MEDICINOS BANKAS

Medicinos bankas UAB

(incorporated in Lithuania with public limited liability, corporate ID code 112027077)

Base Prospectus of the issue of the subordinated bonds of Medicinos bankas under the Programme for the offering of subordinated bonds, qualifying as Tier 2 capital in the amount of up to EUR 10,000,000 and admission thereof to trading on the Baltic Bond List of Nasdaq Vilnius AB

This Base Prospectus (the "Base Prospectus") was prepared for the programme for the public offering of subordinated bonds (the "Bonds") of Medicinos bankas UAB (the "Company", the "Bank" or the "Issuer"), qualifyting as Tier 2 capital in the amount of up to EUR 10,000,000 in Lithuania (the "Offering") and admission thereof (the "Admission") to trading on the Baltic Bond List of Nasdaq Vilnius AB ("Nasdaq"). This Base Prospectus should be read and constructed together with any supplements hereto (if any) and any other documents attached herein and, in relation to any tranche of Bonds issue (the "Tranche"), with the Final Terms of the relevant Tranche (the "Final Terms").

Neither this Base Prospectus, nor any Final Terms constitute an offer to sell or a solicitation of an offer to buy the Bonds in any jurisdiction to any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction. Furthermore, the distribution of this Base Prospectus and/or any Final Terms in certain jurisdictions may be restricted by law. Thus, persons in possession of this Base Prospectus and/or any Final Terms are required to inform themselves about and to observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

The Bonds referred to herein have not been and will not be registered under the United States Securities Act of 1933, as amended, or under any securities laws of any state or other jurisdiction of the United States and are not being offered or sold within the United States or to, or for the account or benefit of, US persons (for more information please see Section 5.8 *Notice to Prospective Investors and Selling Restrictions*). The Bonds shall be offered, as specified in the Base Prospectus and the Final Terms, subject to possible cancellation or modification of the Offering and subject to certain other conditions.This Base Prospectus has been prepared and the Final Terms will be prepared by the Company in accordance with the European Union (EU) Directive 2003/71/EC, as amended (the "Prospectus Directive"), Commission Regulation (EC) 809/2004, as amended (the "Prospectus Regulation") and the Law of the Republic of Lithuania on Securities, as amended (the "Law on Securities"). The Bank of Lithuania (in Lithuanian *Lietuvos bankas*, the "LB") in its capacity as the competent authority in Lithuania under the Law on Securities has approved this document as a Base Prospectus.

The information contained herein is current as of the date of this Base Prospectus. Neither the delivery of this Base Prospectus, nor the offer, sale or delivery of the Bonds shall, under any circumstances, create any implication that there have been no adverse changes occurred or events have happened, which may or could result in an adverse effect on the Company's or its Subsidiaries' (collectively the "Group") business, financial condition or results of operations and/or the market price of the Bonds. Nothing contained in this Base Prospectus constitutes, or shall be relied upon as, a promise or representation by the Issuer or the Offering Broker as to the future.

Although the whole text of this document as well as of the Final Terms should be read, the attention of persons receiving this document is drawn, in particular, to the Section headed *Risk Factors* contained in Part III of this document. All statements regarding the Company's and the Group's business, financial position and prospects as well as the Offering should be viewed in light of the risk factors set out in Part III of this document.

Subordinated Bonds of the Company – unsecured debt bonds with a fixed-term, non-equity (debt) securities under which the Company shall become the debtor of the Bondholders and shall assume obligations for the benefit of the Bondholders. The claim on the principal amount of the Bonds is wholly subordinated to claims of all non-subordinated creditors. The Bonds of each respective Tranche of issues shall grant their holders equal rights.

All the Bonds of the Company (when issued) will be ordinary registered bonds and will be registered within Lithuanian branch of Nasdaq CSD, SE ("Nasdaq CSD") (the merged central securities depository of Lithuania, Latvia and Estonia). When registering the Bonds of different Tranches, Nasdaq CSD will provide different ISIN to Bonds of different Tranches, unless it will be decided by Nasdaq CSD to provide the same ISIN to Bonds of different Tranches. Bondholders will be able to hold the Bonds through Nasdaq CSD participants, such as investment firms and custodian banks operating in any of the Baltic states.

The Bank of Lithuania has performed the inspection of the Company on the status of 31 March 2018 and according results of the inspection the net result for Q1 2018 may be adjusted for the formation of additional provisions covering credit risk and impairment of other assets.

Orion securities UAB FMĮ (the "Lead Manager", the "Offering Broker" or the "Arranger of the Programme") is the lead manager in Lithuania for the purposes of Offering of the Bonds and Admission thereof to trading on Nasdaq.

Arranger of the Programme and Offering Broker

ORION

The date of this Base Prospectus is 25 June 2018

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I IMPORTANT INFORMATION

Base Prospectus. This Base Prospectus has been prepared by the Company in connection with the Offering and the Admission, solely for the purpose of enabling any prospective Investor to consider an investment in the Bonds. The information contained in the Base Prospectus has been provided by the Issuer and other sources identified herein. This Base Prospectus is a prospectus in the form of a single document within the meaning of the Prospectus Directive and the Prospectus Regulation. This Base Prospectus has been prepared in accordance with Annex XI (Minimum disclosure requirements for the banks registration document), Annex V (Minimum disclosure requirements for the securities note related to debt securities) and Annex XX (List of securities note schedules and building block(s)) of the Prospectus Regulation. A summary of the Base Prospectus contains the key information items set out in Annex XXII (Disclosure requirements in summaries) of the Prospectus Regulation.

This Base Prospectus should be read and construed together with any supplement hereto (if any) and with any other documents attached herein and, in relation to any Tranche of Bonds, with the Final Terms of the relevant Tranche.

1.1 Responsibility for this Base Prospectus

Persons Responsible. The person responsible for the information provided in this Base Prospectus is Medicinos bankas UAB, corporate ID code 112027077, with the registered office at Pamėnkalnio str. 40, Vilnius, Lithuania. The Company accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of the Company and its members of the Management Board Mrs. Dalia Klišauskienė (also the Chairman and the Manager), Mr. Marius Arlauskas, Mr. Igor Kovalčuk and Mr. Arnas Žalys having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is in accordance with the facts and contains no omission likely to affect its import.

Dalia Klišauskienė Chairman of the Management Board and Manager	Marius Arlauskas Member of the Management Board	Igor Kovalčuk Member of the Management Board	Arnas Žalys Member of the Management Board

Limitations of Liability. Without prejudice to the above, no responsibility is accepted by the persons responsible for the information given in this Base Prospectus solely on the basis of any of the summaries of this Base Prospectus, unless such summaries are misleading, inaccurate or inconsistent when read together with the other parts of the Base Prospectus or do not provide, when read together with the other parts of the Base Prospectus, key information in order to aid investors when considering whether to invest in such securities.

Furthermore, the Lead Manager and the legal advisor to the Company or to the Lead Manager expressly disclaim any liability based on the information contained in this Base Prospectus, any of the summaries of this Base Prospectus or individual parts thereof and will not accept any responsibility for the correctness, completeness or import of such information. No information contained in this Base Prospectus or disseminated by the Company in connection with the Offering and/or the Admission may be construed to constitute a warranty or representation, whether express or implied, made by the Lead Manager or the legal advisor to any parties.

Neither the Company nor the Lead Manager or the legal advisor will accept any responsibility for the information pertaining to the Offering, Admission, the Group or its operations, where such information is disseminated or otherwise made public by third parties either in connection with this Offering or otherwise.

By participating in the Offering, investors agree that they are relying on their own examination and analysis of this Base Prospectus (including the financial statements of the Group which form an indispensable part of this Base Prospectus), any Final Terms and any information on the Company that is available in the public domain. Investors should also acknowledge the risk factors that may affect the outcome of such investment decision (as presented in Section III *Risk Factors*).

Investors should not assume that the information in this Base Prospectus is accurate as of any other date than the date of this Base Prospectus. The delivery of this Base Prospectus at any time after the conclusion of it will not, under any circumstances, create any implication that there has been no change in the Company's (its Group's) affairs since the date hereof or that the information set forth in this Base Prospectus is correct as of any time since its date.

In the case of a dispute related to this Base Prospectus or the Offering, the plaintiff may have to resort to the jurisdiction of the Lithuanian courts and consequently a need may arise for the plaintiff to cover relevant state fees and translation costs in respect of this Base Prospectus or other relevant documents.

1.2 Presentation of Financial and Other Information

This Prospectus contains financial statements of, and financial information relating to the Company and its Subsidiaries.

The Prospectus contains the Group's audited consolidated financial statements for the years ended 31 December 2017 and 31 December 2016 (the "IFRS Financial Statements") prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the "IFRS"), together with the independent auditor's report, as well as the Group's unaudited consolidated financial information for the three months ended 31 March 2018 (the "Consolidated Interim Information") prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" (IAS 34).

The presentation of financial information in accordance with IFRS requires Management to make various estimates and assumptions which may impact the values shown in the financial statements and notes thereto. The actual values may differ from such assumptions. The IFRS Financial Statements were audited by the auditors, indicated in Section 4.1 *Statutory Auditors*. The Consolidated Interim Information was neither audited nor subject to a review by the auditor.

Approximation of Numbers. Numerical and quantitative values in this Base Prospectus (e.g. monetary values, percentage values, etc.) are presented with such precision which the Company deems sufficient in order to convey adequate and appropriate information on the relevant matter. From time to time, quantitative values have been rounded up to the nearest reasonable decimal or whole value in order to avoid excessive level of detail. As a result, certain values presented do not add up to total due to the effects of approximation. Exact numbers may be derived from the financial statements of the Group, to the extent that the relevant information is reflected therein.

Dating of Information. This Base Prospectus is drawn up based on information which was valid on 31 March 2018. Where not expressly indicated otherwise, all information presented in this Base Prospectus (including the consolidated financial information of the Group) must be understood to refer to the state of affairs as of the aforementioned date. Where information is presented as of a date other than 31 March 2018, this is identified by either specifying the relevant date or by the use of expressions as "*the date of this Base Prospectus*", "*to date*", *"until the date hereof"* and other similar expressions, which must all be construed to mean the date of this Base Prospectus (25 June 2018).

Currencies. In this Base Prospectus, financial information is presented in Euro (EUR), i. e. the official currency of the EU Member States participating in the Economic and Monetary Union, including in Lithuania (as from 1 January 2015). Amounts originally available in other currencies have been converted to Euro as of the date for which such information is expressed to be valid. With respect to the state fees, taxes and similar country specific values, information may occasionally be presented in currencies other than EUR. The exchange rates between such currencies and Euro may change from time to time.

Updates. The Company will update the information contained in this Base Prospectus only to such extent, at such intervals and by such means as required by applicable laws or considered necessary and appropriate by the Company. The Company is under no obligation to update or modify forward-looking statements included in this Base Prospectus.

Third Party Information and Market Information. With respect to certain portions of this Base Prospectus, some information may have been sourced from third parties, in such cases indicating the source of such information in the Base Prospectus. Such information has been accurately reproduced as far as the Company is aware and is able to ascertain from the information published by such other third parties that no facts have been omitted, which would render the reproduced information inaccurate or misleading. Certain information with respect to the markets, on which the Company and its Subsidiaries are operating, is based on the best assessment made by the Management. With respect to the industry, in which the Group is active, and certain jurisdictions, in which its operations are being conducted, reliable market information might be unavailable or incomplete. While every reasonable care was taken to provide the best possible estimate of the relevant market situation and the information on the relevant industry, such information may not be relied upon as final and conclusive. Investors are encouraged to conduct their own investigation into the relevant market or seek professional advice. Information on market shares represents the Management's views, unless specifically indicated otherwise.

If when describing certain parts of the Base Prospectus, the source is not indicated hereof, this shall mean that the respective information is prepared and presented by the Company itself.

1.3 Forward Looking Statements

This Base Prospectus includes forward-looking statements. Such forward-looking statements are based on current expectations and projections about future events, which are in turn made on the basis of the best judgment of the Management. Certain statements are based on the belief of the Management as well as assumptions made by and information currently available to the Management. Any forward-looking statements included in this Base Prospectus are subject to risks, uncertainties and assumptions about the future operations of the Group, the macro-economic environment and other similar factors.

In particular, such forward-looking statements may be identified by use of words such as *strategy*, *expect*, *forecast*, *plan*, *anticipate*, *believe*, *will*, *continue*, *estimate*, *intend*, *project*, *goals*, *targets, would, likely, anticipate* and other words and expressions of similar meaning. Forward-looking statements can also be identified by the fact that they do not relate strictly to historical or current facts. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements contained in this Base Prospectus whether as a result of such changes, new information, subsequent events or otherwise.

The validity and accuracy of any forward-looking statements is affected by the fact that the Group operates in a competitive business. This business is affected by changes in domestic and foreign laws and regulations, taxes, developments in competition, economic, strategic, political and social conditions and other factors. The Group's actual results may differ materially from the Management's expectations and projections because of the changes in the above factors. Other factors and risks could adversely affect the operations, business or financial results of the Group (please see Section III *Risk Factors* for a discussion of the risks which are identifiable and deemed material at the date hereof). However, the risk factors described in the Base Prospectus do not necessary include all risk and new risk may surface. If one or more of the risk factors described in this Base Prospectus or any other risk factors or uncertainties would materialise or any of the assumptions made would turn out to be erroneous, the Group's actual business result and/or financial position may differ materially from that anticipated, believed expected or estimated. It is not the Group's intention, and it will not accept responsibility for updating any forward-looking statements contained in this Base Prospectus, unless required by applicable legislation.

1.4 Information Incorporated by Reference

No documents or content of any website are incorporated by reference in this Base Prospectus in accordance with Article 28 of the Prospectus Regulation.

Documents on Display. Throughout the lifetime of this Base Prospectus, the Articles of Association, the IFRS Financial Statements, the Consolidated Interim Information may be inspected at the head offices of the Company located at Pamėnkalnio str. 40, Vilnius, Lithuania, of the Lead Manager located at Antano Tumėno str. 4, Vilnius, Lithuania, on weekdays within the limits of normal business hours. Any interested party may obtain a copy of these documents from the Company without charge.

1.5 Definitions and Abbreviations

In this Base Prospectus, the definitions in capital letters will have the meaning indicated below unless the context of the Base Prospectus requires otherwise. Definitions are listed in alphabetical order and the list is limited to the definitions which are considered to be of more importance. Other definitions may be defined elsewhere in the Base Prospectus.

Admission	Admission of the Bonds to trading on Nasdaq
Allotment Date	Date on which the Bonds will be allocated to Investors
Alternative Performance Measures (APMs)	A financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.
Articles of Association	Articles of Association of the Company
Audit Committee	Audit Committee of the Company
Base Prospectus or Prospectus	This document, prepared for the purpose of the Offering and the Admission, its annex and all the supplements (if any)
Bonds	Up to 10,000,000 subordinated Bonds of the Company[1], qualifying as Tier 2 instruments (subordinated debt instruments included in the capital structure of the Bank) to be issued by the Company and offered to the Investors during the Offering under the terms and conditions of this Base Prospectus and subject to Final Terms. The Bonds may be issued and offered in different Tranches, and the Final Terms will be announced to each of the relevant Tranche
Bondholders	Holders of the Bonds of the Company
Bondholders' Meeting	Meeting of the Bondholders of the Company
Business Day	A day on which banks in Vilnius are open for general business
Company, Bank or Issuer	Medicinos bankas UAB, a private limited liability company established and existing under the laws of the Republic of Lithuania, corporate ID code 112027077, with its registered address at Pamėnkalnio str. 40, Vilnius, Lithuania
Consolidated Interim Information	The Group's unaudited consolidated interim financial information for the three months ended 31 March 2018, prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting"
Council	Supervisory Council of the Company
CRR	Regulation (EU) No 575/2013 of the European parliament and of the council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (Eu) no 648/2012
EEA	European Economic Area

[1] Subordinated bonds – are securities constituting unsecured and subordinated obligations of the issuer and rank at the same rate (*pari passu*) among themselves and at least at the same rate (*pari passu*) with all other present and future unsecured and subordinated obligations of the issuer, save for those that have been accorded by law preferential rights; in case of bankruptcy of the issuer the subordinated obligations shall be satisfied only after all claims of other (unsubordinated) creditors are satisfied.

EU	European Union
EUR, €, Euro	The lawful currency of the European Union Member States that adopted the single currency, including Lithuania
Events of Default	Shall have the meaning assigned to in Section 5.3 *Information Concerning the Securities to be Offered and Admitted to Trading*
Final Terms	The final terms of the relevant Tranche of the Bonds
General Meeting	General Meeting of Shareholders of the Company
General Terms and Conditions	General Terms and Conditions, which are indicated in Sections 5.3 *Information Concerning the Securities to be Offered and Admitted to Trading* and 5.4 *Terms and Conditions of the Offer* of this Base Prospectus and which are applicable to all the Bonds to be issued in each of the respective Tranches
Group	Company and all its Subsidiaries collectively
IFRS	International Financial Reporting Standards as adopted by the European Union
IFRS Financial Statements	Group's consolidated audited financial statements for the years ended 31 December 2016 and 31 December 2017 together with the annual reports and independent auditor's reports on the financial statements and on the annual reports
Institutional Investors	Investors, invited by the Offering Broker to make subscriptions as to the acquisition of the Bonds under the terms and conditions of this Base Prospectus and of the Final Terms, being the professional investors (clients) under the applicable legal acts, i.e. (i) entities managing securities portfolios on a discretionary basis, acting on behalf of persons whose accounts they manage and for whom they intend to acquire the Bonds, (ii) legal persons and organisational units without legal personality with a registered office in or outside the Republic of Lithuania (except in the United States of America) who are non-U.S. persons within the meaning of Regulation S
Investors	Institutional Investors collectively with the Retail Investors
Issue Date	The issue date of each Tranche of the Bonds
Issue Price	The issue price of each Tranche of Bonds which will be determined in accordance with the terms and conditions of the Offering and specified in the Final Terms
Key Executives	The Manager (Head of Administration), the Head of Financial Service, the Head of Law and Compliance Service and the Head of Business Management Service, who are all also members of the Management Board
Law on Banks	Law of the Republic of Lithuania on Banks (as amended from time to time)
Law on Companies	Law of the Republic of Lithuania on Companies (as amended from time to time)
Law on Financial Institutions	Law of the Republic of Lithuania on Financial Institutions (as amended from time to time)
Law on Prevention of Money Laundering and Terrorist Financing	Law of the Republic of Lithuania on Prevention of Money Laundering and Terrorist Financing (as amended from time to time)
Law on Protection of Interests of Bondholders	Law of the Republic of Lithuania on Protection of Interests of Bondholders of Public Limited Liability Companies and Private Limited Liability Companies (as amended from time to time)
Law on Securities	Law of the Republic of Lithuania on Securities (as amended from time to time)
LB	The Bank of Lithuania
Lead Manager, Offering Broker or Arranger of the Programme	Orion securities UAB FMĮ, a private limited liability company, financial brokerage firm established and existing under the laws of the Republic of Lithuania, corporate ID code 122033915, with its registered address at Antano Tumėno str. 4, Vilnius, Lithuania
Major Shareholders	Shareholders of the Company, as indicated in Section 4.10 *Major Shareholders*
Management	Management Board members, who are all also the Key Executives
Management Board	Management Board of the Company
Manager or CEO	Manager of the Company (Head of Administration)
Maturity Date	The date specified in the Final Terms on which the Bonds shall be repaid in full at their nominal amount
Member State	A Member State of the European Economic Area
N/A	'not applicable'
Nasdaq	Nasdaq Vilnius AB (Vilnius stock exchange), a public limited liability company established and existing under the laws of the Republic of Lithuania, corporate ID code 110057488, with its registered address at Konstitucijos ave. 29, Vilnius, Lithuania

Nasdaq Corporate Governance Code	Corporate Governance Code for the Companies Listed on Nasdaq Vilnius
Nasdaq CSD	Lithuanian branch of Nasdaq CSD SE (*Societas Europaea*), the merged central securities depository of Lithuania, Latvia and Estonia, the clearing and settlement institution of the Baltics, code 304602060, registered at the address Konstitucijos ave. 29-1, Vilnius, Lithuania
Nasdaq Corporate Governance Code	Corporate Governance Code for the Companies Listed on Nasdaq
Offering	The offering programme of the Bonds based on this Base Prospectus and each Final Terms, prepared and announced in compliance with this Base Prospectus
Placement Agreement	The agreement concluded on 13 March 2018 between the Company and the Lead Manager related to the Offering
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the Prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC (as amended from time to time)
Prospectus Regulation	Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in Prospectuses as well as the format, incorporation by reference and publication of such Prospectuses and dissemination of advertisements (as amended from time to time)
Register of Legal Entities	Register of Legal Entities of the Republic of Lithuania
Related Parties	As defined in International Accounting Standard 24 *Related Party Disclosures*
Retail Investors	Individuals and corporate entities (legal persons) and non-corporate entities other than individuals, not being the Institutional Investors, who intend to subscribe/purchase Bonds in the Offering
Section	A section of this Base Prospectus
Settlement Date	The date of settlement of payments by the Investors
SME	Small and medium-sized enterprises
Subscription Orders or Subscriptions	Orders of the Investors to subscribe and acquire the Bonds
Subscription Period	The period during which the Investors will be allowed to submit the Subscription Orders for the subscription of the Bonds in accordance with the terms and conditions of this Base Prospectus and each Final Terms
Shares	Any ordinary registered shares of the Company with the nominal value of EUR 144.81 each issued and outstanding at any time
Subsidiaries	All the subsidiaries of the Company MB turtas UAB, MB valda UAB, MB investicija UAB, TG Invest-1 UAB, Nida Capital SIA and Saugus kreditas UAB
Summary	The summary of this Base Prospectus
Trustee	Trustee of the Bondholders, Audifina UAB, a private limited liability company established and existing under the laws of the Republic of Lithuania, corporate ID code 125921757, with its registered address at Žygimanto Liauksmino str. 3, Vilnius, Lithuania, with which the Company has concluded an agreement for representation of Bondholder's interests

1.6 Use of this Base Prospectus

This Base Prospectus is prepared solely for the purposes of the Offering and the Admission; it may not be construed as a warranty or a representation to any person not participating or not eligible to participate in the Offering or trade in the Bonds. No public offering of the Bonds is conducted in any jurisdiction other than Republic of Lithuania and consequently the dissemination of this Base Prospectus in other countries may be restricted or prohibited by law. The Base Prospectus cannot be used for any purpose other than for informational. Prior to making a decision to participate or refrain from participating in the Offering or to conduct any trading activities with the Bonds on Nasdaq the prospective Investors should read this document. In making an investment decision, prospective Investors must rely upon their own examination of the Company and the terms of this document, including the risks involved. It is forbidden to copy, reproduce (other than for private and non-commercial use) or disseminate this Base Prospectus without express written permission from the Company.

II SUMMARY

This Summary is made up of disclosure requirements known as "Elements" in accordance with the Annex XXII (Disclosure Requirements in Summaries) of the Prospectus Regulation. These elements are numbered in Sections A – E (A.1 – E.7) below. This Summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the Summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the Summary with the mention of 'not applicable'. In this Summary, the definitions in capital letters will have the meanings, as indicated in Section 1.5 *Definitions and Abbreviations*.

Section A — Introduction and warnings

Element	*Title*	*Disclosure*
A.1	Introduction and warnings	This Summary is not the prospectus for the public Offering of the Bonds and the listing (Admission) thereof to trading on Nasdaq and should be read merely as an introduction to the same. This Summary presents the facts and circumstances that the Company considers important with respect to the Company's business and the public Offering of the Bonds and is a summary of certain information appearing in more detail elsewhere in the Base Prospectus. Any decision to participate in the Offering and invest in the Bonds should be based by each investor on the Base Prospectus (including any amendments or supplements thereto) as a whole, including the documents attached to the Base Prospectus and not merely on this Summary, as well as on the Final Terms of the respective Tranche of the Bonds. Prospective investors are cautioned that where a claim relating to the information contained in the Base Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the relevant state, have to bear the costs of translating the entire Base Prospectus before court proceedings are initiated. The Company accepts civil liability in respect of this Summary (including any translations hereof) solely in the case where this Summary is found to be misleading, inaccurate or inconsistent when read together with the Base Prospectus as a whole or it does not provide, when read together with the other parts of the Base Prospectus, key information in order to aid investors when considering whether to invest in such securities.
A.2	Consent by the Issuer to the use of the Prospectus for subsequent resale or final placement of securities by financial intermediaries	Not applicable. This Base Prospectus was prepared solely for the purposes of the Offering and Admission, as described herein. Thus, it may not be used for subsequent resale and/or final placement of securities by financial intermediaries.

