	-	-	-	457	20,457
Other liabilities	-	-	-	58	-	6,542	6,600
Shareholders' equity	-	-	-	-	-	132,513	132,513
<b>Total liabilities and shareholders' equity</b>	<b>143,052</b>	<b>169,916</b>	<b>209,490</b>	<b>338,759</b>	<b>123,114</b>	<b>673,526</b>	<b>1,657,857</b>
<b>Interest rate sensitivity gap</b>	<b>92,343</b>	<b>90,607</b>	<b>160,304</b>	<b>(269,414)</b>	<b>404,100</b>	<b>(477,940)</b>	<b>-</b>

Details of the Bank's interest rate risk as at 31 December 2014 are given below:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Non interest bearing or maturity undefined	Total
<b>Total assets</b>	<b>200,509</b>	<b>266,716</b>	<b>278,416</b>	<b>116,334</b>	<b>454,294</b>	<b>293,837</b>	<b>1,610,106</b>
<b>Total liabilities and shareholders' equity</b>	<b>180,135</b>	<b>210,381</b>	<b>234,846</b>	<b>376,286</b>	<b>93,340</b>	<b>515,118</b>	<b>1,610,106</b>
<b>Interest rate sensitivity gap</b>	<b>20,374</b>	<b>56,335</b>	<b>43,570</b>	<b>(259,952)</b>	<b>360,954</b>	<b>(221,281)</b>	<b>-</b>

### Sensitivity of interest rate risk

The table below summarises 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
<b>31 December 2015</b>							
Total interest rate sensitive assets	234,917	248,996	388,850	41,553	554,353	150,052	1,618,721
Total interest rate sensitive liabilities	143,052	169,916	209,490	338,701	123,114	539,688	1,523,961
<b>Net interest sensitivity gap at 31 December 2015</b>	<b>91,865</b>	<b>79,080</b>	<b>179,360</b>	<b>(297,148)</b>	<b>431,239</b>	<b>(389,636)</b>	<b>94,760</b>
<b>31 December 2014</b>							
Total interest rate sensitive assets	202,788	260,256	291,216	84,553	444,344	229,902	1,513,059
Total interest rate sensitive liabilities	174,430	210,465	234,920	376,540	112,644	401,786	1,510,785
<b>Net interest sensitivity gap at 31 December 2014</b>	<b>28,358</b>	<b>49,791</b>	<b>56,296</b>	<b>(291,987)</b>	<b>331,700</b>	<b>(171,884)</b>	<b>2,274</b>

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.

### FINANCIAL RISK MANAGEMENT (continued)

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 2015 and 31 December 2014.

	31 December 2015		31 December 2014	
	Increase (decrease) in profit	Increase (decrease) in other comprehensive income	Increase (decrease) in profit	Increase (decrease) in other comprehensive income
<i>Interest rate increase by 1p.p.</i>	(1,047)	(4,353)	(550)	(1,964)
<i>Interest rate decrease by 1p.p.</i>	1,047	4,353	550	1,964

The shift of yield curve according to above mentioned parameters creates significant impact on Group's total comprehensive income and makes EUR 1,047 thousand in 2015 (2014: EUR 550 thousand) higher/lower impact on profit and EUR 4,353 thousand in 2015 (2014: EUR 1,964 thousand) higher/lower impact on other comprehensive income.

The table below summarises 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
<b>31 December 2015</b>							
<i>Total interest rate sensitive assets</i>	235,395	260,523	369,794	69,345	527,214	130,443	1,592,714
<i>Total interest rate sensitive liabilities</i>	143,052	169,916	209,490	338,701	123,114	539,641	1,523,914
<i>Net interest sensitivity gap at 31 December 2015</i>	92,343	90,607	160,304	(269,356)	404,100	(409,198)	68,800
<b>31 December 2014</b>							
<i>Total interest rate sensitive assets</i>	200,509	266,716	278,416	116,334	454,294	211,754	1,528,023
<i>Total interest rate sensitive liabilities</i>	180,135	210,381	234,846	376,286	93,341	400,385	1,495,374
<i>Net interest sensitivity gap at 31 December 2014</i>	20,374	56,335	43,570	(259,952)	360,953	(188,631)	32,649

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 2015 and 31 December 2014.

	31 December 2015		31 December 2014	
	Increase (decrease) in profit	Increase (decrease) in other comprehensive income	Increase (decrease) in profit	Increase (decrease) in other comprehensive income
<i>Interest rate increase by 1p.p.</i>	(1,191)	(4,353)	(628)	(1,964)
<i>Interest rate decrease by 1p.p.</i>	1,191	4,353	628	1,964

The shift of yield curve according to above mentioned parameters creates significant impact on Bank's total comprehensive income and makes EUR 1,191 thousand in 2015 (2014: EUR 628 thousand) higher/lower impact on profit and EUR 4,353 thousand in 2015 (2014: EUR 1,964 thousand) higher/lower impact on other comprehensive income.

## FINANCIAL RISK MANAGEMENT (continued)

### 3. Liquidity risk

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

#### 3.1. Liquidity risk management process

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

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

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

Starting from 2015, the Bank is subject to regulatory Liquidity coverage ratio (LCR). The Bank complied with this ratio with a substantial cushion (requirement for the LCR ratio aggregate for all currencies, for EUR and for foreign currencies that comprise over 5% of total liabilities is set at 100%). As of 31 December 2015, Bank's LCR ratio (aggregate for all currencies) stood at 1,134%.

Internal liquidity limit system was updated in 2015. It includes such ratios as internal liquidity ratio, minimum negative liquidity gap ratio, liquid assets requirement. As 31 December 2015, the Bank complied with all the internal liquidity ratios.

As at 31 December 2014, the Bank was also compliant to all the regulatory and internal liquidity limits and ratios to which it was subject.

### FINANCIAL RISK MANAGEMENT (continued)

#### 3.2. Structure of assets and liabilities by maturity

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

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
<b>Assets</b>									
Cash and cash equivalents	80,607	24,405	-	-	-	-	-	-	105,012
Due from other banks	-	98	141	1,446	872	3,060	180	732	6,529
Securities at fair value through profit or loss	-	555	854	1,844	1,093	8,295	43,089	15,386	71,116
Derivative financial instruments	-	1,035	1,186	788	1,381	2,987	1,915	-	9,292
Loans granted to customers, finance lease receivables	-	22,316	43,170	56,112	100,368	315,642	307,525	63,975	909,108
Investment securities									
available-for-sale securities -	-	13	243	113	252	4,210	13,184	2,453	20,468
held-to-maturity securities -	-	4,128	31,690	10,297	16,027	132,136	300,367	-	494,645
Intangible assets	-	-	-	-	-	-	-	3,770	3,770
Property, plant and equipment and investment property	-	-	-	-	-	-	-	29,294	29,294
Other assets	391	2,097	2,466	895	6,343	14,118	13,299	6,197	45,806
<b>Total assets</b>	<b>80,998</b>	<b>54,647</b>	<b>79,750</b>	<b>71,495</b>	<b>126,336</b>	<b>480,448</b>	<b>679,559</b>	<b>121,807</b>	<b>1,695,040</b>
<b>Liabilities</b>									
Due to other banks and financial institutions	3,991	7,301	5,306	3,584	18,103	9,318	2,773	-	50,376
Due to customers	488,416	128,499	148,079	209,911	343,283	106,841	11,359	-	1,436,388
Subordinated loan	-	-	111	-	-	-	20,346	-	20,457
Liabilities related to insurance activities	-	208	45	122	366	1,118	21,509	147	23,515
Other liabilities	9,697	5,244	394	1,884	856	780	60	8,325	27,240
Shareholders' equity	-	-	-	-	-	-	-	137,064	137,064
<b>Total liabilities and shareholders' equity</b>	<b>502,104</b>	<b>141,252</b>	<b>153,935</b>	<b>215,501</b>	<b>362,608</b>	<b>118,057</b>	<b>56,047</b>	<b>145,536</b>	<b>1,695,040</b>
<b>Net liquidity gap</b>	<b>(421,106)</b>	<b>(86,605)</b>	<b>(74,185)</b>	<b>(144,006)</b>	<b>(236,272)</b>	<b>362,391</b>	<b>623,512</b>	<b>(23,729)</b>	<b>-</b>

The structure of the Group's assets and liabilities by remaining maturity as at 31 December 2014 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
<b>Total assets</b>	147,715	84,536	94,363	95,527	167,174	365,181	536,863	148,650	1,640,009
<b>Total liabilities and shareholders' equity</b>	376,382	156,314	191,017	242,760	398,736	103,313	57,494	113,993	1,640,009
<b>Net liquidity gap</b>	<b>(228,667)</b>	<b>(71,778)</b>	<b>(96,654)</b>	<b>(147,233)</b>	<b>(231,562)</b>	<b>261,868</b>	<b>479,369</b>	<b>34,657</b>	<b>-</b>

### FINANCIAL RISK MANAGEMENT (continued)

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

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
<b>Assets</b>									
Cash and cash equivalents	79,881	24,405	-	-	-	-	-	-	104,286
Due from other banks	-	68	141	1,446	872	3,060	180	732	6,499
Securities at fair value through profit or loss	-	546	144	1,488	583	4,653	34,974	338	42,726
Derivative financial instruments	-	1,022	1,160	748	1,314	2,776	1,734	-	8,754
Loans granted to customers, finance lease receivables	-	28,385	71,541	61,495	121,569	284,809	284,018	61,997	913,814
Investment securities									
available-for-sale securities -	-	13	243	113	252	3,808	13,184	2,208	19,821
held-to-maturity securities -	-	4,128	31,690	10,297	16,027	132,136	300,367	-	494,645
Investments in subsidiaries	-	-	-	-	-	-	-	32,175	32,175
Intangible assets	-	-	-	-	-	-	-	798	798
Property, plant and equipment and investment property	-	-	-	-	-	-	-	13,314	13,314
Other assets	60	682	1,191	91	97	3,386	49	15,469	21,025
<b>Total assets</b>	<b>79,941</b>	<b>59,249</b>	<b>106,110</b>	<b>75,678</b>	<b>140,714</b>	<b>434,628</b>	<b>634,506</b>	<b>127,031</b>	<b>1,657,857</b>
Due to other banks and financial institutions	6,977	7,301	5,306	3,584	18,103	9,318	2,794	-	53,383
Due to customers	488,740	128,499	148,079	209,911	343,283	106,841	11,359	-	1,436,712
Subordinated loan	-	-	111	-	-	-	20,346	-	20,457
Other liabilities	8,843	1,161	95	1,787	109	414	20	2,363	14,792
Shareholders' equity	-	-	-	-	-	-	-	132,513	132,513
<b>Total liabilities and shareholders' equity</b>	<b>504,560</b>	<b>136,961</b>	<b>153,591</b>	<b>215,282</b>	<b>361,495</b>	<b>116,573</b>	<b>34,519</b>	<b>134,876</b>	<b>1,657,857</b>
<b>Net liquidity gap</b>	<b>(424,619)</b>	<b>(77,712)</b>	<b>(47,481)</b>	<b>(139,604)</b>	<b>(220,781)</b>	<b>318,055</b>	<b>599,987</b>	<b>(7,845)</b>	<b>-</b>

The structure of the Bank's assets and liabilities by maturity as at 31 December 2014 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
<b>Total assets</b>	146,684	85,582	117,554	100,348	188,661	336,584	519,066	115,627	1,610,106
<b>Total liabilities and shareholders' equity</b>	381,964	152,334	190,127	241,885	398,092	99,696	39,414	106,594	1,610,106
<b>Net liquidity gap</b>	<b>(235,280)</b>	<b>(66,752)</b>	<b>(72,573)</b>	<b>(141,537)</b>	<b>(209,431)</b>	<b>236,888</b>	<b>479,652</b>	<b>9,033</b>	<b>-</b>

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

## FINANCIAL RISK MANAGEMENT (continued)

### 3.3. Non - derivative cash flows

Undiscounted cash flows in the table below describe presumable liability side outflows which are restated by nominal contract amounts together with interest till the end of the contract.

Group							
31 December 2015	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Liabilities</b>							
Due to banks	-	11,361	5,313	21,715	11,673	426	50,488
Due to customers	-	628,111	148,038	553,378	115,956	2,386	1,447,869
Subordinated loan	-	-	361	1,094	5,784	23,813	31,052
Special and lending funds	-	8,191	-	-	-	-	8,191
<b>Total liabilities (contractual maturity dates)</b>	-	<b>647,663</b>	<b>153,712</b>	<b>576,187</b>	<b>133,413</b>	<b>26,625</b>	<b>1,537,600</b>

Group							
31 December 2014	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Liabilities</b>							
Due to banks	-	3,460	8,873	22,118	18,741	2,893	56,085
Due to customers	-	519,786	180,412	620,762	97,009	3,055	1,421,024
Subordinated loan	-	-	375	1,120	5,950	24,794	32,239
Special and lending funds	-	2,499	-	-	-	-	2,499
<b>Total liabilities (contractual maturity dates)</b>	-	<b>525,745</b>	<b>189,660</b>	<b>644,000</b>	<b>121,700</b>	<b>30,742</b>	<b>1,511,847</b>

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

Bank							
31 December 2014	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Liabilities</b>							
Due to banks	-	9,629	8,875	22,118	18,741	2,892	62,255
Due to customers	-	520,084	180,412	620,762	97,009	3,055	1,421,322
Subordinated loan	-	-	375	1,120	5,950	24,794	32,239
Special and lending funds	-	2,499	-	-	-	-	2,499
<b>Total liabilities (contractual maturity dates)</b>	-	<b>532,212</b>	<b>189,662</b>	<b>644,000</b>	<b>121,700</b>	<b>30,741</b>	<b>1,518,315</b>

## 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		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
<b>At 31 December 2015</b>								
<i>Loan commitments</i>		109,625	-	-	-	-	-	109,625
<i>Guarantees</i>		22,255	-	-	-	-	-	22,255
<i>Operating lease commitments</i>		96	188	265	494	1,362	439	2,844
<i>Other commitments</i>		1,731	6,192	81	203	64	-	8,271
<b>Total</b>		<b>133,707</b>	<b>6,380</b>	<b>346</b>	<b>697</b>	<b>1,426</b>	<b>439</b>	<b>142,995</b>

Group		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
<b>At 31 December 2014</b>								
<i>Loan commitments</i>		99,239	-	-	-	-	-	99,239
<i>Guarantees</i>		29,202	-	-	-	-	-	29,202
<i>Operating lease commitments</i>		90	180	268	524	1,928	287	3,277
<i>Other commitments</i>		1,714	537	575	310	289	-	3,425
<b>Total</b>		<b>130,245</b>	<b>717</b>	<b>843</b>	<b>834</b>	<b>2,217</b>	<b>287</b>	<b>135,143</b>

Bank		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
<b>At 31 December 2015</b>								
<i>Loan commitments</i>		114,165	-	-	-	-	-	114,165
<i>Guarantees</i>		22,282	-	-	-	-	-	22,282
<i>Operating lease commitments</i>		109	214	303	568	1,586	480	3,260
<i>Other commitments</i>		1,731	6,185	81	-	26	-	8,023
<b>Total</b>		<b>138,287</b>	<b>6,399</b>	<b>384</b>	<b>568</b>	<b>1,612</b>	<b>480</b>	<b>147,730</b>

Bank		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
<b>At 31 December 2014</b>								
<i>Loan commitments</i>		103,476	-	-	-	-	-	103,476
<i>Guarantees</i>		29,219	-	-	-	-	-	29,219
<i>Operating lease commitments</i>		106	210	315	611	2,427	223	3,892
<i>Other commitments</i>		1,440	-	7	-	-	-	1,447
<b>Total</b>		<b>134,241</b>	<b>210</b>	<b>322</b>	<b>611</b>	<b>2,427</b>	<b>223</b>	<b>138,034</b>



## FINANCIAL RISK MANAGEMENT (continued)

### 4. Fair value of financial assets and liabilities

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

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

##### *a) Loans and advances to banks*

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

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

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

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

##### *c) Investment securities*

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

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

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

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

##### *e) Other financial assets and other financial liabilities*

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

### FINANCIAL RISK MANAGEMENT (continued)

#### Bank

	As of 31 December 2015		As of 31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
<i>Due from other banks</i>	6,499	6,490	5,265	5,265
<b>Loans</b>	912,669	929,563	790,756	801,153
<i>Loans to individuals:</i>	61,528	63,494	56,233	58,207
Consumer loans -	7,487	8,083	7,224	7,689
Mortgages -	31,380	32,670	28,371	29,491
Credit cards -	931	925	907	899
Other -	21,730	21,816	19,731	20,128
<i>Loans to business customers</i>	752,155	766,992	675,923	684,507
Central and other authorities -	196,389	196,479	105,893	104,969
Large corporates -	45,263	46,018	46,204	46,966
SME -	510,503	524,495	523,826	532,572
<i>Loans and advances to financial institutions</i>	98,986	99,077	58,600	58,439
Finance lease receivables	1,145	1,158	3,068	3,101
<i>Investment securities held-to-maturity</i>	494,645	523,599	447,757	475,912
Government bonds -	381,943	410,714	335,863	361,545
Corporate bonds -	112,702	112,885	111,894	114,367
<i>Other financial assets</i>	2,169	2,169	135	135
<b>Liabilities</b>				
<i>Due to other banks and financial institutions</i>	53,383	53,413	61,979	62,012
<i>Due to customers</i>	1,436,712	1,448,783	1,415,716	1,418,347
Due to individuals	1,142,654	1,154,344	1,174,996	1,177,547
Due to private companies	214,449	214,798	184,256	184,332
Other	79,609	79,641	56,464	56,468
<i>Special and lending funds</i>	8,191	8,191	2,499	2,499

#### Group

	As of 31 December 2015		As of 31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
<i>Due from other banks</i>	6,529	6,520	5,665	5,665
<b>Loans</b>	851,296	868,562	720,191	732,510
<i>Loans to individuals:</i>	110,019	112,526	103,114	106,159
Consumer loans -	55,580	56,729	53,089	54,620
Mortgages -	31,380	32,670	28,371	29,491
Credit cards -	1,327	1,309	1,920	1,917
Other -	21,732	21,818	19,734	20,131
<i>Loans to business customers</i>	741,250	756,009	617,068	626,342
Central and other authorities -	196,389	196,479	105,897	104,973
Large corporates -	45,263	46,018	46,204	46,966
SME -	499,598	513,512	464,967	474,403
<i>Loans and advances to financial institutions</i>	27	27	9	9
Finance lease receivables	57,812	52,798	53,670	51,320
<i>Investment securities held-to-maturity</i>	494,645	523,599	454,116	482,274
Government bonds -	381,943	410,714	335,863	361,545
Corporate bonds -	112,702	112,885	118,253	120,729
<i>Other financial assets</i>	2,551	2,551	667	667
<b>Liabilities</b>				
<i>Due to other banks and financial institutions</i>	50,376	50,406	55,839	55,872
<i>Due to customers</i>	1,436,388	1,448,459	1,415,313	1,417,944
Due to individuals	1,142,654	1,154,344	1,174,996	1,177,547
Due to private companies	214,125	214,474	183,853	183,929
Due to other enterprises	79,609	79,641	56,464	56,468
<i>Special and lending funds</i>	8,191	8,191	2,499	2,499

### FINANCIAL RISK MANAGEMENT (continued)

#### 4.2. Financial assets and liabilities measured at fair value

##### a) Fair value hierarchy

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, NASDAQ Stock Exchange, London Stock Exchange, Frankfurt Stock Exchange) or public price quotations (for example, for Lithuanian government bonds denominated in Litas, average price quotations for these securities from the most active banks that participate in the primary placement auctions of the Lithuanian Government securities are used).
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The Group uses fair value calculated based on Level 2 inputs for accounting of currency derivatives.
- 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

	2015		2014	
	Group	Bank	Group	Bank
<b>LEVEL I</b>				
<i>Financial assets at fair value through profit or loss</i>				
Listed equity securities	301	301	112	112
Units of investment funds	15,078	30	13,217	-
Government bonds	37,597	29,634	24,961	17,836
Corporate bonds	18,115	12,736	13,808	9,158
<i>Available for sale financial assets</i>				
Government bonds	256	256	6,330	6,330
Corporate bonds	17,758	17,356	14,986	14,986
Investment fund units	140	140	125	125
<b>Total Level I financial assets</b>	<b>89,245</b>	<b>60,453</b>	<b>73,539</b>	<b>48,547</b>
<b>LEVEL II</b>				
<i>Financial assets at fair value through profit or loss</i>				
Derivative financial instruments	1,109	1,109	-	-
<b>Total Level II financial assets</b>	<b>1,109</b>	<b>1,109</b>	<b>-</b>	<b>-</b>
<i>Financial liabilities at fair value through profit or loss</i>				
Derivative financial instruments	(136)	(136)	-	-
<b>Total Level II financial liabilities</b>	<b>(136)</b>	<b>(136)</b>	<b>-</b>	<b>-</b>
<b>LEVEL III</b>				
<i>Financial assets at fair value through profit or loss</i>				
Derivative financial instruments	8,183	7,645	7,097	6,650
Corporate bonds	18	18	-	28,962
Unlisted equity securities	7	7	-	-
<i>Available for sale financial assets</i>				
Unlisted equity securities	2,314	2,069	677	403
<b>Total Level III financial assets</b>	<b>10,522</b>	<b>9,739</b>	<b>7,774</b>	<b>36,015</b>
<i>Financial liabilities at fair value through profit or loss</i>				
Subordinated loans	20,457	20,457	19,295	19,295
<b>Total Level III financial liabilities</b>	<b>20,457</b>	<b>20,457</b>	<b>19,295</b>	<b>19,295</b>

There were no transfers between fair value hierarchy levels during 2015 and 2014.

## FINANCIAL RISK MANAGEMENT (continued)

The following table presents the changes in Level III instruments during 2015 and 2014:

### The Group

	Unlisted securities at fair value through profit or loss		Unlisted equities available for sale		Derivatives		Financial liabilities at fair value through profit or loss	
	2015	2014	2015	2014	2015	2014	2015	2014
Value as of 1 January	-	-	677	916	7,097	6,472	19,295	19,941
Additions	23	-	69	25	2,675	3,455	-	-
Disposals	-	-	(74)	(11)	-	-	-	-
Changes due to interest accrued/paid	2	-	-	-	-	-	(3)	(316)
Revaluations through other comprehensive income	-	-	1,642	-	-	-	-	-
Revaluations through profit or loss	-	-	-	(253)	(1,589)	(2,830)	1,165	(330)
Value as of 31 December	25	-	2,314	677	8,183	7,097	20,457	19,295

### The Bank

	Unlisted securities at fair value through profit or loss		Unlisted equities available for sale		Derivatives		Financial liabilities at fair value through profit or loss	
	2015	2014	2015	2014	2015	2014	2015	2014
Value as of 1 January	28,962	35,623	403	403	6,650	6,085	19,295	19,941
Additions	23	-	24	-	2,807	3,484	-	-
Disposals	(28,962)	(6,661)	-	-	-	-	-	-
Changes due to interest accrued/paid	2	-	-	-	-	-	(3)	(316)
Revaluations through other comprehensive income	-	-	1,642	-	-	-	-	-
Revaluations through profit or loss	-	-	-	-	(1,812)	(2,919)	1,165	(330)
Value as of 31 December	25	28,962	2,069	403	7,645	6,650	20,457	19,295

	2015		2014	
	Group	Bank	Group	Bank
Total result from revaluation of Level III instruments included in the income statement	(2,754)	(2,977)	(2,753)	(2,589)

### 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 inputs (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 4,796 thousand for the Group and EUR 4,274 thousand for the Bank (2014: EUR 3,938 thousand for the Group and EUR 3,687 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 7,465 thousand for the Group and EUR 6,789 thousand for the Bank (2014: EUR 5,642 thousand for the Group and EUR 5,346 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 168 thousand for the Group and EUR 157 thousand for the Bank (2014: EUR 146 thousand for the Group and EUR 137 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 152 thousand for the Group and EUR 142 thousand for the Bank (2014: EUR 131 thousand for the Group and EUR 121 thousand for the Bank).

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

*Financial liabilities at fair value through profit or loss* (see also Note 30): the derivative part of the financial liability at fair value through profit or loss was priced using Black-Scholes model at initial recognition, and fair valued using this model at each balance sheet date. Various inputs to the model were used such as risk-free rate (market yield of Lithuanian government bonds with similar maturity), current market price and historical volatility of the market price of shares of the Bank for the period equal to number of days until the conversion option can be carried out, projected book value per share at the date of expected maturity (in book value per share projections, data of budgeted activity results and planned capital increases were used). The debt part of the financial liability at fair value through profit or loss was priced using the net present value of estimated future cash flows, the discount rate of 9.54% (i.e. input calculated based on expert judgement of Group's employees) was used for the calculation.

### FINANCIAL RISK MANAGEMENT (continued)

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

	Change in factor	Impact on fair value of the liability
<i>Risk-free rate</i>	Increase by 50 bps	Increase by EUR 88 thousand
	Decrease by 50 bps	Decrease by EUR 86 thousand
<i>Current price of shares</i>	Increase by 10%	Increase by EUR 1,120 thousand
	Decrease by 10%	Decrease by EUR 847 thousand
<i>Projected BV* per share</i>	Increase by 10%	Decrease by EUR 782 thousand
	Decrease by 10%	Increase by EUR 1,260 thousand
<i>Discount rate used to discount the future cash flows of the debt part</i>	Increase by 100 bps	Decrease by EUR 904 thousand
	Decrease by 100 bps	Increase by EUR 968 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 Procedure of Investment in Securities.

For the year ended 31 December 2015, one material revaluation of single unlisted securities position amounting to EUR 1,642 thousand was performed based on Group's management judgement of discounted expected cash inflows from the security. The gain from revaluation was included in other comprehensive income for the year 2015.

#### 4.3. Offsetting financial assets and financial liabilities

As of 31 December 2015, only currency derivative instruments were subject to master netting arrangements and similar arrangements. Derivative financial instruments classified as assets in amount of EUR 1,033 thousand and derivative financial instruments classified as liabilities in amount of EUR 99 thousand were subject to those agreements. As of 31 December 2014 the Bank had no offsettable assets or liabilities that are subject to offsetting, enforceable master netting arrangements and similar agreements.

#### 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 2015		31 December 2014	
	Group	Bank	Group	Bank
<b>FINANCIAL ASSETS</b>				
<i>Financial assets mandatorily measured at fair value through profit or loss:</i>				
<i>Trading securities</i>	54,453	42,726	37,371	56,068
<i>Securities at fair value through profit or loss, designated as such upon initial recognition</i>	16,663	-	14,727	-
<i>Derivative financial instruments</i>	9,292	8,754	7,097	6,650
<i>Financial assets measured at fair value through other comprehensive income:</i>				
<i>Investment securities available-for-sale</i>	20,468	19,821	22,118	21,844
<i>Financial assets measured at amortized cost:</i>				
<i>Cash and cash equivalents</i>	105,012	104,286	197,436	196,481
<i>Due from other banks</i>	6,529	6,499	5,665	5,265
<i>Loans to customers</i>	851,296	912,669	720,191	790,756
<i>Finance lease receivables</i>	57,812	1,145	53,670	3,068
<i>Investment securities held-to-maturity</i>	494,645	494,645	454,116	447,757
<i>Other financial assets</i>	2,551	2,169	667	135
<b>Total financial assets</b>	<b>1,618,721</b>	<b>1,592,714</b>	<b>1,513,058</b>	<b>1,528,024</b>
<b>FINANCIAL LIABILITIES</b>				
<i>Financial liabilities mandatorily measured at fair value through profit or loss:</i>				
<i>Derivative financial instruments</i>	136	136	-	-
<i>Financial liabilities at fair value through profit or loss, designated as such upon initial recognition:</i>				
<i>Subordinated loan</i>	20,457	20,457	19,295	19,295
<i>Financial liabilities measured at amortised cost:</i>				
<i>Due to banks and financial institutions</i>	50,376	53,383	55,839	61,979
<i>Due to customers</i>	1,436,388	1,436,712	1,415,313	1,415,716
<i>Special and lending funds</i>	8,191	8,191	2,499	2,499
<i>Other financial liabilities</i>	8,412	5,034	1,823	-
<b>Total financial liabilities</b>	<b>1,523,960</b>	<b>1,523,913</b>	<b>1,494,769</b>	<b>1,499,489</b>

## FINANCIAL RISK MANAGEMENT (continued)

### 5. The risk inherent in insurance activities

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

#### Insurance risk

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

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

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

The company manages acceptable insurance risk by valuating the health of the assured 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 assured 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 as measured by the insurance amount of the accepted risks:

	2015	2014
<i>Maturity</i>	5.57%	5.66%
<i>Death</i>	29.41%	29.68%
<i>Critical illness</i>	10.82%	10.72%
<i>Death in case of accident</i>	11.31%	10.80%
<i>Trauma</i>	42.89%	43.15%

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.

### 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 2015

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

The Company's sensitivity to the changes in key variables that have a material impact, 31 December 2014

Variable	Change in variable	Change in profit/loss	Change in insurance liability
Mortality	10%	(380)	380
Longevity	10%	(1)	1
Disability/Morbidity	10%	(240)	240
Lapse rate	10%	(314)	314
Expense rate	10%	(561)	561
Discount rate	100 bp	478	(478)
	(100 bp)	(883)	883

Loss rate according to insurance groups:

	2015 (%)	2014 (%)
Non-life insurance		
Casualty insurance	(236.4)	183.6
Life insurance		
Unit-linked insurance	10.7	13.1
Term life insurance	402.1	(3,459.1)
Endowment insurance	8.1	25
Scholarship insurance	106.3	71.9
Pension insurance	9.8	13.9
Overall loss rate	11.9	15.9

Loss ratios 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 13 thousand (2014 – EUR 2 thousand).



## FINANCIAL RISK MANAGEMENT (continued)

### *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 (2015: 5.4%, 2014: 7.3%), 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 identification and management of main sources of operational risk in all the areas of Bank's activity; assuring the compliance with the requirements set by legal acts.

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

The operational risk management methods are implemented in the Bank – the system for registration of operational risk events, 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 with the aim to distinguish the most risky areas of Bank's division/process which can cause to increase the level of operational risk in the Bank; evaluation of new products with the aim to ensure that the Bank does not take up activities with the risk unforeseen by the Bank, or the risk that cannot be managed.

In 2015, the Bank continued to develop systems of operational risk management and internal control, strengthened the internal control function. Employees perception of operational risk was strengthened by organizing operational risk training of new employees. In 2016, the Bank intends to continue development of operational risk management system and improving internal control system.

## 7. IT risk

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

## 8. Compliance risk

Compliance risk is the risk that the Bank's activities do not comply with the requirements set forth in the national legal acts, the EBA (European Banking Authority), the ESMA (European Security and Markets Authority) guidelines and positions, also the regulations of the Bank of Lithuania. The compliance function areas were established by the Bank taking into consideration the volume of operations, the complexity of the activities, transactions executed and the risk level of consequences possible for noncompliance. The compliance function was active in areas of anti-money laundering and financial markets (investment services provision specifically) during 2015. Considering the changes in regulations (new MiFID II implementation as well as upcoming new wording of the Law on Money Laundering and Terrorist Financing Prevention of the Republic of Lithuania, new Consumer Credit regulation and intended implementation of the EU housing directive) compliance function will be focused in all related areas in the Bank in 2016.



## FINANCIAL RISK MANAGEMENT (continued)

### 9. Stress tests

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

### 10. Capital management

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

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

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

Institutions shall at all times satisfy the following own funds requirements:

- 1) A Common Equity Tier 1 (CET1) capital ratio of 4.5%. CET1 capital ratio is the Common Equity Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount.
- 2) A Tier 1 capital ratio of 6%. The Tier 1 capital ratio is the Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount.
- 3) A total capital ratio of 8%. The total capital ratio is the own funds of the institution expressed as a percentage of the total risk exposure amount.

At 31 December 2015, institutions operating in Lithuania are subject to capital buffers, which are added to the capital ratios mentioned above:

- Countercyclical capital buffer: rate currently applied in Lithuania is 0%. The countercyclical capital buffer may be increased under conditions of the unsustainable credit growth in Lithuania;
- Capital conservation buffer: rate of 2.5% is applied.

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

Therefore, at 31 December 2015 the Bank is subject to a CET1 ratio of 9.0%, Tier1 capital ratio of 10.5% and total capital ratio of 12.5%.

On 17 December 2015 the Bank received a resolution from its supervisory institution (Bank of Lithuania) indicating that it was recognized to be other systematically important institution. An extra other systemically important institution buffer (O-SII) of 0.5% will apply to the Bank starting 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.