Section B — Issuer

Element	*Title*	*Disclosure*
B.1	Legal and commercial name	Medicinos bankas UAB.
B.2	Domicile / legal form / legislation / country of incorporation	The Issuer is a private limited liability company, with its registered address at Pamėnkalnio str. 40, Vilnius, Lithuania, code 112027077. The Issuer is incorporated and operates under the laws of the Republic of Lithuania.
B.4b	A description of any known trends affecting the Issuer and the industries in which it operates	Except as indicated below, there has been no material adverse change in the prospects of the Company or the Group since the last published IFRS Financial Statements for the year ended 31 December 2017. Disregarding this, on 18 April 2018 the LB has applied towards the Company compulsory instruction and has publicly announced on 26 April 2018 that the Company has not complied with the previous mandatory restriction of the LB not to provide lending to the related persons of the Company. The restriction not to provide lending to related persons is further valid until the LB shall revoke it. The mandatory instruction has been applied because of the conditions of acquisition of the Subsidiary Saugus kreditas UAB by the Company. By acquiring the shares of this Subsidiary the Company has also acquired the claim right to the Subsidiary from the former shareholder of thereof. The claim right occurred from the credit agreement and amounted

<table>
<tr><td></td><td></td><td>to EUR 196,700 at that time. The Company has extended the repayment term and changed other conditions of the credit agreement after the acquisition of shares of Saugus kreditas UAB.

The LB has decided that when acquiring the claim rights to the above Subsidiary the Company has not complied with the restriction not to provide lending to its controlled persons and their directly and indirectly controlled companies. However, during the process of verifying the documents the Company has capitalized its claim right to the Subsidiary by share capital increase. For this reason the LB did not apply any other mandatory restrictions.</td></tr>
<tr><td>B.5, B.14</td><td>Group description. Position of the Company within the Group. If the Issuer is dependent upon other entities within the Group, this must be clearly stated</td><td>The Company together with the Subsidiaries form a Group of companies, as indicated below.

<table>
<tr><th>Subsidiary</th><th>State of registration</th><th>Amount of shares and votes, held by the Company (%)</th></tr>
<tr><td>MB turtas UAB*</td><td>Lithuania</td><td>22.46</td></tr>
<tr><td>MB valda UAB*</td><td>Lithuania</td><td>32.52</td></tr>
<tr><td>MB investicija UAB*</td><td>Lithuania</td><td>47.94</td></tr>
<tr><td>TG Invest-1 UAB*</td><td>Lithuania</td><td>73.22</td></tr>
<tr><td>Nida capital SIA</td><td>Latvia</td><td>100</td></tr>
<tr><td>Saugus kreditas UAB</td><td>Lithuania</td><td>100</td></tr>
</table>
Source: the Company

* The remaining shares of these Subsidiaries are held by other Group company (Subsidiary): (i) in case of TG Invest-1 UAB the remaining shares are held by MB turtas UAB, (ii) in case of MB turtas UAB the remaining shares are held by MB valda UAB, (iii) in case of MB valda UAB, the remaining shares are held by MB investicija UAB, (iv) in case of MB investicija UAB, the remaining shares are held by TG Invest-1 UAB.

The Issuer is not dependent upon other entities within the Group.</td></tr>
<tr><td>B.9</td><td>Profit forecast</td><td>Not applicable. The Issuer has not made a decision to include the profit forecast or estimates in this Base Prospectus.

On January 15 2018 the Company approved the forecast for the 2018-2022 balance sheets and profit (loss) statements, which was based on the Company's strategic plan for 2016-2018 and the strategic business development vision of the Company's management The forecast was announced in the annual management report for the year ended 31 December 2017, which is the integral part of the financial statements as of 31 December 2017.The forecast was prepared not for the purpose of issue of Bonds and results of the performed inspection of the LB for the status 31 March 2018 may adjust this forecast, therefore, the Company declares it invalid and the Company’s investor shall not rely on data of forecast.</td></tr>
<tr><td>B.10</td><td>Qualifications in the audit report on the historical financial information</td><td>The IFRS Financial Statements for the years ended 31 December 2017 and 31 December 2016 have been audited by KPMG Baltics UAB. This auditor has issued unqualified opinions of the IFRS Financial Statements for both years and in auditor’s opinion both of them give a true and fair view of the unconsolidated financial position of the Issuer and consolidated financial position of the Group and of their respective unconsolidated and consolidated financial performance and their cash flow for the years ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Full IRFS Financial Statements are provided in Annex I to this Base Prospectus. Full Consolidated Financial Information, which was neither audited not subject to review by the auditor is provided in Annex II to this base Prospectus.</td></tr>
<tr><td>B.12</td><td>Selected historical key financial information. A statement that there has been no material adverse change in the prospects of the Issuer. A description of significant changes in the financial or trading position</td><td>
<table>
<tr><th rowspan="2">SELECTED FINANCIAL INFORMATION (EUR'000)</th><th colspan="2">Year ended 31 December</th><th colspan="2">Quarter ended 31 March</th></tr>
<tr><th>2016</th><th>2017</th><th>2017</th><th>2018</th></tr>
<tr><td>Net interest income</td><td>6,049</td><td>6,666</td><td>1,359</td><td>1,797</td></tr>
<tr><td>Growth, %</td><td>-1.7%</td><td>10.2%</td><td></td><td>32.2%*</td></tr>
<tr><td>Net service fee and commission income</td><td>2,769</td><td>3,292</td><td>748</td><td>968</td></tr>
<tr><td>Growth, %</td><td>32.9%</td><td>18.9%</td><td></td><td>29.4%*</td></tr>
<tr><td>Total operating income</td><td>11,982</td><td>13,248</td><td>2,910</td><td>3,502</td></tr>
<tr><td>Growth, %</td><td>-4.8%</td><td>10.6%</td><td></td><td>20.3%*</td></tr>
<tr><td>Operating profit (loss)</td><td>257</td><td>1,633</td><td>225</td><td>277</td></tr>
<tr><td>Profit (loss) for the year</td><td>520</td><td>1,626</td><td>218</td><td>264</td></tr>
</table>
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</table>

Assets	**259,268**	**285,185**	**262,914**	**329,382**
Cash and due from central bank	42,646	53,520	51,053	89,372
Placements with banks and other credit institutions	11,983	11,539	12,530	11,831
Held-to-maturity investments	33,660	39,860	33,737	44,692
Loans and receivables from clients	145,591	163,678	140,014	167,136
Investment property	8,354	6,213	8,667	5,990
Other assets	17,034	10,375	16,913	10,361
Liabilities	**233,453**	**257,744**	**236,882**	**301,979**
Due to banks and other credit institutions	4,435	3,600	3,490	3,400
Due to customers	226,809	251,855	226,984	288,766
Subordinated loans	1,000	1,000	1,000	1,000
Other liabilities	1,209	1,289	5,408	8,813
Shareholders' equity	**25,815**	**27,441**	**26,032**	**27,403**

Sources: IFRS Financial Statements, Consolidated Interim Information, the Company

* the percentage indicates a growth of the first quarter income.

KEY RATIOS AND INDICATORS*	**Year ended 31 December**		**Quarter ended 31 March**	
	2016	**2017**	**2017**	**2018**
PROFITABILITY RATIOS				
Operating profit margin	2.1%	12.3%	7.7%	7.9%
Net profit margin	4.3%	12.3%	7.5%	7.5%
ROE	2.0%	5.9%	0.8%	1.0%
ROA	0.2%	0.6%	0.1%	0.1%
LIQUIDITY RATIOS				
Liquidity coverage ratio	844.3%	730.6%	892.0%	477.8%
SOLVENCY RATIOS				
Capital adequacy ratio	14.1%	15.01%	15.8%	17.0%
Non-performing loan ratio	10.6%	8.3%	11.9%	7.5%

Sources: IFRS Financial Statements, Consolidated Interim Information, the Company

* not audited alternative performance measuers (APMs), calculated using IFRS Financial Statements and Consolidated Interim Information numbers.

The table below provides a list of APMs, their calculation methodology, and the main rationale for using it.

APM	**Formula**	**Rationale for using the APM**
Operating profit margin	Operating profit (loss) / Total operating income	It is one of the main profitability indicators, calculated dividing operating profit by the revenues for the same period. It indicates how much profit a company could earn from its operations, financing activities and taxation costs excluded. The higher ratio is, the more proftable is a company.
Net profit margin	Profit (loss) for the year / Total operating income	It is one of the main profitability indicators, calculated dividing net profit by the revenues for the same period. It indicates how much profit a company could earn from its operations, financing activities and taxation costs included. The higher ratio is, the more proftable is a company.
ROE	Profit (loss) for the year / Shareholders' equity	Return on equity is a ratio calculated dividing net profit by the shareholders' equity. It measures the profitability of a company by revealing how much of the profit can a company earn on the shareholders' investments. The higher ratio is, the more proftable is an equity investment in the company.

ROA	Profit (loss) for the year / Assets	Return on assets is a ratio calculated dividing net profit by the total assets. It measures the profitability and management efficiency by revealing how well the assets are used for profit generation. The higher ratio is, the more efficient the company is in using its assets to generate return to shareholders.
Liquidity coverage ratio	Liquid assets / Short-term (up to 30 days) obligations	It is one of the main liquidity measures for financial institutions indicating how well short-term obligations are covered with highly liquid assets. It reveals how well a company is prepared for a short-term liquidity disruptions. According to EU Regulations, by the compulsory requirement, the Bank must operate under a liquidity coverage ratio not lower than 100%.
Capital adequacy ratio	(Tier I capital + Tier II capital + Capital conservation buffer) / Risk weighted assets	It is one of the main solvency ratios for financial institutions indicating how well the depositors are protected by the company's capital in the case of financial disruptions. The ratio not only takes into account the level of company's capital, but also the risk profile of the company's assets. A threshold set by the LB is Capital adequacy ratio (CAR) being not lower than 13.9%.
Non-performing loan portfolio	Non-performing loan portfolio (net value) / Total loan portfolio (net value)	The ratio indicates how much of the total loan portfolio (net value) is considered as non-performing. The non-performing loan portfolio consists of loans, which have at least one of the following attributes: - a loan is impaired; - there is a probability that a client will not be able to meet its credit obligations to the Bank unless the Bank will initiate the realization of collateral; - a loan is over 90 days overdue; - a court proceeding or a bankruptcy procedure is in process.

There were no significant changes in the Issuer's financial or trading position, which has occurred since the end of 31 December 2017.

B.13	A description of any recent events particular to the Issuer which are to a material extent relevant to the evaluation of the Issuer's solvency	There have not been any recent events particular to the Issuer which are to material extent relevant to the evaluation of the Issuer's solvency.
B.15	A description of the Issuer's principal activities	The Bank provides services for both private and corporate clients. Private client services include consumer credits, mortgages, car leases, term deposits, saving deposits, deposit insurance, various daily banking services, insurance and vignettes (road taxes). The Bank targets small-to-medium enterprises and provides a wide range of services for corporate clients: business loans, leases, credit or leasing guarantees, factoring, trade financing, deposit service and its insurance, various daily banking services, insurances and vignettes. The Bank has a quite well-distributed customer service network, targeting major geographical regions of Lithuania. The major share of service and commission income is comprised of cash and settlement operations.
B.16	To the extent known to the Issuer, statement whether the Issuer is directly or indirectly owned or controlled and by whom and description of the nature of such control	On the day of this Prospectus the authorised capital of the Company is EUR 19,947,577.50 and is divided into 137,750 ordinary registered Shares with a nominal value of EUR 144.81 each. All the Shares issued by the Company entitle to equal voting rights to their holders. In the table below the information is provided on shareholders of the Company on the date of this Prospectus.

Shareholder	Shares and votes, held directly	Percentage, %	Indirectly held shares and votes, %	Total, %
Saulius Karosas	123,850	89.91	9.87	99.78
Western Petroleum Ltd.*	13,600	9.87	89.91	99.78
Vytenis Rasutis	300	0.22	0	0.22

Source: the Company

<table>
<tr><td></td><td></td><td>

** Final beneficial owner of this company, holding 100% of its shares and votes is Saulius Karosas.*

No Shareholders’ Agreements are in effect in the Company or its Subsidiaries.

Apart from the information, indicated above, the Company has no information about any other possible control over the Issuer.

On 3 May 2018 the General Meeting has adopted decision to increase the authorised capital of the Company from EUR 19,947,577.50 to EUR 20,947,635.36 by issuing 6,906 new ordinary registered shares of the Company with a par value of EUR 144.81 each. After the issue of the new shares the authorised capital of the Company shall be divided into 144,656 ordinary registered shares with a par value of EUR 144,81 each. The authorised capital of the Company may be increased only after receiving of a permission from the LB, regarding which the Company has applied to the LB on 8 May 2018.

On the day when the new Articles of Association with the increased authorised capital will be registered with the Register of Legal Entities, the structure of shareholders will be as indicated in the table below:

<table>
<tr><th>Shareholder</th><th>Shares and votes, held directly</th><th>Percentage, %</th><th>Indirectly held shares and votes, %</th><th>Total, %</th></tr>
<tr><td>Saulius Karosas</td><td>130,756</td><td>90.39</td><td>9.40</td><td>99.79</td></tr>
<tr><td>Western Petroleum Ltd.*</td><td>13,600</td><td>9.40</td><td>90.39</td><td>99.79</td></tr>
<tr><td>Vytenis Rasutis</td><td>300</td><td>0.21</td><td>0</td><td>0.21</td></tr>
</table>

Source: the Company
** Final beneficial owner of this company, holding 100% of its shares and votes is Saulius Karosas.*

</td></tr>
<tr><td>B.17</td><td>Credit ratings assigned to the Issuer or its debt securities at the request or with cooperation of the Issuer in rating process</td><td>Not applicable. Neither the Issuer, nor the Bonds shall be assigned with the credit ratings as a result of the Offering.</td></tr>
</table>

Section C — Securities

<table>
<tr><td>Ele-ment</td><td>Title</td><td></td></tr>
<tr><td>C.1</td><td>Type and class of securities and security identification number</td><td>

Subordinated Bonds, qualifying as Tier 2 instruments under the CRR up to an aggregate principal amount of EUR 10,000,000, which may be issued within the period of 12 months as from the approval of the Prospectus. Bonds of the Bank – unsecured debt bonds with a fixed-term, non-equity (debt) securities under which the Company shall become the debtor of the Bondholders and shall assume obligations for the benefit of the Bondholders.

All the Bonds of the Company (when issued) will be ordinary registered bonds and will be registered within Nasdaq CSD. Prior to Offering of the Bonds in each of the respective Tranche, the Issuer shall apply to Nasdaq CSD for assignment of the ISIN to Bonds, which shall be indicated in the Final Terms.

Issue specific summary (template):

Tranche number: [ ].

ISIN Code: [ ]]/[Temporary ISIN Code: [ ].

</td></tr>
<tr><td>C.2</td><td>Currency of the issue</td><td>EUR.</td></tr>
<tr><td>C.5</td><td>Restrictions on free transferability of securities</td><td>There are no restrictions on transfer of Bonds as they are described in the applicable Lithuanian laws. However, the Bonds cannot be offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which it would be unlawful or require measures other than those required under Lithuanian laws, including, without limitation, in the United States of America, Australia, Canada, Hong Kong and Japan.</td></tr>
<tr><td>C.8, C.9</td><td>A description of the rights attached to the securities, plus:</td><td>Rights of the Bondholders. A Bond is a fixed-term non-equity (debt) security under which the Company which is the Issuer of the Bond becomes the debtor of the Bondholder and assumes obligations for the benefit of the Bondholder. The Bonds of each respective Tranche of issues shall grant their holders equal rights. As from the maturity date of the</td></tr>
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- ranking;
- limitations to those rights;
- the nominal interest rate;
- the date from which interest becomes payable and the due dates for interest;
- where the rate is not fixed, description of the underlying on which it is based;
- maturity date and arrangements for the amortisation of the loan, including the repayment procedures;
- an indication of yield;
- name of representative of debt security holders.

</td>
<td>

Bonds, Bondholders shall have a right to receive from the Company the nominal value of Bonds and the interest, i.e. he/she/it shall have a right to require, that the Bonds would be redeemed for their redemption price.

Bondholders shall have the rights provided in Law on Protection of Interests of Bondholders, the Civil Code, the Law on Companies, the Law on Banks and other laws regulating the rights of bondholders, as well as the rights specified in the decision to issue Bonds. The Bondholders shall have the following main rights:

- to receive the cumulative interest accrued semi-annually;
- to receive the nominal value of Bonds and the cumulative interest accrued on the maturity date of the Bonds;
- to sell or transfer otherwise all or part of the Bonds;
- to bequeath all or part of owned Bonds to the ownership of other persons (applicable only towards natural persons);
- to participate in the Bondholders’ Meetings;
- to vote in Bondholders’ Meetings;
- to initiate the convocation of the Bondholders’ Meetings following the procedure and in cases provided for in the Law on Protection of Interests of Bondholders;
- to adopt a decision to convene the Bondholders’ Meeting following the procedure and in cases provided for in the Law on Protection of Interests of Bondholders;
- to obtain the information about the Issuer, the issue of Bonds or other information related to the protection of his/her/its interests;
- to receive the copy of the contract concluded between the Issuer and the Trustee;
- other rights, established in the applicable laws or in the documents of establishment of the Issuer.

Ranking. The Bonds constitute direct, subordinated, unsecured and unguaranteed obligations of the Issuer, ranking at the same rate (*pari passu*) without any preference among each other. In addition to that the state guarantee (insurance) is not applicable in case of investments into the Bonds.

Interest rate and dates of payment thereof. Fixed yield of the Bonds shall be determined and established in the Final Terms.

The interest on the Bonds will be paid semi-annually on the dates specified in the Final Terms until the Maturity Date and will be calculated on the aggregate outstanding principal amount of the Bonds of the respective Tranche.

Interest shall accrue for each interest period from and including the first day of the interest period to (but excluding) the last day of the interest period on the principal amount of Bonds of the respective Tranche outstanding from time to time. The first interest period commences on the Issue Date and ends on the first Interest Payment Date. Each consecutive interest period begins on the previous Interest Payment Date and ends on the following Interest Payment Date. The last interest period ends on the Maturity Date.

Interest in respect of the Bonds will be calculated on the basis of the actual number of days elapsed in the relevant interest period divided by actual length in days of the relevant interest period multiplied by frequency factor of 2, i.e. a day count convention Act/Act (ICMA) will be used.

When interest is required to be calculated in respect of a period of less than a full year other than in respect of the First Interest Period, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

Should any Interest Payment Date fall on a date which is not a Business Day, the payment of the interest due will be postponed to the next Business Day. The postponement of the payment date shall not have an impact on the amount payable.

Issue specific summary (template):

Annual Interest Rate: [ ].

Interest Payment Dates: [ ].

Maturity (redemption) Date of the Bonds and principal payments. The exact Maturity Date shall be specified in the Final Terms. Each Tranche of Bonds may have a maturity between

</td>
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</table>

		5 (five) and 7 (seven) years or such other maturity as the Issuer decides, but in any case not shorter than 5 (five) years. The term for provision of the requests/requirements to redeem the Bonds shall not be applicable, as upon Maturity Date of Bonds, the nominal value thereof with the cumulative interest accrued shall be transferred to the accounts indicated by the Bondholders without separate requests/requirements of the Bondholders. As from this moment the Issuer shall be deemed to be fully executed the obligations, related to the Bonds and their redemption, disregarding the fact, whether the Bondholder actually accepts the indicated funds. In case requisites of the account of the Bondholder changes, he/she/it shall have an obligation to inform the Company thereof. Should the Maturity Date fall on a date which is not a Business Day, the payment of the amount due will be postponed to the next Business Day. The postponement of the payment date shall not have an impact on the amount payable. Following the transfer of the redemption price to the investor's accounts as indicated above, the Bonds shall be removed from Nasdaq CSD and Nasdaq. *Redemption of Bonds by choice of the Issuer (the "Issuer Call")*. The Issuer may chose to redeem the relevant Bonds prior to Maturity Date but not earlier than 5 (five) years after issue at the amount specified in the applicable Final Terms, subject to the prior permission of the LB, provided that at the relevant time such permission is required (but without any requirement for the consent or approval of the Bondholders), and upon giving not less than 15 nor more than 30 days' irrevocable notice. The Bondholders do not have a right to require to redeem the Bonds prior to the Maturity Date. If the mentioned amounts are not transferred to the account indicated by the Bondholders, the Bondholders shall have a right to claim for redemption of the Bonds within 3 (three) years after the Maturity Date. If the Bondholders shall not claim redemption of the Bonds within the indicated 3 (three) years term, the respective Bondholders shall forfeit the right of claim. *Issue specific summary (template):* Maturity Date: [ ]. Nominal amount of the Bond: EUR [ ]. Aggregate principal amount: EUR [ ]. Issue Price of the Bond: EUR [ ]. *Name of representative of the Bondholders (Trustee).* On 10 May 2018, the Issuer has concluded the civil contract with Audifina UAB, a private limited liability company established and existing under the laws of the Republic of Lithuania, corporate ID code 125921757, with its registered address at Žygimanto Liauksmino str. 3, Vilnius, Lithuania, which meets the requirements established for the trustees in the Law on Protection of Interests of Bondholders. As indicated above, each Bondholder is entitled to receive the copy of the civil contract concluded between the Issuer and the Trustee from the Issuer or from the Trustee.
C.10	If the security has a derivative component in the interest payment, provide a clear and comprehensive explanation to help investors understand how the value of their investment is affected by the value of the underlying instrument(s),	Not applicable. The Bonds have no derivative component in the interest payment.

	especially under the circumstances when the risks are most evident	
C.11	An indication as to whether the securities offered are or will be the object of an application for admission to trading, with a view to their distribution in a regulated market or other equivalent markets with indication of the markets in question	The Issuer shall submit an application regarding Admission of each Tranche of the Bonds to trading on Nasdaq (the Baltic Bond List). The decision as to admission of Bonds to trading on Nasdaq shall be adopted by the Board of Nasdaq. The Company shall take implement all the measures, established in Nasdaq rules, needed that the Bonds would be admitted to trading on Nasdaq as soon as practicably possible. The Management expects that the Bonds of the respective Tranche shall be admitted to trading on Nasdaq within 1 (one) month as from placement thereof to the Investors the latest. Disregarding this, the Management will put its best endeavours so that this term would be as short as practicable possible. The Issuer shall also put its best efforts to ensure that the Bonds remain listed on Nasdaq. The Issuer shall, following a listing or Admission to trading, take all reasonable actions on its part required as a result of such listing or trading of the Bonds. The Issuer will cover all costs which are related to the Admission of the Bonds to Nasdaq. The Issuer does not intend to apply for admission of the Bonds (or part thereof) to trading on other regulated markets or equivalent markets.

Section D – Risks

Ele-ment	*Title*	*Disclosure*
D.2	Key risks specific to the Issuer	***Counterpary credit risk.*** Counterparty credit risk is one of the most important risk affecting operations of the Group. The risk of potential loss which may arise from counterparty's inability to meet its obligations to the Group. Credit risk affects cash and cash equivalents held with third parties (such as deposits with banks and other financial institutions), bonds, derivatives, but mostly credit exposures to customers, including outstanding loans as well as other receivables and commitments. ***Exposure to regulatory actions and investigations.*** The LB carried out an investigation on the Bank. After finalisation of the investigation on 30 June 2017 the LB imposed supervisory measures towards the Bank – a financial penalty of EUR 235,350, as well as prohibited temporarily to provide lending to related persons. This prohibition is valid until the LB by its separate decision revokes the abovementioned restriction, which as of the date of this Prospectus has not been revoked. In addition to that, on 18 April 2018 the LB has applied towards the Company compulsory instruction and has publicly announced on 26 April 2018 that the Company has not complied with the previous mandatory restriction of the LB not to provide lending to the related persons of the Company. The restriction not to provide lending to related persons is further valid until the LB shall revoke it. Furthermore, the LB performed additional inspection on the status of 31 March 2018 and according results of the inspection the net result for Q1 2018 may be adjusted for the formation of additional provisions covering credit risk and impairment of other assets. Although the Management believes that it has remedied all the issues, raised during the previous inspections, however, should the results of the new inspection and/or any other inspections in the future be non-satisfactory to the LB, the Bank may be imposed with additional monetary and/or other sanctions, also the above prohibition to provide lending to related persons may be not revoked. Any of these consequences may have material adverse effect on the Group's operations, financial position and results, reputation of the Company and its issued Bonds price. ***Interest rate risk*** The operations of the Group are inherently exposed to interest rate risk. The amount of net interest income earned by the Group materially affects the revenues and the profitability of the operations of the Group – in 2017 Group's net interest income accounted to 50.3% of the Groups total operating income (50.5% in 2016). Due to the unforseen fluctuations of market interest rates there may be a mismatch between the interest income earned from the lending and crediting operations of the Group and the interest costs paid on the interest-bearing liabilities, which may have material adverse effect on the Group's operations, financial condition and results of operations. ***Loan portfolio concentration risk.*** The operations of the Group are subject to loan portfolio concentration risk, which by essence is a risk arising from the overall spread of outstanding accounts over the number and variety of clients. ***Maintaining capital adequacy ratios.*** Credit institutions and investment firms are subject

		to strict capital adequacy requirements subject to frequent reforms and changes. As of the date of the Prospectus the Group is complying with all applicable capital requirements and is operating with higher capital adequacy ration than required minimum of 13.9%. It should be taken into account that on 30 June 2017 the LB imposed a fine of EUR 235,350 to the Bank, also temporarily prohibiting to provide lending to its related persons due to non-compliance with the capital adequacy requirements of the Bank. However, all the violations have been eliminated and currently the general capital adequacy requirement is sufficient – as of 31 March 2018 the capital adequacy ratio was 17.0% (as of 31 December 2017 it was 15.01%). Nevertheless, a situation might occur that due to unexpected high losses the Bank's capital would decrease and the Bank would not comply with minimum capital adequacy ratio requirements. ***Competition risk.*** The Issuer is the smallest bank registered in Lithuania with only 0.9% of the market share as measured in financial loans provided. As a result, the Group faces a significant competition from other larger market players. ***Dependency on Information Technology systems.*** The Group has developed and uses a variety of information technology systems and web-based solutions in carrying out its everyday business operations and providing services to its clients. The dependency on such systems is increasing in time with the spread of online and mobile banking services. This means that the Group is exceedingly open to risks over which it has no control, including system-wide failures of communication infrastructure, quality and reliability of equipment and software supplied by third parties and other similar risks. ***Operational risk.*** Operational risk is a risk of potential loss caused by human, process or information system failures and flaws. In addition to human, process or information system failures and flaws, the operational risk embraces risk of corporate fraud and misconduct.
D.3	Key risks that are specific to the Bonds	***The Bonds may be not a suitable investment for all investors.*** Each potential Investor in the Bonds must determine the suitability of that investment in light of its own circumstances. A potential Investor should not invest in the Bonds unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor's overall investment portfolio. ***Subordination risks.*** The Bonds are subordinated to all unsubordinated claims against the Issuer; however, not to the claims, which are subordinated to the Bonds or which rank at the same rate (*pari passu*) with the Bonds. The subordination of the Bonds means that upon the recovery, liquidation or bankruptcy of the Issuer, all the claims arising from the Bonds shall fall due in accordance with General Terms and Conditions and shall be satisfied only after the full satisfaction of all unsubordinated recognised claims against the Issuer (6th ranking claim from the order of satisfaction of creditors claims). ***Early redemption risk.*** According to the General Terms and Conditions, the Bonds may be redeemed prematurely on the initiative of the Issuer, any time, but not earlier than after 5 (five) years from the issue of the Bonds. If this early redemption right is exercised by the Issuer, the rate of return from an investment into the Bonds may be lower than initially anticipated. ***An active secondary market for the Bonds may not develop.*** The Bonds constitute a new issue of securities by the Issuer. Prior to Admission to trading on the regulated market, there is no public market for the Bonds and other securities of the Issuer. Although application(s) will be made for the Bonds to be admitted to trading on Nasdaq, there is no assurance that such application(s) will be accepted and the Bonds will be admitted to trading. In addition, Admission to trading the Bonds on a regulated market will not guarantee that a liquid public market for the Bonds will develop or, if such market develops, that it will be maintained, and neither the Issuer, nor the Lead Manager is under any obligation to maintain such market. ***Credit risk.*** Any person who purchases/subscribes the Bonds is relying on the creditworthiness of the Issuer and has no rights against any other person. Bondholders are subject to the risk of a partial or total failure of the Issuer to make interest and/or redemption payments that the Issuer is obliged to make under the Bonds. ***Interest rate risk, related to Bonds.*** Bondholders should be aware that movements of the market interest rate can adversely affect the market price of the Bonds and can lead to losses for the Bondholders if they sell their Bonds. ***Taxation of Bonds.*** Potential purchasers/subscribers and sellers of the Bonds should be aware that they may be required to pay taxes or other documentary charges or duties in

		accordance with the laws and practices of the country where the Bonds are transferred or other jurisdictions. ***Possibility to forfeit interest and principle amount invested.*** Should the Issuer become insolvent, legal protection proceedings or out-of-court legal protection proceedings of the Issuer are initiated during the term of the Bonds, an investor may forfeit interest payable on, and the principle amount of, the Bonds in whole or in part. ***No guarantee or security.*** The Bonds will not be obligations of anyone other than the Issuer and they will not be guaranteed. No one other than the Issuer will accept any liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Bonds. ***Refinancing risk.*** The Issuer may be required to refinance certain or all of its outstanding debt, including the Bonds. The Issuer's ability to successfully refinance its debt is dependent on the conditions of the debt capital markets and its financial condition at such time. Even if the debt capital markets are in favourable conditions, the Issuer's access to financing sources at a particular time may not be available on favourable terms, or at all. The Issuer´s inability to refinance its debt obligations on favourable terms, or at all, could have a negative impact on the Group's operations, financial condition, earnings and on the Bondholders' recovery under the Bonds. ***Bail-in.*** The Bonds that may be issued under the Programme may become subject to actions that can be taken or measures that can be applied by resolution authorities if a Bank experiences serious financial problems or if the stability of the Bank as a result of the situation of a Lithuanian financial institution (for the purpose hereof including a relevant holding company). In the event that write-down or conversion powers are exercised by a competent authority: (i) the amount outstanding may be reduced, including to zero; (ii) the Bonds may be converted into ordinary shares or other instruments of ownership; (iii) the terms may be varied (e.g. the variation of maturity of the Bonds). Please note that financial public support should only be used as a last resort after having assessed and exploited, to the maximum extent practicable, the resolution tools, including the bail-in tool..

Section E – Offer

Element	*Title*	*Disclosure*
E.2b	Reasons for the Offering / Use of proceeds, when different from making profit and/or hedging certain risks	The Issuer intends to use the net proceeds for improving the Tier 2 capital and strengthen the fulfilment of capital adequacy requirements. The improved Tier 2 capital will enable the Issuer to expand bank loan portfolio, especially in the target segments of small and medium enterprises and agriculture (loans in both of these segments are secured with acceptable collateral). The Issuer currently has enough human and technological resources, as well as sufficient liquidity in order to expand its lending portfolio. The improved Tier 2 capital will allow the Bank to maintain sufficient capital adequacy ratio while increasing bank loan portfolio.
E.3	Terms and conditions of the Offering	The Issuer may issue within the period of 12 months as from approval of the Prospectus Bonds up to an aggregate principal amount of EUR 10,000,000. The Bonds shall be issued and offered in separate Tranches. The terms and conditions of each Tranche shall consist of (i) the General Terms and Conditions of Bonds, which shall apply to each Tranche and which are provided in the Prospectus and (ii) the Final Terms. Thus, the Bonds of each of the Tranches will generally be subject to identical main terms, except that the Issue Dates and the Issue Prices of Bonds may be different in respect of different Tranches. The aggregate principal amount of Bonds of each of the Tranches shall be specified in the Final Terms. The Issuer may decrease the aggregate principal amount of a Tranche as set out in the Final Terms during the Subscription Period of that Tranche. *Issue specific summary (template):* Aggregate principal amount: EUR [___] [in addition to [___]]. [*The Issuer may decrease the aggregate principal amount of the Tranche during the Subscription Period of the Tranche. The final aggregate principal amount of the Tranche will be specified in the notification regarding allotment of Bonds to the Investors, which will be published on the websites of the Company and Offering Broker after allotment thereof to the Investors.*] The Bonds will be offered for subscription for a Minimum Investment Amount, which will be specified in the Final Terms. *Issue specific summary (template):*

Minimal Investment Amount: EUR [ ].

General Structure of the Offering

This Offering consists of: (i) public offering to Retail Investors and Institutional Investors in the Republic of Lithuania, and (ii) private placement to Institutional Investors and Retail Investors in certain Member States of the EEA in each case pursuant to an exemption under Article 3 of the Prospectus Directive (Directive 2003/71/EC)[2], as implemented by the respective Member States of EEA.

Only such prospective Investors will be eligible to participate in the Offering who at or by the time of placing their orders (before the end of the Subscription Period) have opened securities accounts with entities of their choice which are licensed to provide such services within the territory of the Republic of Lithuania, the Republic of Latvia and / or the Republic of Estonia.

Thus, according to the information, provided above, the Offering of each of the Tranche shall be structured in the following order:

(i) the Subscriptions as to acquisition of the Bonds of the respective Tranche shall be received from the Investors as well as paid according to the order, described in this Base Prospectus and Final Terms of the respective Tranche;
(ii) based on the decision of the Management Board the Bonds shall be finally allocated to the Investors;
(iii) the Bonds shall be registered with Nasdaq CSD and distributed to the Investors;
(iv) the Bonds will be introduced to trading on Nasdaq.

Subscription Procedure; invalidity or the Subscription Orders

The Subscription Period for each respective Tranche will be specified in the Final Terms. The Investors wishing to subscribe/purchase the Bonds shall submit their orders to acquire the Bonds at any time during the Subscription Period to the Offering Broker or its sub-agents (if any), which may be specified in the Final Terms. Total amount of the Bonds to be acquired and indicated in each Subscription Order shall be for at least Minimum Investment Amount. The procedure of submission of the Subscription Orders will be specified in the Final Terms.

All Subscription Orders shall be binding and irrevocable commitment to acquire the allotted Bonds, with the exceptions stated below.

The Subscription Orders shall not be considered valid and shall not be processed in case the purchase amount indicated in the Subscription Orders is less than the Minimum Investment Amount or the Subscription Orders were received after the Subscription Period. Neither the Issuer, nor the Offering Broker has any obligation to inform the Investors about the fact that their Subscription Orders are invalid.

Issue specific summary (template):

Subscription Period: [ ].

Procedure for submission of the Subscription Orders: [*If any additional information will be provided with regards to the respective Tranche of Bonds.*].

Place of Subscription

The places (exact addresses) where the Subscriptions will be accepted will be indicated in the Final Terms.

Issue specific summary (template):

Sub-agents for the Offering Broker (if any): [ ].

[2] One of the following exemptions would be used with this respect, when the offer does not require approval and announcement of the prospectus:
(a) an offer of securities addressed solely to qualified investors; and/or
(b) an offer of securities addressed to fewer than 150 natural or legal persons per Member State, other than qualified investors; and/or
(c) an offer of securities addressed to investors who acquire securities for a total consideration of at least EUR 100,000 per investor, for each separate offer.

Address(-es) where the Subscriptions will be accepted: [___].

Subscriptions will be accepted if Investors have a brokerage account agreement with the Offering Broker or other entities of their choice, which are licensed to provide such services within the territory of the Republic of Lithuania, the Republic of Latvia and/ or the Republic of Estonia.

General information regarding the Subscription procedure

At the time of placing a Subscription Order, Investors shall be required to make an irrevocable instruction for depositing the Bonds in a securities account maintained in their name and opened with entities of their choice which are licensed to provide such services within the territory of the Republic of Lithuania, the Republic of Latvia and/ or the Republic of Estonia.

By placing a Subscription Order, each Investor will be deemed to have read this Base Prospectus, the Company's Articles of Association and the contract between the Company and the Trustee and accepted their content, as well as have read the Final Terms of the Offering, consented to being allotted a lower number of Bonds than the number specified in such Investor's Subscription Orders, or to not being allotted any Bonds at all, pursuant to the terms and conditions of the Offering.

An Investor will be allowed to submit a Subscription Order either personally or via a representative whom the Investor has authorized (in the form required by law) to submit the Subscription Order. More detailed information concerning the identification of Investors, including requirements concerning documents submitted and the rules for acting through authorized representatives, can be obtained by Investors from the entities accepting Subscription Orders.

An Investor must ensure that all information contained in the Subscription Order is correct, complete and legible. The Issuer reserves the right to reject any Subscription Orders that are incomplete, incorrect, unclear or ineligible, or that have not been completed and submitted and/or have not been supported by the necessary additional documents, requested by the Issuer or the Offering Broker, during the Subscription Period and in accordance with all requirements set out in the terms and conditions of the Offering.

Any consequences of a form of Subscription for the Bonds being incorrectly filled out will be borne by the Investor.

Institutional Investors' Subscription Procedure

Institutional Investors will also be entitled to place multiple Subscription Orders.

The Institutional Investors should contact the Offering Broker for information on detailed rules governing the placement of Subscription Orders, in particular the documents required if an order is placed by a statutory representative, proxy or any other person acting on behalf of an investor.

Institutional Investors that manage assets on behalf of third parties will be allowed to submit a combined order in favour of their customers, attaching a list of such customers.

Withdrawal of the Subscription Orders

Subscription Orders for the Bonds are irrevocable, except the right of withdrawal as indicated below.

A Subscription for the Bonds may be withdrawn when after the start of the Offering of each separate Tranche of Bonds, a supplement is made public concerning an event or circumstances occurring before the allotment of the Bonds of the respective Tranche, of which the Issuer became aware before the allotment thereof. The Investor who has made a Subscription for the Bonds of the respective Tranche before the publication of the supplement may withdraw such Subscription by submitting a written statement to the institution where the subscription was made, within 2 (two) Business Days as from the date of the publication of the supplement.

The repayments will be made in accordance with the Subscription Order within 3 (three) Business Days after making the statement on the Subscription cancellation.

Pricing

The Issue Price shall be determined by the Issuer together with the Offering Broker and shall be announced prior to commencement of the Subscription Period. The nominal value and the Issue Price per Bond shall be at least EUR 1,000.

Issue specific summary (template):

Nominal amount of the Bond: EUR [ ].

Issue Price of the Bond: EUR [ ].

Procedure and dates for payment for the Bonds

Subscriptions for the Bonds by the Retail Investors will have to be fully paid within 3 (three) Business Days after provision of the Subscription Order, however, no later than until the end of the Subscription Period for these Investors. The full payment by the Retail Investors shall mean a payment equal to the number of the Bonds indicated in the Subscription Order multiplied by the Issue Price, indicated in the Final Terms. Payments by these Investors can be made by wire transfer only (cash payments shall not be accepted) and has to be made in EUR to the dedicated Bond proceeds' collection account, managed by the Lead Manager, which shall be indicated in the Subscription Order. Payments received from Investors will be kept in the dedicated account till the and of Subscription period and will be transferred to the Issuer only after the allotment of the Bonds to the investors is completed.

By submitting a Subscription, the Institutional Investors shall authorize and instruct the broker operating the respective Institutional Investor's cash account connected to its/his/her securities account to block the whole transaction amount on the Institutional Investor's cash account until the settlement is completed or funds are released in accordance with the terms and conditions of the Offering. The transaction amount to be blocked will be equal to the Issue Price multiplied by the number of Bonds which the respective Institutional Investor wishes to acquire. An Institutional Investor must ensure, that no later than on the final date of the Subscription Period, indicated in the Final Terms, there are sufficient funds on its/his/her cash account connected to securities account with the broker to cover the whole transaction amount, as indicated above.

The Investors who have not been allotted any Bonds or whose Subscriptions have been reduced will receive reimbursements of the payment made upon placing the Subscription Order in accordance with instructions provided by each such Investor, as required under the procedures applicable in the investment firm with which the Subscription Order was placed. The reimbursement will take place within 10 (ten) Business Days as from the end of the Subscription Period or from the date of the publication of the supplement to this Base Prospectus on the cancellation of the Offering. The payments shall be returned without any reimbursement for costs incurred by the Investors in the course of subscribing for the Bonds, and shall be net of all transfer expenses and without interest.

Payments for the Bonds are interest free.

A legal consequence of non-payment on time or a partial payment for the Bonds will be the invalidity of the entire Subscription.

Allotment

On the next Business Day following the end of the Subscription Period or about that date the Issuer together with the Offering Broker will decide whether to proceed with the Offering of the Bonds of a Tranche or cancel the respective Offering.

In case the Offering of the Bonds of a Tranche is cancelled, the Issuer will publish an announcement on its website as well as submit this information to the LB.

In case the Issuer decides to proceed with the Offering of the Bonds of a Tranche the following actions shall be taken on the next Business Day following the Subscription Period or about that date:

Allotment of the Bonds to the Investors

The Issuer together with the Offering Broker will establish the exact amount of the Bonds to be allotted with respect to each Subscription Order. The procedure of allotment of the Bonds will be specified in the Final Terms for the Offering of the relevant Tranche.

		The Issuer and the Offering Broker will not be obliged to allocate any Bonds to any Investors participating in the Offering and they also may cancel, suspend or postpone the Offering, as indicated below. Furthermore, there will be no target minimum individual allotment to the Investors. *Confirmations* After completion of the allotment the Offering Broker shall submit a trade confirmation (the “Confirmation”) to those investors, the Subscription Order(-s) of which will be satisfied not fully (if any). The Confirmation will evidence the extent of satisfaction or rejection of the Subscription Order submitted by the respective Investor and the number of Bonds allotted to it/him/her. *Issue specific summary (template):* Procedure for allotment of the Bonds and settlement: [*If any additional information will be provided with regards to the respective Tranche of Bonds.*] Expected Issue Date: [ ]. ***Information about the Results of the Offering*** Information about the results of the Offering of each Tranche (amount of the Bonds issued and aggregate principal amount of the respective Tranche) shall be published on the Issuer’s website www.medbank.lt and a respective placement report shall be filed with the LB within 3 (three) Business Days after the Issue Date. **Cancellation, Suspension or Postponement of the Offering** The Issuer may cancel the Offering of Bonds of any of the Tranche, upon recommendation of the Offering Broker or at its own initiative, at any time prior to the Settlement Date without disclosing any reason for doing so. The Issuer may also change the dates of opening and closing of the Subscription period, or decide that the Offering of any of the Tranche will be postponed and that new dates of the Offering will be provided by the Issuer later. The Issuer may cancel the Offering, upon recommendation of the Offering Broker if the Issuer considers it impracticable or inadvisable to proceed with the Offering. Such reasons include, but are not limited to: (i) suspension or material limitation of trading in securities generally on Nasdaq, as well as any other official stock exchange in the EU and the United States; (ii) sudden and material adverse change in the economic or political situation in Lithuania or worldwide; (iii) a material loss or interference with the Issuer’s or its Subsidiaries business, or (iv) any material change or development in or affecting the general affairs, management, financial position, shareholders’ equity or results of the Issuer’s operations or the operations of the Subsidiaries. In such an event, Subscriptions for the Bonds that have been made will be disregarded, and any Subscription payments made will be returned without interest or any other compensation. The Issuer may also suspend the Offering, upon recommendation of the Offering Broker. If the Offering is suspended, the Issuer may decide that the Subscriptions made and payments made will be deemed to remain valid, however, for no longer than 7 (seven) Business Days. In such case, the Investors will be allowed to withdraw Subscriptions made by submitting a relevant statement to that effect within 2 (two) Business Days after the report on the suspension is announced. Any decision on cancellation, suspension, postponement or changes of dates of the Offering will be published in a manner compliant with applicable regulations, as well as market practices in Lithuania. If the Offering is cancelled or suspended, Investors who placed Subscription orders and paid for the Subscription will get their payments back: – if the Offering is cancelled – within 3 (three) Business Days after the public announcement by the Company of the Offering cancellation; – if the Offering is suspended – within 3 (three) Business Days after the date on which the Investor has made a statement cancelling his/her/its Subscription or 3 (three) Business Days after the date that the Issuer announces that the placed Subscriptions are not valid. The timely repayment of money paid will be without any interest or compensation.

E.4	Interests material to the Offering / Conflicting interests	Save for commissions to be paid to the Lead Manager, so far as the Issuer is aware, no person involved in the Offering of the Bonds has an interest material to the issue/offer, nor any conflicting interests.
E.7	Estimated Expenses charged to the Investor by the Company	No expenses or taxes will be charged to the Investors by the Issuer in respect to the Offering of the Bonds. However, the Investors may be obliged to cover expenses which are related to the opening of securities accounts with credit institutions or investment brokerage firms, as well as commissions which are charged by the credit institutions or investment brokerage firms in relation to the execution of the Investor's purchase or selling orders of the Bonds, the holding of the Bonds or any other operations in relation to the Bonds. The Issuer and or the Lead Manager will not compensate the Bondholders for any such expenses.

III RISK FACTORS

The following is a disclosure of certain risk factors that may affect the Issuer's ability to fulfil its obligations under the Bonds. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which are material for the purpose of assessing the risks associated with the Bonds are described below. The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Bonds may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to the Issuer or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Before deciding to purchase/subscribe the Bonds, investors should carefully review and consider the following risk factors and other information contained in this Base Prospectus. Should one or more of the risks described below materialise, this may have a material adverse effect on the business, prospects, shareholders' equity, net assets, financial position and financial performance of the Issuer or the Group. Moreover, if any of these risks occur, the market value of the Bonds and the likelihood that the Issuer will be in a position to fulfil its payment obligations under the Bonds may decrease, in which case the Bondholders could lose all or part of their investments. Additional risks and uncertainties, which are not currently known to the Issuer or which the Issuer currently believes are immaterial, could likewise impair the business operations of the Issuer and/or the Group and have a material adverse effect on their cash flows, financial performance and financial condition. The order in which the risks are presented does not reflect the likelihood of their occurrence or the magnitude of their potential impact on the cash flows, financial performance and financial condition of the Issuer and/or the Group.

3.1 General Business Risks

General economic situation

The Group's business, financial performance and financial condition may be materially affected by changes in general economic, political and financial market conditions, such as a global or local recession, inflation and/or fluctuations in interest rates.

The demand for banking services generally correlates with economic activity, including growth in gross domestic product in Lithuania. Banking services industry is considered to be highly sensitive to economic cycles, so both weak and strong economic activity, presents a challenge for the Group. Periods of recession may have an adverse impact on Groups's debtor payment terms, credit risk of Group's loan portfolio, Group's ability to raise external financing, and on the demand for services. This may adversely affect the Group's financial performance and financial condition.

In periods of rapid economic growth, the Group may encounter problems in recruiting qualified employees and tends to experience inflation-driven increases in certain of its costs, such as staff costs. Accordingly, high rates of inflation could increase the Group's costs and have a material adverse effect on the Group's financial performance and its financial condition. In addition to that, during rapid economic growth periods central banks tend to execute policies focused on increasing borrowing interest rates and subsequently putting downward pressure on borrowing demand. Such central bank policies could result in additional disruptions of Group's business activities and could result in additional losses.