### FINANCIAL RISK MANAGEMENT (continued)

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

	2015		2014	
	Group	Bank	Group	Bank
<b>Common equity tier 1 capital eligible as CET1 Capital</b>				
Paid up capital instruments	91,226	91,226	78,197	78,197
Share premium	-	-	3,684	3,684
Previous years retained earnings	18,874	16,194	10,236	9,697
Interim profit eligible for inclusion	7,996	11,708	-	-
Current year loss	-	-	-	-
Statutory reserve	2,468	2,290	1,449	1,275
Other reserves	756	756	756	756
Part of financial assets revaluation reserve	358	358	(50)	(50)
(-) Goodwill	(2,752)	-	(2,752)	-
(-) Intangible assets	(1,018)	(798)	(573)	(412)
(-) Deferred tax assets that rely on future profitability	(179)	(161)	-	-
(-) Value adjustments due to requirements for prudent valuation	(382)	(368)	-	-
<b>TIER 1 CAPITAL</b>	<b>117,347</b>	<b>121,205</b>	<b>90,947</b>	<b>93,147</b>
<b>Capital instruments and subordinated loans eligible as T2 Capital</b>				
Subordinated loan capital	20,000	20,000	20,000	20,000
Part of financial assets revaluation reserve	538	538	-	-
<b>TIER 2 CAPITAL</b>	<b>20,538</b>	<b>20,538</b>	<b>20,000</b>	<b>20,000</b>
<b>OWN FUNDS</b>	<b>137,885</b>	<b>141,743</b>	<b>110,947</b>	<b>113,147</b>
<b>Own funds requirements for:</b>				
Risk weighted exposure amount for credit risk under the Standardised Approach	815,386	845,174	814,386	818,917
Risk weighted exposure amount for the trading book instruments	36,313	27,539	55,568	48,522
Operational risk under the Basic Indicator Approach	115,907	98,442	107,209	80,572
Other capital requirements (credit value adjustment risk)	425	425	-	-
<b>Total risk exposure amount</b>	<b>968,031</b>	<b>971,580</b>	<b>977,163</b>	<b>948,011</b>
<b>CET1 Capital ratio</b>	<b>12.18%</b>	<b>12.53%</b>	<b>9.31%</b>	<b>9.83%</b>
<b>T1 Capital ratio</b>	<b>12.12%</b>	<b>12.48%</b>	<b>9.31%</b>	<b>9.83%</b>
<b>Total capital ratio</b>	<b>14.24%</b>	<b>14.59%</b>	<b>11.35%</b>	<b>11.94%</b>

The profit of the current year is not included in Tier 1 capital until it is verified by independent auditors. Interim profit eligible for inclusion represent the portion of half-year profits, which, after the verification by auditors and deduction of certain amounts subject to supervisory rules, the Bank was granted a permission to include in own funds. If the whole profit for the year 2015 was included in Owns funds of the Group and the Bank as of 31 December 2015, it would cause the Total capital ratio to increase to 15.70% and 15.56%, respectively.

During the years ended 31 December 2015 and 31 December 2014, the Group and the Bank complied with prudential requirements.

## 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 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 1,271 thousand at 31 December 2015. However due to inherent limitations of the methodology, the calculated impairment loss as at 31 December 2015 may be inadequate to reflect the losses of the loan portfolio.

*Impairment losses on consumer financing loans.* The Group review their consumer financing portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss for loans should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of a homogenous group of clients. The estimate is based on the analysis of the historical information for each homogenous group. The recovery rate for each group is determined and impairment provision is calculated based on the recovery rate. The assumptions used (the time period to calculate the recovery rate; application of discount rate; and other) are reviewed regularly (at least once a year) to reduce any difference between the loss estimates and actual loss experience. However due to inherent limitations of methodology and assumptions used, the calculated impairment loss as at 31 December 2015 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 2015 by 5 percentage points would result in additional impairment expense of EUR 309 thousand (2014: EUR 350 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 judgments and estimates can significantly affect the assessed value of goodwill.

*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.

*Impairment losses on receivables.* The Group test receivables for impairment when loss events (delays in payments or significant financial difficulties or a debtor) are identified. Recoverable amount of receivables is established individually based on discounted expected future payments to be received. The management applies judgement in estimating timing, amounts and probabilities of future cash flows to be received from debtors.

*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".

### 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 2015 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 2015 and in the Statement of comprehensive income for the year then ended is presented in the table below. Indicators of subsidiaries held for sale (see Note 20 for details) are included in the column "Eliminations".

	Šiauliai region	Vilnius region	Klaipėda region	Kaunas region	Headquarters	Leasing	Real estate development and other	Eliminations	Total Group
<b>Continuing operations</b>									
Internal	(1,901)	114	646	1,379	4,555	(3,701)	(882)	(210)	-
External	7,191	8,108	4,442	4,750	11,664	11,492	1,172	-	48,819
<b>Net interest income</b>	<b>5,290</b>	<b>8,222</b>	<b>5,088</b>	<b>6,129</b>	<b>16,219</b>	<b>7,791</b>	<b>290</b>	<b>(210)</b>	<b>48,819</b>
Internal	(1,901)	114	646	1,379	4,751	(3,761)	(1,079)	(149)	-
External	8,789	9,899	5,799	6,167	13,564	11,498	1,142	-	56,858
<b>Net interest, fee and commissions income</b>	<b>6,888</b>	<b>10,013</b>	<b>6,445</b>	<b>7,546</b>	<b>18,315</b>	<b>7,737</b>	<b>63</b>	<b>(149)</b>	<b>56,858</b>
Internal	-	-	-	-	(445)	(101)	(72)	618	-
External	(1,751)	(1,937)	(1,762)	(2,067)	(13,323)	(3,967)	(16,479)	-	(41,286)
<b>Operating expenses</b>	<b>(1,751)</b>	<b>(1,937)</b>	<b>(1,762)</b>	<b>(2,067)</b>	<b>(13,768)</b>	<b>(4,068)</b>	<b>(16,551)</b>	<b>618</b>	<b>(41,286)</b>
Amortisation charges	-	-	-	-	(216)	(41)	(21)	-	(278)
Depreciation charges	(66)	(95)	(77)	(115)	(571)	(178)	(215)	-	(1,317)
Internal	-	-	-	-	(15,163)	-	-	15,163	-
External	(4,865)	(2,594)	(6,653)	(1,384)	(1,422)	(1,486)	(4,628)	-	(23,032)
<b>Impairment expenses</b>	<b>(4,865)</b>	<b>(2,594)</b>	<b>(6,653)</b>	<b>(1,384)</b>	<b>(16,585)</b>	<b>(1,486)</b>	<b>(4,628)</b>	<b>15,163</b>	<b>(23,032)</b>
Internal	-	-	-	-	18,518	-	2,434	(20,952)	-
External	994	2,964	195	1,742	2,769	510	16,081	-	25,255
<b>Net other income</b>	<b>994</b>	<b>2,964</b>	<b>195</b>	<b>1,742</b>	<b>21,287</b>	<b>510</b>	<b>18,515</b>	<b>(20,952)</b>	<b>25,255</b>
<b>Profit (loss) from continuing operations before tax</b>	<b>1,200</b>	<b>8,351</b>	<b>(1,852)</b>	<b>5,722</b>	<b>8,462</b>	<b>2,474</b>	<b>(2,837)</b>	<b>(5,320)</b>	<b>16,200</b>
Profit (loss) from discontinued operations	-	-	-	-	221	-	(656)	9,073	8,638
Income tax	-	-	-	-	(953)	(246)	180	-	(1,019)
<b>Profit (loss) per segment after tax</b>	<b>1,200</b>	<b>8,351</b>	<b>(1,852)</b>	<b>5,722</b>	<b>7,730</b>	<b>2,228</b>	<b>(3,313)</b>	<b>3,753</b>	<b>23,819</b>
Non-controlling interest	-	-	-	-	-	-	-	-	-
<b>Profit (loss) for the year attributable to the owners of the Bank</b>	<b>1,200</b>	<b>8,351</b>	<b>(1,852)</b>	<b>5,722</b>	<b>7,730</b>	<b>2,228</b>	<b>(3,313)</b>	<b>3,753</b>	<b>23,819</b>
Total segment assets	307,885	414,276	288,114	424,992	222,590	115,245	87,692	(165,754)	1,695,040
Total segment liabilities	306,402	405,613	289,781	419,422	104,126	103,773	63,518	(134,659)	1,557,976
<b>Net segment assets (shareholders' equity)</b>	<b>1,483</b>	<b>8,663</b>	<b>(1,667)</b>	<b>5,570</b>	<b>118,464</b>	<b>11,472</b>	<b>24,174</b>	<b>(31,095)</b>	<b>137,064</b>

### 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 2014 and in the statement of comprehensive income for the year then ended is presented below:

	Šiauliai region	Vilnius region	Klaipėda region	Kaunas region	Headquarters	Leasing	Real estate development and other	Eliminations	Total Group
<b>Continuing operations</b>									
Internal	650	4,391	1,636	5,826	(6,806)	(4,408)	(606)	(683)	-
External	3,780	4,223	2,224	300	15,453	12,389	1,418	-	39,787
<b>Net interest income</b>	<b>4,430</b>	<b>8,614</b>	<b>3,860</b>	<b>6,126</b>	<b>8,647</b>	<b>7,981</b>	<b>812</b>	<b>(683)</b>	<b>39,787</b>
Internal	712	4,503	1,636	5,826	(6,767)	(4,506)	(710)	(694)	-
External	5,727	6,205	4,027	2,490	14,401	12,077	1,365	-	46,292
<b>Net interest, fee and commissions income</b>	<b>6,439</b>	<b>10,708</b>	<b>5,663</b>	<b>8,316</b>	<b>7,634</b>	<b>7,571</b>	<b>655</b>	<b>(694)</b>	<b>46,292</b>
Internal	-	-	-	-	(532)	(116)	(36)	684	-
External	(1,671)	(1,845)	(1,738)	(2,123)	(10,657)	(3,373)	(14,345)	-	(35,752)
<b>Operating expenses</b>	<b>(1,671)</b>	<b>(1,845)</b>	<b>(1,738)</b>	<b>(2,123)</b>	<b>(11,189)</b>	<b>(3,489)</b>	<b>(14,381)</b>	<b>684</b>	<b>(35,752)</b>
Amortisation charges	-	(1)	-	-	(115)	(19)	(22)	-	(157)
Depreciation charges	(59)	(100)	(90)	(116)	(656)	(163)	(165)	-	(1,349)
Internal	-	-	-	-	(7,931)	-	(1,574)	9,505	-
External	(9,620)	(2,473)	(2,668)	(2,519)	669	(3,502)	(651)	-	(20,764)
<b>Impairment expenses</b>	<b>(9,620)</b>	<b>(2,473)</b>	<b>(2,668)</b>	<b>(2,519)</b>	<b>(7,262)</b>	<b>(3,502)</b>	<b>(2,225)</b>	<b>9,505</b>	<b>(20,764)</b>
Internal	70	30	-	-	6,160	-	177	(6,437)	-
External	295	2,099	492	5,827	3,223	410	15,061	-	27,407
<b>Net other income</b>	<b>365</b>	<b>2,129</b>	<b>492</b>	<b>5,827</b>	<b>9,383</b>	<b>410</b>	<b>15,238</b>	<b>(6,437)</b>	<b>27,407</b>
<b>Profit (loss) from continuing operations before tax</b>	<b>(4,546)</b>	<b>8,418</b>	<b>1,659</b>	<b>9,385</b>	<b>(2,205)</b>	<b>808</b>	<b>(900)</b>	<b>3,058</b>	<b>15,677</b>
Profit (loss) from discontinued operations	-	-	-	-	(293)	-	-	(1,601)	(1,894)
Income tax	-	-	-	-	(1,814)	(163)	(32)	-	(2,009)
<b>Profit (loss) per segment after tax</b>	<b>(4,546)</b>	<b>8,418</b>	<b>1,659</b>	<b>9,385</b>	<b>(4,312)</b>	<b>645</b>	<b>(932)</b>	<b>1,457</b>	<b>11,774</b>
Non-controlling interest									
Profit (loss) for the year attributable to the owners of the Bank	(4,546)	8,418	1,659	9,385	(4,312)	645	(932)	1,457	11,774
Total segment assets	313,388	411,307	311,650	459,456	114,305	113,037	108,255	(191,389)	1,640,009
Total segment liabilities	317,934	402,889	309,991	450,072	24,491	100,896	88,293	(161,169)	1,533,397
Net segment assets (shareholders' equity)	(4,546)	8,418	1,659	9,384	89,814	12,141	19,962	(30,220)	106,612

#### 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.

### NOTE 1 NET INTEREST INCOME

	2015		2014	
	Group	Bank	Group	Bank
<i>Interest income:</i>				
<i>on loans to other banks and financial institutions and placements with credit institutions</i>	593	3,877	549	2,444
<i>on loans to customers</i>	48,130	40,081	45,387	36,325
<i>on debt securities</i>	13,422	13,376	14,412	15,542
<i>held to maturity -</i>	11,587	11,546	12,217	11,669
<i>available for sale -</i>	722	719	1,116	1,116
<i>at fair value through profit or loss -</i>	1,113	1,111	1,079	2,757
<i>on finance leases</i>	3,650	595	2,863	802
<b>Total interest income</b>	<b>65,795</b>	<b>57,929</b>	<b>63,211</b>	<b>55,113</b>
<i>Interest expense:</i>				
<i>on financial liabilities designated at fair value through profit or loss</i>	(1,486)	(1,486)	(1,325)	(1,325)
<i>on financial liabilities measured at amortised cost</i>	(15,479)	(15,484)	(22,099)	(22,111)
<i>on other liabilities</i>	(11)	(11)	-	-
<b>Total interest expense</b>	<b>(16,976)</b>	<b>(16,981)</b>	<b>(23,424)</b>	<b>(23,436)</b>
<b>Net interest income</b>	<b>48,819</b>	<b>40,948</b>	<b>39,787</b>	<b>31,677</b>

From 2015, the recognition of certain income related to the loans granted by the Bank using third-party funding was adjusted to include such income in commission income instead of interest income, therefore the comparative financial information was restated accordingly (year 2014 interest income decreased by EUR 1,334 thousand, commission income increased by the same amount).

### NOTE 2 NET FEE AND COMMISSION INCOME

	2015		2014	
	Group	Bank	Group	Bank
<i>Fee and commission income:</i>				
<i>for administration of loans of third parties</i>	3,944	3,944	1,334	1,334
<i>for settlement services</i>	2,929	2,992	2,877	2,940
<i>for cash operations</i>	1,775	1,775	1,699	1,699
<i>for currency exchange</i>	389	389	2,386	2,386
<i>for payment administration</i>	1,251	1,251	1,182	1,182
<i>for guarantees, letters of credit, documentary collection</i>	485	485	535	535
<i>for collection of utility and similar payments</i>	291	291	344	344
<i>for services related to securities</i>	564	697	126	232
<i>other fee and commission income</i>	530	178	276	66
<b>Total fee and commission income</b>	<b>12,158</b>	<b>12,002</b>	<b>10,759</b>	<b>10,718</b>
<i>Fee and commission expense:</i>				
<i>for payment cards</i>	(2,486)	(2,486)	(2,002)	(2,002)
<i>for cash operations</i>	(747)	(747)	(1,208)	(1,208)
<i>for correspondent bank and payment system fees</i>	(430)	(178)	(453)	(254)
<i>for services of financial data vendors</i>	(113)	(113)	(93)	(93)
<i>for services related to securities</i>	(151)	(151)	(63)	(46)
<i>other fee and commission expenses</i>	(192)	(68)	(435)	(32)
<b>Total fee and commission expense</b>	<b>(4,119)</b>	<b>(3,743)</b>	<b>(4,254)</b>	<b>(3,635)</b>
<b>Net fee and commission income</b>	<b>8,039</b>	<b>8,259</b>	<b>6,505</b>	<b>7,083</b>

### NOTE 3 NET GAIN FROM OPERATIONS WITH SECURITIES

	2015		2014	
	Group	Bank	Group	Bank
<i>Securities at fair value through profit or loss</i>				
Realised gain (loss) on equity securities	15	(2)	(35)	(16)
Unrealised gain (loss) on equity securities	576	(12)	536	22
Realised gain on debt securities	734	738	721	711
Unrealised gain (loss) on debt securities	(610)	(308)	842	746
<b>Net gain on securities at fair value through profit or loss</b>	<b>715</b>	<b>416</b>	<b>2,064</b>	<b>1,463</b>
Realised gain (loss) on available-for-sale equities	(78)	-	4	4
Realised gain on available-for-sale debt securities	365	365	1,163	1,163
Dividend and other income from equity securities at fair value through profit or loss	8	8	7	7
Dividend and other income from available-for-sale equity securities	77	77	85	66
<b>Total</b>	<b>1,087</b>	<b>866</b>	<b>3,323</b>	<b>2,703</b>

### NOTE 4 OTHER OPERATING EXPENSES

	2015		2014	
	Group	Bank	Group	Bank
Rent of buildings and premises	(1,383)	(1,220)	(1,192)	(1,044)
Utility services for buildings and premises	(754)	(692)	(879)	(793)
Other expenses related to buildings and premises	(433)	(409)	(366)	(347)
Transportation expenses	(467)	(544)	(515)	(586)
Legal costs	(134)	(134)	(79)	(79)
Personnel and training expenses	(154)	(135)	(232)	(126)
IT and communication expenses	(1,745)	(1,609)	(1,784)	(1,550)
Marketing and charity expenses	(1,815)	(641)	(780)	(261)
Service organisation expenses	(1,156)	(1,191)	(900)	(1,077)
Non-income taxes, fines	(988)	(212)	(752)	(195)
Costs incurred due to debt recovery	(853)	(716)	(823)	(647)
Other expenses	(936)	(490)	(883)	(472)
<b>Total</b>	<b>(10,818)</b>	<b>(7,993)</b>	<b>(9,185)</b>	<b>(7,177)</b>

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

#### REVENUE RELATED TO OTHER ACTIVITIES OF GROUP COMPANIES

	2015		2014	
	Group	Bank	Group	Bank
Revenue related to insurance activities	6,193	-	5,576	-
Revenue from sale of apartments	8,183	-	6,913	-
<b>Total</b>	<b>14,376</b>	<b>-</b>	<b>12,489</b>	<b>-</b>

#### EXPENSES RELATED TO OTHER ACTIVITIES OF GROUP COMPANIES

	2015		2014	
	Group	Bank	Group	Bank
Expenses related to insurance activities:	(6,065)	-	(5,298)	-
changes in technical provisions	(3,567)	-	(2,598)	-
insurance benefits paid	(2,122)	-	(2,308)	-
commission expenses incurred and other	(376)	-	(392)	-
Cost of apartments sold	(7,759)	-	(6,413)	-
<b>Total</b>	<b>(13,824)</b>	<b>-</b>	<b>(11,711)</b>	<b>-</b>

Revenue from insurance activities consists of insurance premiums written by Bonum Publicum GD UAB. The result from assets of life insurance subsidiary, which cover liabilities under unit-linked insurance contracts are not included in income-expense items presented in the table above. The result from the assets mentioned above is included in following items of income statement for the year ended 31 December 2015: Interest and similar income EUR 73 thousand, Net gain (loss) from operations with securities - a gain of EUR 544 thousand, Net foreign exchange gain - a gain of EUR 517 thousand (for the year ended 31 December 2014: Interest and similar income EUR 72 thousand, Net gain from operations with securities - a gain of EUR 483 thousand, Net foreign exchange gain - a gain of EUR 491 thousand).



### NOTE 6 OTHER INCOME

#### GAIN FROM DISPOSAL OF TANGIBLE ASSETS

In 2015 gain on disposal of tangible assets (mostly real estate) at the Group amounted to EUR 2,690 thousand (Bank EUR 2,765 thousand). In 2014 gain on disposal of tangible assets (mostly real estate) at the Group amounted to EUR 828 thousand (Bank EUR 342 thousand).

#### GAIN FROM DERECOGNITION OF FINANCIAL ASSETS

Gain from derecognition of financial assets (Group/Bank: for the year ended 31 December 2015: EUR 4,825 thousand, for the year ended 31 December 2014: EUR 7,456 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 total proceeds from the derecognition (repayment or refinancing) of the above-mentioned loans which is charged to profit or loss.

#### OTHER OPERATING INCOME

	2015		2014	
	Group	Bank	Group	Bank
<i>Income from rent of investment property and other income from investment property</i>	667	137	998	477
<i>Income from rent of other assets</i>	326	219	358	190
<i>Other income</i>	868	327	798	356
<b>Total</b>	<b>1,861</b>	<b>683</b>	<b>2,154</b>	<b>1,023</b>

### NOTE 7 IMPAIRMENT LOSSES

	2015		2014	
	Group	Bank	Group	Bank
<b><i>Impairment losses on loans:</i></b>				
<i>Impairment charge for the year</i>	24,464	23,341	20,470	20,189
<i>Reversal of impairment charge for the year</i>	(6,808)	(6,720)	(3,082)	(3,080)
<i>Recoveries of loans previously written off</i>	(936)	(259)	(986)	(37)
<b>Total impairment losses on loans</b>	<b>16,720</b>	<b>16,362</b>	<b>16,402</b>	<b>17,072</b>
<b><i>Impairment losses on finance lease receivables:</i></b>				
<i>Impairment charge for the year</i>	212	-	115	61
<i>Reversal of impairment charge for the year</i>	(677)	-	(1)	-
<i>Recovered previously written-off finance lease receivables</i>	(168)	-	(75)	-
<b>Total impairment losses (reversals) on finance lease</b>	<b>(633)</b>	<b>-</b>	<b>39</b>	<b>61</b>
<b><i>Impairment losses on other assets:</i></b>				
<i>Claims: impairment charge</i>	273	14	437	147
<i>Claims: reversal of impairment charge</i>	-	-	(279)	-
<i>Provisions for pending legal issues: charge</i>	-	-	71	-
<i>Provisions for pending legal issues: reversal</i>	(28)	-	-	-
<i>Other assets: impairment charge</i>	6,959	545	4,275	-
<i>Other assets: reversal of impairment charge / reclassification</i>	(187)	(3)	(181)	(139)
<i>Other assets: recoveries of assets previously written-off</i>	(72)	-	-	-
<b>Total impairment losses on other assets</b>	<b>6,945</b>	<b>556</b>	<b>4,323</b>	<b>8</b>
<b>Total impairment losses on loans and other assets</b>	<b>23,032</b>	<b>16,918</b>	<b>20,764</b>	<b>17,141</b>
<b><i>Impairment losses on subsidiaries:</i></b>				
<i>Investments in subsidiaries: impairment charge</i>	-	4,738	-	7,401
<i>Investments in subsidiaries: reversal of impairment charge</i>	-	-	-	-
<b>Total impairment losses on subsidiaries</b>	<b>-</b>	<b>4,738</b>	<b>-</b>	<b>7,401</b>
<b>Total</b>	<b>23,032</b>	<b>21,656</b>	<b>20,764</b>	<b>24,542</b>

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



### NOTE 8 INCOME TAX

	2015		2014	
	Group	Bank	Group	Bank
Current tax	2,003	944	1,346	534
Deferred taxes	(981)	12	663	1,280
Adjustment of previous year income tax	(3)	(3)	-	-
<b>Total</b>	<b>1,019</b>	<b>953</b>	<b>2,009</b>	<b>1,814</b>

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:

	2015		2014	
	Group	Bank	Group	Bank
Profit before income tax from continuing operations	16,200	21,883	15,677	12,710
Tax calculated at a tax rate of 15%	2,430	3,282	2,352	1,906
Income not subject to tax	(3,019)	(3,357)	(1,664)	(1,229)
Expenses not deductible for tax purposes	3,910	3,166	1,433	1,157
(Utilisation of) tax losses for which no deferred tax asset was recognized	(2,302)	(2,138)	(112)	(20)
<b>Income tax charge</b>	<b>1,019</b>	<b>953</b>	<b>2,009</b>	<b>1,814</b>

#### Deferred tax assets

	Group					Bank				
	Revaluation of financial instruments and other assets	Accruals	Tax losses carried forward	Revaluation of assets held for sale	Total	Revaluation of financial instruments and other assets	Accruals	Tax losses carried forward	Revaluation of assets held for sale	Total
<b>At 31 December 2013</b>	<b>87</b>	<b>(156)</b>	<b>(1,711)</b>	<b>(21)</b>	<b>(1,801)</b>	<b>151</b>	<b>(143)</b>	<b>(1,355)</b>	<b>(21)</b>	<b>(1,368)</b>
To be credited/(charged) to net profit	(277)	(39)	1,301	21	1,006	(4)	(21)	1,284	21	1,280
Reclassifications	75	-	98	-	173	-	-	-	-	-
To be credited/(charged) to equity	-	-	-	-	-	196	-	-	-	196
<b>At 31 December 2014</b>	<b>(115)</b>	<b>(195)</b>	<b>(312)</b>	<b>-</b>	<b>(622)</b>	<b>343</b>	<b>(164)</b>	<b>(71)</b>	<b>-</b>	<b>108</b>
To be credited/(charged) to net profit	(412)	(23)	92	-	(343)	13	(35)	(132)	-	(154)
Reclassifications	(254)	-	-	-	(254)	-	-	-	-	-
To be credited/(charged) to equity	(166)	-	-	-	(166)	-	-	-	-	-
<b>At 31 December 2015</b>	<b>(947)</b>	<b>(218)</b>	<b>(220)</b>	<b>-</b>	<b>(1,385)</b>	<b>356</b>	<b>(199)</b>	<b>(203)</b>	<b>-</b>	<b>(46)</b>

#### Deferred tax liabilities

	Group		
	Revaluation of assets held for sale	Revaluation of financial instruments and other assets	Total
<b>At 31 December 2013</b>	<b>1,405</b>	<b>178</b>	<b>1,583</b>
To be credited/(charged) to net profit	(326)	(18)	(344)
Reclassification	-	(64)	(64)
To be credited/(charged) to equity	-	185	185
<b>At 31 December 2014</b>	<b>1,079</b>	<b>281</b>	<b>1,360</b>
To be credited/(charged) to net profit	(637)	-	(637)
Reclassification	535	(281)	254
To be credited/(charged) to equity	-	-	-
<b>At 31 December 2015</b>	<b>977</b>	<b>-</b>	<b>977</b>

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.

### NOTE 8

#### INCOME TAX (continued)

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:

	2015		2014	
	Group	Bank	Group	Bank
Deferred tax assets	(1,385)	(46)	(622)	-
Deferred tax liabilities	977	-	1,360	108

### 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 2015 and 31 December 2014 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 2015 was 314,574 thousand (2014: 270,000 thousand). Weighted average number of shares in issue for the year ended 31 December 2015 was 303,049 thousand, for the year ended 31 December 2014 (retrospectively adjusted by the new shares that were issued in 2015 as a result of bonus issue) – 293,220 thousand.

#### Basic earnings per share

Group	2015	2014
Net profit from continuing operations attributable to equity holders	15,181	13,668
Net profit (loss) from discontinued operations attributable to equity holders	8,638	(1,894)
<b>Net profit attributable to equity holders</b>	<b>23,819</b>	<b>11,774</b>
Weighted average number of shares in issue during the period (thousand units)	303,049	293,220
<b>Basic earnings per share (EUR)</b>	<b>0.08</b>	<b>0.04</b>
Basic earnings per share (EUR) from continuing operations	0.05	0.05
Basic earnings per share (EUR) from discontinued operations	0.03	(0.01)

### NOTE 10 CASH AND CASH EQUIVALENTS

	2015		2014	
	Group	Bank	Group	Bank
Cash and other valuables	25,133	25,046	42,551	42,551
Balances in bank deposit accounts	24,405	24,405	6,383	6,383
Balances in bank correspondent accounts	28,540	27,901	38,786	37,831
Placements with Central Bank:				
Deposits in Central Bank	-	-	43,445	43,445
Correspondent account with Central Bank	14,020	14,020	28,421	28,421
Mandatory reserves in local currency	12,914	12,914	37,850	37,850
Total placements with Central Bank	26,934	26,934	109,716	109,716
<b>Total</b>	<b>105,012</b>	<b>104,286</b>	<b>197,436</b>	<b>196,481</b>

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%, in 2014 the Bank was subject to the rate of 3%. 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 \*

	2015		2014	
	Group	Bank	Group	Bank
From AA- to AA+	1,083	897	149	115
From A- to A+	45,207	44,756	44,893	43,972
From BBB- to BBB+	5,617	5,617	127	127
Lower than BBB-	55	55	-	-
No rating	983	981	-	-
<b>Total</b>	<b>52,945</b>	<b>52,306</b>	<b>45,169</b>	<b>44,214</b>

\* 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 2015. As of 31 December 2014, deposits in Central Bank with a carrying value of EUR 28,963 thousand and funds in correspondent account of Central Bank with a carrying value of EUR 2,625 thousand were pledged for pre-allocated Euro notes and coins (pre-allocated Euro notes and coins were not included in Bank's assets as they became a legal tender starting from 1 January 2015 and were forbidden to be used earlier), as part of Bank's preparation for adoption of Euro as local currency of Lithuania.

### NOTE 11 DUE FROM OTHER BANKS

	2015		2014	
	Group	Bank	Group	Bank
Pledged deposits	732	732	743	743
Term deposits	1,927	1,897	2,160	1,760
Loans	3,870	3,870	2,762	2,762
<b>Total</b>	<b>6,529</b>	<b>6,499</b>	<b>5,665</b>	<b>5,265</b>
Breakdown due from other banks by the maturity:				
Short-term (up to 1 year)	3,289	3,259	4,831	4,458
Long-term (over 1 year)	3,240	3,240	834	807
<b>Total</b>	<b>6,529</b>	<b>6,499</b>	<b>5,665</b>	<b>5,265</b>

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

## NOTE 11 DUE FROM OTHER BANKS (continued)

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

Rating *	2015		2014	
	Group	Bank	Group	Bank
From AA- to AA+	762	732	1,116	743
From A- to A+	20	20	2,107	2,080
From BBB- to BBB+	5,549	5,549	2,431	2,431
Lower than BBB-	141	141	-	-
No rating	57	57	11	11
<b>Total</b>	<b>6,529</b>	<b>6,499</b>	<b>5,665</b>	<b>5,265</b>

\* 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:

	2015		2014	
	Group	Bank	Group	Bank
<b>Assets:</b>				
Derivatives	9,292	8,754	7,097	6,650
derivatives related to interest rate floor in variable rate loan contracts	8,183	7,645	7,097	6,650
currency derivatives	1,109	1,109	-	-
Securities at fair value through profit or loss	71,116	42,726	52,098	56,068
<b>Liabilities:</b>				
Derivatives (currency derivatives)	(136)	(136)	-	-
Subordinated loan	20,457	20,457	19,295	19,295

### 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 derivate 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.

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

	2015		2014	
	Group	Bank	Group	Bank
<b>Initial recognition</b>				
Value of the embedded derivative	2,898	3,030	3,455	3,484
Credit to loans granted	(2,898)	(3,030)	(3,455)	(3,484)
<b>Subsequent measurement</b>				
Increase (decrease) in the fair value of the derivative (gain (loss) in profit or loss)	(1,812)	(2,035)	(2,830)	(2,919)
<b>Fair value of the derivative as of 1 January</b>	<b>7,097</b>	<b>6,650</b>	<b>6,472</b>	<b>6,085</b>
Additions	2,898	3,030	3,455	3,484
Revaluations through profit or loss	(1,812)	(2,035)	(2,830)	(2,919)
<b>Fair value of the derivative as of 31 December</b>	<b>8,183</b>	<b>7,645</b>	<b>7,097</b>	<b>6,650</b>

## NOTE 12

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

#### Derivative Financial Instruments – Currency Derivatives

As of 31 December 2015, the Group and the Bank had exposure to currency forwards, which represent commitments to purchase and/or sell foreign and local currency in the future at a fixed price. As of 31 December 2014, the Group and the Bank had no such contracts.

	2015		2014	
	Group	Bank	Group	Bank
<b>Currency forwards:</b>				
Assets	1,109	1,109	-	-
Liabilities	(136)	(136)	-	-
Notional amount	64,160	64,160	-	-
Net gain from currency derivatives in profit or loss	180	180	-	-

#### Securities at Fair Value through Profit or Loss

	2015		2014	
	Group	Bank	Group	Bank
<b>Trading debt securities:</b>				
Government bonds	35,982	29,634	23,451	17,836
Corporate bonds	18,133	12,754	13,808	38,120
<b>Debt securities designated at fair value through profit or loss at initial recognition:</b>				
Government bonds	1,615	-	1,511	-
<b>Total debt securities</b>	<b>55,730</b>	<b>42,388</b>	<b>38,770</b>	<b>55,956</b>
<b>Trading equity securities</b>	<b>338</b>	<b>338</b>	<b>112</b>	<b>112</b>
<b>Equity securities designated at fair value through profit or loss at initial recognition</b>	<b>15,048</b>	<b>-</b>	<b>13,216</b>	<b>-</b>
<b>Total equity securities</b>	<b>15,386</b>	<b>338</b>	<b>13,328</b>	<b>112</b>
<b>Total securities at fair value through profit or loss</b>	<b>71,116</b>	<b>42,726</b>	<b>52,098</b>	<b>56,068</b>
<b>Breakdown of debt securities by time remaining to maturity:</b>				
Short-term (up to 1 year)	4,057	2,472	1,457	28,963
Long-term (over 1 year)	51,673	39,916	37,313	26,993
<b>Total</b>	<b>55,730</b>	<b>42,388</b>	<b>38,770</b>	<b>55,956</b>

Securities at fair value through profit or loss have not been pledged as at 31 December 2015 and 2014.

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.