Geopolitical risks

Current geopolitical tensions between Western countries (EU, the United States of America) and Russia, the USA and North Korea, as well as the USA administration's aggressive policies regarding international trade and import tarrifs could have a signifinantly negative effect on international trade and international flows of capital. Such disruptions in global trade and capital flows could negatively affect global economy and especially banking industry which subsequently could negatively affect the Group's financial performance and financial position.

Market risk

Market disruptions can be triggered by current tendencies challenging the stability of the EU in its current form, such as the undergoing process of the United Kingdom leaving the EU (Brexit), which, in addition to increasing economic volatility and market uncertainty globally, could have a significant negative impact on the economic development of the EU Member States. Since significant share of EU banking activities are concentrated in the UK, Brexit can result in structural changes of EU banking sector.

Inflation risk

In year 2017 significant price inflation of 3.7% was recorded in Lithuania and inflation is expected to remain at relatively elevated levels in the upcoming years as well. Some of the relevant expenses of the Group closely relate to the general price level in the economy. Growing inflation could result in increase of such expenses which in turn could have an adverse influence on Groups financial performance and position. In addition to that, icreasing inflation could have a negative effect on credit risk and performance of the Group's loan portfolio which could result in additional losses being incurred by the Group.

The Issuer and the Group may be forced to increase their labour costs

Labour costs make a considerable part of the costs of the Group's services. Though workforce is cheaper in Lithuania than in old EU Member States, the difference should decrease constantly as the economy of Lithuania is catching up with the average of the EU. Willing to remain competitive and retain its employees, the Issuer and the Group may be forced to increase their labour costs at a faster pace than it used to do previously. If they fail to increase labour efficiency and effectiveness while increasing these costs, this may have a considerable adverse effect on the Group's financial situation and business results.

Interest rate risk

The operations of the Group are inherently exposed to interest rate risk. The amount of net interest income earned by the Group materially affects the revenues and the profitability of the operations of the Group – in 2017 Group's net interest income accounted to 50.3% of the Groups total operating income (50.5% in 2016), during the quarter ended on 31 March 2018 accounted to 63.6% (during the quarter ended on 31 March 2017 – 62.2%). Interest rates are affected by numerous factors beyond the control of the Group, which may be not estimated adequately. Such factors include the changes in the overall economic environment, level of inflation, monetary policies of states, etc. Despite the fact that the Management uses adequate interest rate risk management methods and tools, due to the unforseen fluctuations of market interest rates there may be a mismatch between the interest income earned from the lending and crediting operations of the Group and the interest costs paid on the interest-bearing liabilities, which may have material adverse effect on the Group's operations, financial condition and results of operations.

Foreign currency risk

Foreign currency risk arises primarily from the acquisition of securities denominated in foreign currencies or from foreign currency receivables and liabilities. Foreign exchange rates may be affected by complex political and economic factors, including relative rates of inflation, interest rate levels, the balance of payments between countries, the extent of any governmental surplus or deficit, and from the monetary, fiscal and trade policies pursued by the governments of the relevant currencies. Devaluation, depreciation or appreciation of foreign currency may have significant adverse effect on the value of the Group's assets denominated in foreign currency or increase the euro value of the Group's foreign currency liabilities. The Group's foreign currency risk management is based on monitoring the risk exposure against the limits established for single open currency position. Positions are monitored on a daily basis and the risk management policy is focused on maintaining more or less closed foreign exchange positions. As of 31 December 2017 the Group's open foreign currency position was equal to 1.46 % of Group's capital (2.04% as of 31 December 2016). However, situations may arise in which internal risk management procedures might turn out to be inadequate and adverse changes in foreign currency exchange rates could result in material adverse effect on the Group's financial situation and business results.

Real estate market risk

As a part of Group's business activities, the Group finances entities operating in Lithuanian real estate sector. As of 31 December 2017 corporate loans provided to entities operating in real estate operation and real estate construction sectors accounted to 14.0% (as of 31 December 2016 14.4%) of total loans provided by the Group before taking into account collateral held. In addition to that, the Group uses real esate as a main type of collateral securing both corporate and individual loans provided. As of 31 December 2017 real estate with the fair value of EUR 323,655,000 (as of 31 December 2016 EUR 216,386,000) was used as a collateral for loans provided. Potential negative development of Lithuanian real estate market could have a negative impact on both real estate market prices and transaction volume. Such decreases in prices and volumes could have an adverse effect on Groups debtors operating in real estate sector and could degrade the value and liquidity of real estate used by the Group as a collateral which in turn could have negative effect on the Group's financial position.

Changing the competitive environment of Lithuanian banking industry

In recent years several structural changes were observed in Lithuanian banking industry – Danske Bank stopped its retail operations in 2015, the Nordea Group and DNB ASA merged their operations in Lithuania and in other Baltic countries in 2017. These changes in competitive environment both present additional business opportunities and pose additional risks to the Group. Changing market structure could result in increasing competition which migh have a negative effect on the Group's business and financial position.

Exposure to conduct of other market participants

The Group's access to financing may be adversely affected by market practises of other market participants. Financial and securities markets are interrelated and defaults and failures to conduct sound business by other market players could lead to market-wide liquidity problems or other market-wide issues, which could adversely affect the Group's access to capital resources. In addition to that, the Group has exposure to many counterparties arising from trading, clearing, funding or other relationships with them. Failure of such market participants to meet their obligations may result in the default of the Group before other counterparties and clients, which in turn may have material adverse effect on the Group's operations and financial position.

Technological innovation related risk

In recent years the banking industry has been a focus of a number of digital technology based business initiatives and business ventures ("fintechs") which aim to transform the banking business model and compete with conventional banking institutions. A risk exists that new technology based market players could enter the market of banking services, thus significantly changing competitive landscape of the industry. Such changes could have an adverse effect on the Group's business operations and financial position.

Success of previous, current, and future business development projects

The Issuer has implemented and may implement in the future business development projects of significant scope, such as launch of new products, acquisitions of new business, etc. Though the Issuer and its employees invoke all available information and analytical resources when planning business development initiatives, there is no guarantee, that all information on which the business development initiatives planned were based was true and exhaustive. Furthermore, there is no guarantee that the development plans and the development initiatives made will generate anticipated or planned returns; there is no guarantee that implementation of these business development initiatives will not cost more than it was anticipated.

Failure of already implemented or anticipated business development projects, where returns from these projects are lower than it was expected or costs of such projects are higher than it was planned, may have a significant adverse effect on the Issuer's and Group's activities, its financial situation and business results.

3.2 Risks Factors Characteristic of the Group

Counterpary credit risk

Counterparty credit risk is one of the most important risk affecting operations of the Group. Counterparty credit risk is the risk of potential loss which may arise from counterparty's inability to meet its obligations to the Group. Credit risk affects cash and cash equivalents held with third parties (such as deposits with banks and other financial institutions), bonds, derivatives, but mostly credit exposures to customers, including outstanding loans as well as other receivables and commitments. In order to mitigate credit risk, the Group constantly analyses the operations and financial position of its customers and other counterparties. After authorising the initial credit exposure, the solvency of a customer and the value of the collateral are monitored regularly. Further, the Group makes provisions for potential credit losses in accordance with the applicable requirements, including the IFRS requirements; however, such provisions are made based on the available information, estimates and assumptions, which by definition are subject to certain amount of uncertainty. Therefore, there can be no assurance that provisions are sufficient to cover potential losses. The recoverability of credit provided by the Group to its customers may be adversely affected by negative changes in the overall economic, political or regulatory environment in Lithuania, decrease in collateral values and other circumstances beyond the control of the Group. Materialisation of credit risk may have material adverse effect on the Group's operations, financial position and results of operations.

Loan portfolio concentration risk

The operations of the Group are subject to loan portfolio concentration risk, which by essence is a risk arising from the overall spread of outstanding accounts over the number and variety of clients. As of 31 December 2017 the top 3 industries with largest exposure were financial services industry with 23%, services industry with 16.7%, and agriculture and food processing industry with 16.4% share of the total corporate loans value provided by the Group. As of December 2016 top 3 industries with largest exposure were financial services industry with 19.0%, services industry with 16.6% and real estate operations industry with 13.6% share of the total corporate loans value provided by the Group. The above concentration risk may have a material adverse effect on the Group's operations, financial condition and results of operations.

Maintaining capital adequacy ratios

Credit institutions and investment firms are subject to strict capital adequacy requirements subject to frequent reforms and changes. As of the date of the Prospectus the Group is complying with all applicable capital requirements and its capital adequacy ratio is higher than required minimum level of 13.9%. However, the capital requirements adopted in Lithuania and the EU may change, whether as a result of further changes of the EU or Lithuanian legislation, global standards or interpretation thereof. Such changes, either individually or in combination, may lead to unexpected increased requirements and have a material adverse effect on the business of the Group. This may result in the need to increase the capital, reduce leverage and risk weighted assets or even change the Group's business model. It should be noted that on 30 June 2017 the LB imposed a fine of EUR 235,350 to the Bank, also temporarily prohibiting to provide lending to its related persons. These sanctions, among other violations, were imposed due to non-compliance with the capital adequacy requirements of the Bank (for more information on this issue please see Section 4.9.2 *Legal and Arbitration Proceedings*). The Management considers, that all the violations, established by the LB have been eliminated and currently the general capital adequacy requirement is sufficient – as of 31 March 2018 the capital adequacy ratio was 17.0% (as of 31 December 2017 it was 15.01%). In addition to that, Investors should note that the Issuer intends to use the net proceeds from the Bonds for improving the Tier 2 capital and strengthen the fulfilment of capital adequacy requirements. In case the placement of Bonds is cancelled or the Bonds ar not fully subscribed and consequentially less proceeds are collected, the Issuer would not be able to improve Tier 2 capital to the level planned. Such event could negatively affect the Issuers ability to implement planned business growth strategy and future financial position. Also, capital adequacy could be negatively affected by unexpected high losses in the future – such losses would decrease the Bank's capital and could result in capital adequacy ratio decreasing below required minimum level.

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments related to financial instruments as they actually fall due. As of 31 March 2018 Group's liquidity coverage ratio was equal to 477.8% (as of 31 December 2017 730.6%) indicating rather low Issuers liquidity risk. In order to manage liquidity risk, the Group performs daily monitoring of internal limits and future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. Such risk policies and internal procedures may, however, be not adequate or sufficient in order to ensure the Group's access to funding resources when needed in order to ensure sufficient liquidity. The liquidity risk may have a material adverse effect on the Group's operations, financial condition and results of operations.

Dependence on the team of top managers and key personnel

Group's business depends on the team of the top managers, responsible for the development, growth of business, risk management and appropriate day-to-day activities. Therefore, the Group's ability to survive in the competitive environment and to implement its growth strategy is mostly determined by their experience, knowledge, personal relations and other characteristics. The Group's ability to attract and hire highly competent managers also contributes to the Group's success. As the competition for high qualification personnel is strong and constant, it is probable that the Group's managers and main employees can decide to change their jobs and to leave the Issuer or other Group companies. Loss of such employees or the Group's inability to hire new managing personnel with appropriate knowledge and capabilities or shortage of such people in the market can have a negative effect on the prospects of the Group's business, financial situation and performance.

The Issuer and the Group is also strongly dependent on its executives and other highly qualified and experienced personnel, having knowledge in banking. Should the Issuer or the Group fail to attract, maintain and motivate these workers, it could lose them to competitors. Additional time and financial recourses would be needed to find and select their replacements which could have an adverse effect on the Group's business, prospects, financial performance and financial position.

Potential challenges to implementing business strategy and achieving desired results

The Group expects to increase volume of its business operations and subsequently to earn higher returns in the future. However, these results are not guaranteed and are subject to variation due to numerous factors. The Group's financial results might not develop as projected because of a lower global demand, increased competition or the Group's inability to implement its business strategy. In addition, the Management may fail to correctly anticipate future market trends and make worse than optimal decisions regarding future development of the Group.

Competition risk

The Issuer is the smallest bank registered in Lithuania with only 0.9% of the market share as measured in financial loans provided. As a result, the Group faces a significant competition from other larger market players. In each of the business segments, the Group competes primarily on the basis of its service range, pricing, established client relationships, technical knowledge and the efficient handling of banking operations. If the Group is unable to continue provision of its services to existing clients, developing new services portfolios and attracting new clients, responding to client trends, increasing its operating efficiency and reducing its operating and overhead costs, it may not be able to successfully compete in the market. Should the Group fail to maintain its market position in the market and business segments, this could have a material adverse effect on the net assets, financial position and financial performance of the Group.

Dependency on Information Technology systems

The Group has developed and uses a variety of information technology (IT) systems and web-based solutions in carrying out its everyday business operations and providing services to its clients. This means that the Group is exceedingly open to IT related risks over which it has no control, including system-wide failures of communication infrastructure, quality and reliability of equipment and software supplied by third parties and other similar risks. Furthermore, should the Group experience a significant security breakdown or other significant disruption to its information technology systems, sensitive information could be compromised, which in turn could result in civil and administrative liability of the Group before its customers, counterparties and state authorities. In addition to that, potential illegal attacks on the Group's internal IT systems may limit access to both online and offline services of the Group, which would have material adverse effect on further operations of the Group and its financial position. The Group may, despite its efforts, fail to mitigate all IT systems related risks or fail to take appropriate and effective countermeasures if its systems fall under attack, which in turn may have material adverse effect on the Group's operations, financial position and results.

Operational risk

Operational risk is a risk of potential loss caused by human, process or information system failures and flaws. In addition to human, process or information system failures and flaws, the operational risk embraces risk of corporate fraud and misconduct. When completing transactions, transaction limits and competence systems are used to minimise potential loss and the principle of duality is used in the Group's working procedures, according to which there should be an approval by at least two employees or units in order to carry out a transaction or procedure. The information systems and operations of the Group companies are monitored constantly in order to identify risks of system failures, flaws or fraud and mitigate the operational risk. The information received from the monitoring of the information systems and operations of the Group companies is used to correct the flaws in information systems and avoid failures thereof. The Group's working procedures are reviewed periodically to ensure minimising human and process flaws and the potential loss arising therefrom. However, the risk of such losses cannot be eliminated altogether. The operational risk may have material adverse effect on the Group's operations, financial position and results.

3.3 Risks Related to the Bonds

The Bonds may be not a suitable investment for all investors

Each potential Investor in the Bonds must determine the suitability of that investment in light of its own circumstances. Beside other individual criterions suitability should also be determined based on the investment suitability tests performed by the credit institutions or investment brokerage firms opening securities accounts of such potential Investor. Lead manager may require potential Investor to perform additional Bonds suitability test. Potential Investor is advised to pay attention to the results of such tests when determining investment suitability of the Bonds. In particular, each potential Investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained in this Base Prospectus or any applicable supplement (if any) and the Final Terms;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds;
- understand thoroughly the terms of the Bonds; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential Investor should not invest in the Bonds unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

Subordination risks

The Bonds are subordinated to all unsubordinated claims against the Issuer; however, not to the claims, which are subordinated to the Bonds or which rank at the same rate (*pari passu*) with the Bonds. The subordination of the Bonds means that upon the recovery, liquidation or bankruptcy of the Issuer, all the claims arising from the Bonds shall fall due in accordance with General Terms and Conditions and shall be satisfied only after the full satisfaction of all unsubordinated recognised claims against the Issuer in accordance with the applicable law and in particular the Article 87(6) of the Law on Banks (6^{th} ranking claim from the order of satisfaction of creditors claims). Therefore, upon the recovery, liquidation or bankruptcy of the Issuer, the Bondholders are not entitled to any payments due under the General Terms and Conditions until the full and due satisfaction of all the unsubordinated, i.e. higher ranking claims against the Issuer. The subordination may have an adverse effect on the Issuer's ability to meet all its obligations arising from the Bonds.

Early redemption risk

According to the General Terms and Conditions, the Bonds may be redeemed prematurely on the initiative of the Issuer, any time, but not earlier than after 5 (five) years from the issue of the Bonds as described in Section 5.3 *Information Concerning the Securities to be Offered and Admitted to Trading*, save for the Regulatory Call, as indicated in the same Section. If this early redemption right is exercised by the Issuer, the rate of return from an investment into the Bonds may be lower than initially anticipated. The Bonds may, however, be redeemed prematurely by the Issuer only if the LB has granted its consent to the early redemption. The decision on granting the consent involves certain amount of discretion by the LB and the early redemption is therefore beyond the control of the Issuer.

Regulatory Call (Redemption risk in Tier 2 Bonds)

According to the General Terms and Conditions, the Regulatory Call may be executed by the Bank, if the relevant subordinated Bonds are likely to be excluded from Tier 2 capital of the Issuer for the purposes of the capital adequacy rules applicable to the Issuer at the relevant time (other than the capital adequacy rules as in force on the Issue Date of the relevant Bonds), or there is a change in the applicable tax treatment of the Bonds which are material and were not foreseeable at the time of their issuance, i.e. the Issuer may redeem the relevant Bonds, subject to the prior permission of the LB, provided that at the relevant time such permission is required (but without any requirement for the consent or approval of the Bondholders), and upon giving not less than 15 nor more than 30 days' irrevocable notice.

Waiver of set-off under the Bonds

No Bondholder shall be entitled to exercise any right of set-off, netting or counterclaim in respect of any amounts owed by the Issuer under or in connection with the Bonds.

Cancelation of the Offering risk

Although the best efforts will be made by the Issuer to ensure that the Offering is successful, the Issuer cannot provide any assurance that the Offering will be successful and that the Investors will receive the Bonds they subscribed for. The Issuer is also entitled to cancel, suspend of postpone the Offering on the terms and conditions described in the Section *Cancellation, Suspension or Postponement of the Offering*.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Bonds are legal investments for it, (ii) the Bonds can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk based capital or similar rules.

An active secondary market for the Bonds may not develop

Prior to Admission to trading on the regulated market, there is no public market for the Bonds and other securities of the Issuer. Although application(s) will be made for the Bonds to be admitted to trading on Nasdaq, there is no assurance that such application(s) will be accepted and the Bonds will be admitted to trading. In addition, Admission to trading the Bonds on a regulated market will not guarantee that a liquid public market for the Bonds will develop or, if such market develops, that it will be maintained, and neither the Issuer, nor the Lead Manager is under any obligation to maintain such market. If an active market for the Bonds does not develop or is not maintained, it may result in a material decline in the market price of the Bonds, and the liquidity of the Bonds may be adversely affected. In addition, the liquidity and the market price of the Bonds can be expected to vary with changes in market and economic conditions, the financial condition and the prospects of the Issuer, as well as many other factors that generally influence the market price for securities. Accordingly, due to such factors the Bonds may trade at a discount to the price at which the Bondholders purchased/subscribed the Bonds.

Credit risk

Any person who purchases/subscribes the Bonds is relying on the creditworthiness of the Issuer and has no rights against any other person. Bondholders are subject to the risk of a partial or total failure of the Issuer to make interest and/or redemption payments that the Issuer is obliged to make under the Bonds. The worse the creditworthiness of the Issuer, the higher the risk of loss. A materialization of the credit risk may result in partial or total failure of the Issuer to make interest and/or redemption payments.

In addition, even if the likelihood that the Issuer will be in a position to fully perform all obligations under the Bonds when they fall due actually has not decreased, market participants could nevertheless be of that opinion. Market participants may in particular be of such opinion if market participants’ assessment of the creditworthiness of corporate debtors in general or debtors operating in the industries sector adversely change. If any of these risks occur, the third parties would only be willing to purchase Bonds for a lower price than before the materialisation of said risk. The market value of the Bonds may therefore decrease.

Interest rate risk, related to Bonds

If interest rates in general or particularly with regard to obligations of corporate debtors or corporate debtors with activities in the industries sector for durations equal to the remaining term of the Bonds increase, the market value of the Bonds may decrease. The longer the remaining term of a debt instrument, the stronger is its market value affected by changes of the interest rate level. As the term of the Bonds shall be at least 5 years, changes in interest rates will have a strong impact on the market value of the Bonds. There are further factors which may affect the market value of the Bonds, including, but not limited to global or national economic factors and crises in the global or national financial or corporate sector. Bondholders should be aware that movements of the market interest rate can adversely affect the market price of the Bonds and can lead to losses for the Bondholders if they sell their Bonds.

Inflation risk

The inflation risk is the risk of future money depreciation. The real yield from an investment is reduced by inflation. The higher the rate of inflation, the lower the real yield on the Bonds. If the inflation rate is equal to or higher than the nominal yield, the real yield is zero or even negative.

Fluctuations in exchange rates and interest rates may adversely affect the value of the Bonds

The Issuer will pay principal and interest on the Bonds in EUR. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the “Investor's Currency”) other than EUR. These include the risk that exchange rates may significantly change (including changes due to devaluation of EUR or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to EUR would decrease the Investor's Currency equivalent: (i) yield on the Bonds; (ii) value of the principal payable on the Bonds; and (iii) market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect the applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal at all. In addition, investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

Taxation of Bonds

Potential purchasers/subscribers and sellers of the Bonds should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Bonds are transferred or other jurisdictions. In some jurisdictions, no official statements of the tax authorities or court decisions may be available for financial instruments such as the Bonds. Potential investors are advised not to rely solely on the tax summary contained in this Prospectus (Section 5.3 *Information Concerning the Securities to be Offered and Admitted to Trading*) but to also ask for their own tax advisers' advice on their individual taxation with respect to the acquisition, sale and redemption of the Bonds. Only these advisors are in a position to duly consider the specific situation of the potential investor.

No assurance on change of laws or practices

The Bonds are governed by the laws of the Republic of Lithuania, as in force from time to time. Lithuanian laws (including but not limited to tax laws) and regulations governing the Bonds may change during the life of the Bonds, and new judicial decisions can be given and administrative practices may take place. No assurance can be given as to the impact of any such possible change of laws or regulations, or new judicial decision or administrative practice taking place after the date of this Base Prospectus. Hence, such change may have a material adverse effect on the Issuer's business, financial condition, results of operations and/or future prospects and, thereby, the Issuer's ability to fulfil its obligations under the Bonds, taxation of the Bonds, as well as the market price and value of the Bonds. Such event may also result in material financial losses or damage to the Bondholders.

Transaction costs/charges

When the Bonds are purchased/subscribed or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the purchase/issue or sale price of the Bonds. To the extent that additional – domestic or foreign – parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, Bondholders may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs). These incidental costs may significantly reduce or eliminate any profit from holding the Bonds.

Possibility to forfeit interest and principle amount invested

Should the Issuer become insolvent, legal protection proceedings or out-of-court legal protection proceedings of the Issuer are initiated during the term of the Bonds, an investor may forfeit interest payable on, and the principle amount of, the Bonds in whole or in part. An investor is always solely responsible for the economic consequences of its investment decisions. The Bonds constitute direct, subordinated, unsecured and unguaranteed obligations of the Issuer, ranking at the same rate (*pari passu*) without any preference among each other. In addition to that the state guarantee (insurance) is not applicable in case of investments into the Bonds.

No guarantee or security

The Bonds will not be obligations of anyone other than the Issuer and they will not be guaranteed. No one other than the Issuer will accept any liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Bonds.

The Issuer shall not be prevented from creating any security interest over any of its assets in favour of any third party, i. e. the Base Prospectus does not include any negative pledge provisions, or provide any restrictions on entrance to particular security arrangements between the Bank and any third party.

Refinancing risk

The Issuer may be required to refinance certain or all of its outstanding debt, including the Bonds. The Issuer's ability to successfully refinance its debt is dependent on the conditions of the debt capital markets and its financial condition at such time. Even if the debt capital markets improve, the Issuer's access to financing sources at a particular time may not be available on favourable terms, or at all. The Issuer´s inability to refinance its debt obligations on favourable terms, or at all, could have a negative impact on the Group's operations, financial condition, earnings and on the Bondholders' recovery under the Bonds.

No voting rights

Only the shareholder of the Issuer has voting rights in the General Meetings. The Bonds carry no such voting rights. Consequently, the Bondholders cannot influence any decisions by the Issuer's shareholders concerning, for instance, the capital structure of the Issuer.

Amendments to the Bonds bind all Bondholders

The Law on Protection of Interests of Bondholders requires and the General Terms and Conditions of the Bonds (Sections 5.3 *Information Concerning the Securities to be Offered and Admitted to Trading and* and 5.4 *Terms and Conditions of the Offer*) contain provisions for calling Bondholders' Meetings to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant Bondholders' Meetings who voted in a manner contrary to the majority. This may incur financial losses, among other things, to all Bondholders, including such Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

No limitation on issuing additional debt

The Issuer is not prohibited from issuing further debt as long as the requirements of the applicable law, related to banking activities are followed and the lending is not provided to the related persons, unless this sanction is revoked by the LB (for more information on this issue please see Section 4.9.2 *Legal and Arbitration Proceedings*). If the Issuer incurs significant additional debt ranking equally with the Bonds, it will increase the number of claims that would be entitled to share rateably with the Bondholders in any proceeds distributed in connection with an insolvency of the Issuer.

Restrictions on the transferability of the Bonds

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended, or any U.S. state securities laws. Subject to certain exemptions, a holder of the Bonds may not offer or sell the Bonds in the United States. The Issuer has not undertaken to register the Bonds under the U.S. Securities Act or any U.S. state securities laws or to effect any exchange offer for the Bonds in the future. Furthermore, the Issuer has not registered the Bonds under any other country's securities laws, other than laws of the Republic of Lithuania. Each potential investor should read the information of the Section 5.8 *Notice to Prospective Investors and Selling Restrictions* for further information about the transfer restrictions that apply to the Bonds. It is the Bondholder's obligation to ensure that the offers and sales of Bonds comply with all applicable securities laws.

Risk of difference in insolvency law

In the event that an Issuer becomes insolvent, insolvency proceedings will be generally governed by the insolvency laws of that Issuer’s place of incorporation, which in each case is Lithuania. The insolvency laws of the Issuer’s place of incorporation may be different from the insolvency laws of an Investor’s home jurisdiction and the treatment and ranking of holders of Bonds issued by that Issuer and that Issuer’s other creditors and shareholders under the insolvency laws of that Issuer’s place of incorporation may be different from the treatment and ranking of holders of those Bonds and that Issuer’s other creditors and shareholders if that Issuer was subject to the insolvency laws of the Investor’s home jurisdiction.

The insolvency procedure of the Issuer would be subject to special rules arising from the Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2015 establishing a framework for the recovery and resolution of credit institutions and investment firms (the Bank Recovery and Resolution Directive) which is transposed to, among others, the Law on Banks. The respective legislation provides for, among others, special instruments which may be invoked by the supervisory authority (LB) in case of deterioration of financial situation of the Issuer such as moratorium (limitation of activities of the Issuer), appointment of a temporary administrator, etc.

Bail-in

The Bonds that may be issued under the Programme may become subject to actions that can be taken or measures that can be applied by resolution authorities if a Bank experiences serious financial problems or if the stability of the financial system is in serious and immediate danger as a result of the situation of a Lithuanian financial institution (for the purpose hereof including a relevant holding company). In the event that write-down or conversion powers are exercised by a competent authority: (i) the amount outstanding may be reduced, including to zero; (ii) the Bonds may be converted into ordinary shares or other instruments of ownership; (iii) the terms may be varied (e.g. the variation of maturity of the Bonds).

Please note that financial public support should only be used as a last resort after having assessed and exploited, to the maximum extent practicable, the resolution tools, including the bail-in tool.

On 23 November 2016, the European Commission published legislative proposals to amend and supplement certain provisions of, among others, the Capital Requirements Directive (CRD), the Capital Requirements Regulation (CRR), the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (the SRM Regulation). The proposals are wide-ranging and may have significant effects on the Issuer (including with regard to the total loss absorbing capacity – TLAC – or the minimum requirement own funds and eligible liabilities – MREL – it must maintain) and for the Bonds (including with regard to their redeemability, their ranking in insolvency and their being at risk of being bailed-in). The proposals also contemplate that member states adopt legislation to create a new class of so-called nonpreferred senior debt. Such debt would be bail-inable during resolution only after capital instruments but before other senior liabilities. It is uncertain whether the proposals will come into effect, and if so, whether that will be in their current form.

3.4 Legal and Taxation Risk Factors

Exposure to regulatory actions and investigations

The Group provides various financial services and products and is, therefore, subject to extensive and comprehensive regulations imposed both through local and through European legal acts. Several local and European authorities, including financial supervision, consumer protection, anti-money laundering, tax, and other authorities, regularly perform investigations, examinations, inspections and audits of the Group’s business, including, but not limited to regarding capital requirements, standards of consumer lending, anti-money laundering, anti-bribery, payments, reporting, corporate governance, etc. Any determination by the authorities that the Group has not acted in compliance with all the applicable laws and regulations could have serious legal and reputational consequences for the Group, including exposure to fines, criminal and civil penalties and other damages, increased prudential requirements or even lead to business disruption in the respective fields. Any of these consequences may have material adverse effect on the Group's operations, financial position and results.

The LB carried out an investigation on the Bank. After finalisation of the investigation on 30 June 2017 the LB imposed supervisory measures towards the Bank – a financial penalty of EUR 235,350, as well as prohibited temporarily to provide lending to related persons. This prohibition is valid until the LB by its separate decision revokes the abovementioned restriction, which as of the date of this Prospectus has not been revoked. In addition to that, on 18 April 2018 the LB has applied towards the Company compulsory instruction and has publicly announced on 26 April 2018 that the Company has not complied with the previous mandatory restriction of the LB not to provide lending to the related persons of the Company. The restriction not to provide lending to related persons is further valid until the LB shall revoke it (for more information on these issues please see Section 4.9.2 *Legal and Arbitration Proceedings*). Furthermore, the LB commenced additional inspection. Although the Management believes that it has remedied all the issues, raised during the previous inspections, however, should the results of the new inspection and/or any other inspections in the future be non-satisfactory to the LB, the Bank may be imposed with additional monetary and/or other sanctions, also the above prohibition to provide lending to related persons may be not revoked. Any of these consequences may have material adverse effect on the Group's operations, financial position and results, reputation of the Company and its issued Bonds price.

Events of Default and Limited Remedies

The Events of Default, being events upon which the relevant Bondholder may declare the relevant Bond to be forthwith due and payable, are very limited as set out in Section 5.3 *Event of Default*. If default is made for more than 30 days in the payment of interest in respect of the relevant Bonds, the sole remedy available to the relevant Bondholder shall be to institute proceedings against the Issuer to demand specific performance for payment of the due but unpaid interest (in Lithuanian *prievolės įvykdymas natūra*), but the relevant Bondholder shall have no acceleration right or other remedies. Nothing shall however prevent Bondholders instituting proceedings for the bankruptcy of the Issuer (to the extent permitted by law), if default is made in the payment of principal in respect of the relevant Bonds when due, instituting proceedings against the Issuer to demand specific performance for payment of the due but unpaid principal.

Interpretation of legal regulations applicable to the Group's activity may have adverse effect on the Group

Lithuanian as well as EU legal systems, including regulations concerning the banking sector, taxation, as well as various interpretations of these regulations, is subject to frequent and significant changes. Due to the variability of regulations, they are not uniformly applied by the courts, administrative bodies and other law enforcement agencies. Therefore, there is a risk that the decisions issued by individual courts and other bodies in relation to specific facts will be contradictory or substantially unpredictable. Moreover, the ratio of competent courts or other authorities to matters within their competences may change. The instability of the legal system and regulatory environment increases the risk of the incurring of significant additional and unexpected expenses as well as the cost of adapting the business to a changing legal environment. This may lead to disputes arising from the interpretation of legal regulations with both the public authorities and private entities with whom the Group remains in legal relationships. In addition, errors or delays in the implementation of EU directives may lead to additional concerns regarding interpretation of regulations affecting the Group's operations. As a result, the Group is exposed to the risk that its activities may not meet the requirements of frequently changing regulations, which may have a material adverse effect on its business, results, financial situation or prospects for development.

Furthermore, there is a risk that along with the introduction of new tax regulations, the Group will be forced to take adaptation measures, which may result in significant costs caused by the circumstances related to adjustment to the new regulations and the costs of non-compliance. The application of tax law is often accompanied by controversies and disputes, which are usually resolved by the administrative courts. In addition, the tax authorities' practice of applying tax law is not uniform, and significant discrepancies exist in the decisions of the administrative courts in the field of tax law. The Company cannot rule out that the tax authorities will make a different, and unfavorable for the Group interpretation of the tax regulations applied by the Group.

Litigation risks

In the course of their ordinary business operations, companies of the Group might be involved in several court and official proceedings, as plaintiffs or defendants, the outcome of which cannot currently be predicted with any certainty. The Group may be required under a court order or settlement agreement to pay considerable amounts, which may also exceed any provisions set up for this purpose. In addition to these amounts, the legal costs incurred by the Group and in some cases of its opponent would also have to be borne. This could have a material adverse effect on the net assets, financial position and financial performance of the Group.

Tax contingencies and uncertain tax positions

Lithuanian tax legislation that was enacted or substantively enacted at the end of the reporting period may be subject to varying interpretations. Consequently, tax positions taken by the Management and the formal documentation supporting the tax positions may be successfully challenged by the relevant authorities. Fiscal periods remain open to review by the authorities in respect of taxes for the calendar years preceding the year of review. Management is not aware of any circumstances that could lead to significant tax charges and penalties in the future that have not been provided for or disclosed in these financial statements. The Group's uncertain tax positions are reassessed by the Management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by the Management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on the Management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

IV INFORMATION ABOUT THE ISSUER

4.1 Statutory Auditors

The IFRS Financial Statements for the years ended 31 December 2017 and 31 December 2016 have been audited by KPMG Baltics UAB, company code 111494971, registered address at Konstitucijos ave. 29, Vilnius, Lithuania, audit company's licence number 001446. The information on the auditors who have performed the audit the Issuer's IFRS Financial Statements for both financial years is presented below:

Name	Auditor's licence number	Licence issuer
Domantas Dabulis	000409	The Lithuanian Chamber of Auditors
Rūta Kupinienė	000541	The Lithuanian Chamber of Auditors

4.2 Information about the Group

Legal and commercial name of the Issuer	Uždaroji akcinė bendrovė Medicinos bankas and Medicinos bankas UAB respectively
Place of registration of the Issuer (registered office)	Pamėnkalnio str. 40, LT-01114 Vilnius, Lithuania
Corporate ID code of the Issuer	112027077
Legal form of the Issuer	Private limited liability company
Legislation under which the Issuer operates	Lithuanian
Country of incorporation of the Issuer	Republic of Lithuania
Date of incorporation of the Issuer	24 November 1992
Telephone number	+370 5 264 4800
Email	info@medbank.lt
Internet address	www.medbank.lt

History and Development of the Group

Medicinos bankas UAB was incorporated more than 25 years ago, in the dawn of independent Lithuania – in November, 1992. Over the years of operation the Bank has developed into the Group of companies with its headquarters held in Vilnius, Lithuania. Medicinos bankas UAB is known as the pioneer of electronic banking in Lithuania and the very first bank to offer a mobile wallet service in Lithuania.

Below indicated dates and events mark the development of the Group and its activities:

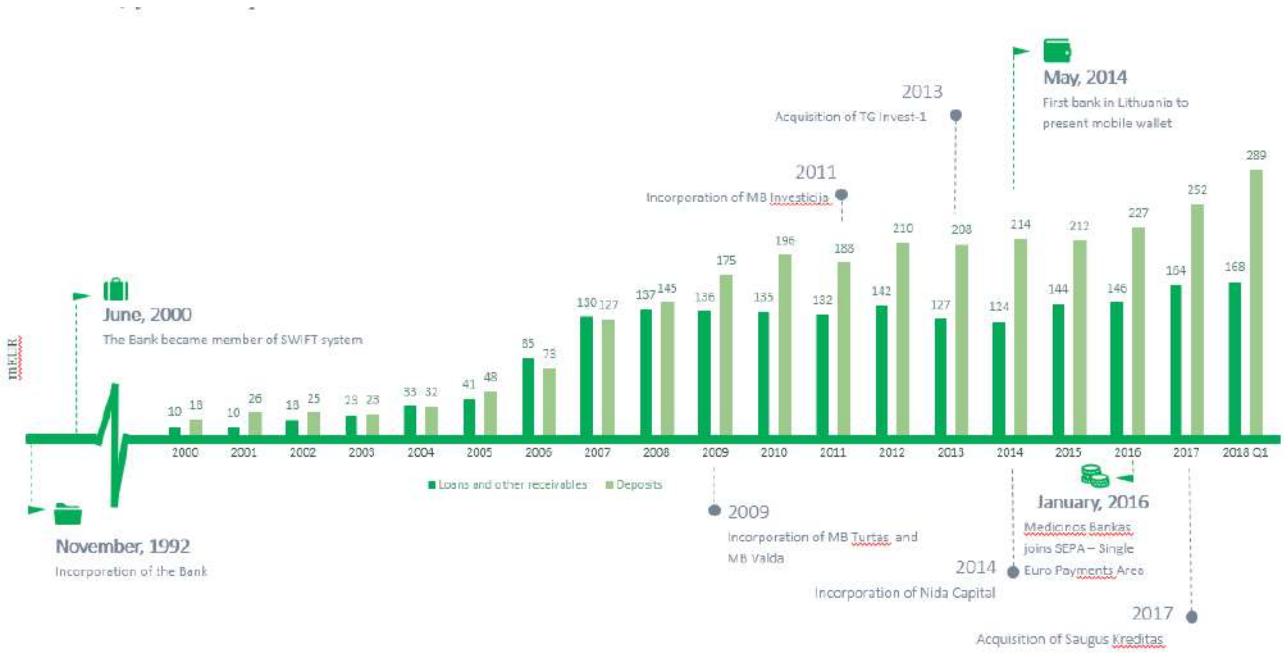
Date	Development
November 1992	– Incorporation of the Bank
June 2000	– The Bank becomes member of SWIFT system
August 2009	– Incorporation of the Subsidiary MB turtas UAB
November 2009	– Incorporation of the Subsidiary MB valda UAB
December 2011	– Incorporation of the Subsidiary MB investicija UAB
May 2013	– Acquisition of TG Invest-1 UAB
March 2014	– Incorporation of the Subsidiary Nida Capital SIA
May 2014	– First bank in Lithuania to offer a mobile wallet service
January 2016	– The Bank joins SEPA – Single Euro Payments Area
October 2017	– Acquisition of Saugus kreditas UAB

The LB carried out an inspection of the Bank and applied on 23 January 2014 a supervisory measure – a written warning. The LB claimed that the Company did not adequately assess the borrower's ability to meet their obligations in a timely and complete manner. The LB also claimed that Company did not assess the decrease of the loan values as well. It further stated that the Bank's internal control procedures did not ensure proper risk management and proper monitoring of monetary operations and also drew attention to the Company regarding maintaining an appropriate level of capital due to risk related to real estate. The individual capital adequacy ratio not less than 10 % was fixed for the Bank. The Bank was also obligated to carry out some reassessment of real estate taken from debtors for debts. All disadvantages identified during the inspection were eliminated and the requirements of LB fulfilled by the Bank.

As a consequence, the Company re-evaluated its non-performing loans in an amount of over LTL 1,000 (EUR 289.62) and recorded LTL 45,029 (EUR 13,041) of loss for value impairment of provided loans and receivables in 2014.

In 2017 the LB imposed a financial penalty to the Company and prohibited lending to related persons. Also, due to the acquisition of Saugus kreditas UAB, the LB has publicly announced that the Company has not complied with the previous mandatory restriction of the LB not to provide lending to the related persons of the Company in April 2018. For more information on these issues please see Section 4.9.2 *Legal and Arbitration Proceedings*.

Figure 1. Graphical representation of Group's history and loan and deposit portolios



Sources: IFRS Financial Statements, Consolidated Financial Information, the Company

Bank's loan and deposit portfolios has been growing since the incorporation of the Bank in 1992. Although loans and other receivables portfolio has shrunk in the aftermath of the financial crisis in 2008, it has regained growth momentum in 2014. At the quarter ended 31 March 2018 loans' and other receivables' portfolio amounted to EUR 168 million whereas deposits' portfolio was in its all time high with total of EUR 289 million (in the end of 2017 loans and other receivables portfolio accounted for EUR 164 million, while deposits' portfolio amounted to EUR 252 million).

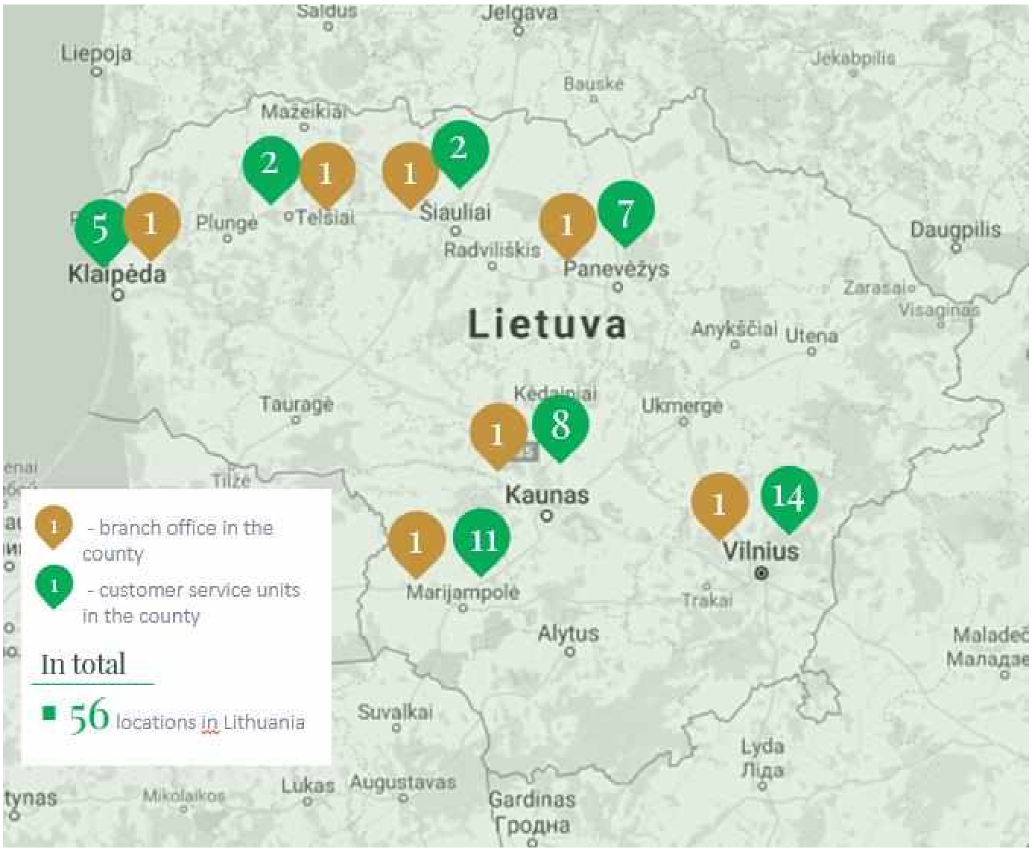
4.3 Business Overview

4.3.1 Principal Activities

The Bank provides services for both private and corporate clients. Private client services include consumer credits, mortgages, car leases, term deposits, saving deposits, deposit insurance, various daily banking services, insurance and vignettes (road taxes). The Bank targets small-to-medium enterprises and provides a wide range of services for corporate clients: business loans, leases, credit or leasing guarantees, factoring, trade financing, deposit service and its insurance, various daily banking services, insurances and vignettes. The Bank has a quite well-distributed customer service network, targeting major geographical regions of Lithuania.

In 2018, the Bank was the first in Lithuania to introduce quick business loans. The service is oriented to Small and medium-sized enterprises (the "SME") segment and is based on automated software solution, which was integrated after the acquisition of Saugus kreditas UAB.

Figure 2. Branches and customer service units of the Bank

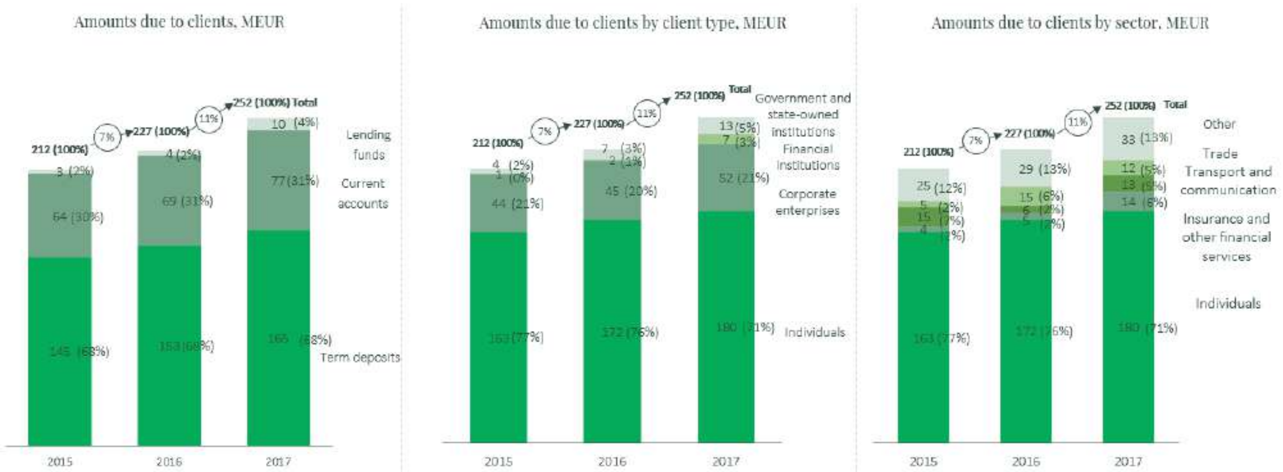


Source: the Company

In the end of 2017 the Bank was present in 53 locations in Lithuania: there were 8 branches and 45 customer service units. The Bank has been optimizing its network and has acquired strong presence all across Lithuania, especially in smaller towns. The total number of locations increased by 3 and reached 56 at the date of the Prospectus.

Individual term deposits are the main financing source for the Bank and has been growing steadily in the past 2 years. Amounts due to 10 largest clients as at 31 December 2017 amounted to 20.6 million EUR or 8.13% of the Bank's deposit holders (14.8 million or 6.36% in 2016). The average interest rate for term deposits in 2017 – 0.65%.