## 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 2015 and 2014:

	2015		2014	
	Group	Bank	Group	Bank
<b>Trading securities:</b>				
<b>Debt securities</b>	<b>54,115</b>	<b>42,388</b>	<b>37,259</b>	<b>55,956</b>
AAA	-	-	114	-
from AA- to AA+	1,733	1,733	2,425	2,425
from A- to A+	27,710	24,951	23,933	20,954
from BBB- to BBB+	20,591	13,179	10,075	3,615
from BB- to BB+	3,754	2,198	598	-
lower than BB-	-	-	114	-
no rating	327	327	-	28,962
<b>Equities</b>	<b>338</b>	<b>338</b>	<b>112</b>	<b>112</b>
listed	301	301	112	112
unlisted	7	7	-	-
units of investment funds	30	30	-	-
<b>Total trading securities</b>	<b>54,453</b>	<b>42,726</b>	<b>37,371</b>	<b>56,068</b>
<b>Securities designated at fair value through profit or loss at initial recognition:</b>				
<b>Debt securities</b>	<b>1,615</b>	<b>-</b>	<b>1,511</b>	<b>-</b>
AAA	181	-	164	-
from AA- to AA+	119	-	122	-
from A- to A+	573	-	589	-
from BBB- to BBB+	742	-	636	-
from BB- to BB+	-	-	-	-
lower than BB-	-	-	-	-
no rating	-	-	-	-
<b>Equities</b>	<b>15,048</b>	<b>-</b>	<b>13,216</b>	<b>-</b>
listed	-	-	-	-
unlisted	-	-	-	-
units of investment funds	15,048	-	13,216	-
<b>Total securities designated at fair value through profit or loss at initial recognition</b>	<b>16,663</b>	<b>-</b>	<b>14,727</b>	<b>-</b>
<b>TOTAL</b>	<b>71,116</b>	<b>42,726</b>	<b>52,098</b>	<b>56,068</b>

#### Subordinated Loan

The Group/Bank has a subordinated loan received, carrying value of which was EUR 20,457 thousand as of 31 December 2015 (31 December 2014: EUR 19,295 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.

### NOTE 13

### LOANS TO CUSTOMERS

	2015		2014	
	Group	Bank	Group	Bank
Gross loans to customers	893,962	950,609	767,827	832,420
Allowance for loan impairment	(42,666)	(37,940)	(47,636)	(41,664)
of which: for individually assessed loans	(41,395)	(37,000)	(47,261)	(41,664)
of which: for collectively assessed loans	(1,271)	(940)	(375)	-
<b>NET LOANS TO CUSTOMERS</b>	<b>851,296</b>	<b>912,669</b>	<b>720,191</b>	<b>790,756</b>
Breakdown of loans to customers according to maturity				
Short-term (up to 1 year)	206,335	282,824	242,563	289,106
Long-term (over 1 year)	644,961	629,845	477,628	501,650
<b>Total</b>	<b>851,296</b>	<b>912,669</b>	<b>720,191</b>	<b>790,756</b>

	Group	Bank
<b>Allowance for loan impairment as at 31 December 2013</b>	<b>46,312</b>	<b>41,388</b>
Allowance for impairment of loans written off during the year as uncollectible	(18,544)	(17,283)
Currency translation differences and other adjustments	2,480	450
Increase in allowance for loan impairment (Note 7)	17,388	17,109
<b>Allowance for loan impairment as at 31 December 2014</b>	<b>47,636</b>	<b>41,664</b>
Allowance for impairment of loans written off during the year as uncollectible	(24,075)	(21,795)
Allowance for impairment acquired in business combination	1,226	1,226
Currency translation differences and other adjustments	223	224
Increase in allowance for loan impairment (Note 7)	17,656	16,621
<b>Allowance for loan impairment as at 31 December 2015</b>	<b>42,666</b>	<b>37,940</b>

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

31 December 2015

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
<b>As at 31 December 2014</b>	<b>4,216</b>	<b>1,279</b>	<b>769</b>	<b>600</b>	<b>6,864</b>
Change in allowance for loan impairment	223	(215)	(301)	331	38
Allowance for impairment acquired in business combination	-	117	-	23	140
Loans written off during the year	(80)	(145)	(17)	(76)	(318)
<b>As at 31 December 2015</b>	<b>4,359</b>	<b>1,036</b>	<b>451</b>	<b>878</b>	<b>6,724</b>

	Group loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
<b>As at 31 December 2014</b>	<b>-</b>	<b>40,437</b>	<b>335</b>	<b>40,772</b>
Change in allowance for loan impairment	(177)	17,260	535	17,618
Allowance for impairment acquired in business combination	-	1,086	-	1,086
Loans written off during the year	-	(23,757)	-	(23,757)
Other adjustments	224	(1)	-	223
<b>As at 31 December 2015</b>	<b>47</b>	<b>35,025</b>	<b>870</b>	<b>35,942</b>

31 December 2014

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
<b>As at 31 December 2013</b>	<b>4,194</b>	<b>2,190</b>	<b>1,456</b>	<b>3,068</b>	<b>10,908</b>
Change in allowance for loan impairment	1,238	4	(664)	303	881
Loans written off during the year	(1,256)	(915)	(23)	(2,825)	(5,019)
Other adjustments	40	-	-	54	94
<b>As at 31 December 2014</b>	<b>4,216</b>	<b>1,279</b>	<b>769</b>	<b>600</b>	<b>6,864</b>

	Group loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
<b>As at 31 December 2013</b>	<b>-</b>	<b>35,404</b>	<b>-</b>	<b>35,404</b>
Change in allowance for loan impairment	-	16,172	335	16,507
Loans written off during the year	-	(13,525)	-	(13,525)
Other adjustments	-	2,386	-	2,386
<b>As at 31 December 2014</b>	<b>-</b>	<b>40,437</b>	<b>335</b>	<b>40,772</b>

## NOTE 13 LOANS TO CUSTOMERS (continued)

31 December 2015

	<i>Bank loans to individuals (retail)</i>				
	Consumer loans	Mortgages	Credit cards	Other	Total
<b>As at 31 December 2014</b>	<b>243</b>	<b>1,279</b>	<b>32</b>	<b>546</b>	<b>2,100</b>
Change in allowance for loan impairment	(4)	(215)	8	357	146
Allowance for impairment acquired in business combination	-	117	-	23	140
Loans written off during the year	(80)	(145)	(17)	(76)	(318)
<b>As at 31 December 2015</b>	<b>159</b>	<b>1,036</b>	<b>23</b>	<b>850</b>	<b>2,068</b>

	<i>Bank loans to business customers</i>			
	Large corporates	SME	Central and local authorities and other	Total
<b>As at 31 December 2014</b>	<b>-</b>	<b>39,229</b>	<b>335</b>	<b>39,564</b>
Change in allowance for loan impairment	(177)	16,117	535	16,475
Allowance for impairment acquired in business combination	-	1,086	-	1,086
Loans written off during the year	-	(21,477)	-	(21,477)
Other adjustments	224	-	-	224
<b>As at 31 December 2015</b>	<b>47</b>	<b>34,955</b>	<b>870</b>	<b>35,872</b>

31 December 2014

	<i>Bank loans to individuals (retail)</i>				
	Consumer loans	Mortgages	Credit cards	Other	Total
<b>As at 31 December 2013</b>	<b>356</b>	<b>2,190</b>	<b>58</b>	<b>3,068</b>	<b>5,672</b>
Change in allowance for loan impairment	(66)	4	(3)	251	186
Loans written off during the year	(47)	(915)	(23)	(2,773)	(3,758)
<b>As at 31 December 2014</b>	<b>243</b>	<b>1,279</b>	<b>32</b>	<b>546</b>	<b>2,100</b>

	<i>Bank loans to business customers</i>			
	Large corporates	SME	Central and local authorities and other	Total
<b>As at 31 December 2013</b>	<b>-</b>	<b>35,716</b>	<b>-</b>	<b>35,716</b>
Change in allowance for loan impairment	-	16,588	335	16,923
Loans written off during the year	-	(13,525)	-	(13,525)
Other adjustments	-	450	-	450
<b>As at 31 December 2014</b>	<b>-</b>	<b>39,229</b>	<b>335</b>	<b>39,564</b>



### NOTE 14

### FINANCE LEASE RECEIVABLES

#### The Group

	Up to 1 year	From 1 to 5 years	Over 5 years	Total
<b>Gross investments in leasing:</b>				
Balance at 31 December 2014	20,343	38,367	6,211	64,921
Change during 2015	790	604	2,164	3,558
<b>Balance at 31 December 2015</b>	<b>21,133</b>	<b>38,971</b>	<b>8,375</b>	<b>68,479</b>
<b>Unearned finance income on finance leases:</b>				
Balance at 31 December 2014	(3,139)	(5,009)	(1,160)	(9,308)
Change during 2015	(317)	364	44	91
<b>Balance at 31 December 2015</b>	<b>(3,456)</b>	<b>(4,645)</b>	<b>(1,116)</b>	<b>(9,217)</b>
<b>Net investments in leasing before provisions:</b>				
At 31 December 2014	17,204	33,358	5,051	55,613
At 31 December 2015	17,677	34,326	7,259	59,262
<b>Changes in provisions:</b>				
<b>Balance at 31 December 2013</b>	<b>(1,697)</b>	<b>(951)</b>	<b>-</b>	<b>(2,648)</b>
Additional provisions charged	(68)	(46)	-	(114)
Provisions for finance lease debts written off	57	762	-	819
<b>Balance at 31 December 2014</b>	<b>(1,708)</b>	<b>(235)</b>	<b>-</b>	<b>(1,943)</b>
Provisions reversed / (additional provisions charged)	626	(162)	-	464
Provisions for finance lease debts written off	29	-	-	29
<b>Balance at 31 December 2015</b>	<b>(1,053)</b>	<b>(397)</b>	<b>-</b>	<b>(1,450)</b>
<b>Net investments in leasing after provisions:</b>				
At 31 December 2014	15,496	33,123	5,051	53,670
At 31 December 2015	16,624	33,929	7,259	57,812

#### The Bank

	Up to 1 year	From 1 to 5 years	Over 5 years	Total
<b>Gross investments in leasing:</b>				
Balance at 31 December 2014	1,880	2,636	2,703	7,219
Change during 2015	(712)	(791)	(1,311)	(2,814)
<b>Balance at 31 December 2015</b>	<b>1,168</b>	<b>1,845</b>	<b>1,392</b>	<b>4,405</b>
<b>Unearned finance income on finance leases:</b>				
Balance at 31 December 2014	(1,039)	(2,078)	(973)	(4,090)
Change during 2015	148	748	(5)	891
<b>Balance at 31 December 2015</b>	<b>(891)</b>	<b>(1,330)</b>	<b>(978)</b>	<b>(3,199)</b>
<b>Net investments in leasing before provisions:</b>				
At 31 December 2014	841	558	1,730	3,129
At 31 December 2015	277	515	414	1,206
<b>Changes in provisions:</b>				
<b>Balance at 31 December 2013</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Additional provisions charged	(23)	(38)	-	(61)
Provisions for finance lease debts written off	-	-	-	-
<b>Balance at 31 December 2014</b>	<b>(23)</b>	<b>(38)</b>	<b>-</b>	<b>(61)</b>
Additional provisions charged	(38)	38	-	-
Provisions for finance lease debts written off	-	-	-	-
<b>Balance at 31 December 2015</b>	<b>(61)</b>	<b>-</b>	<b>-</b>	<b>(61)</b>
<b>Net investments in leasing after provisions:</b>				
At 31 December 2014	818	520	1,730	3,068
At 31 December 2015	216	515	414	1,145

## NOTE 14 FINANCE LEASE RECEIVABLES (continued)

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

Group	2015			2014		
	<i>Individuals</i>	<i>Business customers</i>	<i>Total</i>	<i>Individuals</i>	<i>Business customers</i>	<i>Total</i>
<i>As at 1 January</i>	253	1,690	1,943	346	2,302	2,648
<i>Change in allowance for finance lease impairment</i>	(34)	(430)	(464)	107	7	114
<i>Amounts written off during the year</i>	(14)	(15)	(29)	(200)	(619)	(819)
<i>As at 31 December</i>	205	1,245	1,450	253	1,690	1,943

Bank	2015			2014		
	<i>Individuals</i>	<i>Business customers</i>	<i>Total</i>	<i>Individuals</i>	<i>Business customers</i>	<i>Total</i>
<i>As at 1 January</i>	-	61	61	-	-	-
<i>Change in allowance for finance lease impairment</i>	-	-	-	-	61	61
<i>Amounts written off during the year</i>	-	-	-	-	-	-
<i>As at 31 December</i>	-	61	61	-	61	61

## NOTE 15 INVESTMENT SECURITIES

	2015		2014	
	Group	Bank	Group	Bank
<b><u>Securities available for sale:</u></b>				
<b><i>Debt securities:</i></b>	<b>18,014</b>	<b>17,612</b>	<b>21,316</b>	<b>21,316</b>
Government bonds	256	256	6,330	6,330
Corporate bonds	17,758	17,356	14,986	14,986
<b><i>Equity securities</i></b>	<b>2,454</b>	<b>2,209</b>	<b>802</b>	<b>528</b>
<b><i>Total securities available for sale</i></b>	<b>20,468</b>	<b>19,821</b>	<b>22,118</b>	<b>21,844</b>
<b><u>Held-to-maturity securities:</u></b>				
<b><i>Debt securities:</i></b>	<b>494,645</b>	<b>494,645</b>	<b>454,116</b>	<b>447,757</b>
Government bonds	381,943	381,943	335,863	335,863
Corporate bonds	112,702	112,702	118,253	111,894
<b><i>Total held-to-maturity securities</i></b>	<b>494,645</b>	<b>494,645</b>	<b>454,116</b>	<b>447,757</b>
<b><u>Breakdown of debt securities by time remaining to maturity:</u></b>				
<b><i>Debt securities available for sale:</i></b>				
Short-term (up to 1 year)	621	621	-	-
Long-term (over 1 year)	17,393	16,991	21,316	21,316
<b><i>Total debt securities available for sale</i></b>	<b>18,014</b>	<b>17,612</b>	<b>21,316</b>	<b>21,316</b>
<b><i>Held-to-maturity debt securities:</i></b>				
Short-term (up to 1 year)	54,542	54,542	117,599	115,074
Long-term (over 1 year)	440,103	440,103	336,517	332,683
<b><i>Total held-to-maturity debt securities</i></b>	<b>494,645</b>	<b>494,645</b>	<b>454,116</b>	<b>447,757</b>
<b><u>Credit quality of debt securities:</u></b>				
<b><i>Debt securities available-for-sale</i></b>	<b>18,014</b>	<b>17,612</b>	<b>21,316</b>	<b>21,316</b>
Neither past due nor individually impaired	18,014	17,612	21,316	21,316
Past due but not individually impaired	-	-	-	-
Individually impaired	-	-	-	-
<b><i>Held-to-maturity securities</i></b>	<b>494,645</b>	<b>494,645</b>	<b>454,116</b>	<b>447,757</b>
Neither past due nor individually impaired	494,645	494,645	453,819	447,757
Past due but not individually impaired	-	-	-	-
Individually impaired	-	-	297	-
Individually impaired, gross value	1,035	-	1,060	-
Impairment provisions for individually impaired securities	(1,035)	-	(763)	-

Individually impaired debt securities consist of unrated corporate bonds.

As at 31 December 2015, held-to-maturity government bonds with a carrying value of EUR 5,133 thousand were pledged as collateral for currency forwards (Note 12); available for sale government bonds with a carrying value of EUR 55 thousand were pledged as collateral for the certificates of deposits (Note 25). No investment securities were pledged as at 31 December 2014.

## NOTE 15 INVESTMENT SECURITIES (continued)

Breakdown of the Group's/Bank's investment securities as at 31 December 2015 and 2014:

	2015		2014	
	Group	Bank	Group	Bank
<b>Securities available for sale:</b>				
<b>Debt securities</b>	<b>18,014</b>	<b>17,612</b>	<b>21,316</b>	<b>21,316</b>
AAA	-	-	-	-
from AA- to AA+	463	463	1,242	1,242
from A- to A+	5,758	5,758	10,226	10,226
from BBB- to BBB+	11,250	11,250	9,848	9,848
from BB- to BB+	141	141	-	-
lower than BB-	-	-	-	-
no rating	402	-	-	-
<b>Equities</b>	<b>2,454</b>	<b>2,209</b>	<b>802</b>	<b>528</b>
listed	-	-	-	-
unlisted	2,314	2,069	677	403
units of investment funds	140	140	125	125
<b>Total securities available for sale</b>	<b>20,468</b>	<b>19,821</b>	<b>22,118</b>	<b>21,844</b>
<b>Held-to-maturity securities:</b>				
<b>Debt securities</b>	<b>494,645</b>	<b>494,645</b>	<b>454,116</b>	<b>447,757</b>
AAA	2,579	2,579	7,022	7,022
from AA- to AA+	12,628	12,628	11,091	11,091
from A- to A+	359,917	359,917	347,027	347,027
from BBB- to BBB+	109,431	109,431	77,813	77,813
from BB- to BB+	10,090	10,090	4,804	4,804
lower than BB-	-	-	-	-
no rating	-	-	6,359	-
<b>Total held-to-maturity securities</b>	<b>494,645</b>	<b>494,645</b>	<b>454,116</b>	<b>447,757</b>

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 2014 and 2015). Management of the bank has assessed that it has an intention to hold these securities to their maturity. As of 31 December 2015, total book value of securities reclassified from available for sale to held-to-maturity portfolio was EUR 34,316 thousand (31 December 2014: EUR 48,069 thousand). During 2015 other comprehensive expenses recognized in relation to the amortisation of revaluation reserve of reclassified debt securities amounted to EUR 57 thousand (during 2014 - EUR 104 thousand). If the reclassification had not been performed, other comprehensive loss recognized in 2015 in relation to these securities would be equal to EUR 1,652 thousand (in 2014 – other comprehensive income of EUR 3,963 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
<b>1 January 2014</b>	<b>(681)</b>	<b>105</b>	<b>(576)</b>	<b>(681)</b>	<b>105</b>	<b>(576)</b>
Revaluation	2,559	-	2,559	2,559	-	2,559
Sale or redemption	(1,167)	-	(1,167)	(1,167)	-	(1,167)
Amortisation of revaluation related to held-to-maturity investments	(104)	-	(104)	(104)	-	(104)
Deferred income tax	-	(196)	(196)	-	(196)	(196)
<b>31 December 2014</b>	<b>607</b>	<b>(91)</b>	<b>516</b>	<b>607</b>	<b>(91)</b>	<b>516</b>
Revaluation	790	-	790	868	-	868
Sale or redemption	(287)	-	(287)	(365)	-	(365)
Amortisation of revaluation related to held-to-maturity investments	(57)	-	(57)	(57)	-	(57)
Deferred income tax	-	(66)	(66)	-	(66)	(66)
<b>31 December 2015</b>	<b>1,053</b>	<b>(157)</b>	<b>896</b>	<b>1,053</b>	<b>(157)</b>	<b>896</b>

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

	2015	2014
<b>As at 1 January</b>	<b>447,757</b>	<b>376,747</b>
Acquisitions	170,446	161,035
Redemptions	(118,977)	(91,797)
Accrued interest	11,674	11,796
Received coupon payment	(11,754)	(11,762)
Amortisation of revaluation reserve	(57)	(104)
Foreign currency exchange rate impact	(4,444)	1,842
<b>As at 31 December</b>	<b>494,645</b>	<b>447,757</b>

### NOTE 16

### INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

2015				
Bank	Share in equity	Acquisition cost	Impairment provision	Carrying amount
<i>Investments in consolidated directly controlled subsidiaries:</i>				
Šiaulių Banko Lizingas UAB	100.00%	3,910	(3,841)	69
Šiaulių Banko Investicijų Valdymas UAB	100.00%	5,044	(4,732)	312
Šiaulių Banko Turto Fondas UAB	100.00%	3,999	(445)	3,554
SBTF UAB	100.00%	1,029	(450)	579
Pavasaris UAB	100.00%	10,456	(2,622)	7,834
Minera UAB	100.00%	5,165	(2,599)	2,566
Bonum Publicum GD UAB	100.00%	8,399	-	8,399
SB Lizingas UAB (former Ūkio Banko Lizingas UAB)	100.00%	8,862	-	8,862
<b>Total</b>		<b>46,864</b>	<b>(14,689)</b>	<b>32,175</b>
	Share in equity	Acquisition cost	Impairment provision	Carrying amount
<i>Investments in consolidated indirectly controlled subsidiaries:</i>				
Sandworks UAB*	100.00%	9	-	9

\*Indirectly controlled by subsidiary Šiaulių Banko Investicijų Valdymas UAB

2014				
Bank	Share in equity	Acquisition cost	Impairment provision	Carrying amount
<i>Investments in consolidated directly controlled subsidiaries:</i>				
Šiaulių Banko Lizingas UAB	100.00%	3,910	(3,041)	869
Šiaulių Banko Investicijų Valdymas UAB	100.00%	4,066	(3,754)	312
Šiaulių Banko Turto Fondas UAB	100.00%	1,482	(245)	1,237
SBTF UAB	100.00%	579	-	579
Pavasaris UAB	100.00%	10,456	(2,622)	7,834
Minera UAB	100.00%	1,884	(290)	1,594
Bonum Publicum GD UAB	100.00%	8,399	-	8,399
Ūkio Banko Lizingas UAB	100.00%	8,862	-	8,862
<b>Total</b>		<b>39,638</b>	<b>(9,952)</b>	<b>29,686</b>
	Share in equity	Acquisition cost	Impairment provision	Carrying amount
<i>Investments in consolidated indirectly controlled subsidiaries:</i>				
Semelitas UAB*	100.00%	10	-	10
Sandworks UAB*	100.00%	9	-	9

\*Indirectly controlled by subsidiary Šiaulių Banko Investicijų Valdymas UAB

In 2014, the Bank acquired 1.09% shares of Pavasaris UAB thus increased its holding from 98.91% to 100.00% and became the sole shareholder of the company. This acquisition resulted in a gain of EUR 33 thousand, which is included in the income statement line "Other operating income".

In 2014, Semelitas UAB and Sandworks UAB, companies controlled by the subsidiary of the Bank Šiaulių banko Investicijų Valdymas UAB, became material to the Group and therefore are consolidated in these financial statements. The entities are special purpose vehicles for management of certain finite real estate projects. Such form of these projects was chosen in order to have wider possibilities to realise them.

In 2015, the Group sold the indirectly controlled subsidiary Semelitas UAB. See Note 20 for more details. In 2014, Kėdainių Oda UAB was reclassified from consolidated subsidiaries to subsidiaries held for sale. See Note 20 for more details.

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 8.2 per cent to 12.34 per cent.

In 2015, the Bank recognized impairment losses to the following investments in subsidiaries: EUR 450 thousand investment in SBTF UAB (Bank covered losses of the subsidiary); EUR 800 thousand investment in Šiaulių Banko Lizingas UAB (Bank covered losses of the subsidiary); EUR 978 thousand investment in Šiaulių Banko Investicijų Valdymas UAB (Bank covered losses of the subsidiary); EUR 2,310 thousand investment in Minera UAB (Bank covered losses of the subsidiary); EUR 200 thousand investment in Šiaulių Banko Turto Fondas UAB; in addition, an remeasurement loss amounting to EUR 10,425 thousand attributable to subsidiaries held for sale was recognised in the Bank's income statement line „Allowance for impairment losses on investments in subsidiaries and loss on remeasurement of subsidiaries classified as held for sale“ – see Note 20 for details on investment in subsidiaries held for sale. In 2014, the Bank recognized impairment losses to the following investments in subsidiaries: EUR 2,622 thousand investment in Pavasaris UAB (value of the investment reduced by the amount of dividends paid by Pavasaris UAB and recognised in the income statement of the Bank); EUR 2,462 thousand investment in Šiaulių Banko Lizingas UAB (Bank covered losses of the subsidiary); EUR 2,027 thousand investment in Šiaulių Banko Investicijų Valdymas UAB (Bank covered losses of the subsidiary); EUR 290 thousand investment in Minera UAB (Bank covered losses of the subsidiary).

### NOTE 17 INTANGIBLE ASSETS

#### Software and licences

	Group	Bank
<i>As at 1 January 2014:</i>		
Cost	2,082	1,795
Accumulated amortisation	(1,733)	(1,538)
<b>Net book value</b>	<b>349</b>	<b>257</b>
<i>Year ended 31 December 2014:</i>		
Net book value at 1 January	349	257
Acquisitions	381	271
Amortisation charge	(157)	(116)
Net book value at 31 December	573	412
<i>As at 31 December 2014:</i>		
Cost	2,444	2,065
Accumulated amortisation	(1,871)	(1,653)
<b>Net book value</b>	<b>573</b>	<b>412</b>
<i>Year ended 31 December 2015:</i>		
Net book value at 1 January	573	412
Acquisitions	1,598	1,477
Write-offs	(875)	(875)
Amortisation charge	(278)	(216)
Net book value at 31 December	1,018	798
<i>As at 31 December 2015:</i>		
Cost	3,967	3,515
Accumulated amortisation	(2,949)	(2,717)
<b>Net book value</b>	<b>1,018</b>	<b>798</b>
Economic life (in years)	3 – 9	3 – 9

#### Goodwill

	2015	2014
<b>Goodwill arising from acquisition of:</b>		
Bonum Publicum	2,686	2,686
Pavasaris	52	52
SB Lizingas (former Ūkio Banko Lizingas)	14	14
<b>Net book value</b>	<b>2,752</b>	<b>2,752</b>

#### 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 pre-tax 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 12.43% and the growth rate of 2.54% were used. Growth rates used are based on the expected long run economy growth rate.

No impairment loss for goodwill was identified in 2015 and 2014 as a result of the test.

### NOTE 18

#### PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings, premises and land	Vehicles	Office equipment	Construction in progress	Total
<u>As at 1 January 2014:</u>					
Cost	11,847	2,429	7,577	16	21,869
Accumulated depreciation	(2,443)	(1,238)	(4,805)	-	(8,486)
<b>Net book value</b>	<b>9,404</b>	<b>1,191</b>	<b>2,772</b>	<b>16</b>	<b>13,383</b>
<u>Year ended 31 December 2014</u>					
Net book value at 1 January	9,404	1,191	2,772	16	13,383
Acquisitions	59	332	648	51	1,090
Reclassifications	(1,091)	(6)	(675)	(16)	(1,788)
Disposals and write-offs	(110)	(177)	(31)	-	(318)
Depreciation charge	(203)	(263)	(678)	-	(1,144)
Net book value at 31 December	8,059	1,077	2,036	51	11,223
<u>As at 31 December 2014:</u>					
Cost	10,341	2,245	6,645	51	19,282
Accumulated depreciation	(2,282)	(1,168)	(4,609)	-	(8,059)
<b>Net book value</b>	<b>8,059</b>	<b>1,077</b>	<b>2,036</b>	<b>51</b>	<b>11,223</b>
<u>Year ended 31 December 2015:</u>					
Net book value at 1 January	8,059	1,077	2,036	51	11,223
Disposal of subsidiaries	-	-	(7)	-	(7)
Acquisitions	-	1,499	636	105	2,240
Reclassifications	148	(3)	(259)	(43)	(157)
Disposals and write-offs	(27)	(606)	(100)	(25)	(758)
Depreciation charge	(191)	(277)	(637)	-	(1,105)
Impairment charge	(491)	-	-	-	(491)
Net book value at 31 December	7,498	1,690	1,669	88	10,945
<u>As at 31 December 2015:</u>					
Cost	9,861	2,183	6,390	88	18,522
Accumulated depreciation	(2,363)	(492)	(4,721)	-	(7,576)
<b>Net book value</b>	<b>7,498</b>	<b>1,691</b>	<b>1,669</b>	<b>88</b>	<b>10,946</b>
<u>Economic life (in years)</u>	15-50	5-12	3-20	-	-

## NOTE 18

### PROPERTY, PLANT AND EQUIPMENT (continued)

The total balance of the Group's assets in the table above includes assets leased under operating lease agreements as at 31 December 2014, as follows:

Group	Vehicles	Equipment	Total
<i>As at 1 January 2014:</i>			
Cost	1,053	620	1,673
Accumulated depreciation	(445)	(431)	(876)
<b>Net book value</b>	<b>608</b>	<b>189</b>	<b>797</b>
<i>Year ended 31 December 2014:</i>			
Net book value at 1 January	608	189	797
Acquisitions	101	44	145
Disposals and write-offs	(29)	(4)	(33)
Depreciation charge	(98)	(80)	(178)
Net book value at 31 December	582	149	731
<i>As at 31 December 2014:</i>			
Cost	1,096	664	1,760
Accumulated depreciation	(514)	(515)	(1,029)
<b>Net book value</b>	<b>582</b>	<b>149</b>	<b>731</b>
<i>Year ended 31 December 2015:</i>			
Net book value at 1 January	582	149	731
Acquisitions	166	19	185
Disposals and write-offs	(496)	(23)	(519)
Reclassifications	15	(10)	5
Depreciation charge	(39)	(72)	(111)
Net book value at 31 December	228	63	291
<i>As at 31 December 2015:</i>			
Cost	269	627	896
Accumulated depreciation	(41)	(564)	(605)
<b>Net book value</b>	<b>228</b>	<b>63</b>	<b>291</b>
<i>Economic life (in years)</i>	6-12	6-15	-

As at 31 December 2015 and 31 December 2014, 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):

	2015			2014		
	up to 1 year	1-5 years	over 5 years	up to 1 year	1-5 years	over 5 years
Bank	80	78	-	424	158	-
Group	679	486	-	1,110	1,957	1,748

## NOTE 18

### PROPERTY, PLANT AND EQUIPMENT (continued)

Bank

	Buildings and premises	Vehicles	Office equipment	Construction in progress	Total
<i>As at 1 January 2014:</i>					
Cost	9,751	707	6,039	16	16,513
Accumulated depreciation	(1,660)	(414)	(4,037)	-	(6,111)
<b>Net book value</b>	<b>8,091</b>	<b>293</b>	<b>2,002</b>	<b>16</b>	<b>10,402</b>
<i>Year ended 31 December 2014:</i>					
Net book value at 1 January	8,091	293	2,002	16	10,402
Acquisitions	59	102	588	51	800
Disposals and write-offs	(60)	(111)	(30)	-	(201)
Depreciation charge	(185)	(91)	(626)	-	(902)
Reclassifications	-	-	-	(16)	(16)
Net book value at 31 December	7,905	193	1,934	51	10,083
<i>As at 31 December 2014:</i>					
Cost	9,746	453	6,134	51	16,384
Accumulated depreciation	(1,841)	(260)	(4,200)	-	(6,301)
<b>Net book value</b>	<b>7,905</b>	<b>193</b>	<b>1,934</b>	<b>51</b>	<b>10,083</b>
<i>Year ended 31 December 2015:</i>					
Net book value at 1 January	7,905	193	1,934	51	10,083
Acquisitions	-	1,083	579	26	1,688
Disposals and write-offs	-	(133)	(95)	(25)	(253)
Depreciation charge	(185)	(87)	(589)	-	(861)
Reclassification	159	-	(259)	(43)	(143)
Impairment	(491)	-	-	-	(491)
Net book value at 31 December	7,388	1,056	1,570	9	10,023
<i>As at 31 December 2015:</i>					
Cost	9,443	1,238	5,978	9	16,668
Accumulated depreciation	(2,055)	(182)	(4,408)	-	(6,645)
<b>Net book value</b>	<b>7,388</b>	<b>1,056</b>	<b>1,570</b>	<b>9</b>	<b>10,023</b>
Economic life (in years)	15-50	5-12	3-20	-	-



### NOTE 19 OTHER ASSETS

	2015		2014	
	Group	Bank	Group	Bank
<b>Financial assets:</b>				
Amounts receivable	2,551	2,169	667	135
Breakdown of financial assets according to maturity				
Short-term (up to 1 year)	2,551	2,169	667	135
Long-term (over 1 year)	-	-	-	-
<b>Non-financial assets:</b>				
Breakdown of non-financial assets according to maturity				
Short-term (up to 1 year)	18,423	1,486	6,798	1,541
Long-term (over 1 year)	23,131	3,436	47,175	9,437
Inventories	30,490	-	35,542	-
Deferred charges	793	711	849	526
Assets under reinsurance and insurance contracts	607	-	485	-
Prepayments	4,107	3,388	3,807	3,300
Foreclosed assets	4,081	603	10,895	5,681
Other	1,476	220	2,395	1,471
<b>TOTAL OTHER ASSETS</b>	<b>44,105</b>	<b>7,091</b>	<b>54,640</b>	<b>11,113</b>

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

Breakdown of inventories according to type:

	2015		2014	
	Group	Bank	Group	Bank
Apartments held for sale	5,932	-	5,864	-
Property held for sale or development	24,558	-	29,678	-
<b>Total inventories</b>	<b>30,490</b>	<b>-</b>	<b>35,542</b>	<b>-</b>

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

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

Assets held for sale consist of:

	2015		2014	
	Group	Bank	Group	Bank
Assets related to subsidiaries classified as held for sale, investments in subsidiaries held for sale	238	13,856	36,347	26,410
Real estate classified as held for sale	32	32	1,210	1,210
<b>Total assets classified as held for sale</b>	<b>270</b>	<b>13,888</b>	<b>37,557</b>	<b>27,620</b>
Liabilities attributable to subsidiaries classified as held for sale	<b>3,529</b>	<b>-</b>	<b>3,898</b>	<b>-</b>

#### Subsidiaries held for sale:

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

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

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

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

On 30 June 2015 investment properties consisting of real estate objects located in territory between Olimpiečių, Rinktinės and Šeimyniškių streets in Vilnius were sold. The properties were sold by Bank's subsidiaries held for sale Žalgirio Sporto Arena UAB, Investicinio Turto Valdymas UAB, Trade Project UAB, profit from the transaction is included in Group's result of discontinued operations. After the sale of properties, subsidiaries held for sale related to these assets which represented virtually all of the assets held by the entities (ŽSA1 UAB, ŽSA2 UAB, ŽSA3 UAB, ŽSA4 UAB, ŽSA5 UAB, Žalgirio Sporto Arena UAB, Investicinio Turto Valdymas UAB, Trade Project UAB) were planned to pay out dividends to the Bank and be liquidated. In 2015, these subsidiaries paid dividends to the Bank (total amount EUR 14,898 thousand, included in Bank's income statement line „Dividends from investments in subsidiaries and associates“), the loss on measurement to fair value less cost to sell of investment to these subsidiaries was recognised (total amount EUR 10,425 thousand, included in Bank's income statement line „Allowance for impairment losses on investments in subsidiaries and loss on remeasurement of subsidiaries classified as held for sale“), and the preparation for liquidation process of these entities was started. No result from dividends and remeasurement was included in the Group's income statement as they were eliminated in the process of consolidation.