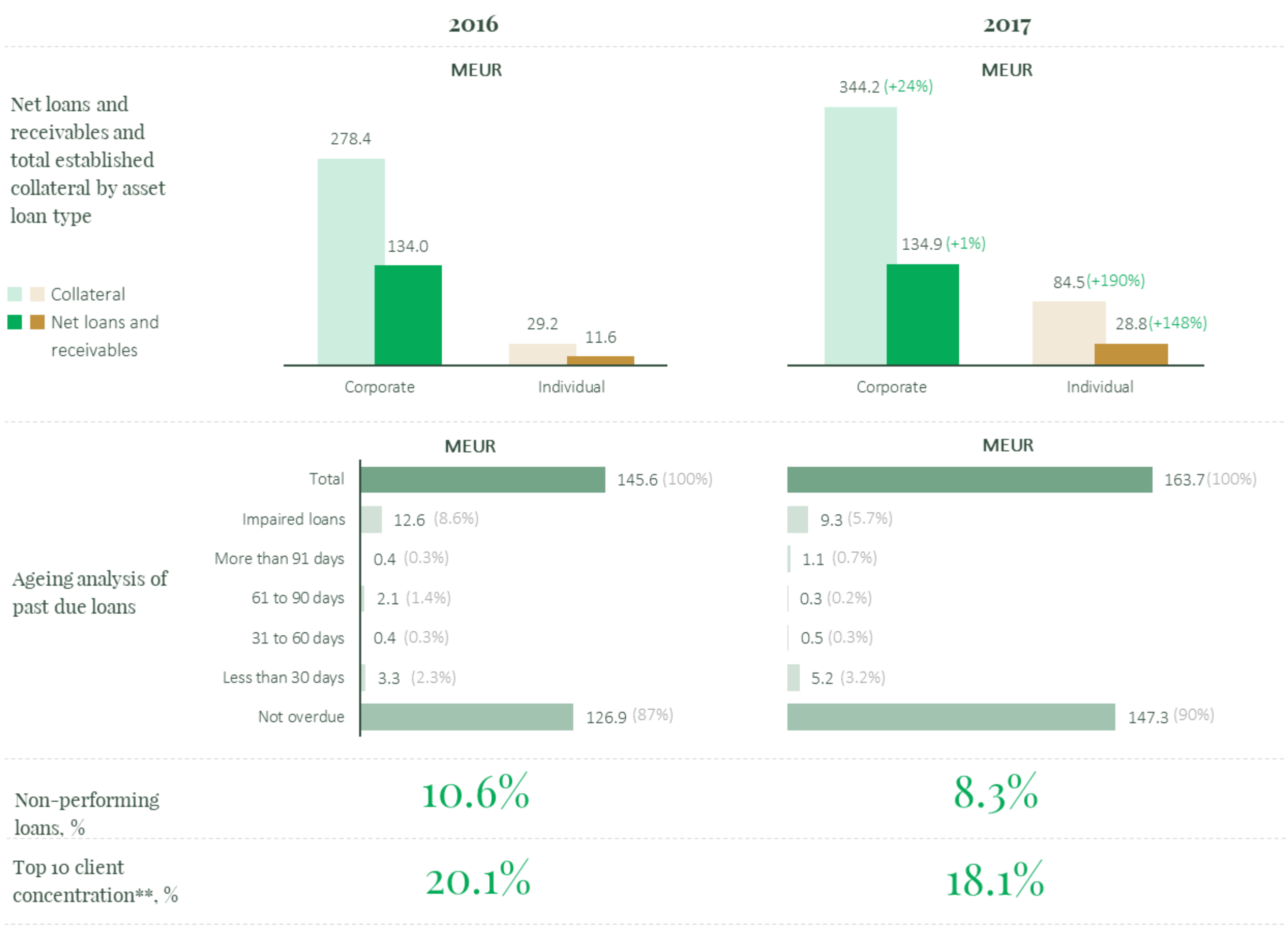
Figure 3. Client deposit structure



Source: IFRS Financial Statements

Corporate and individual loans constitute the largest part of the Bank's assets. The loan portfolio has been growing steadily over the past few years and the total value of collateral, impairment percentage, overdue loans and portfolio concentration have improved over 2017.

Figure 4. Group's loan portfolio structure



Sources: IFRS Financial Statements; the Company

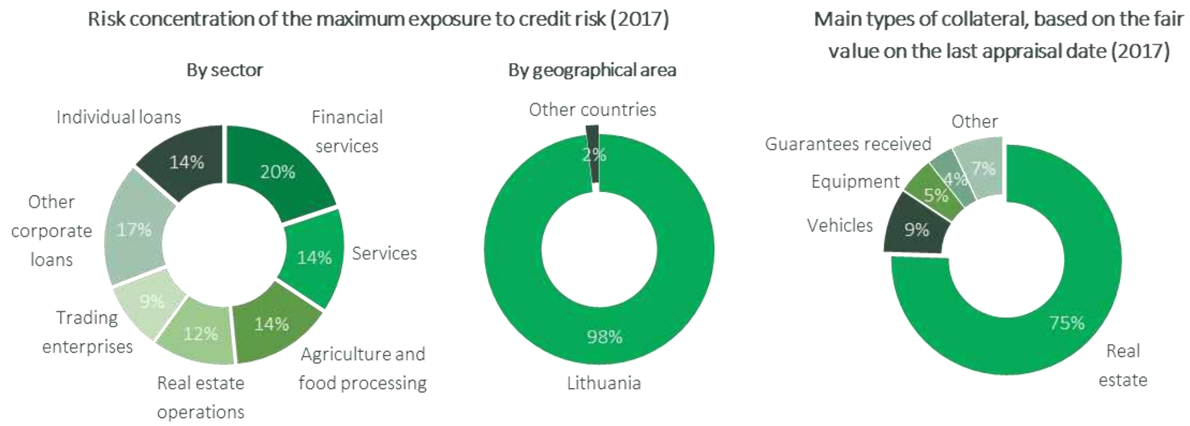
The target segment for the Bank are SMEs, consequently the major share of loan portfolio is attributed to this segment. However, the loan portfolio in this segment has experienced moderate growth in 2017, but individual portfolio has grown significantly: on 15 September 2017, the Bank has purchased the loan portfolio of private persons with the nominal value of EUR 27,396 thousand and net discount of EUR 9,179 thousand. The acquisition value of the acquired portfolio amounted to EUR 18,295 thousand, considering directly attributable transaction cost of the financial asset. The gain of EUR 222 thousand was recognised from the above acquisition.

The Bank has been improving the non-performing loan ratio. The non-performing loan portfolio consists of loans, which have at least one of the following attributes:

- a loan is impaired;
- there is a probability that a client will not be able to meet its credit obligations to the Bank unless the Bank will initiate the realization of collateral;
- a loan is over 90 days overdue;
- a court proceeding or a bankruptcy procedure is in process.

The non-performing loan ratio represents the ratio of net non-performing loans to total net loan portfolio. Concentration in Figure 4 is calculated as 10 major clients' loan portfolio divided by net loan portfolio.

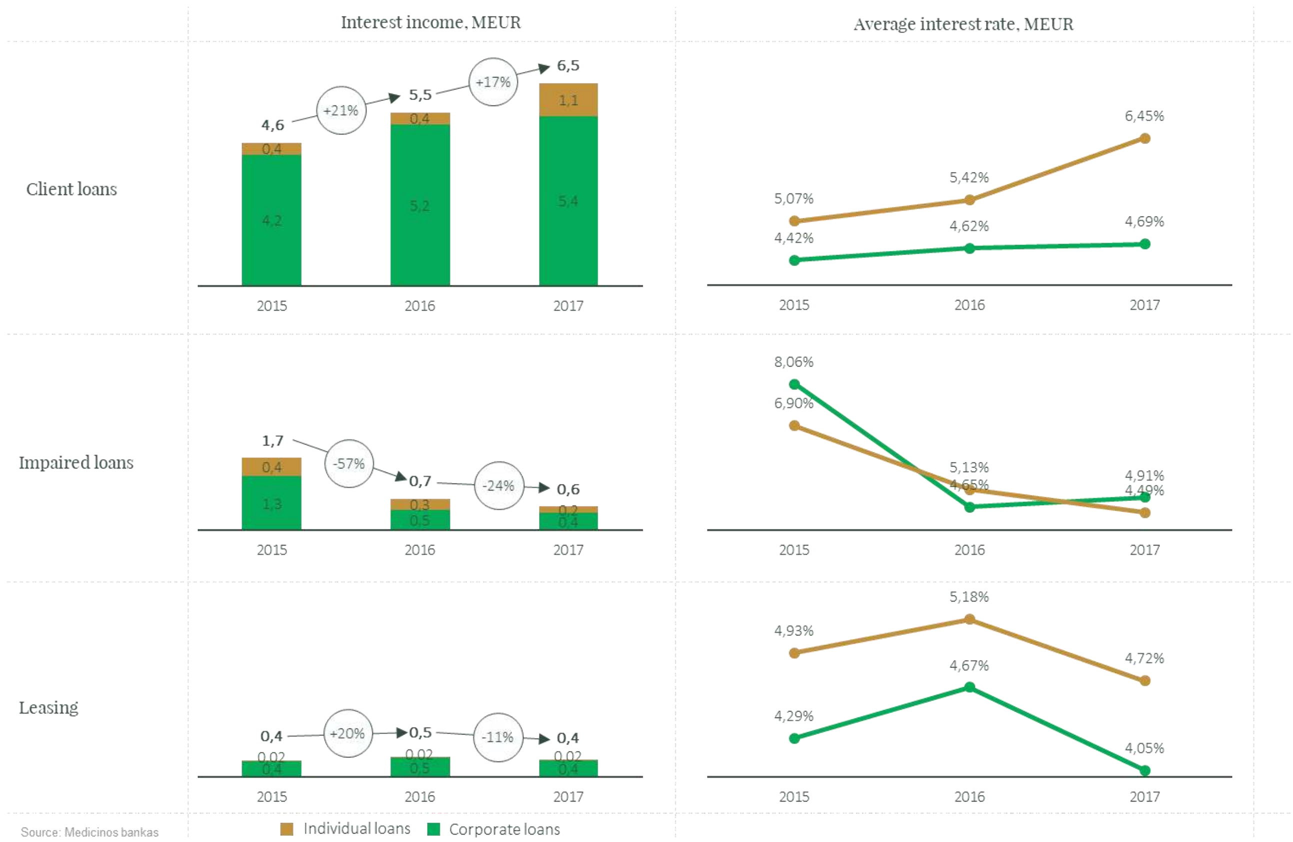
Figure 5. Risk concentration and collateral splits



Source: IFRS Financial Statements

Maximum exposure to credit risk includes client loan and receivable portfolio, balances with the LB, amounts due from banks and off-balance sheet items. The Bank has a well-diversified portfolio in terms of sectors, with loans to service companies, agriculture and food processing, real estate operations and individual loans representing similar shares in the loan portfolio. However, real estate is the most common type of collateral, which represented 75% of total collateral value at the end of 2017.

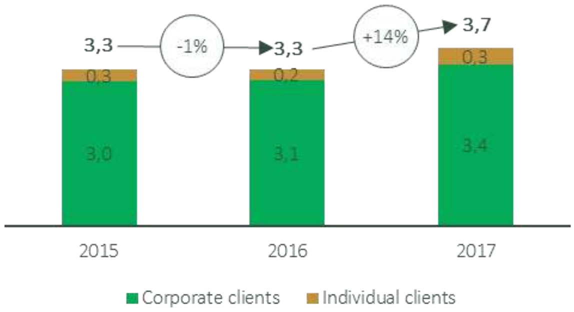
Figure 6. Interest revenue structure



Source: the Company

Corporate clients are the main revenue source for the Bank. The main revenue growth source for the past two years has been the growing client portfolio and rising interest rates, which resulted in increased interest revenue from both individual and corporate clients. The Bank has increased interest income from individual loans due to a significant increase in private loan portfolio, which is a very profitable segment for the Bank. The revenue from impaired loans has been decreasing steadily, as the Bank has been working on improving its non-performing loan portfolio.

Figure 7. Service fee and commission revenue structure

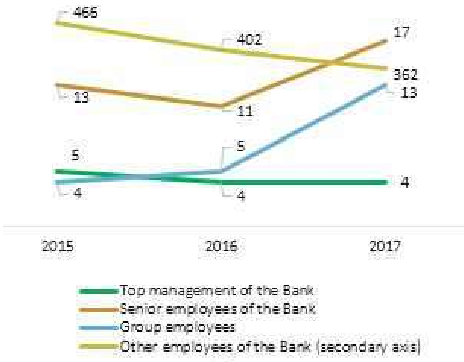


Source: the Company

The major share of service and commission income of the Bank is comprised of cash and settlement operations.

As of 31 December 2017, the Group had 396 employees.

Figure 8. Dynamics of Group employees



Source: IFRS Financial Statements

The Group had 396 employees in the end of 2017. The total number of employees has decreased from 422 in 2016 to 396 in 2017. The decrease in the number of employees is attributed to the Bank's effort to optimize its retail network. The increase in group employees category is associated with the acquisition of Saugus kreditas UAB.

4.3.2 Principal Markets

The Bank operates in Lithuania, with strong focus on local small and medium enterprises. Its operating activities are strongly affected by local and European macro economic environment. Currently low interest rates continue to further boost economic growth in Lithuania and Europe.

Macroeconomic trends in 2017

Improving international competitiveness – intensive international trade, amplifying internal consumption and increasing investments in the markets of main Lithuania's partners – positively affects Lithuanian economy. Growing exports (especially in the manufacturing and transport sectors) has the most substantial effect on the expanding economy and current account deficit reaching 1.2%. Recovering investments in both capacity and efficiency of production in the private sector significantly stir economic growth (despite the limitations of the public sector investments and the lack of structured use of the EU structural funds). The unemployment rate continues to decrease due to expanding businesses. In addition, the shortage of qualified labor and growing minimum monthly salary further boosts average wages. Household consumption also remains one of the main factors behind economic development as a result of growing average wage. However, decreasing labor capacity and peaking inflation declines purchasing power of households and limits the growth of private consumption. Increasing inflation was mostly influenced by the higher growth of labor costs compared to productivity and the substantial increase in prices of raw materials (oil, agricultural products, etc.).

Figure 9. Selected macroeconomic indicators

Source: the Lithuanian Department of Statistics, Lithuanian Economic Review by the LB (2017)[3]

Macroeconomic forecasts

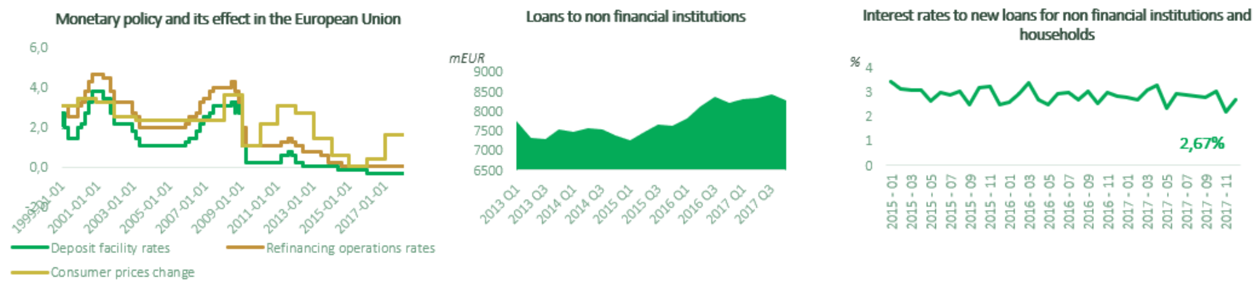
Lithuanian economy is expected to be growing further as a result of peaking international trade capacity. EU financial aid for investments is expected to be increasing in the near future – it should boost the economy in both short and long term and at least partially offset the effects of decreasing labor capacity. Private consumption should remain a strong factor behind economic growth, however, peaking labor costs and inflation will decelerate private consumption growth[4].

Effects of Eurosystem monetary policy on the banking sector in Lithuania

Guidelines of the ECB monetary policy

According to the European Central Bank (ECB) inflation in the Eurozone still lacks sustainability, therefore, it continues asset purchase programme (APP) and low-interest rate environment. Furthermore, ECB declined further decrease in interest rate, however, the increase is not expected either, even after the end of the extended APP (expected closing date of the APP – September 2018).

Figure 10. Financial sector indicators



Source: Statistics compiled and published by the LB, Banking Activity Review by the LB (2017)[5]

Results of the ECB monetary policy

Both public and private sector experience lower borrowing costs in capital markets due to extended APP. In consequence of low-interest rate environment, Lithuanian banks' lending has increased even more than the average of the Eurozone. Average interest rate of new loans to non-financial sector companies remains on the lowest level in the history in both Lithuania and Eurozone (however, interest rates of mortgages has stopped decreasing in Lithuania due to high demand and increasing number of risky clients). Escalated Eurozone demand and depreciation of the euro stimulates Lithuanian exports[6].

Lithuanian banking sector

The banking sector continues to grow due low-interest rate environment; growth is consistent and sustainable.

Bank loans' portfolio

Growing economy and low-interest rate environment promote consistent banks' loan portfolio growth. The total loan portfolio of the banks still has not reached pre-crisis level, however, it is expanding due to an increased amount of credits to households, mortgages taking the largest part of the loans-to-households portfolio. Lending to manufacture and transport sectors has also increased. The quality of the portfolio consistently grows – the level of bad loans reached 3.1% at the end of 2017 (being the lowest since 2010) and was lower than the average of the European Union[7].

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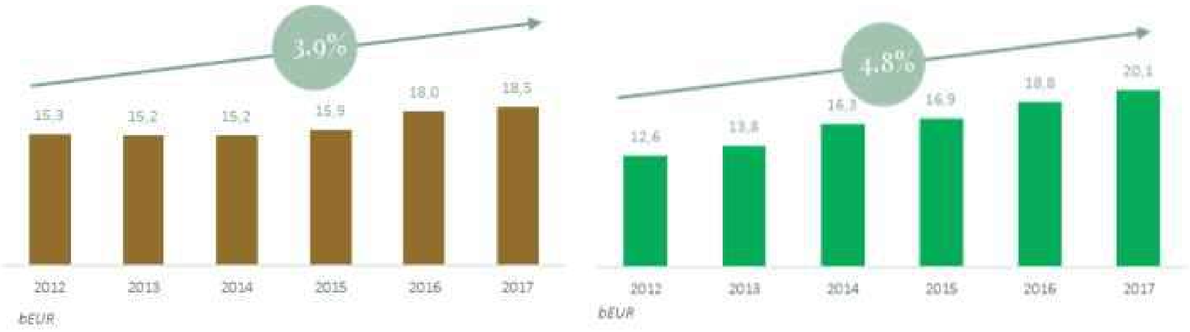
[3] https://www.lb.lt/uploads/documents/files/musu-veikla/ekonomikos-analize-prognozes/lietuvos_ekonomikos_apzvalga_2017_en.pdf.
[4] Lithuanian Economic Review by the LB.
[5] https://www.lb.lt/uploads/publications/docs/19280_9913b73b949397272d0838dc1e625c86.pdf.
[6] Banking Activity Review by the LB (2017).
[7] Banking Activity Review by the LB (2017).

Figure 11. Loans and deposits of banking sector in Lithuania



Source: Statistics compiled and published by the LB

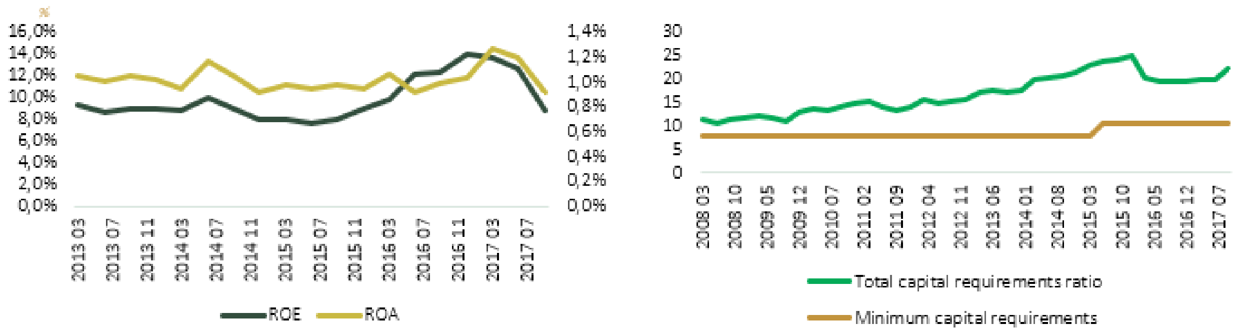
Bank deposits' portfolio

Consistently growing client deposits remain the main source of banks' financing. Households remain the largest depositors, as their funds account for 59.9% of all the deposits. A balanced current account was the most significant factor behind the development of clients deposits' portfolio, as during the last year non-financial companies have kept their funds within the country. As a result, banks need not attract money from the parent companies (usual practice during the pre-crisis period). Trends being constant, despite the especially low-interest rate environment, banks deposits' portfolio should remain growing[8].

Yields of banking sector

Banking sector profitability yields remained sustainable, as only one-time factors have decreased the returns (consolidation processes: a merger between two large banks).

Figure 12. Profitability and capital requirements



Source: Statistics compiled and published by the LB

Fulfillment of capital requirements

Capital requirements were fulfilled with a high margin in 2017. Liquidity coverage ratio (LCR) remained high in all the banks in Lithuania[9].

Players of the Lithuanian banking sector

Lithuanian banking sector is quite concentrated and dominated by the Scandinavian banks. Currently there are 6 banks and 8 branches of foreign banks in Lithuania. All banks collectively made mEUR 239.7 net profit in 2017.

Market trends of 2017

Specialized bank

Since 2017, it is allowed to establish a specialized bank in Lithuania. 3 applicants have already applied, 25 have shown interest in a specialized bank license.

Specialized bank has been created with the goal to form attractive environment for local and foreign startups wiling to provide financial services in the European Economic Area. The main difference from a traditional bank is the minimum

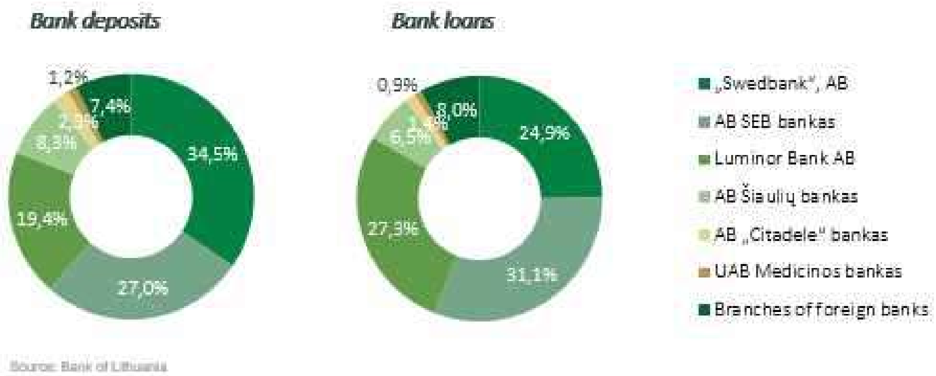
[8] Banking Activity Review by the LB (2017).
[9] Banking Activity Review by the LB (2017).

capital requirement of EUR 1 million, whereas for traditional bank it is EUR 5 million. However, specialized banks are subject to limitations in investment and other financial services (full list thereof may be found in Article 4(5) of the Law on Banks).

Market concentration

After a merger of DNB bankas AB and Lithuanian branch of Nordea Bank AB the concentration continued its growth in 2017. Three major banks took the largest part of the market in terms of both loans portfolio and transactions.

Figure 13. Distribution of banks' deposits and loans (in 2017)



Source: Statistics compiled and published by the LB

The Issuer's competitive position

The Bank is the smallest of the 6 commercial banks in Lithuania (excluding branches of foreign banks) in terms of both loan portfolio and deposits. Although it serves both private and corporate clients, the Bank targets local SME segment and aims to be a strong niche player in this segment.

Figure 14. Key ratios of the banking sector in Lithuania*

Data for January 1st 2018	Total capital adequacy ratio	Large positions ratio	Liquidity Coverage ratio	Return on Assets (ROA)	Return on Equity (ROE)	Loans, mEUR	Deposits, mEUR
MEDICINOS BANKAS (Consolidated)	15,01	19,85	730,6	0,6	6,11	164	243
Swedbank (Consolidated)	22,91	18,79	474,2	1,48	15,34	4 720	6 928
SEB (Consolidated)	19,98	21,85	266,0	1,23	12,01	5 739	5 412
Luminor (Consolidated)	17,11	28,71	157,3	-0,20	-1,81	5 085	3 858
ŠIAULIŲ BANKAS (Consolidated)	15,53	18,09	313,4	1,67	16,62	1 210	1 657
Citadele (Consolidated)	18,59	22,11	242,6	0,51	5,22	255	453

Source: Statistics compiled and published by the LB

Net profit

In 2017 banking sector earned less compared to the prior year, in consequence of the merger of two banks (DNB bankas AB and Lithuanian branch of Nordea Bank AB).

Revenues

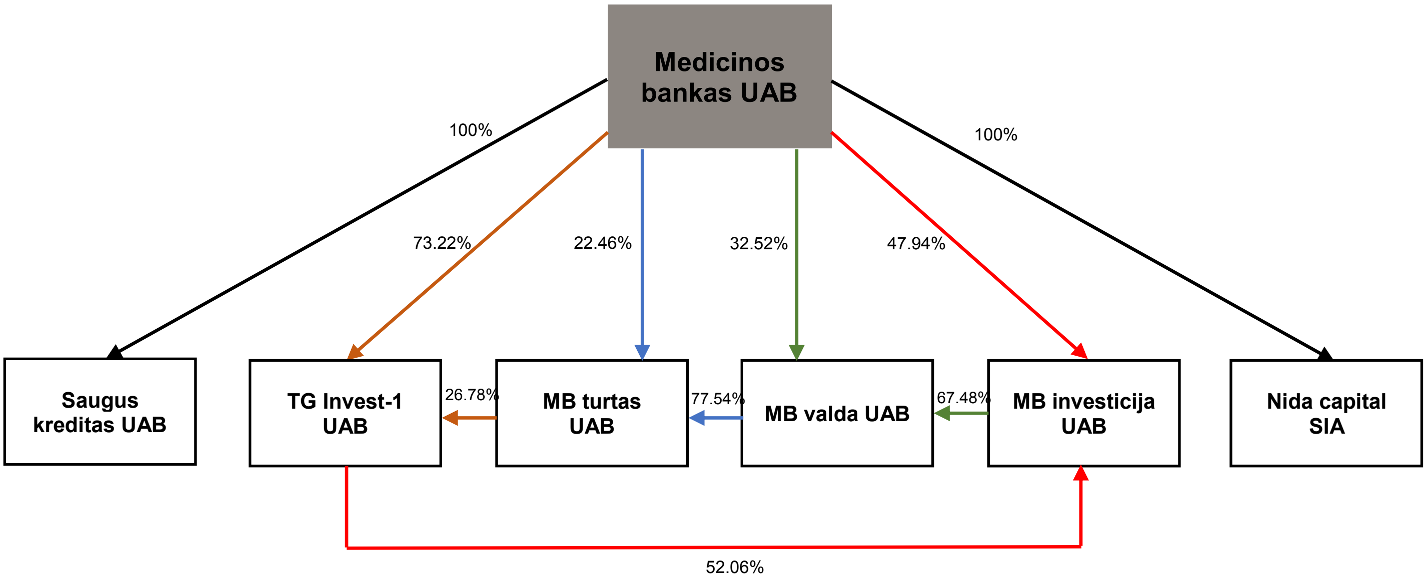
The main part of the revenues was contributed by the net interest revenues.

Efficiency

Lithuanian banks have preserved high efficiency compared to other EU countries, however, administration costs have increased[10].

4.4 Organisational Structure

Figure 15. Structure of the Issuer and its Subsidiaries as of the date of the Prospectus



The Company together with the Subsidiaries form a Group of companies, as indicated below. The Issuer is not dependent upon other Subsidiaries within the Group.

Table 1. Shareholdings of the Company, held in the Subsidiaries as on the date of the Prospectus[11]

Subsidiary	State of registration	Status	Amount of shares and votes, held by the Company (%)
MB turtas UAB	Lithuania	Subsidiary	22.46
MB valda UAB	Lithuania	Subsidiary	32.52
MB investicija UAB	Lithuania	Subsidiary	47.94
TG Invest-1 UAB	Lithuania	Subsidiary	73.22
Nida capital SIA	Latvia	Subsidiary	100
Saugus kreditas UAB	Lithuania	Subsidiary	100

Source: the Company

The main registration data on the Subsidiaries are provided below:

Table 2. Registration information of the Subsidiaries

Name of the company	MB turtas UAB
Legal form	Private limited liability company
Country of incorporation	Republic of Lithuania
Administrator of the register	State Enterprise Centre of Registers
Code	302426051
Date of incorporation	12 August 2009
Registered address	Paměnkalnio str. 40-1, Vilnius, Lithuania

Name of the company	MB valda UAB
Legal form	Private liability company
Country of incorporation	Republic of Lithuania
Administrator of the register	State Enterprise Centre of Registers

[10] Banking Activity Review by the LB (2017).
[11] Exact and full holdings of the Subsidiaries, held by all the Group members (not only by the Issuer) are disclosed in Figure 15 above.

Code	302461718
Date of incorporation	30 November 2009
Registered address	Pamėnkalnio str. 40-1, Vilnius, Lithuania

Name of the company	MB investicija UAB
Legal form	Private limited liability company
Country of incorporation	Republic of Lithuania
Administrator of the register	State Enterprise Centre of Registers
Code	302700004
Date of incorporation	16 December 2011
Registered address	Pamėnkalnio str. 40-17, Vilnius, Lithuania

Name of the company	TG Invest-1 UAB
Legal form	Private limited liability company
Country of incorporation	Republic of Lithuania
Administrator of the register	State Enterprise Centre of Registers
Code	302464707
Date of incorporation	10 December 2009
Registered address	Pamėnkalnio str. 40-5, Vilnius, Lithuania

Name of the company	Nida capital SIA
Legal form	Limited liability company
Country of incorporation	Republic of Latvia
Administrator of the register	Register of Enterprises of the Republic of Latvia
Code	40103774894
Date of incorporation	31 March 2014
Registered address	Ģertrūdes iela 37 - 9A, LV-1011 Riga, Latvia

Name of the company	Saugus kreditas UAB
Legal form	Private limited liability company
Country of incorporation	Republic of Lithuania
Administrator of the register	State Enterprise Centre of Registers
Code	302547722
Date of incorporation	23 September 2010
Registered address	Panerių str. 42, Vilnius, Lithuania

4.5 Trend Information

Apart as indicated below, there has been no material adverse change in the prospects of the Company or the Group since the last published IFRS Financial Statements for the year ended 31 December 2017.

Disregarding this, on 18 April 2018 the LB has applied towards the Company compulsory instruction and has publicly announced on 26 April 2018 that the Company has not complied with the previous mandatory restriction of the LB not to provide lending to the related persons of the Company. The restriction not to provide lending to related persons is further valid until the LB shall revoke it.

The mandatory instruction has been applied because of the conditions of acquisition of the Subsidiary Saugus kreditas UAB by the Company. By acquiring the shares of this Subsidiary the Company has also acquired the claim right to the Subsidiary from the former shareholder of thereof. The claim right occurred from the credit agreement and amounted to EUR 196,700 at that time. The Company has extended the repayment term and changed other conditions of the credit agreement after the acquisition of shares of Saugus kreditas UAB.

The LB has decided that when acquiring the claim rights to the above Subsidiary the Company has not complied with the restriction not to provide lending to its controlled persons and their directly and indirectly controlled companies. However, during the process of verifying the documents the Company has capitalized its claim right to the Subsidiary by share capital increase. For this reason the LB did not apply any other mandatory restrictions.

Information on any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Issuer's prospects for at least the current financial year

There are no changes regarding trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Issuer's prospects since the last published IFRS Financial Statements for the year ended 31 December 2017, including the ones, which are to a material extent relevant to the evaluation of the Issuer's solvency.

4.6 Profit Forecasts

The Issuer has not made a decision to include the profit forecast or estimates in this Base Prospectus.

On January 15 2018 the Company approved the forecast for the 2018-2022 balance sheets and profit (loss) statements, which was based on the Company's strategic plan for 2016-2018 and the strategic business development vision of the Company's management. The forecast was announced in the annual management report for the year ended 31 December 2017, which is the integral part of the financial statements as of 31 December 2017. The forecast was prepared not for the purpose of issue of Bonds and results of the performed inspection of the LB for the status 31 March 2018 may adjust this forecast, therefore, the Company declares it invalid and the Company's investor shall not rely on data of forecast.

4.7 Administrative, Management and Supervisory Bodies

The Issuer has a three-tier management system, i.e. Council, Management Board and Manager (Head of Administration). Business addresses of all the indicated bodies of the Company are Pamėnkalnio str. 40, Vilnius, Lithuania.

The Council is a collegial supervisory body, which is responsible for supervising the activities of the Company and its management bodies, the appointment and removal of the members of the Management Board, submitting its comments and proposals to the General Meeting on the Company's operating strategy, sets of financial statements, drafts of profit/loss appropriation, the reports of the Company, the activities of the Management Board and the Manager, submitting proposals to revoke decisions of the Management Board or the Manager, etc.

According Article 7.1 of the Articles of Association the Council is comprised of 4 members. The Company currently has 3 members in the Council (one member has resigned from the Council on 7 September 2017). However, disregarding this, the Council is still entitled to take decisions and its meetings are still considered to have been held, if attended by all 3 members, currently elected. This is due to the reason that the Law on Companies requires more than a half of the members of the Council for the above quorums.

The Management Board is a collegial management body, which is responsible for the strategic management of the Company, the appointment and removal of the Manager of the Company (the Head of Administration), calling the General Meetings, adoption of other corporate decisions which are economically feasible for the Company, etc.

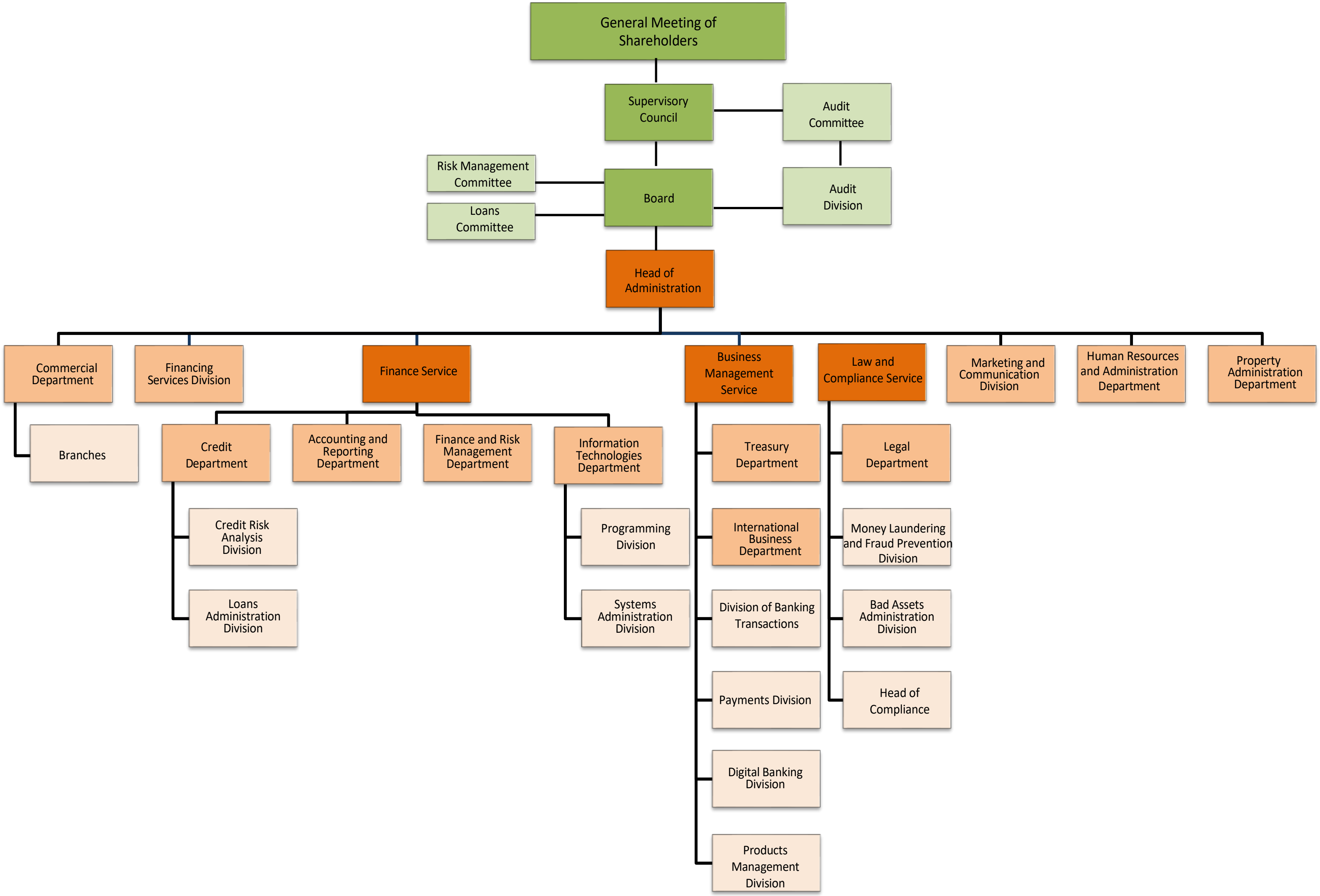
The Manager is responsible for the day-to-day management of the Company and enjoys the exclusive right of representing the Company vis-à-vis third parties.

In addition, the Company employs several Key Executives: the Manager, the Head of Financial Service, the Head of Law and Compliance Service and the Head of Business Management Service, who are all also members of the Management Board.

4.7.1 Internal Management Structure of the Company

Detailed management system of the Issuer is provided in the scheme below.

Scheme 1. Management system of the Issuer



4.7.2 Members of the Administrative, Management and Supervisory Bodies

Table 3. Members of management and supervisory bodies

Name, surname	*Position within the Issuer*	*Beginning of term*	*End of term*
Council			
Irmantas Kamienas	Chairman of the Council	30.03.2016	Until 30.03.2020, in any case not later than until the ordinary General Meeting in 2020
Laima Petkevičiūtė	Member of the Council	30.03.2016	Until 30.03.2020, in any case not later than until the ordinary General Meeting in 2020
Vytenis Rasutis	Member of the Council	27.03.2008	Until 30.03.2020, in any case not later than until the ordinary General Meeting in 2020
Management Board			
Dalia Klišauskienė	Chairman of the Management Board	31.03.2016	Until 30.03.2020, in any case not later than until the ordinary General Meeting in 2020
Marius Arlauskas	Member of the Management Board	16.06.2016	Until 30.03.2020, in any case not later than until the ordinary General Meeting in 2020
Igor Kovalčuk	Member of the Management Board	30.03.2016	Until 30.03.2020, in any case not later than until the ordinary General Meeting in 2020
Arnas Žalys	Member of the Management Board	30.03.2016	Until 30.03.2020, in any case not later than until the ordinary General Meeting in 2020

Source: the Company

According to the Law on Companies, the tenure of the Council and Management Board shall be indicated in the Articles of Association and may not last longer than until the annual General Meeting convened in the last year of the tenure of the respectively Council or Management Board. There is no limitation on the number of terms of office a member of the Council and Management Board may serve.

Council

Irmantas Kamienas (born in 1975). Education – Irmantas Kamienas graduated from the Vilnius University, Faculty of Economics, where he gained Bachelor in Business Management and Administration (in 1997), and Master in Banking Studies (in 1999). From September 1997 until February 2000 he was the analytic of the Department of Planing and Risk Management at Bankas Hermis AB, from February 2000 until November 2007 analytic, later Manager of the Risk Methodology and Modeling Division and Manager of the Credit Risk Control Division of SEB bankas AB, from November 2007 until January 2010 the Manager of Capital Branch business clients at SEB bankas AB, from January 2010 until March 2011 the Manager of Asset Management Division at SEB lizingas AB, from March 2011 until May 2012 the Manager of Changes Management Group at SEB bankas AB. From the year 2008 until now Irmantas Kamienas is the member of the Management Board of Info Lietuva, frol April 2013 until now Manager and consultant at Bratus MB and from February 2015 until now the Manager of Finance and Risk Management at Credit Union Vilniaus kreditas.

Laima Petkevičiūtė (born in 1959). Education – in 1982 Laima Petkevičiūtė graduated from the Vilnius Engineering Construction Institutie (current name Gediminas Technical University), Construction Economy Faculty, where she gained the qualification of engineer-economist. From August 1982 until June 1992 she was the engineer of the Industry Ministry, the Board of Construction and Repair, from June 1992 until March 1998 she was the deputy manager of Economics and Credit Division at the Vilnius Division of Lietuvos taupomasis bankas AB, from March 1998 until July 2007 worked in different positions of DnB bankas AB (current name Luminor Bank AB), from July 2007 until March 2008 she was the loans administrator at SEB bankas AB, from March 2008 until August 2013 consultant on investment issues at Turto garantas UAB and from September 2013 until now – consultant at Dantis AB. Furthermore, from May 2008 she has held the following positions: Board member at Denticija UAB, Dantis AB, Stomatologijos poliklinika UAB, Grožio terapijos ir chirurgijos klinika UAB, SK Impex Service Center UAB, Druskininkų viešbutis Pušynas UAB, Sugihara PRO UAB and Dantų technikos laboratorija Denticija UAB.

Vytenis Rasutis (born in 1958). Education – Vytenis Rasutis graduated from the University of Illinois (USA), gaining Bachelor (in 1981) and Masters (in 1987) in Business Sciences. From September 2009 he is the financial broker at the Bank, providing brokerage and stock exchange consultations.

Management Board

Dalia Klišauskienė (born in 1955). Education – in 1978 Dalia Klišauskienė graduated from the Vilnius University, gaining the Finance and Credit degree at the Faculty of Economic cybernetics and finance. From August 1978 until January 1988 she was the economist at the State Bank (also for a short period the economist at the Vilnius plastic ware factory), from January 1988 until January 1990 the Manager of the Financing and Crediting Division at the Trade and Construction bank, from January 1990 until January 1992 the Manager of one Division of the Lithuanian Bank, from January 1992 until May 1996 the Manager of Credit Division at Litimpex bank, from May 1996 until May 2001 the Manager of Credit and Deposit Department at Tauro bankas AB, from May 2001 until now the Chief Financial Officer at Šiuolaikinės mokyklos centras VŠĮ. Also from 2008 she was the Manager of the Credit Department, from 2010 the Deputy Manager and from 2010 the member of the Board of the Bank.

Marius Arlauskas (born in 1977). Education – in 1999 Marius Arlauskas graduated from the Kaunas Technology University, Administration Faculty and holds the Bachelor in Business Administration. From June 1998 until July 1999 he was the Sales Manager at Tua res UAB, from July 1999 until July 2013 various positions at Ūkio bankas AB (Economist, Manager of the Finansing and Documental Operations Division, deputy Manager of the International Department, Manager of the Department of Finance Institutions and Resources, member of the Board, deputy Manager), from September 2015 until December 2015 the Manager of the International Trade Department at bankas Finasta AB, from March 2013 the Manager of Trade Financing Department at Šiaulių bankas. From 2016 he is the Deputy Manager and member of the Board of the Bank.

Igor Kovalčuk (born in 1965). Education – Igor Kovalčuk graduated from the Vilnius University, Faculty of Law, where he gained a Masters in Law. from February 1990 until November 1993 he was the bailiff, from November 1993 until November 2005 he was the jurisconsult, later Manager of the Property Security Division and of the Legal Division at Litimpex bankas AB, from November 2005 until October 2009 the Manager of the Asset Realisation Subdivision at the State Tax Inspectorate, from November 2009 until April 2010 the Manager of the Debt Recovery Division at Citadele bankas AB, from April 2010 the Manager of the Division at bankas Snoras AB. From 2013 he occupied various positions in the Bank (Manager of the Legal department, member of the Board, Deputy Manager).

Arnas Žalys (born in 1975). Education – in 1997 Arnas Žalys graduated from the Kaunas Technology University Faculty of Administration, where he gained a Bachelor in Businee Administration, in 1999 he graduated from the Vilnius University, Kaunas Humanitarian Faculty, where he gained a Masters in Accounting, Finance and Banking. From September 1998 he occupied many positions at Ūkio bankas AB (Economist, Manager of the Department of Management of Branches, of Planning and Control, Finance, Finance and Risk Management, member and Chairman of the Board, CEO, Department of Accounting and Reporting). From 2015 he is the member of the Council of the Bank, from 2016 Deputy Manager for Finance Management, from 2016 member of the Board and from 2018 Deputy Manager of the Bank.

Key Executives

As all the Key Executives are all also members of the Management Board, the information on all of them is provided in Section above.

The Key Executives have employment relations with the Company which are of unlimited duration. Under the Law on Companies the Manager may be revoked from the position by the Management Board without any early notice for any cause. The same applies to the Management Board members, who may be revoked from the position by the Council without any early notice for any cause. However, taking into consideration the fact that all the Management Board members are also serving as the Key Executives, they may be dismissed from these positions of the Company only on the grounds and following the procedure indicated in the Labour Code of the Republic of Lithuania.

4.7.3 Conflicts of Interest of Members of the Management Board

The Company is not aware of any potential conflict of interests between any duties to the Company of the members of the Management Board or the Management of the Company.

Furthermore, none of the members of the Management is related to any other member of thereof by blood or marriage.

There are no arrangements or understandings with the Major Shareholders of the Issuer, customers, suppliers or others, pursuant to which any member of the Management were selected as a member of the administrative, management or member of senior management.

There are no restrictions on transferring the Issuer’s shares for the members of the Management.

4.8 Major Shareholders

On the day of this Prospectus the authorised capital of the Company is EUR 19,947,577.50 and is divided into 137,750 ordinary registered Shares with a nominal value of EUR 144.81 each. All the Shares issued by the Company entitle to equal voting rights to their holders.

In the table below the information is provided on shareholders of the Company on the date of this Prospectus.

Table 4. Shareholders of the Company as of the date hereof

No.	Shareholder	Number of owned shares and votes directly	Percentage owned directly, %	Indirectly held votes, %	Total, %
1.	Saulius Karosas	123,850	89.91	9.87	99.78
2.	Western Petroleum Ltd.*	13,600	9.87	89.91	99.78
3.	Vytenis Rasutis	300	0.22	0	0.22

Source: the Company

** Final beneficial owner of this company, holding 100% of its shares and votes is Saulius Karosas.*

No Shareholders' Agreements are in effect in the Company or its Subsidiaries.

Apart from the information, indicated in this Section, the Company has no information about any other possible control over the Issuer.

On 3 May 2018 the General Meeting has adopted a decision to increase the authorised capital of the Company from EUR 19,947,577.50 up to EUR 20,947,635.36 by issuing 6,906 new ordinary registered shares of the Company with a par value of EUR 144.81 each. After the issue of the new shares the authorised capital of the Company shall be divided into 144,656 ordinary registered shares with a par value of EUR 144,81 each. The total issue price of the new shares is equal to EUR 1,000,057.86. In the same General meeting the decision to withdraw the pre-emption right of all shareholders of the Company to acquire the new shares and to grant this right to the shareholder Mr Saulius Karosas the right to acquire new shares was adopted as well. Settlement for the new shares was executed by the monetary contributions of Mr Saulius Karosas. On 8 May 2018 the Company has asked for a permission of the LB for the authorised capital increase and changing of the Articles of Association respectively. When the permission of the LB is received, the Company will immediately notarise the documents of authorise capital increase and will register new Articles of Association with the Register of Legal Entities. The new Articles of Association shall be registered in the Register of Legal Entities within 3 business days.

On the day when the new Articles of Association with the increased authorised capital will be registered, the structure of shareholders will be as indicated in the table below:

Table 5. Shareholders of the Company after authorised capital increse

No.	Shareholder	Number of owned shares and votes directly	Percentage owned directly, %	Indirectly held votes, %	Total, %
1.	Saulius Karosas	130,756	90.39	9.40	99.79
2.	Western Petroleum Ltd.*	13,600	9.40	90.39	99.79
3.	Vytenis Rasutis	300	0.21	0	0.21

Source: the Company

** Final beneficial owner of this company, holding 100% of its shares and votes is Saulius Karosas.*

4.9 Financial Information Concerning the Issuer's Assets and Liabilities, Financial Position and Profit and Losses

4.9.1 Historical Financial Information

IFRS Financial Statements and Consolidated Interim Information, attached to this Base Prospectus are provided in the tables below. Unless otherwise stated, this information should be read in conjunction with, and is qualified in its entirety by reference to, such IFRS Financial Statements and Consolidated Interim Information and related notes.

The statement of the financial position of the Group for the years ended 31 December 2017 and 31 December 2016 based on the audited IFRS Financial Statements as well as for the three months period ended 31 March 2018 based on the unaudited Consolidated Interim Information are provided in the table below.