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

<b>Net assets of on disposal:</b>	<b>Eastern Europe Development Fund UAB (disposed of in 2014)</b>	<b>Sporto Klubų Investicijos UAB (disposed of in 2015)</b>
Total assets	959	2,615
Total liabilities	(22)	(294)
<b>Total net assets on disposal</b>	<b>937</b>	<b>2,321</b>
Consideration received	666	2,350
<b>Net gain (loss) on disposal</b>	<b>(271)</b>	<b>29</b>

**Kėdainių Oda UAB**

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

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

	<b>2015 (until the moment of sale)</b>	<b>2014</b>
<b>Profit (loss) attributable to discontinued operations:</b>		
Net operating loss of the entity	(97)	(264)
of which - revenues	773	2,649
of which - expenses	(870)	(2,913)
of which - income tax	-	-
Impairment	-	(1,573)
Income tax	-	-
Gain from disposal of the entity	409	-
<b>Profit (loss) for the year</b>	<b>312</b>	<b>(1,837)</b>

The result of disposal of the entity:

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

**Semelitas UAB**

In 2015, the Group sold the subsidiary Semelitas UAB. This transaction caused restatements in the comparative financial information of the Group for the year ended 31 December 2014, which was restated to include the activity results of Semelitas UAB in discontinued operations..

### NOTE 20

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

The impact of the above discussed restatement of the comparative financial information is as follows:

	<i>Income statement for the year ended 31 December 2014 (the Group)</i>		
	As previously reported	Restatement adjustment	As restated
<b>Continuing operations</b>			
Net gain from disposal of tangible assets	856	(28)	828
Other operating income	2,287	(133)	2,154
Salaries and related expenses	(14,858)	2	(14,856)
Depreciation and amortization expenses	(1,569)	63	(1,506)
Other operating expenses	(9,224)	39	(9,185)
<b>Operating profit before impairment losses</b>	<b>36,498</b>	<b>(57)</b>	<b>36,441</b>
<b>Profit from continuing operations before income tax</b>	<b>15,734</b>	<b>(57)</b>	<b>15,677</b>
Income tax expense	(2,010)	1	(2,009)
<b>Profit from continuing operations</b>	<b>13,724</b>	<b>(56)</b>	<b>13,668</b>
Profit (loss) from discontinued operations, net of tax	(1,950)	56	(1,894)

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

	2015 (until the moment of sale)	2014
<b>Profit (loss) attributable to discontinued operations:</b>		
Net operating profit (loss) of the entity	(32)	56
of which – revenues	2	161
of which – expenses	(27)	(104)
of which – income tax	(7)	(1)
Gain from disposal of the entity	54	-
<b>Profit for the year</b>	<b>22</b>	<b>56</b>

The result of disposal of the entity:

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

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

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

Investment in subsidiaries classified as held for sale, as of 31 December 2014 and result of discontinued operations in 2014

	Entities acquired under the agreement on the transfer of assets, rights, transactions and liabilities of Ūkio Bankas	Kėdainių Oda UAB	Semelitas UAB	TOTAL
Assets held for sale attributable to entity/ group of entities	35,421	926	-	36,347
Liabilities attributable to assets held for sale attributable to entity/ group of entities	3,542	356	-	3,898
Profit (loss) of the year (recorded in Discontinued operations line of the income statement)	(113)	(1,837)	56	(1,894)
of which: gain on disposal of entities	(271)	-	-	(271)

## NOTE 20

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

During the year 2015, the Group did not incur any gain or loss related to the measurement to fair value less cost to sell of the subsidiaries held for sale. During the year 2014, the Group incurred a net loss of EUR 1,574 thousand related to the measurement to fair value less costs to sell of the subsidiaries held for sale. The whole amount is attributable to the revaluation of Kėdainių Oda UAB to fair value. It is included in discontinued operations line of the income statement. For details on Bank's losses related to the measurement to fair value less cost to sell of the subsidiaries held for sale, please refer to the description in the beginning of Note 20.

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

#### Real estate held for sale:

In addition to the subsidiaries held for sale, real estate properties that are planned to be sold within one year are included in assets classified as held for sale. As of 31 December 2015, such real estate assets consisted of one object in Klaipėda with a fair value of EUR 32 thousand (as of 31 December 2014, properties in Kaunas, Klaipėda and Šiauliai with a fair value of EUR 1,210 thousand). No income or expenses related to these properties were recorded in profit or loss of discontinued operations.

## NOTE 21

### DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	2015		2014	
	Group	Bank	Group	Bank
<i>Correspondent accounts and deposits of other banks and financial institutions:</i>				
<i>Correspondent accounts and demand deposits</i>	3,127	6,111	1,869	8,008
<i>Time deposits</i>	7,441	7,464	9,392	9,393
<b><i>Total correspondent accounts and deposits of other banks and financial institutions</i></b>	<b>10,568</b>	<b>13,575</b>	<b>11,261</b>	<b>17,401</b>
<i>Loans received from:</i>				
<i>Other banks</i>	4,530	4,530	7,633	7,633
<i>Other organisations</i>	18,513	18,513	20,099	20,099
<i>International organisations</i>	16,765	16,765	16,846	16,846
<b><i>Total loans received</i></b>	<b>39,808</b>	<b>39,808</b>	<b>44,578</b>	<b>44,578</b>
<b><i>Total</i></b>	<b>50,376</b>	<b>53,383</b>	<b>55,839</b>	<b>61,979</b>
<i>Breakdown of due to other banks and financial institutions according to maturity</i>				
<i>Short-term (up to 1 year)</i>	38,286	41,272	34,403	40,543
<i>Long-term (over 1 year)</i>	12,090	12,111	21,436	21,436
<b><i>Total</i></b>	<b>50,376</b>	<b>53,383</b>	<b>55,839</b>	<b>61,979</b>

### NOTE 22 DUE TO CUSTOMERS

	2015		2014	
	Group	Bank	Group	Bank
<i>Demand deposits:</i>				
National government institutions	9,541	9,541	8,883	8,883
Local government institutions	28,950	28,950	25,289	25,289
Governmental and municipal companies	5,993	5,993	4,002	4,002
Corporate entities	175,084	175,408	132,308	132,711
Non-profit organisations	10,102	10,102	7,949	7,949
Individuals	237,824	237,824	187,572	187,572
Unallocated amounts due to customers	20,531	20,531	4,962	4,962
<b>Total demand deposits</b>	<b>488,025</b>	<b>488,349</b>	<b>370,965</b>	<b>371,368</b>
<i>Time deposits:</i>				
National government institutions	456	456	375	375
Local government institutions	531	531	540	540
Governmental and municipality companies	769	769	714	714
Corporate entities	39,041	39,041	51,545	51,545
Non-profit organisations	2,736	2,736	3,750	3,750
Individuals	904,830	904,830	987,424	987,424
<b>Total time deposits</b>	<b>948,363</b>	<b>948,363</b>	<b>1,044,348</b>	<b>1,044,348</b>
<b>Total</b>	<b>1,436,388</b>	<b>1,436,712</b>	<b>1,415,313</b>	<b>1,415,716</b>
<i>Breakdown of due to customers according to maturity</i>				
Short-term (up to 1 year)	1,318,188	1,318,512	1,316,542	1,316,944
Long-term (over 1 year)	118,200	118,200	98,771	98,771
<b>Total</b>	<b>1,436,388</b>	<b>1,436,712</b>	<b>1,415,313</b>	<b>1,415,716</b>

### NOTE 23 SPECIAL AND LENDING FUNDS

	2015		2014	
	Group	Bank	Group	Bank
Special funds	8,191	8,191	2,499	2,499
Lending funds	-	-	-	-
<b>Total</b>	<b>8,191</b>	<b>8,191</b>	<b>2,499</b>	<b>2,499</b>
<i>Breakdown of special and lending funds according to maturity</i>				
Short-term (up to 1 year)	8,191	8,191	2,499	2,499
Long-term (over 1 year)	-	-	-	-
<b>Total</b>	<b>8,191</b>	<b>8,191</b>	<b>2,499</b>	<b>2,499</b>

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

### NOTE 24

## LIABILITIES RELATED TO INSURANCE ACTIVITIES

#### Technical insurance provisions:

Bank's subsidiary Bonum Publicum GD UAB is engaged in life insurance business. For the years ended 31 December 2015 and 2014 the technical insurance provisions and their changes were as follows:

	Unearned premiums	Claims outstanding	Loss cover (mathematical)	Unit-linked	Total
<b>Gross:</b>					
At 31 December 2013	18	331	3,733	13,299	17,381
Change for the period	2	11	1,010	1,572	2,595
At 31 December 2014	20	342	4,743	14,871	19,976
Change for the period	(6)	(150)	1,799	1,922	3,565
At 31 December 2015	14	192	6,542	16,793	23,541
<b>Reinsurance share:</b>					
At 31 December 2013	(23)	-	(13)	-	(36)
Change for the period	8	(7)	4	-	5
At 31 December 2014	(15)	(7)	(9)	-	(31)
Change for the period	(1)	7	(1)	-	5
At 31 December 2015	(16)	-	(10)	-	(26)
<b>Net value</b>					
At 31 December 2014	5	335	4,734	14,871	19,945
At 31 December 2015	(2)	192	6,532	16,793	23,515

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 2015: securities EUR 16,664 thousand, cash EUR 129 thousand, 31 December 2014: securities EUR 14,728 thousand, cash EUR 143 thousand).

### NOTE 25

## OTHER LIABILITIES

	2015		2014	
	Group	Bank	Group	Bank
<b>Financial liabilities:</b>				
Trade payables	2,531	-	1,824	-
Accrued charges	5,823	4,976	5,270	3,936
Debt securities in issue	58	58	-	-
<b>Total financial liabilities</b>	<b>8,412</b>	<b>5,034</b>	<b>7,094</b>	<b>3,936</b>
<i>Breakdown of other financial liabilities according to maturity</i>				
Short-term (up to 1 year)	8,358	5,034	7,094	3,936
Long-term (over 1 year)	54	-	-	-
<b>Non-financial liabilities:</b>				
Advance amounts received from the buyers of assets	1,832	-	1,857	-
Deferred income	1,078	209	2,622	212
Provisions	116	-	187	-
Other liabilities	1,647	275	2,569	1,097
<b>Total non-financial liabilities</b>	<b>4,673</b>	<b>484</b>	<b>7,235</b>	<b>1,309</b>
<i>Breakdown of other non-financial liabilities according to maturity</i>				
Short-term (up to 1 year)	3,858	409	3,185	1,309
Long-term (over 1 year)	815	75	4,050	-
<b>Total non-financial liabilities</b>	<b>4,673</b>	<b>484</b>	<b>7,235</b>	<b>1,309</b>

As at 31 December 2015, the Bank had deposit certificates issued (this liability was acquired in Finasta acquisition transaction), carrying amount of which was EUR 58 thousand, maturity term – December 2016. Available for sale governments bonds with a carrying value of EUR 55 thousand were pledged as collateral for deposit certificates. The Group and the Bank had no debt securities in issue as at 31 December 2014.

### NOTE 26 INVESTMENT PROPERTY

#### Investment property

	Group	Bank
<b>Year ended 31 December 2014:</b>		
Carrying amount at 1 January	26,125	13,776
Acquisitions	6,903	-
Reclassification	(1,458)	(2,986)
Depreciation charge	(352)	(119)
Disposals and write-offs	(11,054)	(7,368)
<b>Carrying amount at 31 December</b>	<b>20,164</b>	<b>3,303</b>
<b>Year ended 31 December 2015:</b>		
Carrying amount at 1 January	20,164	3,303
Acquisitions	2,155	-
Reclassification from foreclosed assets	4,343	4,334
Impairment	(514)	-
Depreciation charge	(209)	(60)
Disposals and write-offs	(7,591)	(4,286)
<b>Carrying amount at 31 December</b>	<b>18,348</b>	<b>3,291</b>

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 46 thousand in 2015, EUR 378 thousand in 2014; Bank: EUR 27 thousand in 2015, EUR 269 thousand in 2014) 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 2015, 69% of the carrying value of the investment property was tested for impairment using valuations from external independent certified appraisers). Income method or replacement cost methods, i.e. valuation techniques attributable to Level 3 are mostly used valuation techniques to test the investment property for impairment both by external and internal valuers.

### NOTE 27 SHARE CAPITAL

As of 31 December 2015 the Bank's share capital comprised 314,573,731 ordinary registered shares with par value of EUR 0.29 each (31 December 2014 the Bank's share capital comprised 270,000,000 ordinary registered shares with par value of LTL 1 (EUR 0.28962) each).

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

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

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

The amended Charter of the Bank with an increased authorised capital was registered in the Register of Legal Entities on 3 June 2014, after a new share issue of 20,000,000 ordinary shares (nominal value EUR 5,792 thousand) was issued using Bank's own resources (share premium). The shares were distributed to Bank's shareholders using the proportion of their stakes at the accounting date of the rights (11 April 2014) of the ordinary meeting of shareholders of Šiaulių Bankas, that took place on 28 March 2014.

As of 31 December 2015, the shareholders holding over 5% of the Bank's shares are listed in the table below:

	Share of the authorized capital held, %
European Bank for Reconstruction and Development	18.24
Invalda INVLA AB	6.79
Gintaras Kateiva	5.82
<b>Total</b>	<b>30.85</b>

### NOTE 27

#### SHARE CAPITAL (continued)

Another 15 shareholders had less than 5% but more than 1% of the Bank's share capital. The remaining shareholders on an individual basis had less than 1% of the Bank's shares and voting rights.

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 2015, this group possessed 39.41 percent of the authorised capital and votes of the Bank.

As at 31 December 2015, the Bank had 3,476 shareholders (as at 31 December 2014: 3,585).

#### Share premium

The share premium represents the difference between the issue price and nominal value of the shares issued by the Bank. Share premium can be used to increase the Bank's authorised capital.

#### 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 2011 to 2015. 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

	2015		2014	
	Group	Bank	Group	Bank
<i>Financial guarantees issued</i>	22,255	22,282	29,202	29,219
<i>Letters of credit</i>	5,929	5,929	315	315
<i>Commitments to grant loans</i>	109,625	114,165	99,239	103,477
<i>Operating lease commitments</i>	2,844	3,260	3,277	3,892
<i>Other commitments</i>	2,342	2,094	3,110	1,131
<b>Total</b>	<b>142,995</b>	<b>147,730</b>	<b>135,143</b>	<b>138,034</b>

### 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. In March 2015, the annual general meeting of shareholders decided to pay dividends to the holders of ordinary shares 0.25% of the nominal value of the share, i.e. EUR 0.000725 per one ordinary share. Total amount of dividends was EUR 196 thousand. In March 2014, the annual general meeting of shareholders decided not to pay any dividends to the holders of ordinary shares.

In 2015, Bank's 100%-owned subsidiary SB Lizingas UAB paid dividends of EUR 2,896 thousand to the Bank, Bank's 100%-owned subsidiary Bonum Publicum GD UAB paid dividends of EUR 579 thousand to the Bank, and Bank's subsidiaries held for sale (see Note 20 for details) paid dividends of EUR 14,898 thousand to the Bank.

In 2014, Bank's 100%-owned subsidiary Ūkio Banko Lizingas UAB (later name changed to SB Lizingas UAB) paid dividends of EUR 2,896 thousand to the Bank, Bank's 100%-owned subsidiary Pavasaris UAB paid dividends of EUR 2,622 thousand to the Bank, and Bank's 100%-owned subsidiary Bonum Publicum GD UAB paid dividends of EUR 579 thousand to the Bank.



### NOTE 30

### RELATED-PARTY TRANSACTIONS

Related parties with the Bank are classified as follows:

- 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);
- subsidiaries of the Bank, includes Šiaulių Banko Lizingas UAB, Šiaulių Banko Investicijų Valdymas UAB, Šiaulių Banko Turto Fondas UAB, SBTf UAB, Minera UAB, Sandworks UAB, SB Lizingas UAB, Bonum Publicum GD UAB, Pavasaris UAB and subsidiaries held for sale, includes ŽSA1 UAB, ŽSA2 UAB, ŽSA3 UAB, ŽSA4 UAB, ŽSA5 UAB, Žalgirio Sporto Arena UAB, Investicinio Turto Valdymas UAB, Trade Project UAB;
- the shareholders holding over 5 % of the Bank's share capital.

During 2015 and 2014, 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.

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		Average annual interest rates, %		Loans, at the year-end		Average annual interest rates, %		Off-balance sheet commitments, at the year-end	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Members of the Council and the Board	682	677	1.08	1.45	1,036	1,206	3.18	3.59	39	124
Other related parties (excluding subsidiaries of the Bank)	4,080	2,190	0.16	0.29	48,045	35,463	2.77	3.55	76	80
<b>Total</b>	<b>4,762</b>	<b>2,867</b>	-	-	<b>49,081</b>	<b>36,669</b>	-	-	<b>115</b>	<b>204</b>
% of regulatory capital	3.36%	2.53%	-	-	34.63%	32.41%	-	-	0.08%	0.18%

As at 31 December 2015 and 2014, Bank's subsidiaries had no material transactions with the related persons except for the Bank and its subsidiaries.

As at 31 December 2015 and 2014, balance of 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 20,457 thousand as of 31 December 2015 (31 December 2014: EUR 19,295 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. Initial loan agreement provided a prepayment option to Šiaulių Bankas in 2018, but in 2014 the agreement was modified to exclude this option. Subordinated loan related interest expenses amounted to EUR 1,486 thousand, a loss of EUR 1,165 thousand related to revaluation of the liability to fair value was recorded in profit (loss) statement in 2015 (2014: interest expenses EUR 1,325 thousand, revaluation gain EUR 330 thousand).

The fair value of liability is determined using valuation technique attributable to level 3 fair value measurement. For more details on valuation see section 4.2. of Financial Risk Management disclosure.

#### Transactions with subsidiaries:

Balances of Bank's transactions with the subsidiaries (including subsidiaries held for sale) are given below:

	Deposits, at the year-end		Average annual interest rates, %		Loans, at the year-end		Average annual interest rates, %		Off-balance sheet commitments, at the year-end	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Non-financial institutions	323	316	0.0	0.0	17,559	63,403	2.3	2.3	3,332	2,256
Financial institutions	2,937	6,226	0.0	0.0	98,959	58,591	3.9	3.2	1,776	2,224

### NOTE 30

#### RELATED-PARTY TRANSACTIONS (continued)

Bank's total balances with subsidiaries (see Note 16 for details on investment in subsidiaries and Note 20 for details on subsidiaries held for sale):

	2015	2014
<b>Assets</b>		
Loans	116,518	121,994
Debt securities *	-	28,962
Other assets	22	25
Bank's investment in subsidiaries	32,175	29,686
Bank's investment in subsidiaries classified as assets held for sale	13,856	26,410
<b>Liabilities and shareholders' equity</b>		
Term deposits	23	1
Demand deposits	3,237	6,542
Other liabilities	39	136

Income and expenses arising from transactions with subsidiaries:

	2015	2014
<b>Income</b>		
Interest	4,797	5,709
Commission income	196	213
Income from foreign exchange operations	-	2
Dividends	18,374	6,097
Other income	144	161
<b>Expenses</b>		
Interest	(4)	(12)
Operating expenses	(445)	(532)
Impairment of loans	-	(531)
Impairment of an investment to subsidiaries	(15,163)	(7,401)

\* Bonds issued by Ūkio Banko Lizingas UAB (name changed to SB Lizingas UAB), maturity 31 March 2015. At maturity, the Bank refinanced the amount necessary for operations of the subsidiary by issuing a loan. As of 31 December 2014, total carrying value of the bond issue amounted to EUR 38 million: EUR 29 million were possessed by the Bank (accounted for as securities at fair value through profit (loss)), EUR 9 million by other subsidiaries of the Group.

As at 31 December 2015 balance of allowances for impairment losses that are related to balances of loans to subsidiaries was nil (as at 31 December 2014: EUR 963 thousand).

#### Remuneration of the management of the Group/Bank

During 2015 the total amount of salaries and bonuses, including social security contributions and guarantee fund payments, to the Bank's Board members amounted to EUR 1,226 thousand (2014: EUR 1,184 thousand). Liabilities related to long term benefits related to remuneration amounted to EUR 100 thousand as at 31 December 2015 (31 December 2014: EUR 53 thousand).

### 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 2015 and 31 December 2014, 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 (former Ūkio Banko Lizingas UAB, consumer financing activities). All of the entities attributable to Financial Group operate in Lithuania.

#### STATEMENT OF FINANCIAL POSITION

	31 December 2015		31 December 2014	
	Fin. Group	Bank	Fin. Group	Bank
<b>ASSETS</b>				
Cash and cash equivalents	104,615	104,286	197,323	196,481
Due from other banks	6,499	6,499	5,265	5,265
Securities at fair value through profit or loss	42,726	42,726	27,106	56,068
Derivative financial instruments	9,292	8,754	7,097	6,650
Loans to customers	856,188	912,669	749,702	790,756
Finance lease receivables	57,812	1,145	53,721	3,068
Investment securities:				
available-for-sale -	20,423	19,821	22,054	21,844
held to maturity -	494,645	494,645	452,575	447,757
Investments in subsidiaries	19,381	32,175	18,412	29,686
Intangible assets	991	798	554	412
Property, plant and equipment	10,564	10,023	10,964	10,083
Investment property	6,547	3,291	5,987	3,303
Current income tax prepayment	44	-	47	-
Deferred tax asset	881	46	516	-
Other assets	23,130	7,091	34,834	11,113
Assets held for sale	13,888	13,888	28,705	27,620
<b>Total assets</b>	<b>1,667,626</b>	<b>1,657,857</b>	<b>1,614,862</b>	<b>1,610,106</b>
<b>LIABILITIES</b>				
Due to other banks and financial institutions	50,483	53,383	56,044	61,979
Derivative financial instruments	136	136	-	-
Due to customers	1,436,709	1,436,712	1,415,686	1,415,716
Special and lending funds	8,191	8,191	2,499	2,499
Subordinated loan	20,457	20,457	19,295	19,295
Current income tax liabilities	1,108	947	542	535
Deferred income tax liabilities	156	-	281	108
Other liabilities	14,372	5,518	12,728	5,245
<b>Total liabilities</b>	<b>1,531,612</b>	<b>1,525,344</b>	<b>1,507,075</b>	<b>1,505,377</b>
<b>EQUITY</b>				
Capital and reserves attributable to owners of the Bank				
Share capital	91,226	91,226	78,197	78,197
Share premium	-	-	3,684	3,684
Reserve capital	756	756	756	756
Statutory reserve	2,464	2,290	1,449	1,275
Financial assets revaluation reserve	896	896	516	516
Retained earnings	40,672	37,345	23,185	20,301
<b>Total equity</b>	<b>136,014</b>	<b>132,513</b>	<b>107,787</b>	<b>104,729</b>
<b>Total liabilities and equity</b>	<b>1,667,626</b>	<b>1,657,857</b>	<b>1,614,862</b>	<b>1,610,106</b>

## NOTE 31

### FINANCIAL GROUP INFORMATION (continued)

#### INCOME STATEMENT

	2015		2014	
	Fin. Group	Bank	Fin. Group	Bank
<b>Continuing operations</b>				
Interest and similar income	65,589	57,929	63,369	55,113
Interest expense and similar charges	(17,014)	(16,981)	(23,478)	(23,436)
<b>Net interest income</b>	<b>48,575</b>	<b>40,948</b>	<b>39,891</b>	<b>31,677</b>
Fee and commission income	12,294	12,002	10,874	10,718
Fee and commission expense	(4,079)	(3,743)	(4,202)	(3,635)
<b>Net fee and commission income</b>	<b>8,215</b>	<b>8,259</b>	<b>6,672</b>	<b>7,083</b>
Net gain from operations with securities	865	866	2,722	2,703
Net foreign exchange gain	2,687	2,689	3,162	3,163
Net loss from derivatives	(1,632)	(1,855)	(2,830)	(2,919)
Net gain (loss) from changes in fair value of subordinated loan	(1,165)	(1,165)	330	330
Net gain from derecognition of financial assets	7,127	4,825	7,456	7,456
Net gain from disposal of tangible assets	2,735	2,765	350	342
Other operating income	1,221	683	1,383	1,023
Salaries and related expenses	(15,618)	(13,292)	(13,899)	(11,389)
Depreciation and amortization expenses	(1,415)	(1,140)	(1,384)	(1,137)
Other operating expenses	(9,899)	(7,993)	(8,164)	(7,177)
<b>Operating profit before impairment losses</b>	<b>41,696</b>	<b>35,590</b>	<b>35,689</b>	<b>31,155</b>
Allowance for impairment losses on loans and other assets	(20,795)	(16,918)	(22,620)	(17,141)
Allowance for impairment losses on investments in subsidiaries and loss on remeasurement of subsidiaries classified as held for sale	(13,185)	(15,163)	(2,911)	(7,401)
Dividends from investments in subsidiaries and subsidiaries classified as held for sale	15,478	18,374	3,201	6,097
<b>Profit from continuing operations before income tax</b>	<b>23,194</b>	<b>21,883</b>	<b>13,359</b>	<b>12,710</b>
Income tax expense	(1,165)	(953)	(1,988)	(1,814)
<b>Profit from continuing operations</b>	<b>22,029</b>	<b>20,930</b>	<b>11,371</b>	<b>10,896</b>
Profit (loss) from discontinued operations, net of tax	(435)	221	(292)	(292)
<b>Net profit for the year</b>	<b>21,594</b>	<b>21,151</b>	<b>11,079</b>	<b>10,604</b>
<b>Net profit attributable to:</b>				
Owners of the Bank	21,594	21,151	11,079	10,604
From continuing operations	22,029	20,930	11,371	10,896
From discontinued operations	(435)	221	(292)	(292)
Non-controlling interest	-	-	-	-
	21,594	21,151	11,079	10,604

## NOTE 31

### FINANCIAL GROUP INFORMATION (continued)

#### STATEMENT OF COMPREHENSIVE INCOME

	2015		2014	
	Fin. Group	Bank	Fin. Group	Bank
<b>Profit for the year</b>	<b>21,594</b>	<b>21,151</b>	<b>11,079</b>	<b>10,604</b>
<b>Other comprehensive income (loss)</b>				
Items that may be subsequently reclassified to profit or loss:				
Financial assets valuation gains taken to equity	867	868	2,559	2,559
Financial assets valuation result transferred to profit or loss	(364)	(365)	(1,167)	(1,167)
Amortisation of revaluation related to held-to-maturity investments	(57)	(57)	(104)	(104)
Deferred income tax on gain (loss) from revaluation of financial assets	(66)	(66)	(196)	(196)
<b>Other comprehensive income, net of deferred tax</b>	<b>380</b>	<b>380</b>	<b>1,092</b>	<b>1,092</b>
<b>Total comprehensive income</b>	<b>21,974</b>	<b>21,531</b>	<b>12,171</b>	<b>11,696</b>
<b>Total comprehensive income (loss) attributable to:</b>				
Owners of the Bank	21,974	21,531	12,171	11,696
From continuing operations	22,409	21,310	12,463	11,988
From discontinued operations	(435)	221	(292)	(292)
Non-controlling interest (from continuing operations)	-	-	-	-
	21,974	21,531	12,171	11,696

### NOTE 31

#### FINANCIAL GROUP INFORMATION (continued)

#### STATEMENT OF CASH FLOWS

	31 December 2015		31 December 2014	
	Fin. Group	Bank	Fin. Group	Bank
<b>Operating activities</b>				
Interest received on loans and advances	50,005	41,700	48,608	40,815
Interest received on debt securities at fair value through profit or loss	2,758	2,758	918	918
Interest paid	(19,125)	(19,092)	(23,478)	(23,436)
Fees and commissions received	12,294	12,002	9,540	9,384
Fees and commissions paid	(4,079)	(3,743)	(4,202)	(3,635)
Cash inflows from trade in securities at fair value through profit or loss	5,389	5,303	1,852	1,852
Net inflows from foreign exchange operations	2,911	2,914	3,613	3,613
Recoveries on loans previously written off	1,106	260	1,069	37
Salaries and related payments to and on behalf of employees	(14,832)	(13,263)	(13,433)	(11,154)
Other net cash receipts (payments)	(4,065)	(4,143)	653	577
Income tax (paid)	(930)	(538)	(712)	-
<b>Net cash flow from operating activities before change in operating assets and liabilities</b>	<b>31,432</b>	<b>24,158</b>	<b>24,428</b>	<b>18,971</b>
<b>Change in operating assets and liabilities:</b>				
Decrease (increase) in securities at fair value through profit or loss	23,666	47,089	2,634	2,634
Increase in loans to credit and financial institutions	(1,234)	(1,234)	(3,528)	(3,528)
Increase in loans to customers	(104,646)	(133,359)	(15,941)	(20,227)
Decrease (Increase) in other current assets	738	2,951	(8,431)	(5,026)
Decrease in liabilities to credit and financial institutions	(5,696)	(8,730)	(25,594)	(25,572)
(Decrease) increase in deposits	(37,968)	(32,108)	103,701	103,731
Increase in special and lending funds	5,692	5,692	369	369
Increase (decrease) in other liabilities	256	3,046	(1,601)	(1,407)
<b>Change</b>	<b>(119,192)</b>	<b>(116,653)</b>	<b>51,609</b>	<b>50,974</b>
<b>Net cash flow from (used in) operating activities</b>	<b>(87,760)</b>	<b>(92,495)</b>	<b>76,037</b>	<b>69,945</b>
<b>Investing activities</b>				
(Acquisition) of property, plant and equipment, investment property and intangible assets	(5,649)	(3,165)	(4,420)	(950)
Disposal of property, plant and equipment, investment property and intangible assets	8,890	7,348	10,496	10,793
(Acquisition) of held-to-maturity securities	(165,939)	(165,939)	(165,995)	(162,773)
Proceeds from redemption of held-to-maturity securities	117,233	118,977	91,939	91,797
Interest received on held-to-maturity securities	11,754	11,754	11,762	11,762
Dividends received	15,478	18,459	3,293	6,170
(Acquisition) of available-for-sale securities	(24,023)	(23,625)	(37,296)	(37,271)
Sale or redemption of available-for-sale securities	25,821	25,815	71,227	71,217
Interest received on available-for-sale securities	1,056	1,056	715	715
Disposal of subsidiaries held for sale	3,191	2,350	666	666
Business acquisition	11,166	14,691	(290)	(114)
Instalments to cover losses and to strengthen the capital of subsidiaries	(3,731)	(7,226)	(114)	(4,779)
<b>Net cash flow (used in) from investing activities</b>	<b>(4,753)</b>	<b>495</b>	<b>(18,017)</b>	<b>(12,767)</b>
<b>Financing activities</b>				
Payment of dividends	(195)	(195)	(4)	(4)
<b>Net cash flow from (used in) financing activities</b>	<b>(195)</b>	<b>(195)</b>	<b>(4)</b>	<b>(4)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(92,708)</b>	<b>(92,195)</b>	<b>58,016</b>	<b>57,174</b>
<b>Cash and cash equivalents at 1 January</b>	<b>197,323</b>	<b>196,481</b>	<b>139,307</b>	<b>139,307</b>
<b>Cash and cash equivalents at 31 December</b>	<b>104,615</b>	<b>104,286</b>	<b>197,323</b>	<b>196,481</b>

## NOTE 31

### FINANCIAL GROUP INFORMATION (continued)

#### STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserve capital	Financial assets revaluation	Statutory reserve	Retained earnings	Total
<b>1 January 2014</b>	<b>72,405</b>	<b>9,476</b>	<b>756</b>	<b>(576)</b>	<b>823</b>	<b>10,065</b>	<b>92,949</b>
Transfer to statutory reserve	-	-	-	-	510	(510)	-
Inclusion of subsidiaries in Financial Group	-	-	-	-	116	2,551	2,667
Increase in share capital through bonus issue of shares	5,792	(5,792)	-	-	-	-	-
Total comprehensive income (loss):	-	-	-	1,092	-	11,079	12,171
Net profit	-	-	-	-	-	11,079	11,079
Other comprehensive (loss)	-	-	-	1,092	-	-	1,092
<b>31 December 2014</b>	<b>78,197</b>	<b>3,684</b>	<b>756</b>	<b>516</b>	<b>1,449</b>	<b>23,185</b>	<b>107,787</b>
Transfer to statutory reserve	-	-	-	-	1,015	(1,015)	-
Currency change of share capital	103	-	-	-	-	(103)	-
Increase in share capital through bonus issue of shares	6,734	(3,684)	-	-	-	(3,050)	-
Payment of dividends	-	-	-	-	-	(196)	(196)
Increase in share capital on business combination	6,192	-	-	-	-	257	6,449
Total comprehensive income:	-	-	-	380	-	21,594	21,974
Net profit	-	-	-	-	-	21,594	21,594
Other comprehensive income	-	-	-	380	-	-	380
<b>31 December 2015</b>	<b>91,226</b>	<b>-</b>	<b>756</b>	<b>896</b>	<b>2,464</b>	<b>40,672</b>	<b>136,014</b>

#### CAPITAL RATIOS AND COMPLIANCE WITH PRUDENTIAL REQUIREMENTS

	31 December 2015		31 December 2014	
	Fin. Group	Bank	Fin. Group	Bank
<b>Common equity tier 1 capital eligible as CET1 Capital</b>				
Paid up capital instruments	91,226	91,226	78,197	78,197
Share premium	-	-	3,684	3,684
Previous years retained earnings	19,078	16,194	12,106	9,697
Interim profit eligible for inclusion	10,748	11,708	-	-
Other reserves	756	756	756	756
Statutory reserve	2,464	2,290	1,449	1,275
Part of financial assets revaluation reserve	358	358	(50)	(50)
(-) Goodwill	(14)	-	(14)	-
(-) Intangible assets	(977)	(798)	(540)	(412)
(-) Deferred tax assets that rely on future profitability	(179)	(161)	-	-
(-) Value adjustments due to requirements for prudent valuation	(368)	(368)	-	-
<b>TIER 1 CAPITAL</b>	<b>123,092</b>	<b>121,205</b>	<b>95,588</b>	<b>93,147</b>
<b>Capital instruments and subordinated loans eligible as T2 Capital</b>				
Subordinated loan capital	20,000	20,000	20,000	20,000
Part of financial assets revaluation reserve	538	538	-	-
<b>TIER 2 CAPITAL</b>	<b>20,538</b>	<b>20,538</b>	<b>20,000</b>	<b>20,000</b>
<b>OWN FUNDS</b>	<b>143,630</b>	<b>141,743</b>	<b>115,588</b>	<b>113,147</b>
<b>Own funds requirements for:</b>				
Risk weighted exposure amount for credit risk under the Standardised Approach	832,174	845,174	832,285	818,917
Traded debt instruments	26,943	26,835	16,751	46,343
Equity	704	704	223	223
Foreign exchange	-	-	2,479	1,956
Operational risk under the Basic Indicator Approach	109,216	98,442	91,657	80,572
Other capital requirements (credit value adjustment risk)	425	425	-	-
<b>Total risk exposure amount</b>	<b>969,462</b>	<b>971,580</b>	<b>943,395</b>	<b>948,011</b>
<b>CET1 Capital ratio</b>	<b>12.75%</b>	<b>12.53%</b>	<b>10.13%</b>	<b>9.83%</b>
<b>T1 Capital ratio</b>	<b>12.70%</b>	<b>12.48%</b>	<b>10.13%</b>	<b>9.83%</b>
<b>Total capital ratio</b>	<b>14.82%</b>	<b>14.59%</b>	<b>12.25%</b>	<b>11.94%</b>

During the years ended 31 December 2015 and 31 December 2014, 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 2015 was included in Owns funds of the Financial group and the Bank as of 31 December 2015, it would cause the Total capital ratio to increase to 15.93% and 15.56%, respectively.



CONSOLIDATED ANNUAL REPORT  
OF ŠIAULIŲ BANKAS AB  
FOR 2015



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## 1. REPORTING PERIOD, COVERED IN THE CONSOLIDATED ANNUAL REPORT

The present consolidated report of Šiaulių Bankas AB (hereinafter — the Bank) covers the period from 01 January 2015 to 31 December 2015.

## 2. CONTACT INFORMATION OF THE COMPANIES OF THE GROUP

### Contact information of the Bank

Šiaulių Bankas AB	
<i>Legal form:</i>	limited liability public company
<i>Registration date:</i>	04/02/1992
<i>Registrar:</i>	State Enterprise Centre of Registers
<i>Company's code:</i>	112025254
<i>Domicile address:</i>	Tilžės str. 149, LT-76348 Šiauliai
	tel.: + 370 41 595 607
	fax + 370 41 430 774
	<a href="mailto:info@sb.lt">info@sb.lt</a> , <a href="http://www.sb.lt">www.sb.lt</a>

### Contact information of the companies of the Group

The Bank directly controls the following subsidiaries:

#### **SB Lizingas UAB (the name has replaced the previous Ūkio Banko Lizingas UAB, hereinafter – SB lizingas)**

• Assets: EUR 52.8 million

• Nature of activities: finance lease and consumer credits

<i>Legal form:</i>	limited liability private company
<i>Registration date:</i>	14/07/1997
<i>Registrar:</i>	State Enterprise Centre of Registers
<i>Company's code:</i>	234995490
<i>Domicile address:</i>	Laisvės al. 80, LT- 44249 Kaunas
	tel.: + 370 37 407 200
	fax + 370 37 407 203
	<a href="mailto:info@sbl.lt">info@sbl.lt</a> , <a href="http://www.sblizingas.lt">www.sblizingas.lt</a>

#### **Šiaulių Banko Lizingas UAB (hereinafter — Šiaulių Banko Lizingas)**

• Assets: EUR 62.4 million

• Nature of activities: finance lease (leasing) and operating leases

<i>Legal form:</i>	limited liability private company
<i>Registration date:</i>	16/08/1999
<i>Registrar:</i>	State Enterprise Centre of Registers
<i>Company's code:</i>	145569548
<i>Domicile address:</i>	Vilniaus str. 167, 76352 Šiauliai
	tel.: +370 41 598 010
	+370 5 272 3015
	fax +370 41 399 481
	<a href="mailto:lizingas@sb.lt">lizingas@sb.lt</a> , <a href="http://www.sb.lt">www.sb.lt</a>

#### **Šiaulių Banko Turto Fondas UAB (hereinafter — SB Turto Fondas)**

• Assets: EUR 17.1 million

• Nature of activities: real estate management activities

<i>Legal form:</i>	limited liability private company
<i>Registration date:</i>	13/08/2002
<i>Registrar:</i>	State Enterprise Centre of Registers
<i>Company's code:</i>	145855439
<i>Domicile address:</i>	Vilniaus str. 167, LT-76352 Šiauliai
	tel.: +370 41 525 322
	fax +370 41 525 321
	<a href="mailto:turtofondas@sb.lt">turtofondas@sb.lt</a> , <a href="http://www.sbp.lt">www.sbp.lt</a>

#### **SBTF UAB (hereinafter – SBTF)**

• Assets: EUR 8.8 million

• Nature of activities: management and administration of real estate

<i>Legal form:</i>	limited liability private company
<i>Registration date:</i>	24/11/2004
<i>Registrar:</i>	State Enterprise Centre of Registers
<i>Company's code:</i>	300069309
<i>Domicile address:</i>	Vilniaus str. 167, LT-76352 Šiauliai
	tel.: +370 41 525 322
	fax +370 41 525 321
	<a href="mailto:sbtf@sb.lt">sbtf@sb.lt</a> , <a href="http://www.sbp.lt">www.sbp.lt</a>

## Minera UAB (hereinafter – Minera)

- Assets: EUR 11.1 million
- Nature of activities: real estate management activities

Legal form:	limited liability private company
Registration date:	30/09/1992
Registrar:	State Enterprise Centre of Registers
Company's code:	121736330
Domicile address:	Dvaro str. 123A, LT-76208 Šiauliai tel.: +370 41 399 423 fax +370 41 399 423 <a href="mailto:info@minera.lt">info@minera.lt</a> , <a href="http://www.sbp.lt">www.sbp.lt</a> , <a href="http://www.minera.lt">www.minera.lt</a>

## Pavasaris UAB (hereinafter – Pavasaris)

- Assets: EUR 14.5 million
- Nature of activities: development of residential apartment area

Legal form:	limited liability private company
Registration date:	25/09/1992
Registrar:	State Enterprise Centre of Registers
Company's code:	121681115
Domicile address:	Jonažolių str. 3-113, LT-04138 Vilnius tel.: +370 5 244 8096 fax +370 5 240 1623 <a href="mailto:info@pavasaris.net">info@pavasaris.net</a> , <a href="http://www.sbp.lt">www.sbp.lt</a> , <a href="http://www.pavasaris.net">www.pavasaris.net</a>

## Life insurance company Bonum Publicum UAB (hereinafter – Bonum Publicum)

- Assets: EUR 29.6 million
- Nature of activities: life insurance

Legal form:	limited liability private company
Registration date:	31/08/2000
Registrar:	State Enterprise Centre of Registers
Company's code:	110081788
Domicile address:	Laisvės pr. 3, LT-04215 Vilnius tel.: +370 5 236 2723 fax +370 5 236 2724 <a href="mailto:life@bonumpublicum.lt">life@bonumpublicum.lt</a> , <a href="http://www.bonumpublicum.lt">www.bonumpublicum.lt</a>

## Šiaulių Banko Investicijų Valdymas UAB (hereinafter – SB Investicijų Valdymas)

- Assets: EUR 1.5 million
- Nature of activities: investment management activities

Legal form:	limited liability private company
Registration date:	31/08/2000
Registrar:	State Enterprise Centre of Registers
Company's code:	145649065
Domicile address:	Šeimyniškių str. 1A, LT-09312 Vilnius tel.: +370 5 272 2477 fax +370 5 263 6144 <a href="mailto:sbiv@sb.lt">sbiv@sb.lt</a> , <a href="http://www.sbp.lt">www.sbp.lt</a>

The Bank indirectly controls the following subsidiary:

## Sandworks UAB (hereinafter – Sandworks)

- Assets: EUR 5.1 million
- Nature of activities: real estate management.

Legal form:	limited liability private company
Registration date:	10/10/2012
Registrar:	State Enterprise Centre of Registers
Company's code:	302896357
Domicile address:	Skrudynės str. 1, LT-93123 Neringa tel.: +370 615 34251

As of 31 December 2015 ŠB Investicijų Valdymas, 100% owned by the Bank, controlled 100% shares of Sandworks.

More information regarding subsidiaries is provided in Note 16 to the financial statements for the year ended 31 December 2015.

## Subsidiaries held for sale:

As of 31 December 2015 the Bank had the following subsidiaries held for sale: Trade Project UAB, Investicinio Turto Valdymas UAB, ŽSA 1 UAB, ŽSA 2 UAB, ŽSA 3 UAB, ŽSA 4 UAB and ŽSA 5 UAB, Žalgirio Sporto Arena UAB;

As of 31 December 2015 the share of the Bank in all the subsidiaries held for sale comprised 100%. The Bank directly controlled the following subsidiaries held for sale: Trade Project UAB, Investicinio Turto Valdymas UAB, ŽSA 1 UAB, ŽSA 2 UAB, ŽSA 3 UAB, ŽSA 4 UAB and ŽSA 5 UAB. Bank's subsidiaries ŽSA 1 UAB, ŽSA 2 UAB, ŽSA 3 UAB, ŽSA 4 UAB and ŽSA 5 UAB together controlled 100% shares of Žalgirio Sporto Arena UAB.

More information regarding subsidiaries held for sale is provided in Note 20 to the financial statements for the year ended 31 December 2015.

### 3. BANK'S STRATEGY

Providing financial services to private and corporate clients the Bank aims to be a reliable, flexible and attentive financial partner focusing on the country's potential and financial welfare of the population and business in Lithuania.

Implementing its operational strategy, the Bank pays special attention to financing of small and medium-sized enterprises (SMEs) throughout the country. Actively participating in the business promotion projects initiated by the Government of the Republic of Lithuania as well as in housing renovation programmes and business development in the country through lending to municipalities and regional projects the Bank significantly contributes to the business development in Lithuania.

Respect, commitment, professionalism, good will and accuracy are the main working principles of the Bank, ensuring long-term and mutual trust-based relationships communicating and cooperating with partners and clients.

In 2015, actively contributing to such projects as the euro adoption and migration to the Single Euro Payments Area (SEPA) which were important to the entire country, the Bank simultaneously completed rearrangement in its organizational structure and activities related to the integration of investment service companies (the bank Finasta AB and brokerage firm Finasta AB) and provision of leasing services (Šiaulių Banko Lizingas UAB) to the Bank's customers. The operating result of the Bank for 2015 repeatedly indicated that focus on domestic market, business continuity, flexibility and fast decision-making consistently strengthened the Bank and opened new prospects for the company's growth.

Being one of the biggest Lithuanian capital banks and having a solid support of its major shareholder, the European Bank for Reconstruction and Development (EBRD), the Bank successfully has consolidated its positions in the Lithuanian financial market over the recent years and plans to continue growing in a focused and purposeful manner, thus, contributing to the country's economic development.

#### MISSION

We come from the same roots. By providing financial services, we increase the well-being of Lithuania's people and businesses, and we grow together with them.

#### VALUES

- Trust
- Professionalism
- Respect
- Responsibility

### 4. NATURE OF THE BANK'S ACTIVITIES

In its activities the Bank follows the laws and other legal acts of the Republic of Lithuania, the Charter of the Bank and agreements concluded, the Bank is engaged in typical activity of commercial banks. The key area of the Bank's activities is focused on lending to small and medium-sized business.

The following services are rendered to the private and corporate customers:

- opening and handling of bank accounts in euro 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 of 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;
- issue, purchase and sales of cheques,
- trading in foreign currencies;
- conclusion of various types deposit agreements;
- investment services:
  - intermediation 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;
- distribution of commemorative coins and numismatic sets, etc.

The Bank's head office is located in Šiauliai. The Bank's units operate in all major cities and financially active regional centres of Lithuania. As of 31 December 2015, the Bank had 70 regional customer service points in 38 cities and towns of the country.

## 5. INVOLVEMENT IN ASSOCIATED STRUCTURES

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

- Society for Worldwide Interbank Financial Telecommunication (SWIFT)
- Visa 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 OMX Baltic
- Association of Lithuanian Financial Brokers
- Lithuanian Business Employers' Confederation
- Kaunas Chamber of Commerce, Industry and Crafts
- Vilnius Chamber of Commerce, Industry and Crafts
- Klaipeda Chamber of Commerce, Industry and Crafts
- Panevezys Chamber of Commerce, Industry and Crafts
- Šiauliai 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

## 6. AUTHORIZED CAPITAL AND SHAREHOLDERS OF THE BANK

The authorized capital of the Bank is EUR 91,226,381.99. The amendments of the Charter related to the capital increase were registered with the Register of Legal Entities on 14 September 2015.

62.95 per cent of the Bank's authorized capital is owned by the private persons and companies incorporated in Lithuania. The major shareholder of the Bank is the European Bank for Reconstruction and Development (EBRD) that owns 18.24 per cent of the Bank's shares.

All in all over, the five recent years the Bank's authorized capital increased by EUR 31.90 million: EUR 14.89 million was raised from the additional contributions from the shareholders and EUR 17.01 million from the Bank's own funds:

Registration date	22/06/2010	04/08/2011	31/05/2013	03/06/2014	01/01/2015	26/05/2015	14/09/2015
Capital, EUR	59,330,843	68,019,443	72,405,005	78,197,405	78,300,000	85,033,800	91,226,381.99

Authorized capital by types of shareholders as of 31 December 2015 (EUR mln):

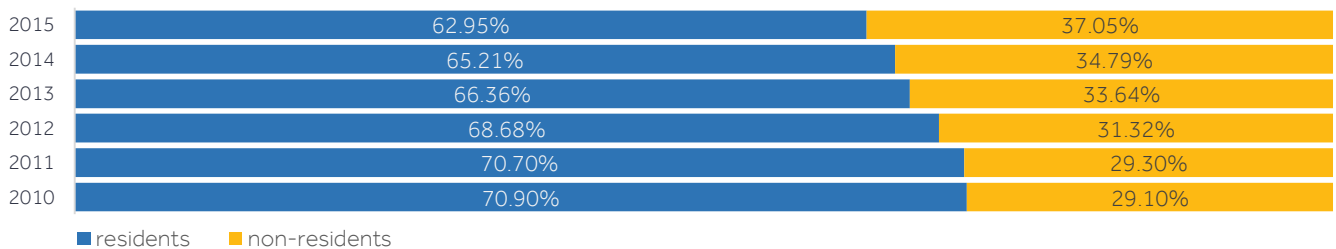


Structure of the Bank's authorized capital as of 31 December 2015

Type of shares	Number of shares, units	Nominal value, EUR	Total nominal value, EUR
Ordinary registered shares, ISIN LT0000102253	314,573,731	0.29	91,226,381.99

As of 31 December 2015 the number of the Bank's shareholders comprised 3,476 (31 December 2014 – 3,585). All issued shares grant the shareholders equal rights foreseen by the Law on Companies of the Republic of Lithuania and the Charter of the Bank.

A share of capital managed by the Bank's shareholders by the place of residence (per cent):



The Bank's shareholders have the following property rights:

- to receive a share of the Bank's profit (dividends);
- to receive the Bank's funds when the authorized capital of the Bank is reduced seeking to pay the Bank's funds to Shareholders;
- to receive the shares free of charge in case the authorized capital is increased from the Bank's funds, except the cases, provided for in the laws;
- in case the shareholder is a natural person - to bequeath all or a part of the shares to one or several persons;
- following the procedure and according to the conditions stipulated by the laws, to sell or otherwise transfer all or a part of the shares to the ownership of other persons;
- the pre-emptive right to acquire the shares issued or converted bonds of the Bank, except the case when the General Meeting of Shareholders decides to cancel this right to all the shareholders;
- to lend to the Bank in the ways, prescribed in the laws. However, the Bank, borrowing from its shareholders, is not entitled to pledge its assets for the shareholders. In the case the Bank borrows from its shareholder, interest rate cannot exceed the average interest rate of the commercial banks, located in the living or business place of the lender, valid at the moment of the loan agreement conclusion. In such case the Bank and the shareholders are prohibited from making an agreement regarding higher interest rate;
- other property rights, provided in the laws.

Persons who are the shareholders of the Bank at the end of the tenth business day following the date of the General meeting of Shareholders having adopted respective resolution, i.e. at the end of the day of accounting of rights, have the rights to dividends, pay outs in case the Bank's authorized capital is subject to reductions as well as the rights to free shares and pre-emptive right to gain the shares issued by the Bank.

The Shareholders of the Bank have the following non-property rights:

- to participate in the General meeting of shareholders;
- to vote in the Meetings according to the rights, granted by the owned shares;
- to submit the questions to the Bank related to the agenda issues of the General meeting of shareholders in advance;
- to receive information on the Bank, as provided for in the Law on Companies of the Republic of Lithuania;
- to apply to court with the claim, asking to compensate the loss, made to the Bank, that has occurred because of failure to execute obligations, provided for in the laws and present Charter, duly or their omission by the CEO or Board members of the Bank, as well as in other cases, provided for in the laws;;
- Other non-property rights, provided in the laws.

The person shall obtain all the rights and obligations granted to this person by the share of the authorized capital and (or) voting rights of the Bank: in case of the increase of the authorized capital of the Bank – from the date of registration of the changes related to the increase of the authorized capital and (or) voting rights of the Bank; in other cases – from the emergence of the property right to the share of the authorized capital and (or) voting rights of the Bank.



The shareholders of the Bank who owned more than 5 per cent of the authorized capital of the Bank as of 31 December 2015 are as follows:

Shareholder	Number of shares under the right of ownership, units	Share of authorized capital under the right of ownership, %	Share of votes under the right of ownership, %	Share of votes together with the related persons, %
European Bank for Reconstruction and Development (the United Kingdom)	57,387,804	18.24	18.24	39.41
Invalda INVLA AB (Lithuania)	21,353,731	6.79	6.79	-
Gintaras Kateiva (Lithuania)	18,303,301	5.82	5.82	39.41

European Bank for Reconstruction and Development (EBRD), Trade House Aiva, UAB, Mintaka UAB, Enterprise group Alita AB, Sigita Baguckas, Algirdas Butkus, Vigintas Butkus, Vytautas Junevičius, Gintaras Kateiva, Arvydas Salda ir Kastytis Jonas Vyšniauskas who have signed the Shareholders' Agreement as well as other shareholders whose votes are calculated together in compliance with the law of the Republic of Lithuania form a group that owned 39.41 per cent of the Bank's authorized capital and votes as of 31 December 2015.

**There are no restrictions set to transfer of the securities.** The shareholders are entitled to property and non-property rights and have the duties defined in the Law on Companies of the Republic of Lithuania and the Charter of the Bank.

**The shareholders entitled to exclusive control rights and descriptions of those rights.** The shareholders control the Bank through the elected Supervisory Council. Its functions are stipulated by the Law on Companies of the Republic of Lithuania.

**Restrictions to Exercise the Voting Right.** All the issued shares of the Bank are ordinary registered shares of EUR 0.29 nominal value. Each share grants one voting right at the Bank's General Meeting of Shareholders. Restrictions to the voting rights can be applied in the cases foreseen by the laws.

The shareholders shall not have the right to vote when adopting a decision on the pre-emption right to acquire the shares of the Bank being issued or withdrawal of convertible bonds if it is stipulated in the agenda of the General Meeting of Shareholders that the right to acquire these securities is granted to him, his close relative, spouse or common-law spouse when partnership is registered in the procedure stipulated by the laws, and to a close relative of the spouse when the shareholder is a natural person as well as to the company patronizing the shareholder when the shareholder is a legal entity.

The person or persons acting jointly, having decided to acquire a qualified share of the authorized capital and (or) voting rights of the Bank or to raise it to such extent that the available share of the authorized capital and (or) voting rights of the Bank would be equal to or exceed 20 per cent, 30 per cent or 50 per cent or as much as the Bank would become controllable, shall be obliged to report this in writing to the Bank of Lithuania, which implements the supervisory function, specifying the qualified share of the authorized capital and (or) voting rights of the Bank intended to be purchased as well as to provide documents and data specified in the list given in Paragraph 2 of Article 25 of the Law on Banks. Failure to observe the requirement to receive a decision of the Bank of Lithuania not to be in conflict with surpassing the aforementioned limits does not cause the transaction to become ineffective; however, due to the failure to observe this requirement the whole share of the Bank's authorized capital and (or) voting rights owned by the person acquiring it shall lose the voting right in the Bank's General Meeting of Shareholders.

**Taxation of capital gains.** According to the recast of article 17 of the Law on Income Tax of Individuals of the Republic of Lithuania which came in force on 01/01/2016, income gained from the securities sold or transferred to ownership otherwise are exempt from the residents' income tax if a difference of income from the sold financial instruments or from other transfer to ownership or from realization of financial derivatives and the initial purchase price of these financial instruments and other costs related to their sales or to other types of their transfer to ownership as well as to realization of financial derivatives does not exceed EUR 500 (LTL 10 000 till 31/12/2015) per tax period. Difference exceeding EUR 500 per tax period shall be subject to taxation rate of 15 per cent. The income from the sold securities are taxed at the same rate if a shareholder sells his shares or otherwise transfers them to other ownership of the issuer or when the shares received 2014 from the issuer are sold free of charge (increasing a share capital) or in other cases defined in the the Law on Income Tax of Individuals of the Republic of Lithuania.

Following the Profit Law of the Republic of Lithuania the profit which is gained by the legal entities of Lithuania from the sold securities is subject to income tax of 15 per cent from capital gains. Capital gains are income which comprises of the amount by which an asset's selling price exceeds its initial purchase price. The asset's purchase price includes the paid commissions, thus, selling the assets the sales price is reduced by the amount of sales costs. If a legal entity incurs loss from the sales of securities, this loss is transferred to the next tax year, however, it will be covered only from the profit gained from the transfer of securities. Depending on the nature of the company's business, the law foresees different procedures for transfer of securities' loss.

## 7. TRADE IN SHARES OF THE COMPANIES OF THE GROUP IN REGULATED MARKETS

In the Main trading list of NASDAQ Vilnius AB, only the shares of the Bank are quoted. ISIN code LT0000102253; the number of shares: 314,573,731. Shares of the Bank's subsidiaries are issued for non-public circulation.

The Bank's shares are included in to the trading index *OMX Baltic 10* (OMXB10) which consists of the shares of the 10 the most liquid companies of the Baltic states traded on the stock exchanges of the Baltic NASDAQ. Shares issued by the Bank are also included in the comparative index of the OMX Baltic states securities market *OMX Baltic Benchmark Gross Index* (OMXBBGI), which is comprised of the shares of the highest capitalization and most liquid companies as well as in such indexes as *OMX Baltic All Share Price Index* (OMXBPI), *OMX Baltic Benchmark Capped Price* (OMXBBCPP) and *OMX Baltic Benchmark Price* (OMXBBPI). Besides, shares issued by the Bank are included in the indices STOXX All Europe Total Market, STOXX Eastern Europe TMI, STOXX Eastern Europe TMI Small, STOXX EU Enlarged TMI, STOXX Global Total Market and STOXX Lithuania Total Market.

Change in share price over the period of 2013 – 2015:

Source: NASDAQ Vilnius AB website

<http://www.nasdaqbaltic.com/market/?instrument=LT0000102253&list=2&date=2015-02-24&pg=details&tab=historical&currency=0&downloadcsv=0&start=2013.01.01&end=2015.12.31&lang=en>



Turnover the Bank's shares over the period of 2013 -2015:

Year	Last trading session price, EUR	Max. price, EUR	Min. price, EUR	Average price, EUR	Number of shares, units	Turnover, EUR mln
2013	0.266	0.310	0.227	0.266	20,496,506	5.45
2014	0.266	0.331	0.266	0.290	28,107,139	8.15
2015	0.298	0.323	0.267	0.295	43,084,506	12.70

Turnover and price of the Bank's shares over the reporting period (EUR):

Source: NASDAQ Vilnius AB website

<http://www.nasdaqbaltic.com/market/?instrument=LT0000102253&list=2&pg=details&tab=historical&currency=0&downloadcsv=0&date=&start=2014.12.31&end=2015.12.31&lang=en>





The charts of the share price changes of *OMX Vilnius index*, *OMX Baltic Benchmark* and *Bank's shares* during the period of 2013-2015:

Source: NASDAQ Vilnius AB website

[http://market.lt.omxgroup.com/market/?pg=charts&idx\\_main\[0\]=OMXBGGI&idx\\_main\[1\]=OMXV&add\\_index=OMXBBP&add\\_equity=LT0000128696&idx\\_equity\[0\]=LT0000102253&period=other&start=2013.01.01&end=2015.12.31&lang=en](http://market.lt.omxgroup.com/market/?pg=charts&idx_main[0]=OMXBGGI&idx_main[1]=OMXV&add_index=OMXBBP&add_equity=LT0000128696&idx_equity[0]=LT0000102253&period=other&start=2013.01.01&end=2015.12.31&lang=en)



The Chart's data:

Index/Shares	01/01/2013	31/12/2015	+/-, %
■ OMX Baltic Benchmark GI	546.98	648.32	18.53
— OMX Vilnius	355.08	485.99	36.87
— SAB1L	EUR 0.185	EUR 0.298	61.06

The capitalization of the Bank was EUR 66.50 million as of 31 December 2013; on 31 December 2015 it comprised EUR 93.74 million.

The capitalization the Bank and the total capitalization of shares quoted on the NASDAQ AB as of the last trading day of 2013 and 2015:

The list of the Baltic shares	31/12/2013	31/12/2015	Change
Šiaulių Bankas – SAB1L	EUR 66,500,000	EUR 93,742,971.84	40.97 %
The Baltic market in total:	EUR 5,731,270,188.87	EUR 6,533,175,201.63	13.99 %

Source: NASDAQ Vilnius AB website

<http://www.nasdaqbaltic.com/market/?pg=capital&list%255B%255D=BAFN&period=other&start=2014.01.01&end=2014.12.31&lang=en>

Price/Earnings (P/E) indicator of the Group:

	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
P/E	14.10	13.29	13.12	6.12	3.73

## 8. ACQUISITION OF OWN SHARES

The Bank and its subsidiary companies or persons acting at the instruction of the subsidiaries 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 reporting period. The shares to those employees who in compliance with the Bank's Remuneration Policy should receive the shares purchased at the NASDAQ Vilnius stock exchange on behalf of the group by the joint order which is covered from the Bank's funds.

## 9. AGREEMENTS WITH INTERMEDIARIES IN PUBLIC CIRCULATION OF SECURITIES

The Bank's Securities Accounting Department is in charge of accounting of the securities issued by the Bank.

To execute and account for other transactions with securities the Bank has concluded agreements with the following intermediaries in public circulation of securities:

- with the Lithuanian branch of Danske Bank A/S - Investment service provision agreement;
- with DnB bankas AB - Agreement regarding management of financial instrument account and execution of orders;
- With Swedbank, AB - Agreements of securities account management and brokerage;
- with SEB bankas AB - Agreements of securities account management;
- with „Credit Suisse“ bank - Order transfer and execution agreement;
- with Raiffeisen Bank International AG - Agreements of securities account management and brokerage;
- with Privredna banka Zagreb – Agreement on custody service and storage and administration of financial instruments of the clients;
- with ERSTE Securities Polska SA – Brokerage services agreement for custodian clients;
- with Bank of Georgia – Subcustodial services agreement;
- with State Street Banque SA – Custodial account agreement;
- with Caceis bank Deutschland – Custody agreement;
- with Commerzbank AG – Custodial account agreement;
- with Karoll AD – Brokerage agreement;
- with JSC BG Capital – Agency and service agreement.

## 10. INFORMATION IN COMPLIANCE WITH THE PRUDENTIAL REQUIREMENTS SET TO THE BANK

During the reporting period the Bank complied with all the prudential requirements. Detailed information is provided in the Financial Risk Management disclosure in notes to the financial statements for the year ended 31 December 2015 (hereinafter – FRM disclosure):

- maximum exposure per borrower - part 1.8 of the FRM disclosure;
- liquidity ratio – part 3.1 of the FRM disclosure;
- requirements for own funds – part 10 of the FRM disclosure.

## 11. RISK MANAGEMENT

The Group accepts, manages, analyses, and evaluates the risks arising from its activities. The purpose of risk management in the Group is to ensure the sufficient return on equity by managing risks in a conservative manner. By implementing an advanced risk management policy, the Group seeks not only to minimize the potential risks as much as possible, but also to ensure the optimal risk and profit ratio as well as an effective distribution of the capital

The risk management policy is approved by the Bank's Supervisory Council and its implementation controlled by the Board of the Bank. It specifies the risks incurred in the activities of the Group and the principles of the risk management system. The development of the proper risk management system, its constant improvement and application of its measures in the daily performance are among the key preconditions for the Group activities in the long run. The procedures for the management of various types of risks prepared on the basis of the policy specify the principles of management of particular risks and ensure the integrity of the risk management process throughout the Group. The Group revises its risk management policies and systems regularly, at least once a year, with regard to market changes, new products, and newly applied principles best practices.

Risk management is a structured, consistent and on-going process taking place in all levels of the Group which assists establishing and assessing possibilities and threats affecting the achievement of the Group's goals and allows making decisions with respect to certain actions. Since various risks encountered by the Group are interdependent, their management is centralized and performed by the Bank's Risk Management Committee. Organization and coordination of the experienced risk management system is one of the main goals of the Bank's Risk Management Committee. Seeking to avoid the conflict of interest, the Bank's units performing the risk management functions are separated from the units, the direct performance of which are related to the emergence of various types of the banking activity risks.

Internal Capital Adequacy Assessment Process (ICAAP) is one of key elements in the Group's risk management and decision-making. The purpose of the Group's ICAAP is to implement the processes ensuring calculation of the requirement of the Group's capital sufficient to cover the activity risks and to ensure the continuity of the performance as well as appropriate formation of the capital base. ICAAP includes the Bank's self-assessment, stress testing and establishment of the internal capital requirement. During the internal self-assessment risks that are characteristic to the Group's activities are identified and evaluated applying selected methods of assessment. An impact of a certain risk on the Group's income and capital is assessed while determining the level of risk. The major goal of the stress testing is to establish if the Group's capital is adequate to cover the likely loss which could be incurred from the deterioration of the Group's financial status.

More details are provided in the *Financial Risk Management* disclosure in notes to the financial statements for the year ended 31 December 2015 (hereinafter – FRM disclosure):

- Credit risk management – part 1 of the FRM disclosure;
- Market risk management – part 2 of the FRM disclosure;
  - Foreign exchange risk management – part 2.1 of the FRM disclosure;
  - Interest rate risk management – part 2.2 of the FRM disclosure;
- Liquidity risk management – part 3 of the FRM disclosure;
- Risk inherent in insurance activities – part 5 of the FRM disclosure;
- Operational risk management – part 6 of the FRM disclosure;
- IT risk – part 7 of the FRM disclosure;
- Compliance risk – part 8 of the FRM disclosure;
- Capital management – part 10 of the FRM disclosure.

## 12. RATINGS ASSIGNED BY INTERNATIONAL AGENCIES

The credit rating agencies are registered and certified in accordance with Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies. The credit rating of the Bank is determined by the international rating agency Moody's Investors Service LTD, the licence of which was updated on 31 October 2011.

The Moody's Investors Service updated the Banks rating on 17 June 2015 improving the long-term deposit rating by two notches from B1 to Ba2:

Long-term credit rating	Ba2
Short-term credit rating	NP
Rating outlook	Stable

The agency Moody's upgraded the financial strength ratings of the Bank considering that the Bank had improved its financial fundamentals, mainly strengthening profitability and decreasing volumes of non-performing loans.

## 13. INFORMATION ON PERFORMANCE RESULTS

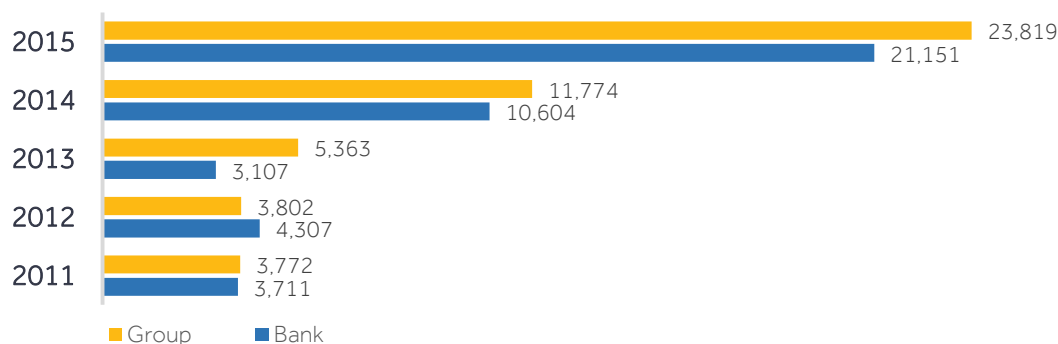
The year of 2015 proved to be exceptionally successful to the Bank. That year the Bank significantly contributed to several projects important to the entire country. First of all, it put its share to the introduction of the euro in Lithuania exchanging almost LTL 500 million to euro during the first quarter of 2015 which, actually, comprised a quarter of all national currency changed over that period in the commercial banks operating in Lithuania. Lithuania's accession to the Single Euro Payments Area (SEPA) was another extremely important nationwide project implementing which the Bank had successfully overcome all the accession-related changes. Challenges were numerous, nonetheless, the Bank managed to align its efforts reaching the exclusive performance results.

„The year 2015 may be called a record year beyond any doubt – similarly like the earlier quarters the fourth one could also be characterized by a remarkable growth. Last year, the Bank was involved in several active developments – it acquired two companies rendering investment services and, thus, expanded a range of services provided by the Bank. At the same time the Bank accomplished its structural rearrangements and gained much experience in shaping the value-based organizational structure. Such customer focused strategy appeared to be successful – a number of our customers and the customer service quality continue to grow. I do believe we've laid a strong foundation for the Bank's further sustainable and responsible performance which would assist our customers realizing their ambitions and potential for further growth”, - says Vytautas Sinius, Chief Executive Officer of the Bank.

Both the Group and the Bank had been continuously growing and doubled their performance results over the year. In 2015 the Group generated EUR 23.8 million of the net profit, which by 2 times exceeded the result achieved in 2014

when the net profit amounted to EUR 11.8 million. The net profit of the Bank compiled EUR 21.2 million in 2015, which was twice more than than in 2014 when the profit reached EUR 10.6 million.

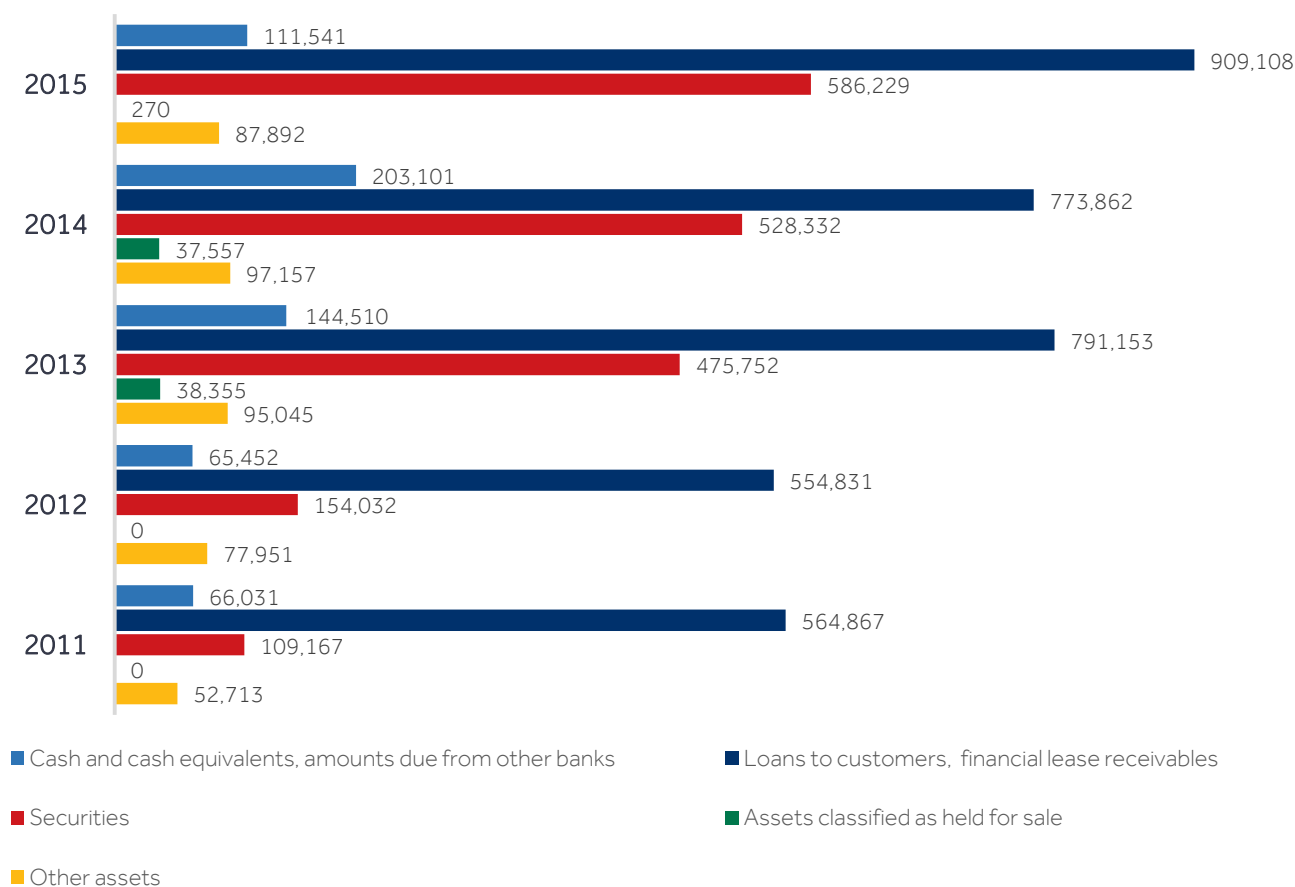
Net Profit 2011–2015, EUR thousand:



The Group's assets grew by more than 3 per cent up to EUR 1.7 billion over the year. This year lending became more active - both the business entities and households borrowed more. The Group's loan and finance lease portfolio grew by 17 per cent and reached EUR 909 million. (More detailed information on the loan portfolio is provided in the notes 13 and 14 to the financial statements for 2015.)

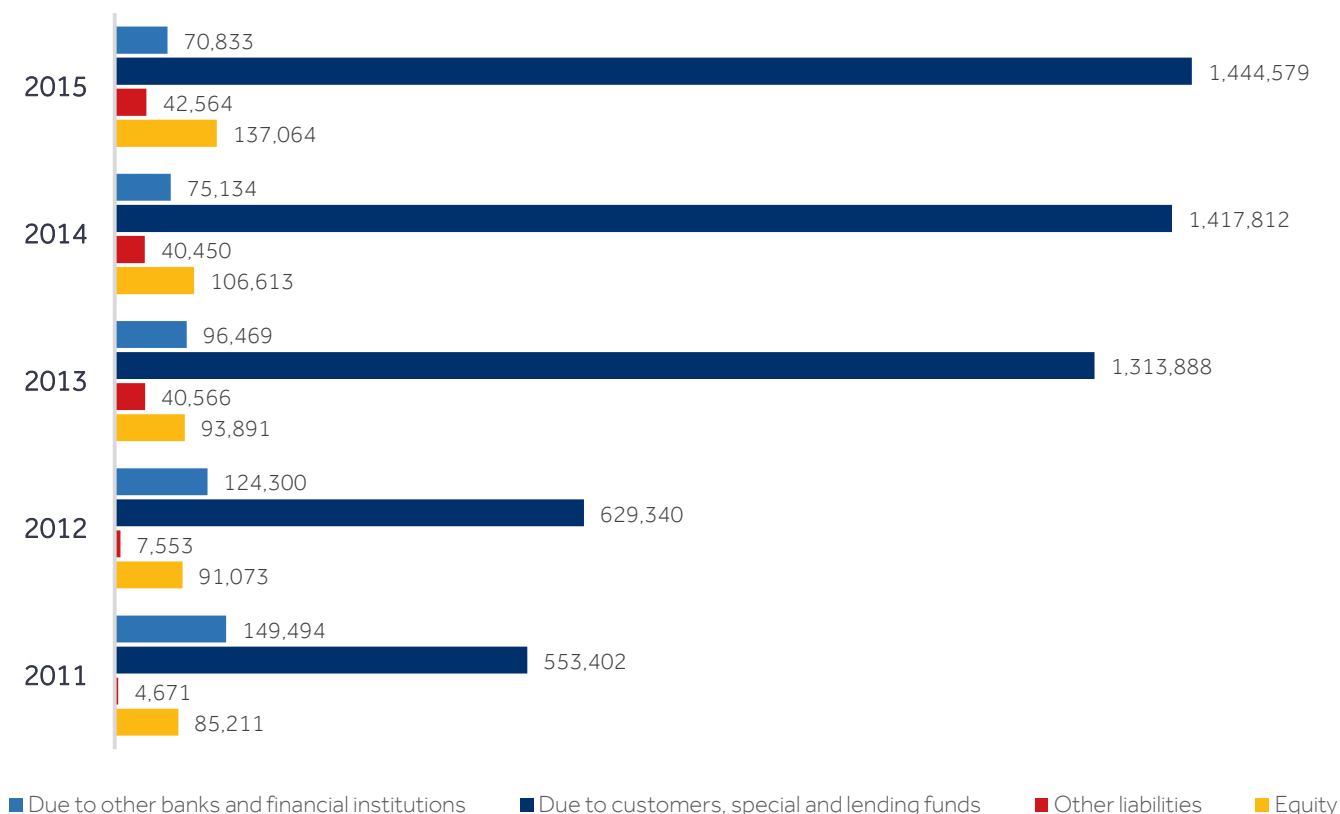
Free funds invested into securities increased the securities portfolio by 11 per cent and exceeded EUR 586 million at the end of 2015. (More detailed information on the securities portfolio is provided in the notes 12 and 15 to the financial statements for 2015.)

Group's Asset Structure 2011–2015, EUR thousand:



Despite a very low interest rate environment, deposits remained the most popular means of saving for the country's population. The Group's deposit portfolio exceeded EUR 1.44 billion at the end of the year, i.e. increased by 2 per cent from the beginning of the year. One of the key factors of the increase was an inclusion of the bank Finasta AB into the Group. (More detailed information on the deposit portfolio is provided in the note 22 to the Bank's financial statements for 2015.)

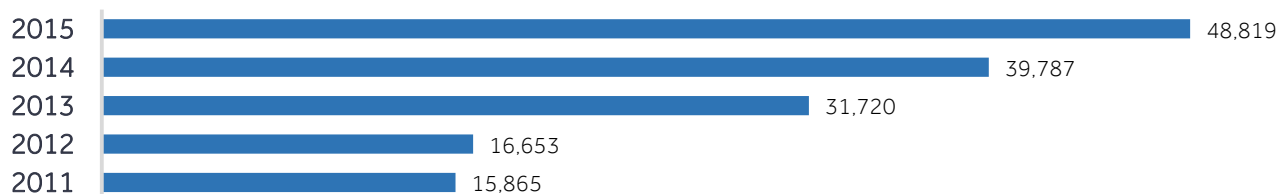
Group's Liability Structure 2011–2015, EUR thousand:



The loan to deposit ratio increased by 8 percentage points over the year and comprised 63 per cent at the end of 2015. Among banks operating in Lithuania, the Bank currently ranks fourth both in the loan and deposit markets.

Accelerating lending led to the net interest income increase - it increased by 23 per cent compared to 2014 and amounted to nearly EUR 48.8 million.

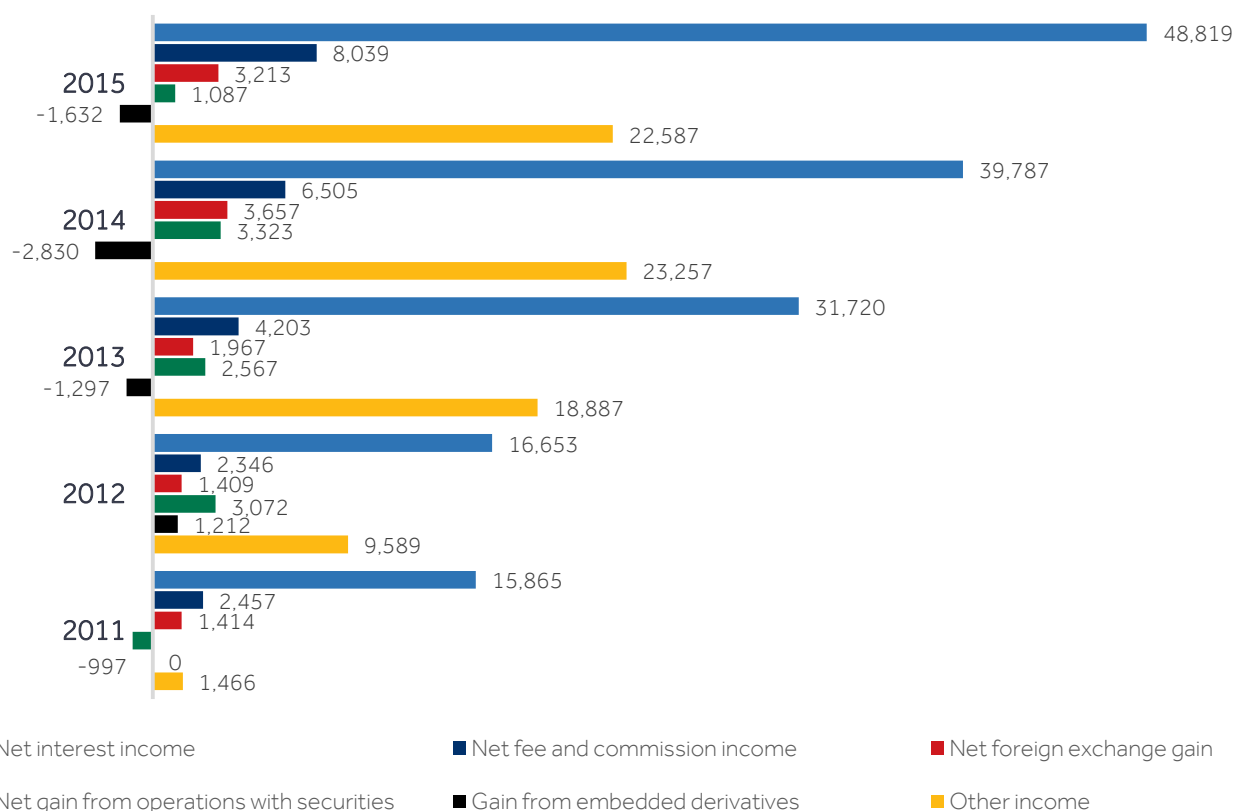
Net interest income, 2011–2015, EUR thousand:



Interest income generated by the Group grew by 4 per cent per annum while constantly decreasing costs of the main funding source - term deposits led to 28 per cent lower interest expenses comparing to 2014.

The Group's net fee and commission income also changed significantly during the reporting period - it amounted to EUR 8 million which was by 24 per cent more than in 2014. Increased number of customers, product permeability, and income from housing renovation programme financing compensated the fee and commission income loss related to the euro adoption.

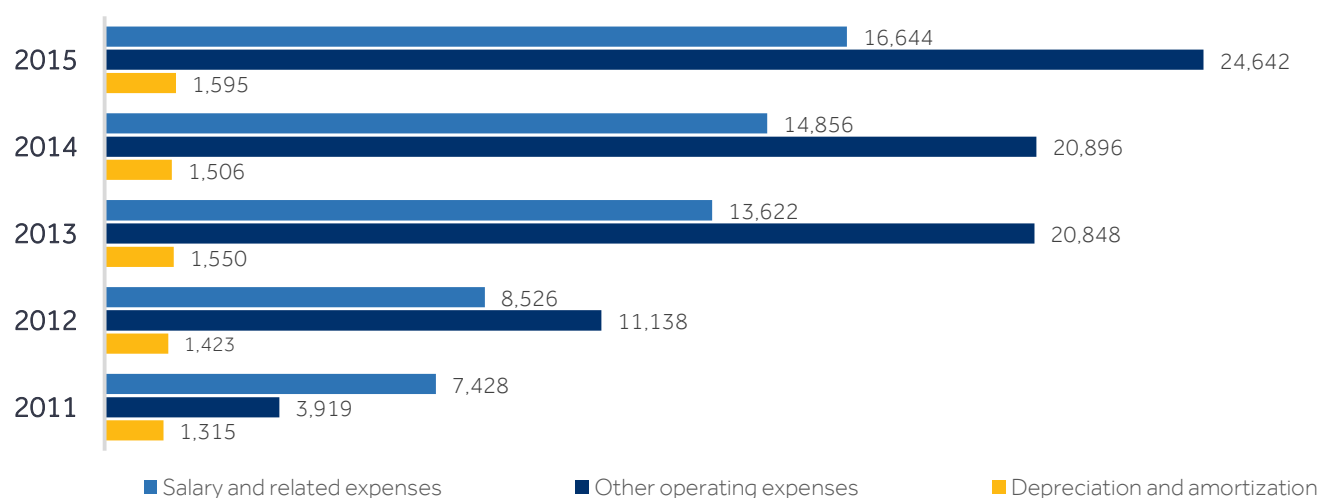
The Group's operating income structure in 2011-2015, EUR thousand:



Impairment of assets had a negative impact on the Group's performance - EUR 23 million of impairment loss was incurred over 2015. (More detailed information on impairment is provided in the note 7 to the Bank's financial statements for 2015.)

During the reporting period the Group's expenses grew by 15 per cent - operating expenses amounted to EUR 42.9 million in total. Almost 40 per cent of operating expenses consisted of salary expenses, i.e. EUR 16.6 million. Amortization and depreciation expenses grew by 6 per cent and comprised EUR 1.6 million. Other operating expenses increased by 18 per cent and comprised EUR 24.6 million over the year. More detailed information on the operational expenses is provided in the note 4 to the financial statements for the year 2015)

The Group's operating expenses structure in 2011-2015, EUR thousand:



In 2015 increased operating expenses made a positive impact on the return ratios of the Group - annual ratios of the return on equity and return on assets had doubled and comprised 18.95 per cent and 1.43 per cent respectively. The cost to income ratio comprised 52.22 per cent.

	<i>Profitability ratios, %</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
<i>The Bank</i>	Cost / income	60.35	47.13	52.68	38.74	38.65
	ROAA, %	0.49	0.52	0.20	0.68	1.30
	ROAE, %	4.61	4.79	3.36	10.38	17.35
<i>Financial group</i>	Cost / income	60.59	47.64	52.70	39.65	39.24
	ROAA, %	0.53	0.54	0.16	0.70	1.31
	ROAE, %	4.87	4.90	2.65	10.69	17.31
<i>Group</i>	Cost / income	68.66	61.52	62.05	50.58	52.22
	ROAA, %	0.49	0.46	0.34	0.74	1.43
	ROAE, %	4.63	4.24	5.79	11.45	18.95

Increase in the authorized capital of the Bank was registered on 14 September 2015 and went in line with implementation of other capital strengthening measures. These actions have ensured the Bank's compliance with the capital adequacy ratios with a comfortable cushion. According to the data as of 31 December 2015 the Bank complied with all the prudential requirements to which it is subject.

	<i>Requirements</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
<i>The Bank</i>	Capital adequacy	13.05	12.81	11.40	11.94	14.59
	Maximum exposure per borrower	21.36	22.33	19.62	17.47	14.58
<i>Financial group</i>	Capital adequacy	13.12	13.00	11.60	12.25	14.82
	Maximum exposure per borrower	21.42	22.04	19.38	17.10	14.39
<i>Group</i>	Capital adequacy	12.95	12.64	11.14	11.35	14.24

More detailed information on capital adequacy is provided in the Financial Risk Management disclosure in section 10 to the financial statements for the year 2015.

At the end of 2015 the customer service network of the Bank consisted of 70 units operating in 38 towns throughout Lithuania. The number of corporate customers increased by 9 per cent to 25.5 thousand while the number of private clients grew by 7 per cent reaching 360.8 thousand.

	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
<i>Number of Clients</i>	<b>143,949</b>	<b>161,847</b>	<b>342,780</b>	<b>360,584</b>	<b>386,273</b>
<i>Private Clients</i>	134,296	150,642	322,199	337,284	360,809
<i>Corporate Clients</i>	9,653	11,205	20,581	23,300	25,464

The Bank's clients could use 216 ATMs (4 of them are ATMs accepting cash) belonging to Bank's network operating in 48 cities and towns throughout Lithuania. At the end of 2015 the Bank's clients could withdraw cash or place their funds to the payment card accounts through 1 964 terminals of Perlo paslaugos UAB all over Lithuania.

One of the largest transactions in the market last year was closed in less than a year – the bank Finasta AB and financial brokerage company Finasta AB had been acquired by way of merger with the Bank. The Bank expanded a range of its services with investment, securities trading and brokerage services.

Last year the Bank renewed its brand and introduced a new image strategy and even more fortified its leading position in multi-apartment renovation financing programme.

According to the data of the customer service quality survey conducted in the banking sector by company *Dive Lietuva* at the end of the year, the customer service quality at the Bank was higher than the banking sector's average and accounted for the largest improvement among all the banks operating in Lithuania, i.e. it jumped up by four positions. The overall customer service quality ratio of the Bank comprised 90.3 per cent reaching the highest level of the customer service quality.

Assessing the Bank's activities over the recent year, the influential international magazine *The Banker* issued by *The Financial Times* recognized the Bank as *The Best Bank in Lithuania* 2015. Such a prestigious award has been assigned to the Bank for the second time.



## 14. ACTIVITY PLANS AND FUTURE OUTLOOK

- No capital increases by additional contributions are included in the plan; the major portion of the profits earned will be retained to strengthen the capital base;
- Bank will continue to operate in the low interest rate environment, stable net interest margin will be maintained - downward pressure on loan interest rates and debt securities yield will be balanced by lower costs of term deposits;
- Higher income from operations with securities and investment products is expected;
- Rapid growth of the importance of technology in the Bank's activities will result in increased focus on the IT risk management;
- After significant impairment losses from the loan portfolio incurred in 2014-2015, lower impairment losses are expected.

## 15. SOCIAL RESPONSIBILITY

The Bank as participant of a Global Compact international initiative shall assume and uphold a continual commitment to strengthen its socially responsible activities and always follow the principles of the human rights, labour rights, environmental protection and corruption prevention. The bank takes care of its employees and actively contributes to the projects undertaken by the community and the general public in order to improve the quality of life and promote sustainable economic development and environmental protection.

### Staff

In order to enhance the self-awareness of the staff as the most important part of the organization and to increase their motivation in implementing personal professional ambitions and actively pursuing the collective goals of the Bank, the Bank has continued the project on the instillation of the Bank's values commenced in 2014. In 2015 the staff of the Bank and the Group scrutinized the mission and core values that were approved and purified at the Values Conferences 2014, by playing games imitating actual situations at work. These events helped to better perceive common values as well as their significant impact on an individual and collective basis, to understand colleagues, their behaviour and needs, and to further improve intercommunication and the microclimate at the Bank. (More information is available in the paragraph *Values* in chapter 22 *Employees*)

In order to help the employees to improve the efficiency of their operations and to develop positive relationships and work environment, the seminar series "People, Changes, Results" was held in 2015. The employees of the Bank, assisted by business consultants, examined the processes of work organization and various aspects of interservice (internal clients). After the session, the employees scored the quality of interservice and were encouraged to draw up a plan for improving the effectiveness of their future performance. (More information is available in the paragraph *Customer Service Standard* in chapter 22 *Employees*)

The Bank plays an important role in promoting corporate leisure time among the Bank's employees and arranging events that unite people. A large part of the Bank and the Group employees readily participate in these events. One of the most significant traditional events arranged by the Bank is annual summer sports and fun festivities. Summer Festival 2015 was held in Lithuanian Open Air Folk Museum in Rumšiškės.

The fostering of long-term relationships with employees includes incentives for specialists who have been working in the Bank for many years. In 2015, on the occasion of the official commencement of the Bank's activities, such employees were traditionally awarded bonuses and acknowledgement badges of the Bank. In 2015, as every year, professionalism, initiative, responsibility, and efforts in pursuing the collective goals of the Bank, were promoted financially by awarding quarterly monetary bonuses. In addition, 2015 saw the implementation of the sales promotion system. Its participants - client service managers and credit sales professionals - are monthly, quarterly and at the end of the year promoted on personal, departmental and regional levels by announcing their success stories, awarding certificates or prizes for the best results, or giving bonus days off.

Employee health presents another important area of social activities. In order to promote a healthy lifestyle and physical activity, support is demonstrated to the Bank volleyball, basketball and karting teams that participate in inter-bank sports tournaments, as well as to various sporting initiatives showing among the employees, such as running marathons, cycling tours, orienteering competitions and the like. The Bank offsets part of the cost of sports clubs for employees who are willing to take exercise at gyms. The Bank practises the prevention of diseases, such as gratuitous annual vaccination against influenza.

The Bank employees are congratulated on personal occasions. Employees who find themselves in a difficult situation are granted financial and other necessary support.



## Clients

In providing financial services, the Bank invests heavily in their accessibility to all customers, regardless of their nationality, gender, age, place of residence, etc. To this purpose, the Bank adapts new banking trends to clients' needs, making services available via various electronic channels, while taking into account the needs of elderly people and those living in more remote areas, also services clients directly in the Bank branches which operate throughout Lithuania.

The Bank responsibly notifies its clients of changes in its activities using appropriate information feeds according to the needs of different clients. Before Lithuania has joined the Single Euro Payments Area (SEPA), residents, businesses and organizations were actively notified of future important payment developments via all possible electronic channels whereas free seminars for business customers were held in major cities of the country. The Bank adheres to confidentiality provisions in conveying information about its clients.

The client service quality standard is being successfully implemented in the Bank, which aims to create a unified service culture that would maximize client satisfaction. (More information is available in the paragraph *Customer Service Standard* in chapter 22 *Employees*)

## Community and General Public

In order to promote small and medium sized businesses and the country's regional economic development as well as to reduce differences between them, in 2015 the Bank continued focusing on the introduction of apartment house renovation financing opportunities to the public, arranged educational activities for business people and those planning to start their own business, also supported entrepreneurship promotion initiatives.

It should be noted that a large part of the apartment house renovation projects is being implemented in areas other than major Lithuanian cities, which allows the reduction of differences in regional economic growth: the aesthetic face of apartment houses in these areas improves, the residents benefit from lower heating costs and higher dwelling energy efficiency, enter into contracts with construction contractors and companies administering the projects thereby allowing the creation of jobs. All of this has a positive impact on both regional and national Economics.

The Bank actively arranges, sponsors, and participates in conferences, seminars, and training sessions, in which business funding opportunities and other services relevant to them are introduced to the existing and potential clients. For several years, the Bank has participated in Verslas veža events that take place in various cities. In 2015 the Bank introduced financing and other entrepreneurship-enhancing opportunities at such events as, for example, the international conference "Investment Plan for Europe: Are You Ready for Challenges?" organized by Šiauliai Chamber of Commerce, Industry and Crafts, the business conference "Innovative Enterprise: Have All Possibilities Been tapped?" organized by Kaunas University of Technology, etc. The Bank also contributed to the practical conference "Business Development Forum 2015" in Kaunas and provided financial support to the "Export Development and Investment Attraction" conference of Šiauliai Association of Industrialists, the promotion of Lithuanian Free Market Institute business initiatives, Utena Business Information Centre business nominations, and other projects. The Bank's specialists in regions collaborate with offices of the Public Institution Lithuanian Agricultural Advisory Service and arrange periodic meetings with farmers throughout Lithuania.

In assessing the prospects of the national business, the Bank strengthens links between business and education in manifold ways. In 2015 the Bank traditionally awarded two finance degree students of Vytautas Magnus University with nominal semester scholarships for academic achievements and constant striving for improvement. The Bank also sponsored the publication of the educational book "Strategic Management: Synthesis of Corporate and National Economic Strategies" by Prof. Dr. Habil. Aleksandras Vasiliauskas, and in the autumn of 2015, on the occasion of the start of the school year, presented some schools with new modern textbooks "Economics in 31 Hours" published by the Lithuanian Free Market Institute.

As a Lithuanian bank, the Bank attaches great importance to the promotion of the traditions and cultural life of the country's city and town communities. During the reporting period, financial support was traditionally granted to the September 1st celebration in Vilnius, *Šiauliai Days* and *I Am a Small Resident of Šiauliai* festivals in Šiauliai, *City Days 2015* and *Sūduva Basket* harvest festival in Marijampolė, *Harvest 2015* farmers festival in Panevėžys, also festivals and cultural events held in Alytus, Rokiškis, Joniškis, Šilutė, Telšiai, etc. The Bank has sponsored Šiauliai basketball club *Šiauliai* for a number of years. The Bank as social partner of Vilnius College provided financial support to complement the exhibition of the Money Museum established by the VIKO bankas business practical teaching firm functioning in the Faculty of Economics.

Due to collaboration with the donation portal aukok.lt managed by the Public Institution Geros valios projektai, during 2015, 2,312.47 Euros were collected in donation boxes equipped at the customer service units. Collections were transferred to the Public Institution Geros valios projektai.

## Environmental Protection

In order to preserve biodiversity and ecosystems and to reduce the global warming impact, the Bank invites to save energy and increase energy efficiency. Since 1999 the Bank has been actively financing apartment house renovation projects, implementing an electronic document management system purchased in 2015, improving other systems to reduce the number of prints for internal use, developing and popularizing its electronic services to reduce the need for external printed documents, urging employees to save electricity, etc.

The Bank introduced an electronic operational car booking system which allows the staff to effectively schedule business trips in groups, so that a trip by a minimum number of cars would save fuel and reduce atmospheric pollution.

When the Bank was decorating all its units during the Christmas period 2015, it used Christmas trees in pots. The trees will be stored until spring 2016 when, in cooperation with the regional forestry enterprises, they will be replanted in forests or urban recreation areas. This tradition is going to be continued every year in order to preserve forests and increase green areas in cities.

## 16. DIVIDENDS PAID

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:

Dividends paid, 2013 - 2015

	2013	2014	2015
<i>Per cent from the nominal value</i>	0.05	0.00	0.25
<i>Amount of dividends per share, EUR</i>	0.00145	0.00	0.000725
<i>Amount of dividends, EUR</i>	340,097	0.00	195,750
<i>Dividends to net profit, %</i>	7.89	0.00	1.84

**Taxation of dividends.** Profit taxation of legal entities is regulated by the Profit Law of the Republic of Lithuania No. IX-675 as of 20 December 2001 and the resolutions and other legal acts adopted by the Government of the Republic of Lithuania on its basis.

The charge of 15 per cent is applied to the paid dividends. The dividends of the Lithuanian unit that owns 10 per cent of issuer's capital for the period longer than one year are not subject to charges (with exceptions described in the chapter VII of the Profit Law of the Republic of Lithuania).

The dividends of the foreign units are charged by applying an income tax rate of 15 per cent. If a foreign unit owns the shares granting at least 10 per cent of votes for a period of at least 12 months without interruption, the dividends paid to that foreign entity are not charged, except for the cases when a foreign entity receiving dividends is registered or otherwise organized in the targeted countries.

Taxation of citizens' income is regulated by the Law on Citizen's Income Tax of the Republic of Lithuania No. IX-1007 as of 2nd July, 2002 and the latter amendments of the Law as well as resolution adopted on the basis of this Law. The dividends received since 01 January 2014 are charged by 15 per cent tax, which is deducted and paid to the budget by the Bank in compliance with the applicable orders.

Persons who are the shareholders of the Bank at the end of the tenth business day following the date of the General meeting of Shareholders having adopted respective resolution (at the end of the day of accounting of rights).

## 17. PRINCIPLES OF THE INTERNAL AUDIT PERFORMANCE

The purposes, functions, organization, rights, duties and responsibilities of the Internal Audit Division are foreseen by the Provisions of the Internal Audit Division and Methodology of the Internal Audit. These documents are prepared in accordance with the laws of the Republic of Lithuania, resolutions passed by the Government of the Republic of Lithuania and the Bank of Lithuania, International Accounting Standards, International Internal Audit Standards, the Code of Ethics, the general organization regulations of the Internal Audit of the Bank approved by the Board of the Bank of Lithuania, the Charter of the Bank, the resolutions of the General Shareholders' Meeting, Bank's Supervisory Council, Internal Audit Committee and the Bank's Board.

While carrying out its functions the Internal audit Division performs audits in the fields of finance, compliance, operations, governance, information systems and projects. The purpose of Internal Audit is to provide independent and objective assurance and consulting activity, to systematically and comprehensively evaluate and promote the improvement of the Bank's risk management and the efficiency of the internal control system. Also, to assist the Bank

in achieving its goals by seeking to ensure that the objectives of internal control are achieved at the lowest cost and the functions of internal control are implemented efficiently.

The Internal Audit Division performs its functions by exercising the operational plan for the current year and the strategic plan for 2016-2018 (both approved by the Internal Audit Committee).

The employees of the Internal Audit Division follow the principles of:

- *INTEGRITY*, i.e., to perform their work honestly, with due diligence, in compliance with the laws, to not participate in any illegal activities, not take any actions, that could discredit an internal auditor's profession and the Bank, to respect lawful and ethical objectives of the Bank and to support their implementation;
- *OBJECTIVITY*, i.e., to not participate in any activities and not have any relations that harm or might harm their impartiality and would contradict with the Bank's interest, to not accept presents in order to avoid the impact on their professional opinion and to disclose all the important facts they are aware of;
- *CONFIDENTIALITY*, i.e., to use and store the information gained while performing their duties responsibly, to not use the information for their own purposes;
- *COMPETENCY*, i.e., to provide only such services, for the performance of which they possess necessary knowledge, skills and experience, to provide internal audit services in compliance with the International Audit Standards, to improve their qualification on a regular basis, to improve the quality and efficiency of the services.

The Internal Audit division is under the direct control of the Internal Audit Committee and reports to it on a quarterly basis.

The key objectives of the Internal Audit Committee are to supervise the process of the Bank's internal control implementation, the Bank's risk management implementation, efficiency of organizing the internal audit process, the statutory audit process, the Bank's operational compliance with laws and regulations and to ensure the independence of the Internal Audit's performance.

The Bank's Internal Audit Committee consists of 4 members including an independent member of the Supervisory Council. The Internal Audit Committee performs functions foreseen in the provisions of the Internal Audit Committee (approved by the Supervisory Council of the Bank). The Internal Audit Committee reports to the Bank Supervisory Council no less than once a year.

The employees of the Internal Audit Division prepare an inspection programme before each inspection that specifies the purpose, scope and duration of the audit. Typical audit programmes are formed for the most frequently performed audits specifying the typical audit actions and identifying specific actions relevant to a current period of time. The inspection programme is approved by the Head of Internal Audit Division. Based on the recommendations and comments made by the Internal Audit Division the Bank's management approves a Plan for eliminating deficiencies and implementing recommendations. The Head of Internal Audit Division based on the significance of the comments and recommendations assigns employees of the Internal Audit Division to control the implementation of recommendations (monitoring of progress).

The post-audit activities (monitoring of progress) include the elimination of deficiencies identified during the inspection by external auditors and the Bank of Lithuania as well as evaluation of the implementation of recommendations.

On a quarterly basis the Head of the Internal Audit Division provides the Bank's senior management with the information regarding the recommendations submitted after the performed inspections and their implementation.

## 18. THE EXTERNAL AUDIT

In 2015 the Bank's audit was carried out by the audit company PricewaterhouseCoopers UAB (company address: J. Jasinskio str 16B, LT 01112 Vilnius, tel. +370 5 239 2300, fax. +370 5 239 2301, the company registered on 29/12/1993, No. UJ 93-369, code 111473315).

The audit company was selected after the 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 audit the Bank's annual financial statements and consolidated annual report for the year 2014 and 2015. The determined price of the audit services over 2014 and 2015 does not exceed EUR 43.4 thousand (excluding VAT) per annum.

In 2015 the audit company received EUR 34 thousand from the Bank for the additional consultations as remuneration for the services not related to the audit. In 2014 the audit company received EUR 9.8 thousand from the Bank for the additional consultations as remuneration for the services not related to the audit.

## 19. TRANSACTIONS WITH RELATED PARTIES

Members of the Supervisory Council and the Board act in the interest of the Bank and its shareholders and avoid any conflict of interest. Any transactions with the executives of the Bank are concluded in accordance with market conditions. The regulation stipulating the work of the Board provides that a member of the Board must avoid any conduct that could cause a conflict of interest. Prior to starting the term of office as the member of the Board, the candidate must reveal to the Bank all the information that could potentially cause a conflict of interest and keep the relevant information constantly updated. Board members abstain from voting and participating in the Board meeting that addresses a question pertaining to his/her activity in the Board or his/her responsibility as well as issues that could be related to the Board member's interest or cases where the absence of the Board member's impartiality could pose any risk.

Each prospective member of the Supervisory Council must inform the General Shareholders Meeting of any occupation and duties exercised as well as details of how such activity is connected with the Bank or other legal entities involved with the Bank.

In the Bank, transactions with the senior management executives are separated from the rest of the transactions by means of technology and the amounts of such transactions are presented in the notes to the financial statements for 2015.

The Bank follows a conflict of interest policy that establishes the requirements for internal procedures and measures that help identify and manage any circumstances that may give rise to a conflict of interest related to the provision of the banking services and specifies the ways and actions to be followed in case such conflicts arise. The policy applies to all Bank employees and executives, including members of the Board and the Supervisory Council. Apart from other measures described in the policy, the person in charge of performing internal control is also responsible for monitoring those financial transactions that could potentially cause a conflict of interest and must immediately report of any instances of procedural violations in writing to the Internal Audit Committee and the Board of the Bank.

More detailed information is provided in the note 30 to the financial statements for the year ended 31 December 2015.

## 20. INFORMATION ON MALICIOUS TRANSACTIONS

During the reporting period, there were no malicious transactions not meeting the objectives of the Bank, normal market conditions, breaching the shareholders' or other group's interests which have had or will likely have a negative impact on the Bank's performance or activity results. Nor were there any transactions made on the conflict of interest between the Bank's senior management, controlling shareholders or other related parties' obligations to the Bank and their private interests and (or) office.

## 21. ASSESSMENT OF INTERNAL CONTROL AND RISK MANAGEMENT

Pursuant to the risk appetite acceptable to the Bank the integrated risk management principles are being developed and introduced to the entire Group. The risk management principles are regulated by the Risk Management Policy.

The Bank's Remuneration policy is an integral part of the risk management system. The Remuneration policy is consistent with the Bank's strategy, level of assumed risks, the Bank's objectives, values and long-term vision.

The Bank's internal control system is an integral and continuous process in day-to-day activities at the Bank which is arranged applying the three lines of defence approach. At the appropriate level each employee of the Bank is responsible for operation of the Bank's internal control processes and each employee is involved in the internal control system and can affect it.

The responsibility for the implementation of the compliance function within the Bank falls on the Head of Compliance and other assigned compliance officers who being in charge for the implementation of the compliance function in the areas delegated to them carry out their functions independently. Moreover, all the bank's employees who participate in the internal control system while carrying out their functions are responsible for the compliance within the Bank, i.e. they bear responsibility that all the Bank's employees' actions would meet the requirements set by the laws and other legal acts regulating the Bank's performance.

The Group's internal control system, internal risk management and compliance assessment is conducted by the Bank's Internal Audit Division. This Division informs the Bank's Internal Audit Committee and the Bank's Board regarding the identified deficiencies and violations.

Information on risks incurred by the Bank and risk management is presented in Chapter 11 *Risk Management*.

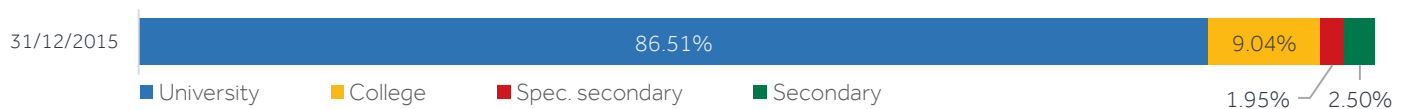
## 22. EMPLOYEES

As of 31 December 2015 the Bank employed 719 employees. Comparing to 2014 the number of employees at the Bank increased by almost 6 per cent due to merger of the bank Finasta AB and brokerage firm Finasta AB with the Bank. As of 31 December 2014 the Bank employed 677 employees.

As of 31 December 2015 the companies belonging to the Group (excluding the subsidiaries held for sale) employed 861 employee (as of 31 December 2014 - 829 employees).

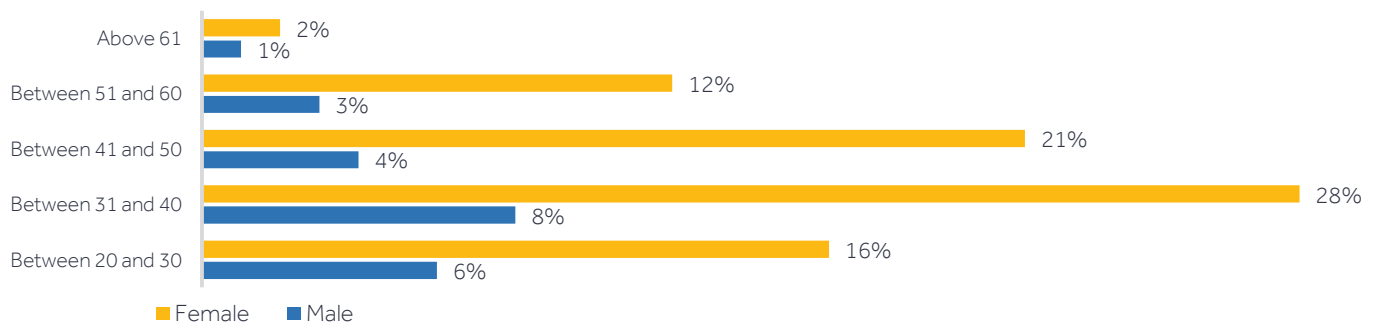
According to the data as of 31 December 2015, 622 employees of the Bank had university education, 65 gained college education, 18 employees had secondary education and 14 employees – special secondary education.

### Structure of the employees by education



As of 31 December 2015 the Bank employed 42 men and 112 women aged from 20 to 30, 54 men and 199 women aged from 31 to 40, 27 men and 154 women aged from 41 to 50, 23 men and 85 women aged from 51 to 60 as well as 6 men and 17 women over 61.

The structure of the employees by age and gender\*:



\*Data as of 31 December 2015.

### Personnel

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

### Team of the Bank's Employees

Over the reporting year, the Bank had faced numerous changes which resulted in a direct impact on the employees and allowed figuring out the features of the team.

On 17 July 2015, the bank Finasta AB and brokerage firm Finasta AB became the subsidiaries of the Bank and their activities and processes had been successfully integrated into the Bank's performance. The reorganization of these companies by way of merge with the Bank was closed on 21 December. Preparations to render the services of Šiaulių Banko Lizingas AB were also intensively carried out at the Bank during the second half of 2015.

Organization and project management skills, the ability during a short period of time to acquire the necessary knowledge on the new services and become proficient in the respective IT systems of the employees of all companies of the Group involved into the integration processes allowed to ensure due servicing of the customers both in the subsidiary companies and in the network of the Bank's units.



## Relations with the employees

The Bank fosters long-term relationships with its employees. At the end of 2015 the percentage of the employees who have been working at the Bank for more than 10 year comprised 25 per cent.

### Values

In the Conference of the Bank's Values in December 2014 the Bank's senior management and employees educed the common values such as trust, professionalism, respect and responsibility that led to the development of a discussion-friendly environment based on the above mentioned values and respective behaviour patterns at work over 2015.

All Bank's employees were invited to contribute to the development and implementation of the dialogue-based project Forum of Values. The Bank's senior managers at their discretion selected the most relevant situations from the daily professional activities described by the employees, which in their opinion, impeded feeling good at work and achieving the objectives set. Fifteen employees - the ambassadors of values - had adapted the particular situations so that they fostered the employees to analyse various possible options and were acceptable for discussions during the Forum of Values arranged in 2015.

Almost 800 people, both the senior managers of the Group and employees, participated in the four Forums of Values, where they had the opportunity to experience and analyse situations based on the universal human issues related to values as well as the customer servicing cases. Each of these events had been commented by the Bank's senior managers highlighting why one or another solution of the respective situation was considered to be the most appropriate.

This project has helped the Bank's employees to focus on the self-imposed values associated with the performance objectives and plans as well as on the practical implementation of the Bank's common value system. Clear values and determination of the behaviour patterns in various situations faced at work have created a foundation for a continuous dialogue explaining how these values should be consistently followed in decision-making processes and professional activities.

### The performance management system

Increasing management efficiency and pursuing the best possible operating result, the Bank has been continuously using the unified system of the annual performance appraisals launched in 2014. In compliance with the aforementioned system the immediate supervisors regularly discuss the implemented works and planned projects with their employees, figure out the employees' competences required for their successful work and value-based behaviour and clear out the expectations related to the employees, senior management and the Bank including career possibilities and training needs. In 2015, the system of performance appraisals was completely implemented with respect to all the employees of the Bank and its subsidiaries.

### Organizational structure

Given the fact that the success of operation is strongly influenced by the organizational structure and due allocation of duties and responsibilities, the Bank's network structure improvement project has been implemented during the reporting year aiming to clearly distinguish the departments according to the scope of their activities, responsibilities and administrative subordination, thus, developing a typical post structure within a unit.

At the end of 2015, the Bank had four operating branches in Vilnius, Kaunas, Klaipėda and Šiauliai. The previous branches in Kelmė, Kuršėnai, Radviliškis, Panevėžys, Utena, Mažeikiai, Palanga, Šilutė, Alytus, Druskiniai and customer service points in Marijampolė, Kėdainiai, Raseiniai, Birštonas, Telšiai, Plungė, Tauragė, Biržai, Ukmergė and Visaginas have been transformed to the customer service centres.

In order to enhance the efficiency the Bank was implementing the departmental structural changes in the course of entire 2015.

### Customer Service Standard

The Bank is continuously monitoring and evaluating the customer servicing quqality in order to improve it. A unified customer servicing culture at the Bank is being created alongside with the introduced Customer Service Standard to ensure the growing increase of the customer satisfaction and loyalty as well as to allow cultivating employees' quality communication and customer servicing skills.

The Bank arranged staff trainings, conducted survey and carried out service quality measurement in order to assist the employees to perceive the Standard better and to improve the customer serving level.

The quality of servicing provided to the Bank's external customers was measured through a mystery shopper and customer satisfaction survey. The results indicated that a score given by the secret shoppers to the servicing provided by the customer service managers reached 87.10 per cent, the loan officers received 91.70, while the total

customer satisfaction indicator amounted even to 91 point (out of 100). These results showed that the Bank's customer service quality criteria are almost or completely met and the customers are loyal to the Bank.

Aiming to develop the quality communication and cooperative relationships within the Bank, an internal customer service quality assessment project was carried out 2015. To get ready for that the employees participated in the training *People, Changes and the Results* and after that, they had measured the internal service quality. The received results indicated that internal service quality at the Bank scored 8.5 points (out of 10). The aforementioned internal customer service quality assessment scheme allowed the employees contributing to the colleagues' work efficiency and figuring out what and how should be changed.

### Employee training

Professional knowledge of the Bank's staff is one of the key factors to ensure the quality services to customers. In 2015, a programme of the Bank's new employees has been launched. The Bank's specialist, i.e. internal mentors had shared their expertise and professional skills and discussed the arising issues during a few day trainings. Professional knowledge of the employees had been continuously extended during the trainings that had been arranged in 2015 on regular basis.

In preparation for employee trainings, the Bank's internal coaches participated in the internal coacher training program conducted and guided by the external consultants. The participants of this programme had gained extensive knowledge on adult education, developed audience management and oratory skills, and improved their abilities of making quality presentations.

In 2015 the directors of the Head Office departments and the employees participated in various events and trainings depending on the type of their work both in Lithuania and abroad.

### Opportunities of apprenticeship

The Bank is open to the high school students who are willing to have their apprenticeship there. Every year taking students of various study programmes for the apprenticeship and arranging trainings for them at the place of employment, the Bank provides an opportunity for the future labourmarket participants to gain necessary experience, knowledge, and contributes to formation of their job skills. Those students who performed well during their apprenticeship and expressed their willingness to relate their career with banking in the future are invited to join the Bank team after their studies. In 2015, more than 60 students had their apprenticeship at the Bank.

### Motivation

In order to encourage the employees and assess 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 in 2015. It allowed the Bank to figure out the best Bank's network employees, to motivate and encourage them to stand for as a positive example for their colleagues.

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. Each year the Bank holds a sports and leisure event of the Bank in summer. The Bank fostered its employees' basketball, volleyball and karting teams to participate in the interbank and other tournaments. As the matter of fact, the Bank's teams achieve excellent results in the aforementioned tournaments.

Careful treatment of the staff, preventive healthcare, pay-outs, presents on personal occasions, bonuses to the employees with the work experience exceeding 15 years on the occasion of the Bank's birthday and partial coverage of the gym memberships are the additional benefits provided by the Bank to its employees.

### The Bank is a desirable employer

In 2015 the Bank participated in the traditional elections of the most desirable employer in Lithuania organized by the daily newspaper *Verlo Žinios* and career portal *cv.lt*. It found itself among the eight most desirable employers in the category of the large undertaking (250 employees and more).

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

	2011		2012		2013		2014		2015	
	Average number of employees	Average monthly salary, in EUR	Average number of employees	Average monthly salary, in EUR	Average number of employees	Average monthly salary, in EUR	Average number of employees	Average monthly salary, in EUR	Average number of employees	Average monthly salary, in EUR
Employees' Team										
Management	12	6,826	11	7,011	11	8,465	11	9,767	11	10,073
Officers	418	717	411	805	609	847	632	938	620	976

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.

## 23. REMUNERATION POLICY

The information is prepared and delivered implementing the requirement set by the cl. 25 of the resolution No. 03-175 of the Board of the Bank of Lithuania as of December 23, 2010 regarding "The amendment of the "Policy of minimal requirements to remuneration of employees of credit institutions" approved by resolution No. 228 of the Board of the Bank of Lithuania as of December 10, 2009". At the end of 2015 the Bank followed the Remuneration Policy approved by the Bank's Supervisory Council on 02 May 2013.

### Relation between remuneration and activity results

The Bank uses the following elements of the remuneration system:

- the fixed remuneration stipulated in the labour contract;
- variable remuneration (quarterly bonuses and annual bonuses to staff whose professional activities have a material impact on the Bank's risk profile);
- lump-sum payments / benefits (remuneration not associated with the Bank's results);
- other benefits.

The principles of remuneration establishment, specifics of the labour market and sector, employee's professional qualification, experience, etc. are related to the assessment of the employee's performance results, therefore, the annual performance evaluation of the employee is taken into consideration while establishing individual salaries and amounts of the variable remuneration.

### The criteria for assessment of performance results, correction of remuneration in compliance with the risks, criteria of remuneration assignment and deferment principles

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 but also non-financial/non-quantitative 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.

Implementing requirements provided for by the Bank of Lithuania, the employees whose professional performance and (or) passed resolutions may have a significant impact on the risks assumed by the Bank amounted to 31 employee in total - 22 employees of the Bank itself, 5 employees of Šiaulių Banko Lizingas UAB and 4 employees of SB Lizingas UAB.

The variable remuneration can be decreased or not paid if the Bank's performance results do not comply with the indicators foreseen in the strategy or in case when the Bank is operating at a loss.



A deferred portion of variable remuneration is adjusted (reduced) in case when the Bank's Management Board and the Bank's supervisory authority established any of the following events:

- The Bank's financial status is not sustainable (the conclusion that the Bank faces liquidity problems or there is a real threat that it may have liquidity problems or become insolvent) or;
- if after paying out the accrued Fund of the Variable Remuneration, the Bank's financial status becomes unsustainable, or,
- in case of other material events causing threats to the continuity of the Bank's activities (big loss is incurred, the Bank fails in meeting the prudential requirements set by the Bank of Lithuania, etc.).

Given the possible risks related to the assessed annual results of the employee whose professional performance may have a significant impact on the risks assumed by the Bank, payment of not less than 40 % of the variable remuneration is subject deferment, paying it out in equal portions during the period of 3 years. 50 % of the variable remuneration which is paid out immediately and of the deferred remuneration is paid in the form of the Bank's shares, which are subject to 3 (three-month) period of transfer restriction.

**The criteria of assessment of performance results which serve as the basis for the right to the bank's shares, financial instruments relating to the shares, other integral parts of the variable remuneration**

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 process of decision-making, defining and reviewing the policy principles, including the information on the remuneration committee (composition and authorisations), external consultants if the services of the latter had been used while preparing the policy**

The Remuneration Policy is reviewed annually. The suggestions regarding the principles of remuneration are submitted by the Remuneration Committee. The Remuneration Policy is approved by the Supervisory Council of the Bank, while the Board of the Bank bears responsibility for its implementation. The services of external consultants have not been used while preparing the Remuneration Policy.

The composition of the Remuneration Committee was approved by the Supervisory Council of the Bank on 02 May 2013. The Remuneration Committee is authorised to the following:

- to assess competently and interdependently the principles of the variable remuneration which are an integral part of the Remuneration Policy;
- supervise the variable remuneration of the management personnel responsible for the risk management and control of compliance,
- to prepare draft resolutions on variable pay, which are decided by the Supervisory Council of the Bank considering long-term purposes of shareholders and investors of the Bank.
- provide proposals on the principles of the variable remuneration and creation and application of the models of calculation,
- to implement other functions which are necessary for improvements, assessment and monitoring of the Bank's variable remuneration policy and its efficiency.

**The general quantitative information about remuneration in terms of business areas**

No business areas are distinguished within the Bank.

**The general quantitative information about remuneration to employees, distinguishing the management of the bank. The total amounts of the fixed and variable remuneration and the number of recipients**

The Bank's data not assessing the payments to Sodra and guarantee fund (EUR thousand):

<b>2015</b>	<i>Fixed portion of remuneration</i>	<i>Deferred portion of variable remuneration</i>	<i>Number of beneficiaries</i>
<i>The senior management (members of the Board)</i>	720	215	7
<i>Employees</i>	6,769	965	624
<i>Total:</i>	7,489	1,180	631

<b>2014</b>	<i>Fixed portion of remuneration</i>	<i>Deferred portion of variable remuneration</i>	<i>Number of beneficiaries</i>
<i>The senior management (members of the Board)</i>	718	184	7
<i>Employees</i>	6,716	832	636
<i>Total:</i>	7,434	1,016	643

Group's data not assessing the payments to Sodra and guarantee fund (EUR thousand):

	<i>Fixed portion of remuneration</i>	<i>Deferred portion of variable remuneration</i>	<i>Number of beneficiaries</i>
<b>2015</b>			
<i>The senior management (members of the Board)</i>	1,196	260	18
<i>Employees</i>	7,843	1,163	710
<i>Total:</i>	9,038	1,422	728
<b>2014</b>			
<i>The senior management (members of the Board)</i>	1,146	286	18
<i>Employees</i>	7,843	995	732
<i>Total:</i>	8,989	1,282	750

The amounts of variable remuneration for 2013 split into monetary pay outs, pension contributions, Bank's shares, financial instruments related to the Bank's shares, other financial or non-financial measures, (amounts).

The Bank's data

<i>Portion of variable remuneration:</i>		
<i>Monetary payments</i>		EUR 121 thousand
<i>Bank's shares</i>		440 thousand units
<i>Šiaulių Banko Lizingas data:</i>		
<i>Portion of variable remuneration:</i>		
<i>Monetary payments</i>		EUR 13 thousand
<i>Bank's shares</i>		48 thousand units

The amounts of variable remuneration for 2014 split into monetary pay outs, pension contributions, Bank's shares, financial instruments related to the Bank's shares, other financial or non-financial measures, (amounts).

The Bank's data

<i>Portion of variable remuneration:</i>		
<i>Monetary payments</i>		EUR 253 thousand
<i>Bank's shares</i>		905 thousand units
<i>Šiaulių Banko Lizingas data:</i>		
<i>Portion of variable remuneration:</i>		
<i>Monetary payments</i>		EUR 24 thousand
<i>Bank's shares</i>		85 thousand units

The amounts of outstanding deferred variable remuneration for 2012-2014 split to assigned and non-assigned parts.

The Bank's data:

<i>Deferred portion of variable pay</i>		
<i>Monetary payments</i>		EUR 148 thousand
<i>Shares</i>		544 thousand units
<i>Šiaulių Banko Lizingas data:</i>		
<i>Deferred portion of variable pay</i>		
<i>Monetary payments</i>		EUR 45 thousand
<i>Shares</i>		54 thousand units

The amount and number of recipients of the guaranteed variable remuneration as foreseen by the new agreements and payments relating to the termination of the agreement over the financial year.

The guaranteed variable remuneration is not foreseen.

Assignment of payments relating to the termination of the agreements over the financial year, the number of recipients and the biggest amount assigned per person

In 2015, the Bank did not assign any payments related to the termination of the agreement over the financial year.

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

Following the requirements set by the Bank of Lithuania and the Remuneration Policy, the non-cash variable remuneration can be assigned only in the form of the Bank's shares and only to those Bank's employees whose professional activities can have a significant impact on the risks assumed by the Bank.

#### Other information which, in the bank's opinion, is significant

The outstanding amounts of the deferred share of the variable remuneration, divided into assigned and non-assigned shares to the employees, the amounts of the deferred variable remuneration assigned over the financial year, paid and corrected in accordance with the results of performance shall be disclosed after their disbursement, i.e. after the general meeting of the Bank's shareholders together with the interim report in 2016.

## 24. MEMBERS OF THE COMMITTEES FORMED WITHIN THE BANK, THE AREAS OF THEIR PERFORMANCE

The Loan, Internal Audit, Risk Management and Remuneration Committees are formed within the Bank. The functions, procedures of formation and operating policies of these committees are defined by the legal acts of supervisory authorities, Charter of the Bank as well as provisions of the particular committees and resolutions approved by the Management Board, Supervisory Council of the Bank or other management bodies of the Bank.

- **The Loan Committee** analyses loan application documents, decides regarding granting of loans and amendment of their terms, assesses risks of loans, suggests regarding loan granting, loan interest rates, improvement of loan administration procedures and performs other functions foreseen by its provisions.
- **The 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.
- **The Risk Management Committee** performs the functions related to the efficiency of the Bank's activities taking into consideration the parameters of the acceptable risks and integrating the management of the interest rates, capital and liquidity, also, performs other functions foreseen by its provisions.
- **The Remuneration Committee** evaluates the Policy of variable remuneration, practice and incentives created to manage the risks accepted by the Bank, its capital and liquidity, supervises the variable remuneration of the employees responsible for risk management and control of compliance, prepares draft resolutions regarding variable remunerations and performs other functions foreseen by its provisions.

Information on the members of the committees as of 31 December 2015:

#### Internal Audit Committee

<i>Name, surname</i>	<i>Beginning / end of tenure</i>	<i>Share of capital under the right of ownership, %</i>	<i>Place of Employment</i>
Ramunė Vilija Zabulienė	2012-03-29 / 2016	0.00	VŠĮ „ArsDomina“
Sigitas Baguckas	2012-03-29 / 2016	0.61	UAB „Namų statyba“
Vytautas Junevičius	2012-03-29 / 2015-04-22	0.39	—
Rimantas Purtulis	2012-03-29 / 2016	0.09	Lietuvos gyventojų individualios veiklos vykdymo pažyma

#### Risk Management Committee

<i>Name, surname</i>	<i>Beginning / end of tenure</i>	<i>Share of capital under the right of ownership, %</i>	<i>Place of Employment</i>
Donatas Savickas	2012-05-29 / operating on a continuous basis	0.09	AB Šiaulių bankas
Algimantas Gaulia	2015-11-17 / operating on a continuous basis	0.00	AB Šiaulių bankas
Jolanta Dūdaitė	2012-05-29 / operating on a continuous basis	0.00	AB Šiaulių bankas
Pranas Gedgaudas	2012-05-29 / operating on a continuous basis	0.02	AB Šiaulių bankas
Morena Liachauskienė	2012-05-29 / operating on a continuous basis	0.00	AB Šiaulių bankas
Edas Mirijauskas	2012-03-27 / operating on a continuous basis	0.02	AB Šiaulių bankas

#### Loan Committee

<i>Name, surname</i>	<i>Beginning / end of tenure</i>	<i>Share of capital under the right of ownership, %</i>	<i>Place of Employment</i>
Vytautas Sinius	2012-03-27 / operating on a continuous basis	0.11	AB Šiaulių bankas
Edas Mirijauskas	2012-03-27 / operating on a continuous basis	0.02	AB Šiaulių bankas
Danutė Gaubienė	2012-03-27 / operating on a continuous basis	< 0.01	AB Šiaulių bankas
Daiva Šorienė	2012-03-27 / operating on a continuous basis	0.06	AB Šiaulių bankas

Aurelija Geležinė	2015-10-17 / operating on a continuous basis	0.01	AB Šiaulių bankas
Giedrius Sarapinas	2012-03-27 / operating on a continuous basis	0.01	AB Šiaulių bankas
Donatas Savickas	2012-03-27 / operating on a continuous basis	0.09	AB Šiaulių bankas

## Remuneration Committee

<i>Name, surname</i>	<i>Beginning / end of tenure</i>	<i>Share of capital under the right of ownership, %</i>	<i>Place of Employment</i>
Gintaras Kateiva	2013-05-02 / operating on a continuous basis	5.82	UAB „Litagra“
Živilė Skibarkienė	2011-05-09 / operating on a continuous basis	0.07	AB Šiaulių bankas
Pranas Gedgaudas	2012-08-13 / operating on a continuous basis	0.02	AB Šiaulių bankas
Ernesta Laurinavičienė	2011-05-09 / operating on a continuous basis	0.00	AB Šiaulių bankas

## 25. BANK'S MANAGEMENT BODIES

The management 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 - Head of the Bank).

**General Meeting of Shareholders** takes place annually, within 3 months after the end of fiscal year. The shareholders, having no less than 1/10 of all the votes, as well as the Board and 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. If the meeting cannot take place due to lack of a quorum (more than 1/2 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;
- amend the Bank's head office;
- elects the Bank's Supervisory Council members;
- recalls the Bank's Supervisory Council or its individual members;
- elects and recalls the audit company to audit the annual financial statements, sets the terms of payment for audit services;
- approves the set annual financial statements of the Bank;
- sets class, number, par value and minimum issue price of the shares, issued by the Bank;
- adopts resolution regarding:
  - issuing of convertible bonds;
  - cancellation of the preference right to purchase shares or convertible bonds of the Bank of a given emission to all of the shareholders;
  - conversion of the Bank's shares of one class into another, approval of the conversion order;
  - allocation of profit (loss);
  - making, use, reduction and cancellation of reserves;
  - increase of authorized capital;
  - reduction of authorized capital, except of the cases, provided in the laws;
  - purchase by the Bank of its own shares;
  - reorganization or demerge of the Bank and approving terms of such reorganization or demerge; except of the cases, provided in the Law on Companies of the Republic of Lithuania;
  - restructuring of the Bank;
  - liquidation of the Bank, cancellation of liquidation, except cases, provided in the laws;
- to select and cancel 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 eight 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 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 of the Supervisory Council, provided for in the laws of this Charter or in the resolutions adopted by the Meeting.

5 (five) meetings of the Supervisory Council were held in 2015. 1 (one) member of the Supervisory Council did not participate in one meeting.

**The Board of the Bank** is a collegial Bank management body, consisting of 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 pledge 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 the pledge 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 activities;
- financial state of the Bank;
- results of economic activities, income and expenditure estimates, stock-taking data and other records of valuables.

The Board shall also analysis, assess the Bank's draft annual financial statements and draft of the profit (loss) allocation and submit them to the Supervisory Council 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 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 Head of the Bank is entitled to authorize another Bank employee to perform actions listed therein;
- to represent the Bank in its relations with other persons, in court and arbitrage without special authorization;
- to grant and cancel powers of attorney and procurements;
- to issue orders;
- to perform other actions, necessary to perform his functions, to implement decisions of the Bank's bodies and to ensure Bank's activities.

Chief Executive Officer **is responsible for**:

- arrangement of the Bank's activity and implementation of its aims;
- making of annual financial statements and preparation of the Bank's annual report;
- making of a contract with the audit company;
- delivery of information and documents to the Meeting, Board and Supervisory Council in the cases, provided for in the laws or upon request;
- delivery of the Bank's documents and data to the custodian of the Register of Legal Entities;
- delivery of the documents to the Securities Commission and to the Central Securities Depository of Lithuania;
- publication of the information, prescribed by the laws and other legal acts, in the media sources stated in this Charter;
- information delivery to the shareholders;
- execution of other duties, prescribed by the laws and legal acts, this Charter and Staff regulations of the Chief Executive Officer.

The Chief Executive Officer acts on the Bank's behalf and is entitled to make transactions at his sole discretion, except for the exceptions, stated therein or in the resolutions of the bodies of the Bank.

The Chief Executive Officer and the members of the Board and Supervisory Council participate in the general meetings of shareholders. Chief Executive Officer of the Bank Vytautas Sinius, Head of Accounting and Tax Division of the Bank Vita Adomaitytė as well as members of the Supervisory Council of the Bank participated in the General meeting of shareholders held in 2015. The shareholders had an opportunity to discuss the issues of concern with the senior management of the Bank directly.

## 26. MEMBERS OF BANK'S COLLEGIAL BODIES

### Supervisory Council of the Bank:

#### *Arvydas Salda*



Member of the Supervisory Council of Šiaulių Bankas AB since 1991, Chairman of the Supervisory Council since 1999.

#### **Education:**

Kaunas Institute of Technology, Vilnius University, Master in applicable mathematics.

#### **Work experience (not less than 5 years):**

Consultant of SB Turto Fondas UAB since 2004.

#### *Sigitas Baguckas*



Deputy Chairman of Council of Šiaulių Bankas AB since 2000, Member of Council since 1991.

#### **Education:**

Vilnius Civic Engineering Institute, an engineer-constructor.

#### **Work experience (not less than 5 years):**

Procurist and director at Namų Statyba UAB since 2007.

#### *Gintaras Kateiva*



Member of the Supervisory Council of Šiaulių Bankas AB since 2008.

#### **Education:**

Vilnius Pedagogic Institute, a teacher.

#### **Work experience (not less than 5 years):**

Chairman of the Board of Litagra UAB since 2005, Director of Litagros Prekyba UAB until 2008.

#### *Vigintas Butkus*



Member of the Supervisory Council of Šiaulių Bankas AB since 2004.

#### **Education:**

Marijampole School of Culture, a director.

#### **Work experience (not less than 5 years):**

Director of Mintaka UAB since 2000, Director of Trade House Aiva UAB since 2002.

#### *Valdas Vitkauskas*



Member of the Supervisory Council of Šiaulių Bankas AB since 2014.

#### **Education:**

Vytautas Magnus University, Master of Business Administration and Management.

#### **Work experience (not less than 5 years):**

Head of the EBRD representative office in Minsk until 2011, EBRD senior banker since 2011, member of the Council of the bank belonging to the Societe Generale Group in Mobiasbank (Moldova).

#### *Peter Reiniger*



Member of the Supervisory Council of Šiaulių Bankas AB since 2011.

#### **Education:**

Technical University of Budapest, an engineer-mechanic, an engineer of production organization.

#### **Work experience (not less than 5 years):**

Director of the EBRD Business Group until 2010, Managing Director since 2010, Chief Advisor of the Executive Committee since 2011.

#### *Ramunė Vilija Zabulienė*



Independent member of the Supervisory Council of Šiaulių Bankas AB since May 2012.

#### **Education:**

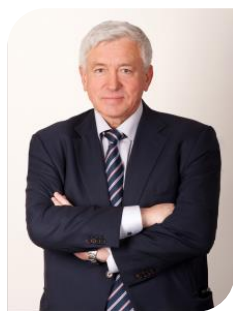
Vilnius University, an engineer-economist.

#### **Work experience (not less than 5 years):**

Member of the Board of the Bank of Lithuania, Deputy Chairman of the Board until 2011. Director of ArsDomina since 2012.

The Management Board of the Bank:

*Algirdas Butkus*



Chairman of the Board of Šiaulių Bankas AB  
**Education:**  
Kaunas Technology Institute, Master of Economics.  
**Work experience (not less than 5 years):**  
Chairman of the Board, Chief Executive Officer of Šiaulių Bankas AB from 1999 to February 2011, the Deputy Chief Executive Officer since 2011.

*Vytautas Sinius*



Member of the Board, Chief Executive Officer of Šiaulių Bankas AB from 1 February 2014.  
**Education:**  
Vilnius Higher School of Economics, a bank officer.  
Vilnius University, Bachelor of Economics. Vytautas Magnus University, Master of Business Administration and Management.  
**Work experience (not less than 5 years):**  
Director of Retail Banking Division of SEB AB 2006-2010, Head of Corporate Banking Division of Šiaulių Bankas AB 2011 - 2014.

*Donatas Savickas*



Member of the Board of Šiaulių Bankas AB, Deputy Chief Executive Officer, Head of Finance and Risk Management Division.  
**Education:**  
Vilnius University, Bachelor of Economics.  
Vytautas Magnus University, Master of Business Administration and Management.  
**Work experience (not less than 5 years):**  
Deputy Chairman of the Board of Šiaulių bankas AB since 1995, Deputy Chief Executive Officer, Head of Finance and Credit Division since 2005, Head of Finance and Risk Management Division since 2011.

*Daiva Šorienė*



Member of the Board of Šiaulių Bankas AB, Deputy Chief Executive Officer, Head of Business Development Division.  
**Education:**  
Vilnius University, Master of Economics.  
Vytautas Magnus University, Master of Business Administration and Management.  
**Work experience (not less than 5 years):**  
Deputy Chairperson of the Board of Šiaulių Bankas AB since 1998, Deputy Chief Executive Officer, Head of Corporate and Retail Banking Division since 2005, Head of Business Development Division since 2014.

*Vita Adomaitytė*



Member of the Board of Šiaulių Bankas AB, Chief Accountant, Head of Accounting and Tax Division.  
**Education:**  
Vilnius University, Master of Finance and Credit.  
**Work experience (not less than 5 years):**  
Chief Accountant of Šiaulių Bankas since 2002, Head of Accounting and Tax Division since 2005.

*Jonas Bartkus*



Member of the Board of Šiaulių Bankas AB, Head of IT Division.  
**Education:**  
Vilnius University, Master in mathematics.  
**Work experience (not less than 5 years):**  
Head of Business Development Division of the Bank since 2005, Head of the IT Division since 2011.

*Iłona Baranauskienė*



Member of the Board since February 2014, Head of Assets Restructuring Division.  
**Education:**  
Kaunas University of Technology, Bachelor of Business Administration and Management; Šiauliai University, Master of Economics.  
**Work experience (not less than 5 years):**  
Director General of SLEZVB UAB until 2013, Director of Šiaulių Banko Turto Fondas UAB since 2004, Deputy Director of SBTf UAB since 2006, Director of the Special Financing Department of Šiaulių Bankas AB since 2013.



Information on the share of Bank's capital and votes owned under the right of ownership by the members of the collegial bodies and chief accountant together with the related parties:

<i>Name, surname</i>	<i>Beginning / end of tenure</i>	<i>Share of capital under the right of ownership, %</i>	<i>Share of votes together with the related persons, %</i>
Arvydas Salda	beginning 29/03/2012/ end 2016	2.42	39.41
Sigitas Baguckas	beginning 29/03/2012/ end 2016	0.61	39.41
Vigintas Butkus	beginning 29/03/2012/ end 2016	0.03	39.41
Vytautas Junevičius	beginning 29/03/2012 /end 22/04/2015	0.39	39.41
Gintaras Kateiva	beginning 29/03/2012/ end 2016	5.82	39.41
Peter Reiniger	beginning 29/03/2012/ end 2016	—	—
Ramunė Vilija Zabulienė	beginning 04/05/2012/ end 2016	—	—
Valdas Vitkauskas	beginning 28/03/2014/ end 2016	—	—
Algirdas Butkus	beginning 29/03/2012/ end 2016	3.60	39.41
Vytautas Sinius	beginning 29/03/2012/ end 2016	0.11	39.41
Donatas Savickas	beginning 29/03/2012/ end 2016	0.09	39.41
Daiva Šorienė	beginning 29/03/2012/ end 2016	0.06	39.41
Vita Adomaitytė	beginning 29/03/2012/ end 2016	0.05	39.41
Jonas Bartkus	beginning 29/03/2012/ end 2016	0.07	39.41
Ilona Baranauskienė	beginning 12/02/2014/ end 2016	0.02	39.41

The information regarding participation of the collegial bodies of the Bank and Chief Accountant in activities and capital of other undertakings is provided in the table below:

<i>Name, surname</i>	<i>Participating in activities of other undertakings (name of the company, position)</i>	<i>Participating in capital of other undertakings (percentage of capital exceeding 5 %)</i>
Arvydas Salda	Member of the Board Klaipėdos LEZ Valdymo Bendrovė UAB Consultant of Šiaulių Banko Turto Fondas UAB Consultant of Sanatorium Eglės AB	—
Sigitas Baguckas	Director of Namų Statyba UAB	Namų statyba UAB - 47.12 %
Vigintas Butkus	Director of Trade House Aiva UAB Director of Mintaka UAB	Trade House Aiva UAB - 9.25 % Mintaka UAB - 9.80 %
Gintaras Kateiva	Director General of Litagra UAB, Chairman of the Board Director of Litagros mažmena UAB	Litagra UAB - 36.95 %
Ramunė Vilija Zabulienė	Director of the Public Undertaking ArsDomina Chairperson of the Board of Abiotek UAB	—
Peter Reiniger	Chief Advisor of the First Vice-president and Executive Committee at European Bank for Reconstruction and Development	—
Valdas Vitkauskas	Chief Banker at the European Bank for Reconstruction and Development	—
Algirdas Butkus	—	Trade house Aiva UAB - 66.35 % Visnorus UAB - 48.94 % Mintaka UAB - 68.08 %
Vytautas Sinius	—	Public undertaking Sporto šaltinis – 33,33 %
Donatas Savickas	—	—
Daiva Šorienė	—	—
Vita Adomaitytė	—	—
Jonas Bartkus	—	—
Ilona Baranauskienė	Director of Šiaulių Banko Turto Fondas UAB Deputy Director of SBTf UAB	—

Amounts of remuneration over 2014 and 2015 and average sizes per member of the collegial body as well as provided guarantees:

	Number of people	Total remuneration, EUR		Place of Employment		Transferred assets, EUR	Provided guarantees, EUR
		2014	2015	2014	2015		
Members of the Management Bodies							
The Supervisory Council of the Bank*	7	5,792	710,42	827	10,149	0	0
The members of the Board of the Bank	7	902,862	934,554	128,980	133,508	0	0
Chief Executive Officer and Chief Accountant	2	265,550	277,594	132,775	138,797	0	0

\* Only the independent member of the Supervisory Council received pay outs. In 2015 the total amount of bonuses paid to the members of the Supervisory Council comprised EUR 65 thousand.

Loans granted to the members of the Supervisory Council and Bank's Board as of 31 December 2015:

Members of the Management Bodies	Loans granted, in thou EUR
The Supervisory Council of the Bank	943
The members of the Board of the Bank	132
Total:	1,075

## 27. MAJOR EVENTS DURING REPORTING PERIOD

The year 2015 was full of a number of important changes in the country (the introduction of Euro, joining the SEPA), in the implementation whereof the Bank played an active role, including many structural and development changes within the Bank itself.

Since 23 January the Bank has chosen MasterCard as a strategic partner in providing payment card services, and signed a cooperation agreement.

In February, the Dive Lietuva Company (Slapto pirkėjo tyrimai UAB) announced the findings of the survey, whereby the Bank client service quality index increased by one fifth in 2014 as compared with 2013.

Since 17 February the Bank has introduced a new service: clients can deposit their cash into their payment card accounts free of charge at cash ATMs installed in Akropolis Shopping Centres in Vilnius, Kaunas, Klaipėda and Šiauliai.

On 7 March the Bank and Invalda LT signed a letter of intent for the potential acquisition of the bank Finasta AB owned by Invalda LT.

On 18 March the Bank arranged celebration of the Client's Day in the Bank units.

On 27 March the meeting of the Bank's shareholders adopted a resolution to increase the authorized capital of the Bank by 6,733,800 euros (up to 85 million euros) out of the Bank's funds by issuing 23,220,000 ordinary registered shares with a nominal value of EUR 0.29, and to gratuitously distribute them to the shareholders in proportion to the total nominal value of shares held by the shareholders at the end of the accounting day of the meeting.

On 31 March the Bank launched a new brand strategy and the Bank's updated logo.

On 2 April the Bank announced startups enablement with online savings account and formation of the authorized capital.

On 30 April Žalgirio Sporto Arena UAB, Investicinio Turto Valdymas UAB, and Trade Project UAB, the subsidiary companies of the Bank, entered into contracts for the sale of real estate properties within the territory of Olimpiečių, Rinktinės and Šeimyniškių Streets in Vilnius.

In May clients using Omnitel communication services have been able to get a mobile signature in the Bank units free of charge. Earlier, e-signatures were available in the Bank units only to Tele2 clients.

On 8 May Ūkio Banko Lizingas UAB, owned by the Bank, declared to have been renamed to SB lizingas UAB and assured it would continue to provide consumer leasing and hire purchase services.

On 11 May the Bank signed an agreement for purchase of 100 percent shares of the bank Finasta AB from Invalda INVLA AB and minority shareholders, and 100 percent shares of brokerage firm Finasta AB from Invalda INVLA AB.

On 26 May the amended Charter of the Bank, including the authorized capital increased up to 85,033,800 euros, were registered with the Register of Legal Entities.

On 4 June the Bank's activities and results were presented in the traditional summit meeting of the leadership of the companies listed on the NASDAQ Stock Exchange and the investors.

On 17 June Moody's Investors Service, the international credit rating agency, announced that the Bank's long-term credit rating was upgraded from B1 to Ba2.

On 22 June the Extraordinary General Meeting of the Shareholders of the Bank adopted a resolution to increase the authorized capital of the Bank by 6,771,500 euros with additional contributions by issuing 23,350,000 ordinary registered shares with a nominal value of EUR 0.29.

On 17 July, following permissions obtained from the Competition Board and the Bank of Lithuania, the Bank completed the transaction on the purchase of 100 percent shares of the bank Finasta AB and brokerage firm Finasta AB.

On 10 August the Bank introduced the following two new payment cards: the Debit MasterCard and the Debit MasterCard Business, and offered its clients the opportunity to change the PIN code at the network ATMs.

On 17 August it was declared that the Bank had signed an agreement for the allocation of additional 68 million euros from Jessica II Fund to the renovation of 350 apartment houses. In addition, the Bank agreed to allocate 30 million euros of its own funds to the renovation of another 125 apartment houses.

At the end of August, having updated the mobile banking application, the Bank was one of the first banks in Lithuania to give its clients the opportunity to pay installments and taxes by cell phone.

As of 1 September the Bank and the Lithuanian branch of the ERGO Insurance SE insurance company have offered the MasterCard Gold and Visa Gold holders better terms of insurance and a few new types of coverage under travel and money insurance contracts concluded between the Bank and ERGO Insurance SE Lithuanian branch.

From 7 to 14 December, the Bank arranged free seminars *The Single Euro Payments Area (SEPA) and its Requirements* for business clients in Vilnius, Kaunas, Klaipėda and Šiauliai.

On 14 September the Bank joined Information System of Cash-Flow Restrictions (Lithuanian abbr. PLAIS) developed by the State Enterprise Centre of Registers.

On 14 September the amended Charter of the Bank, including the authorized capital increased up to 91,226,381.99 euros, were registered with the Register of Legal Entities. Invalda INVLA AB purchased all shares by offsetting which accounted for the Bank's debt of 6,182,581.99 Euros due to the company for the purchase of the Finasta AB bank and brokerage firm Finasta AB.

On 23 September the Management Board of the Bank adopted a decision to reorganize the bank Finasta AB and brokerage firm Finasta AB by way of merger with the Bank. The terms and conditions of reorganization and the Charter of the Bank following the reorganization were approved.

On 1 October the Bank announced that as of that date, the Bank has been using the minimum 9 percent Common Equity Tier 1 ratio and the total capital adequacy ratio of 12.5 percent, covering the capital conservation buffer and an additional capital requirement, in accordance with Regulation (EU) No. 575/2013 and the general provisions of the supervisory review and evaluation process approved by the Board of the Bank of Lithuania.

On 19 October the Bank was declared the leader of the guaranteed loans granted to farmers in Lithuania. In collaboration with the Agricultural Credit Guarantee Fund, the Bank granted over 40 percent of the total amount of the given type of credit in the country over three quarters of the year.

On 30 October the Bank announced the terms and conditions of a new e-invoice service.

In November, the Bank became a partner in *The Car of the Year 2016* traditional competition by nominating the most sensible car for an Optimum Choice Award. The winner was awarded at the closing ceremony of the competition held in December.

In November, following the end of the payment card campaign *The Best Time to Pay with a Payment Card* the winners were awarded with smart watches and sanatorium vouchers.

On 1 December and 7 December the Bank of Lithuania authorized the reorganization of the Finasta AB bank and brokerage firm Finasta AB respectively, by merging them with the Bank.

On 1 December the Bank launched the campaign *A Great Place to Gain a Credit Card*, during which clients were offered favourable terms and conditions of MasterCard credit card issuance and use.

Since the beginning of December, the Bank has offered the two new types of accounts: a fixed-term savings account and a cumulative deposit account.

On 4 December the International Banker Magazine published by the Financial Times declared the Bank The Best Bank of Lithuania 2015. It was the second time that the Bank received this prestigious award.

On 17 December a notice of the Bank of Lithuania was received whereby the Bank was recognised as other systematically important institution accordingly it was subject to additional capital buffer applied to other systematically important institutions, i.e. 0.5 percent of the total risk exposure amount. This capital buffer must be accumulated by 31 December 2016.

On 21 December the Bank completed its merger with the bank Finasta AB and brokerage firm Finasta AB. Following the reorganization, the registration of the companies with the Register of Legal Entities and their licenses were cancelled and all their assets, rights and obligations were taken over by the Bank.

On 22 December, the Bank announced that from the beginning of next year starting to render the services of Šiaulių Banko Lizingas UAB it would complement the range of its directly provided financial services with vehicle and other large-scale asset leasing services to private and business customers. At the end of December, the Bank was ready to smoothly join the Single Euro Payments Area (SEPA). Clients were notified of future developments in payment services.

## 28. DATA ON THE PUBLICLY DISCLOSED INFORMATION

The following information was publicly disclosed over the three quarters of 2015:

02/02/2015	notification on received offers regarding acquisition of Žalgiris stadium and surrounding plots of land;
02/02/2015	information on the sold part of the real estate;
03/02/2015	supplemented information on the sold part of the real estate;
26/02/2015	a pre-audited activity result of the Bank and the Group for 2014 and interim information for twelve months;
02/03/2015	information on the final negative adjustment amount payable to Ūkio Bankas BAB;
06/03/2015	convocation of the Ordinary General Meeting of Shareholders;
06/03/2015	the draft resolutions prepared by the Board for the Ordinary General Meeting of Shareholders to be held on 27/03/2015;
09/03/2015	notification regarding a Letter of Intent with Invalda LT AB
27/03/2015	resolutions of the Ordinary General Meeting of Shareholders held on 27/03/2015;
27/03/2015	announcement of the annual information;
09/04/2015	information on resignation of the member of the Supervisory Council of the Bank;
13/04/2015	information on the results of the inspection carried out by the Bank of Lithuania;
15/04/2015	notification regarding acquisition of Finasta;
22/04/2015	unaudited performance result of the bank and Group for Q1 2015;
04/05/2015	information on the signed agreements of non-banking assets sales;
12/05/2015	notification regarding agreements signed with respect to acquisition of the bank Finasta and brokerage firm Finasta;
19/05/2015	interim information for 3 months of 2015;
19/05/2015	news on the received permit to register the amendment of the Bank's Charter;
21/05/2015	information on concluded transactions, related to payment of the variable remuneration in the Bank's shares;
27/05/2015	the Charter of the Bank with the increased authorized capital was registered.
29/05/2015	information on the shares and authorized capital;
29/05/2015	convocation of the Extra-Ordinary General Meeting of Shareholders;
29/05/2015	29/05/2015 - the draft resolutions prepared by the Board for the Extra-Ordinary General Meeting of Shareholders;
04/06/2015	information on the presentation of the Bank to Investors;
18/06/2015	notification regarding the upgraded rating of the Bank;
22/06/2015	information on the resolutions passed by of the Extra-Ordinary General Meeting of Shareholders;
02/07/2015	information on the Competition Council's permission for concentration based on acquisition of the bank Finasta and brokerage firm Finasta.
03/07/2015	information on the amended Charter of the Bank;
14/07/2015	information on received permissions regarding acquisition of the bank Finasta and brokerage firm Finasta.
20/07/2015	information on closing the transaction of the acquisition of the bank Finasta and brokerage firm Finasta;
21/07/2015	a pre-audited activity result of the Bank and the Group for H1 of 2015;
18/08/2015	the Bank received a notification from the Bank of Lithuania regarding passed resolution to agree with reorganization of the bank Finasta AB by way of merge with Šiaulių Bankas AB.
20/08/2015	the Bank's interim information for 6 months;

08/09/2015	the Bank received consent from the Bank of Lithuania to register the Bank's Charter with the increased authorized capital;
15/09/2015	information on the amended Charter of the Bank;
17/09/2015	notification regarding acquisition of voting rights by Invalda INVLA AB;
17/09/2015	information on the total number of shares issued by the Bank and votes granted by the latter;
18/09/2015	information on adjusted accounting records and corrected interim information for 6 months;
29/09/2015	notification regarding the resolution passed by the Management Board of the Bank to reorganize the bank Finasta and brokerage firm Finasta by way of merge with Šiaulių Bankas AB;
01/10/2015	Information Regarding capital adequacy ratio
20/10/2015	the unaudited activity result for the 9 months of 2015 of Šiaulių Bankas AB and the Group;
20/11/2015	interim information for 9 months of 2015;
01/12/2015	Information on a notification from the Bank of Lithuania regarding passed resolution to agree with reorganization of the bank Finasta AB by way of merge with Šiaulių Bankas AB.
07/12/2015	Information on a permission from the Bank of Lithuania to reorganize the brokerage firm Finasta AB by way of merge with Šiaulių Bankas AB.
17/12/2015	It has been decided to recognize Šiaulių Bankas AB as systematically important institution
21/12/2015	Reorganization of the bank Finasta AB and brokerage firm Finasta AB merging these companies with Šiaulių Bankas AB was closed.
30/12/2015	It was reported that Šiaulių Bankas AB would form consolidated interim information and it would publish in compliance with the order set by the legislation.
30/12/2015	Announcement of the calendar of the Bank's information to be announced in 2016
	reports regarding the transactions related to the Bank's shares entered by the Bank's senior managers.

In accordance with the procedures set by the Charter of the Bank and the legal acts of the Republic of Lithuania all the stock events are announced in the Central regulated information base and on the Bank's site [www.sb.lt](http://www.sb.lt). Reports on the Meetings of Shareholders were additionally announced in the daily newspaper *Lietuvos rytas*.

After registration of the recast of the Bank's Charter on 02 July 2015, the notifications regarding meetings of shareholder shall be published in the electronic publication for announcement of public releases issued by the Legal Entities Registry Custodian.

## 29. PROCEDURES OF CHARTER AMENDMENTS

The Bank's Charter can be amended only by the resolution of the General Shareholders' Meeting at 2/3 majority of votes, except exclusive cases defined by the law.

## 30. INFORMATION REGARDING COMPLIANCE WITH THE GOVERNANCE CODE

The Bank operates in compliance with the many standards set in the Governance Code. Information about how the Bank complies with the particular articles of the Governance Code is provided in the annex enclosed to the present report together with the set of financial statements of 2015 and is also available on the website of the Bank [www.sb.lt](http://www.sb.lt).

Chief Executive Officer



Vytautas Sinius

8 March 2016

Šiaulių Bankas AB, following Article 22 paragraph 3 of the Law on Securities of the Republic of Lithuania and clause 24.5 clause of the listed rules on NASDAQ Vilnius AB, discloses its compliance with the Governance Code, approved by the NASDAQ Vilnius AB for the companies which securities are traded on the regulated market, and its specific provisions.

The Bank's management structure encompasses the General Meeting of Shareholders, Supervisory Council, Management Board and Chief Executive Officer.

Information on the internal control, risk management, rights of shareholders, management and supervisory bodies, committees operating at the Bank and administration are presented in the annual report alongside with the present Code of Governance.

## 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.

**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.

Yes

#### COMMENTARY

The Bank's bodies include a general shareholders' meeting, the Bank's Supervisory Council, the Bank's Board and the chief executive officer.



**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.

Yes

#### COMMENTARY

The Board performs the function of the Bank's management and bears responsibility for the performance of the Bank, while the supervision of the management bodies falls on the Bank's Supervisory Council.

**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.

Not applicable

#### COMMENTARY

Both bodies are formed at the Bank - the Bank's Supervisory Council and the Bank's Board.

**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.

Yes

#### 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.

**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.

Yes

#### COMMENTARY

The Bank's Board consists of 7 members; the Supervisory Council consists of 8 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.

**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.

Yes

#### COMMENTARY

Supervisory Council members is 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.

**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.

Yes

#### COMMENTARY

The Chairman of Supervisory Council have 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.

*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.

Yes

**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 favorable for the combination of minority shareholders to elect their representative to the Council.

**3.2.** Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.

Yes / No

**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.

**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.

Yes / No

**COMMENTARY**

While electing the members of the Supervisory Council, their particular competences relevant to his/her service 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.

**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.

Yes / No

**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 audit committee have knowledge in field of finance; an independent member is competent in the field of audit.  
The director of the Bank's Personnel department, who has knowledge and experience in the salary establishment policy, is a member of the Remuneration Committee

**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

Yes



members need to update their skills and knowledge.

#### COMMENTARY

New members shall meet with their duties, the Bank and its activity.  
The self-assessment of the Supervisory Council, Management Board and Chief Executive Officer as well as of collegial bodies and internal management system efficiency is carried out at the Bank and followed by the Internal Management System Remedy Plan.

**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.

Yes

#### 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.

**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:

Yes

- 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, counseling 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;

**3.8.** The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine.

Yes

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 that the member of the Supervisory Council is independent.

**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.

Yes

**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

#### COMMENTARY

The independent member of the Council meets all criteria of independence

**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.

Yes / No

#### COMMENTARY

The bank has concluded the agreement with the independent Council member foreseeing the remuneration from 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.

### *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

#### COMMENTARY

The Supervisory Council performs all the control and monitoring functions within its competence assigned by the company regarding the management performance. The Supervisory Council shall submit its responses and offers to each General Shareholders' Meeting.

**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 (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

#### 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. The independence of the members was not assessed.

**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.  
The Bank does not provide information to its shareholders regarding the members' participation in meetings during the last financial year.  
During the reporting period one member did not participate in one 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 administrative and 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.

Yes

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 advise the affiliated company, executive director or members of management body.

#### 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 / No

#### COMMENTARY

The Bank has formed the Audit Committee with an independent member as well as the Remuneration Committee. The Nomination Committee is not formed. The functions of this committee are performed by the Supervisory Council itself.

**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. It has an independent Council member.  
The Remuneration Committee consists of 4 members, the Chairman of the Committee is the member of the Bank's Supervisory Council, other members – the Bank's employees.  
The Nomination Committee is not formed.

**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 Audit Committee as well as its accounting are set in the Committee's provisions approved by the Supervisory Council.  
This information as well as number of held meetings of Committee and the Committee's members' participation there is not provided in the annual report.  
The functions of the Remuneration Committee are defined by the Remuneration Policy approved by the Bank Board, Supervisory Council and the regulations of the Remuneration Committee. 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 of the Remuneration Committee, composition of the Remuneration and Audit committees are declared in the Bank's annual report. However, information regarding the number of committee meetings and participation of the committee members herein 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.

**4.12.** Nomination Committee.

No

#### COMMENTARY

There is no Nomination Committee at the Bank. The Supervisory Council itself performs the activity attributed to this Committee.

**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.

No

**COMMENTARY**

There is no Nomination Committee at the Bank. The Supervisory Council itself performs the activity attributed to this Committee.

**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, 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 and investors.

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.

**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.

Yes / No

#### COMMENTARY

Information regarding the functions of the Remuneration Committee is published in annual reports and not accounted for during meetings of shareholders.

**4.14.** Audit Committee.

Yes

#### COMMENTARY

The Audit Committee in the Bank consists of 4 members among who is the independent Council member.

**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) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;
- 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;



6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.	Yes
4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers 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.	
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.	
4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.	Yes / No
<b>COMMENTARY</b> <p>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.</p>	
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.	No / Yes
<b>COMMENTARY</b> <p>The Bank does not have practice of assessment of the Supervisory Council's performance and making it public. Information about the internal organization of Supervisory Council (chairman, deputy and members) is announced on the website of the Bank, annual and interim reports. Informacija apie vidinę stebėtojų tarybos organizaciją (pirmininkas, pavaduotojas, nariai) skelbiama Banko interneto svetainėje, metiniuose ir tarpiniuose Banko pranešimuose.</p>	

*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.	Yes
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**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.

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.

Yes

#### 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 not less than once a month.

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 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.

Yes

#### COMMENTARY

The ordinary registered shares that comprise the Bank's authorized capital grant the same rights all their holders.

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.

Yes

#### COMMENTARY

The rights provided by the newly issued shares are described in the Securities prospects.

6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.

No / Yes

#### COMMENTARY

The decisions regarding the long-term assets the balance value of which exceeds 1/20 of the Bank's authorized capital, purchase, pledge or hypothec as well as liabilities of other persons the amount of which exceeds 1/20 of the Bank's authorized capital are made by the Bank's Board.  
Shareholders are aware of important transactions by the Bank's announcement on stock events.

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

Yes

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.

6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.

Yes

#### COMMENTARY

The Bank's shareholders may participate in the general shareholders' meeting in person or through their representative. The voting is possible by filling the general voting bulletin.

6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by providing opportunity to the shareholders to vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.

No

#### COMMENTARY

The Bank is not ready and does not suppose it is necessary to use the modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. Foreigner's shareholders participate in the meeting via their representatives, the voting instructions to whom usually provide with the SWIFT notifications.

### Principle VII: The avoidance of conflicts of interest and their disclosure

**The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**

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.

Yes

#### 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.

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.**

<p><b>8.1.</b> 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.</p>	Yes / No
<p><b>COMMENTARY</b></p> <p>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.</p>	
<p><b>8.2.</b> 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.</p>	Yes
<p><b>COMMENTARY</b></p> <p>The Remuneration Policy report provides data about all employees and management, distinguishing the shares of the fixed and variable remuneration.</p>	
<p><b>8.3.</b> Remuneration statement should leastwise include the following information:</p>	Yes / No
<p><b>COMMENTARY</b></p> <p>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. Calculating the variable remuneration the performance results of the employee for the period not less than three years is taken into consideration. 50 per cent of variable remuneration paid immediately and deferred are foreseen to be paid in bank's shares with a 3 month 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.</p> <ol style="list-style-type: none"> <li>1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration;</li> <li>2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;</li> <li>3) An explanation how the choice of the activities' results evaluation criteria contributes to the long-term interests of the company;</li> <li>4) An explanation of the methods, applied in order to determine whether the activities' results evaluation criteria have been fulfilled;</li> <li>5) Sufficient information on provision periods with regard to variable components of remuneration;</li> <li>6) Sufficient information on the linkage between the remuneration and activity's results;</li> <li>7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;</li> <li>8) Sufficient information on the policy regarding termination payments;</li> <li>9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13;</li> <li>10) Sufficient information on retention of shares after vesting, as referred to in point 8.15 of this Code;</li> <li>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;</li> <li>12) A description of the main characteristics of supplementary pension or early retirement schemes for directors;</li> <li>13) The remuneration report can not contain confidential information in a commercial view.</li> </ol>	
<p><b>8.4.</b> 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</p>	No

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.

**8.5.** Remuneration report should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.

No

#### COMMENTARY

According to the requirements set by the Bank of Lithuania the report reveals the average sizes of the remuneration. Other information defined in this documents is not published.

**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.

**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.

**8.5.3.** The following supplementary pension schemes-related information should be disclosed:

No

#### COMMENTARY

According to the requirements set by the Bank of Lithuania the report reveals the average sizes of the remuneration. Other information defined in this documents 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 year.

**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.

**8.6.** Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component of remuneration.

Yes

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.

**8.7.** Award of variable components of remuneration should be subject to predetermined and measurable activity's results evaluation criteria.

Yes

#### COMMENTARY

The amount of the variable remuneration is based on the general evaluation of the employee's, outlet's or bank's activity result

**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.

Yes

#### COMMENTARY

The deferred portion of the variable remuneration applicable to the employees is not less than 40 per cent.

**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.

No

#### 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.

**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.

Not applicable

#### COMMENTARY

No principles of termination payments are foreseen by the Remuneration policy.

**8.11.** Termination payments should not be paid if the termination is due to inadequate activity's results.

Not applicable

#### COMMENTARY

See item 8.10

**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.

Yes / No

#### 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.

**8.13.** Shares should not vest for at least three years after their award in case the remuneration is share-based.

Yes / No

#### 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.

**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.

Yes / No

#### 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 3 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.

**8.15.** After vesting, directors should retain a particular number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).

No

#### COMMENTARY

The share transfer is limited for a period of 3 month. No restrictions are foreseen after this period.

**8.16.** Remuneration of non-executive or supervisory directors should not include share options.

Not  
applicable

#### COMMENTARY

The members of the Supervisory Council are not subject to any form of remuneration.

**8.17.** Shareholders, in particular institutional shareholders, should be encouraged to attend general shareholders' meetings and make considered use of their votes regarding directors' remuneration.

No

#### COMMENTARY

The meeting for the work in the Supervisory Council can allocate to the Council members annual bonuses (tantiemes). Determination of the remunerations for the members of the Board under the structure of the bank's bodies is not the priority of the shareholders' meeting.

**8.18.** Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.

No

#### COMMENTARY

The Remuneration Policy and its implementation are the prerogative of the Remuneration Committee and the Council of the Bank. Therefore, the voting does not take place in the shareholders' meeting.

**8.19.** Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.

No

#### COMMENTARY

See item 8.17.

**8.20.** The following issues should be subject to approval by the shareholders' annual general meeting:

No

#### COMMENTARY

See item 8.17.

1) Grant of share-based schemes, including share options, to directors;

- 2) Determination of maximum number of shares and main conditions of share granting;
- 3) The term within which options can be exercised;
- 4) The conditions for any subsequent change in the exercise of the options, if permissible by law;
- 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms.

Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.

**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
<p><b>COMMENTARY</b></p> <p>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.</p> <ol style="list-style-type: none"> <li>1) The financial and operating results of the company;</li> <li>2) Company objectives;</li> <li>3) Persons holding by the right of ownership or in control of a block of shares in the company;</li> <li>4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;</li> <li>5) Material foreseeable risk factors;</li> <li>6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;</li> <li>7) Material issues regarding employees and other stakeholders;</li> <li>8) Governance structures and strategy.</li> </ol> <p>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.</p>	
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.

Yes / No

**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.

**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 Vilnius Stock Exchange, 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.

Yes

**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. The opinion of the Supervisory Council regarding the audit agency is provided during the Meeting.

**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.

Yes

**COMMENTARY**

Information on remuneration to the audit company is provided for in the present Code. In 2015, the Bank paid EUR 34 thousand for the consultations.

Chief Executive Officer



Vytautas Sinius

8 March 2016