Table 6. Consolidated statement of the financial position, EUR thousand

Balance Sheet				
thous. EUR	2018 Q1	2017 Q1	2017	2016
Assets				
Cash and due from central bank	89,372	51,053	53,520	42,646
Cash	*23,259*	*20,877*	*24,478*	*21,588*
Placements with the central bank	*66,113*	*30,176*	*29,042*	*21,058*
Placements with banks and other credit institutions	11,831	12,530	11,539	11,983
Financial assets at fair value through profit or loss	29	7,233	7	7,793
Derivative financial instruments	*29*	*6*	*7*	*30*
Debt securities	*0*	*7,227*	*0*	*7,763*
Held-to-maturity investments	44,692	33,737	39,860	33,660
Receivables	167,136	140,014	163,678	145,591
Loans to customers	*149,991*	*122,528*	*147,280*	*127,101*
Receivables with deferred payment	*2,655*	*2,669*	*2,923*	*3,696*
Loans to bank and financial institutions	*2,826*	*4,092*	*1,636*	*4,222*
Finance lease receivable	*11,664*	*9,782*	*11,839*	*10,572*
Investment property	5,990	8,667	6,213	8,354
Property and equipment	5,343	5,136	5,343	4,389
Intangible assets	240	347	264	383
Tax assets	1,907	1,897	1,912	1,897
Current taxes	*10*	*0*	*15*	*0*
Deferred taxes	*1,897*	*1,897*	*1,897*	*1,897*
Other assets	2,451	2,300	2,849	2,572
Total assets	**329,382**	**262,914**	**285,185**	**259,268**
thous. EUR	2018 Q1	2017 Q1	2017	2016
Loans				
Derivative financial instruments	4	18	31	19
Due to banks and other credit institutions	3,400	3,490	3,600	4,435
Due to customers	288,766	226,984	251,855	226,809
Subordinated loans	1,000	1,000	1,000	1,000
Debt securities issued	0	0	0	0
Tax liabilities	0	21	0	21
Current taxes	*0*	*21*	*0*	*21*
Deferred taxes	*0*	*0*	*0*	*0*
Other liabilities	8,779	2,369	1,258	1,169
Provisions	30	0	0	0
Total liabilities	**301,979**	**236,882**	**257,744**	**233,453**
Share capital	19,948	19,948	19,948	19,948
Other reserves	7,178	6,326	6,326	5,243
Retained earnings	-62	-585	828	281
Revaluation reserve of property and equipment	339	343	339	343
Total shareholders' equity	**27,403**	**26,032**	**27,441**	**25,815**
Total liabilities and shareholders' equity	**329,382**	**262,914**	**285,185**	**259,268**

Sources: IFRS Financial Statements, Consolidated Interim Information

The statement of the comprehensive income of the Group for the years ended 31 December 2017 and 31 December 2016 based on the audited IFRS Financial Statements as well as for the three months period ended 31 March 2018 based on the unaudited Consolidated Interim Information are provided in the table below. The Bank of Lithuania has performed a new inspection of the Company on the status of 31 March 2018 and according results of the inspectionthe net result for Q1 2018 may be adjusted for the formation of additional provisions covering credit risk and impairment of other assets.

Table 7. Consolidated statement of profit or loss and other comprehensive income, EUR thousand

Profit and Loss Statement				
thous. EUR	2018 Q1	2017 Q1	2017	2016
Interest income	*2,226*	*1,811*	*8,224*	*7,652*
Interest expenses	*-429*	*-452*	*-1,558*	*-1,603*
Net interest income	**1,797**	**1,359**	**6,666**	**6,049**
Service fee and commission income	*1,080*	*842*	*3,742*	*3,293*
Service fee and commission expenses	*-112*	*-94*	*-450*	*-524*
Net service fee and commission income	**968**	**748**	**3,292**	**2,769**
Net result on securities trading	*0*	*7*	*9*	*602*
Net foreign exchange gain	*951*	*813*	*3,822*	*3,180*
Net result from operations with derivatives	*-65*	*-13*	*100*	*226*
Net result on operations on investment property	*-168*	*-12*	*-974*	*-1,216*
Other income	*19*	*8*	*333*	*372*
Total operating income	**3,502**	**2,910**	**13,248**	**11,982**
Impairment of loans and other financial assets	-254	-22	-233	-1,817
Operating income after impairment	**3,248**	**2,888**	**13,015**	**10,165**
Salaries and benefits	-1,828	-1,576	-6,777	-6,292
Depreciation	-116	-85	-382	-312
Amortisation	-47	-45	-200	-184
Other operating expenses	-980	-957	-4,023	-3,120
Total operating expenses	**-2,971**	**-2,663**	**-11,382**	**-9,908**
Operating profit (loss)	**277**	**225**	**1,633**	**257**
Income tax expense	-13	-7	-7	263
Profit (loss) for the year	**264**	**218**	**1,626**	**520**

Sources: IFRS Financial Statements, Consolidated Interim Information

The statement of changes in equity of the Group for the years ended 31 December 2017 and 31 December 2016 based on the audited IFRS Financial Statements are provided in the table below. The Bank does not provide a statement of changes in equity on a quarterly basis.

Table 8. Consolidated statement of changes in equity, EUR thousand

Statement of changes in equity thous. EUR	Share capital	Retained earnings	Revaluation reserve of property and equipment	Financial assets revaluation reserve	Other reserves	Total
At 1 January 2016	**19,948**	**1,039**	**348**	**0**	**4,205**	**25,540**
Correction of errors		-246				-246
At 1 January 2016, restated	**19,948**	**793**	**348**		**4,205**	**25,294**
Total comprehensive income						
Profit or loss		520				**520**
Other comprehensive income (expenses)		5	-5		1	**1**
Transactions with owners of the Bank						
Transfer to reserves		-1,037			1,037	
At 31 December 2016	**19,948**	**281**	**343**		**5,243**	**25,815**
Total comprehensive income						
Profit or loss		1,626				**1,626**
Other comprehensive income (expenses)		4	-4			

Transactions with owners of the Bank						
Transfer to reserves		-1,083			1,083	
At 31 December 2017	**19,948**	**828**	**339**		**6,326**	**27,441**

Source: IFRS Financial Statements

The statement of the cash flows of the Group for the years ended 31 December 2017 and 31 December 2016 based on the audited IFRS Financial Statements are provided in the table below. The Bank does not provide a statement of cash flows on a quarterly basis.

Table 9. Statement of the cashflows, EUR thousand

Cash Flow statement thous. EUR	2017	2016
Cash flows from operating activities		
Profit (loss) for the year	1,626	520
Depreciation and amortization	582	496
(Gain) loss on disposal of property and equipment and investment property	158	-308
Impairment of loans	233	1,817
Impairment of investments in subsidiaries	0	0
Impairment of investment property	680	1,498
Derivatives revaluation	-35	-14
Elimination of accrued vacation pay	29	-73
Income tax expense	7	-263
Elimination of other non-cash items	320	396
Changes in trading debt securities	7,763	913
Changes in compulsory reserves	-49	-344
Changes in amounts due from banks	-66	700
Loans to customers	-3,012	-8,904
Purchased loan portfolio	-18,295	0
Receivables with deferred payment	773	1,064
Loans ti financial institutions	2,586	1,043
Finance lease receivables	-1,267	805
Changes in due to banks and other credit institutions	-835	125
Changes in due to customers	19,551	13,815
Changes in other assets and liabilities	-291	1,046
Income tax (paid)		
Net cash flows from operating activities after income tax	10,458	14,332
Cash flows to investing activities		
(Acquisitions) of intangible assets and property and equipment	-1,914	-1,036
(Acquisitions) of investment property		
Proceeds from sale of property and equipment and investment property	2,697	4,008
Investments in subsidiaries		
Disposal of subsidiaries		
Redemption of held-to-maturity financial assets	12,130	10,211
(Acquisitions) of available-for-sale and held-to-maturity financial assets	-18,330	-18,928
Net cash flows to investing activities	-5,417	-5,745
Cash flows from (to) financing activities		
Bonds issued	0	0
Bonds (redeemed)	0	-131
Contribution of shareholder	0	0
Subordinated loans received	0	1,000
Loans received	8,907	2,381

Cash Flow statement		
thous. EUR	2017	2016
Loans (repaid)	-3,412	-1,369
Net cash flows from (to) financing activities	5,495	1,881
Effect of exchange rate changes on cash and cash equivalents	-221	-394
Net increase (decrease) in cash and cash equivalents	10,315	10,074
Cash and cash equivalents at 1 January	52,735	42,661
Cash and cash equivalents at 3.1 December	63,050	52,735

Source: IFRS Financial Statements

Table 10. Selected Financial Information, EUR thousand

	Year ended 31 December		Quarter ended 31 March	
	2016	**2017**	**2017**	**2018**
Net interest income	6,049	6,666	1,359	1,797
Growth, %	-1.7%	10.2%		32.2%*
Net service fee and commission income	2,769	3,292	748	968
Growth, %	32.9%	18.9%		29.4%*
Total operating income	11,982	13,248	2,910	3,502
Growth, %	-4.8%	10.6%		20.3%*
Operating profit (loss)	257	1,633	225	277
Profit (loss) for the year	520	1,626	218	264
Assets	**259,268**	**285,185**	**262,914**	**329,382**
Cash and due from central bank	42,646	53,520	51,053	89,372
Placements with banks and other credit institutions	11,983	11,539	12,530	11,831
Held-to-maturity investments	33,660	39,860	33,737	44,692
Loans and receivables from clients	145,591	163,678	140,014	167,136
Investment property	8,354	6,213	8,667	5,990
Other assets	17,034	10,375	16,913	10,361
Liabilities	**233,453**	**257,744**	**236,882**	**301,979**
Due to banks and other credit institutions	4,435	3,600	3,490	3,400
Due to customers	226,809	251,855	226,984	288,766
Subordinated loans	1,000	1,000	1,000	1,000
Other liabilities	1,209	1,289	5,408	8,813
Shareholders' equity	**25,815**	**27,441**	**26,032**	**27,403**

Sources: IFRS Financial Statements, Consolidated Financial Information, the Company

* the percentage indicates a growth of the first quarter income.

KEY RATIOS AND INDICATORS*	Year ended 31 December		Quarter ended 31 March	
	2016	**2017**	**2017**	**2018**
PROFITABILITY RATIOS				
Operating profit margin	2.1%	12.3%	7.7%	7.9%
Net profit margin	4.3%	12.3%	7.5%	7.5%
ROE	2.0%	5.9%	0.8%	1.0%
ROA	0.2%	0.6%	0.1%	0.1%
LIQUIDITY RATIOS				
Liquidity coverage ratio	844.3%	730.6%	892.0%	477.8%
SOLVENCY RATIOS				

Capital adequacy ratio	14.1%	15.01%	15.8%	17.0%
Non-performing loan ratio	10.6%	8.3%	11.9%	7.5%

Sources: IFRS Financial Statements, Consolidated Financial Information, the Company

* - not audited alternative performance measuers (APMs), calculated using IFRS Financial Statements and Consolidated Interim Information numbers.

The table below provides a list of APMs, their calculation methodology, and the main rationale for using it.

APM	Formula	Rationale for using the APM
Operating profit margin	Operating profit (loss) / Total operating income	It is one of the main profitability indicators, calculated dividing operating profit by the revenues for the same period. It indicates how much profit a company could earn from its operations, financing activities and taxation costs excluded. The higher ratio is, the more proftable is a company.
Net profit margin	Profit (loss) for the year / Total operating income	It is one of the main profitability indicators, calculated dividing net profit by the revenues for the same period. It indicates how much profit a company could earn from its operations, financing activities and taxation costs included. The higher ratio is, the more proftable is a company.
Return on equity (ROE)	Profit (loss) for the year / Shareholders' equity	Return on equity is a ratio calculated dividing net profit by the shareholders' equity. It measures the profitability of a company by revealing how much of the profit can a company earn on the shareholders' investments. The higher ratio is, the more proftable is an equity investment in the company..
Return on assets (ROA)	Profit (loss) for the year / Assets	Return on assets is a ratio calculated dividing net profit by the total assets. It measures the profitability and management efficiency by revealing how well the assets are used for profit generation. The higher ratio is, the more efficient the company is in using its assets to generate return to shareholders.
Liquidity coverage ratio (LCR)	Liquid assets / Short-term (up to 30 days) obligations	It is one of the main liquidity measures for financial institutions indicating how well short-term obligations are covered with highly liquid assets. It reveals how well a company is prepared for a short-term liquidity disruptions. According to EU Regulations, by the compulsory requirement, the Bank must operate under a liquidity coverage ratio not lower than 100%.
Capital adequacy ratio (CAR)	(Tier I capital + Tier II capital + Capital conservation buffer) / Risk weighted assets	It is one of the main solvency ratios for financial institutions indicating how well the depositors are protected by the company's capital in the case of financial disruptions. The ratio not only takes into account the level of company‘s capital, but also the risk profile of the company‘s assets. A threshold set by the Bank of Lithuania is Capital adequacy ratio (CAR) being not lower than 13.9%.
Non-performing loan (NPL) portfolio	Non-performing loan portfolio (net value) / Total loan portfolio (net value)	The ratio indicates how much of the total loan portfolio (net value) is considered as non-performing. The non-performing loan portfolio consists of loans, which have at least one of the following attributes: - a loan is impaired; - there is a probability that a client will not be able to meet its credit obligations to the Bank unless the Bank will initiate the realization of collateral; - a loan is over 90 days overdue; - a court proceeding or a bankruptcy procedure is in process.

Summary of Independent Auditor's Reports

The IFRS Financial Statements for the years ended 31 December 2017 and 31 December 2016 have been audited by KPMG Baltics UAB. In auditor's opinion IFRS Financial Statements for both year ended 31 December 2017 and 31 December 2016 give a true and fair view of the unconsolidated financial position of the Issuer and consolidated financial position of the Group and of their respective unconsolidated and consolidated financial performance and their cash flow for the years ended in accordance with International Financial Reporting Standards, as adopted by the European Union. Apart from that, no other information in the Prospectus has been audited by the auditors.

Full independent Auditor's reports are presented together with IFRS Financial Statements which are attached to the Base Prospectus as Annex I.

The Consolidated Interim Information, which is attached to the Base Prospectus as Annex II was neither audited nor subject to a review by the auditor.

4.9.2 Legal and Arbitration Proceedings

Neither the Company nor any of its Subsidiaries have, during the 12 months preceding the date of this Base Prospectus, been or are currently involved in any material governmental, legal or arbitration proceedings (including any such proceedings which are pending or threaten of which the Company is aware) which may have or have had in the past, significant effects on the Issuer's and or the Group's financial position or profitability, except for the following disputes:

The LB imposed a financial penalty to the Company and prohibited to lend to related persons

The LB carried out an investigation on the Bank and imposed on 30 June 2017 a financial penalty of EUR 235,350. In addition to that the LB prohibited the Bank temporarily to provide lending to related persons as well. This prohibition is valid until the LB by its separate decision revokes the abovementioned restriction (currently this restriction is still valid).

The LB imposed a financial penalty on the Bank for non-compliance with following requirements:
- Requirements for minimal loan assessment;
- Law on Banks;
- Law on Financial institutions;
- Law on Financial Liability of the Companies;
- The principles of the management of financial accounting and preparation of financial statements sets;
- The provisions of the organization of internal control and evaluation (management);
- Outstanding instructions set by the Board of the LB in the Resolution No. 03-95 on prudential requirements, Dated 14 July 2016;
- Law on Prevention of Money Laundering and Terrorist Financing;
- Guidelines for financial market participants to prevent money laundering and / or terrorist financing.

The LB established following main violations:
- Part of the loan, provided under the loan agreement (total amount of loan MEUR 1.3) with Turto garantas UAB was not used for its intended purpose;
- decision of the Bank to reduce the general provisions rate from 0.3% to 0.15%;
- inappropriate evaluation of the borrowers to repay loans granted to them;
- non-compliance with capital adequacy requirements for the Bank. LB decided that subordinated loan of the main shareholder of the bank (Saulius Karosas) could not be assigned to Tier 2 capital instruments;
- other violations (e.g. by provision of data to Loan risk database, the internal documents and orders of the Bank were not upgraded).

A plan of the Bank for remedying of violations was provided to the LB and the Management considers that all the established violations were eliminated. The LB has not provided any notes or contradictions for the indicated plan.

Mandatory instruction of the LB were applied towards the Company

On 18 April 2018 the LB has applied towards the Company compulsory instruction and has publicly announced on 26 April 2018 that the Company has not complied with the previous mandatory restriction of the LB not to provide lending to the related persons of the Company. The restriction not to provide lending to related persons is further valid until the LB shall revoke it.

The mandatory instruction has been applied because of the conditions of acquisition of the Subsidiary Saugus kreditas UAB by the Company. By acquiring the shares of this Subsidiary the Company has also acquired the claim right to the Subsidiary from the former shareholder of thereof. The claim right occurred from the credit agreement and amounted to EUR 196,700 at that time. The Company has extended the repayment term and changed other conditions of the credit agreement after the acquisition of shares of Saugus kreditas UAB.

The LB has decided that when acquiring the claim rights to the above Subsidiary the Company has not complied with the restriction not to provide lending to its controlled persons and their directly and indirectly controlled companies. However, during the process of verifying the documents the Company has capitalized its claim right to the Subsidiary by share capital increase. For this reason the LB did not apply any other mandatory restrictions.

Claim with the natural person regarding termination of the credit agreement

Counterclaim brought by natural person consumer against the Company is currently pending before the Court of Appeal regarding allegedly unlawful termination of the Credit Agreement due to a material breach of agreement. The claimant seeks to recognize the termination of the credit agreement, tripartite maintenance agreement and supplementary agreement, as well of executive notes and debts of EUR 130,000 as unlawful.

On 15 March 2017 the court of first instance dismissed the claim. However, the claimant filed an appeal. The Bank disagrees with the appeal and submitted the response. The recovery from the assets from the claimant was initiated and subsequently suspended due to the application of interim measures.

For this borrower special financial provisions are formed under the rules of expected credit losses.

The Bank has filed a creditor claim against the natural person

The Bank has filed a creditor claim in the natural person's insolvency proceeding in the total amount of EUR 1,122,021.03, which consists of interest, penalty and unpaid credit amount (EUR 458.327.97).

However, the court of first instance approved only part the financial claim of the Bank in the amount of EUR 464,931.96. The Bank has submitted a separate complaint regarding EUR 657,089.07. Currently, the case is suspended, because of the other case, where the Bank claims requirements of the other creditors. For this borrower special financial provisions are formed under the rules of expected credit losses.

The creditor claim of the Bank in the natural person's insolvency proceedings may be not approved to its full extent. Furthermore, the property for recovery may be insufficient.

The Company expects to recover only about EUR 230,000 from the non-pledged real estate of this natural person. The average market value of the total movable property of this borrower in the register is about EUR 411,000.

Action Pauliana case

Action claim of Action Pauliana is brought by Kaminkelio projektai UAB, by the enterprise against which bankruptcy proceedings have been initiated, regarding debt relocation from Stiklos artelė UAB to Kaminkelio projektai UAB. The claimant seeks to recognize the agreement of the debt relocation as invalid and to apply restitution.

The Company explains that the claim is groundless because of the following reasons:
1) Kaminkelio projektai UAB was a new company and had no other creditors on the moment of the debt relocation;
2) The claimant does not dispute an additional agreement concluded by Kaminkelio projektai UAB and the Company, on which the payment of EUR 187,900.97 was made.

The claim is currently pending before the court of first instance. The recovery from assets of the borrower is completed after full recovery of the debt. The Company may have possible second dispute with Kaminkelio projektai UAB, if the claim of Actio Pauliana will be awarded.

Action claim of the natural person consumer

Action claim is brought by natural person consumer regarding compensation of damages. The claimant considers the decision of the Bank not to issue a loan of LTL 166,000 (EUR 48,076.92) in 2008 to his company Melonas UAB was unlawful and claims for damages of EUR 429,430.67. The claimant seeks to prove that due to the outstanding amount of credit, Melonas UAB was not able to complete the construction works and the project. Thus, company went bankrupt.

The recovery of the bank was executed from the property of the claimant and his spouse, as well as from the claimant as a guarantor. The value of the apartments owned by the claimant was EUR 100,000, and the amount awarded under the suretyship agreement was EUR 341,928.39.

The claim is currently pending before the court of first instance. On 22 March 2018 the case was suspended because of the other case, where an appeal of the same natural person concerning the cancellation of a mortgage will be resolved.

Special financial provisions under the rules of expected credit losses are formed for this borrower.

The recovery from the property of this natural person is currently performed. Abridged three-year prescription shall be applied with respect to claims for the compensation of damages. Therefore, the Bank has required to apply prescription.

4.9.3 Significant Changes in the Issuer's Financial or Trading Position

There were no significant changes in the Issuer's financial or trading position, which has occurred since the end of 31 December 2017.

4.10 Material Contracts

In the two years preceding the date of this Prospectus neither the Company nor any Subsidiary has entered into a material contract other than contracts entered into in the ordinary course of business. Furthermore, there are no other agreements entered into by any of the Group companies (except being entered into in the ordinary course of business), which contains any provision under which any Group company has any obligation or entitlement which is material to the Group as at the date of the Prospectus. Below are the described material contracts entered into in the ordinary course of business which are valid as at the date of the Prospectus.

Two categories of agreements regarding providing of services of significant influences are important for the Bank: 1) agreement with cash money management company; and 2) agreements with service providers of IT and software.

Agreement with cash money management company

05.10.2016 Money management contract No PTS-MED-2016/1 (with G4S Lietuva UAB – Center)

The object of the Contract: Money management, which includes money transportation, money processing, and money storage.

Liability: Parties are liable for any losses incurred by the other party. The risk associated with loss, deficiency or damage to uninsured cash amounts is attributable to the Bank. The Center responds only to his fault. The maximum liability of the Center for the loss of money load and cash is limited to the amount of lost cash or money load.

Term: The Contract is valid indefinitely.

Applicable Law and Dispute Resolution: The contract is governed by Lithuanian law and the venue for dispute resolution is Lithuanian court.

Agreements with service providers of IT and software

Contracts with service provider Etronika UAB

23.06.2005 Contract No. S/050603

The object of the Contract: Maintenance services for certain system and development thereof.

Liability: The Bank shall reduce the monthly fees if the service provider fails to provide appropriate maintenance.

Term: The contract is valid for one year and is automatically renewed for an additional year unless one of the two contracting parties notify the other party in written form about its non-extension.

Applicable Law and Dispute Resolution: The contract is governed by Lithuanian law and the venue for dispute resolution is Lithuanian court.

09.12.2010 Contract No. S/101003

The object of the Contract: Analysis of the Bank needs, development, and adaptation of the software, establishment of the testing plan, training of the Bank customers, software testing, maintenance of the servers, consultations provided by phone or other mutually agreed tools of communication.

Term: The Contract is valid until the termination date unless earlier terminated by mutual agreement of the parties.

Applicable Law and Dispute Resolution: The contract is governed by Lithuanian law and the venue for dispute resolution is Lithuanian court.

30.04.2014 Service Providing Contract No. 14-04-30/01 (with Paspara UAB)

The object of the Contract: Anti-Money Laundering development, adaptation, and maintenance of the software, consultations, training and training materials.

Liability: The Bank undertakes to indemnify the service provider for all direct losses suffered by it due to the fault of the Bank. The service provider undertakes to indemnify the Bank for all losses suffered during the processes in the courts if the third party has started proceedings against the Bank due to the infringement of intellectual property laws.

Term: The Contract is valid until the termination date unless earlier terminated by mutual agreement of the parties.

Applicable Law and Dispute Resolution: The contract is governed by Lithuanian law and the venue for dispute resolution is Lithuanian court.

22.12.2016 Additional Annex No. 4 to the above contract

The object of the Contract: creation of the data storage of the Bank for preparation of reports to the Bank of Lithuania and maintenance of the data storage.

Liability: The service provider undertakes to indemnify the Bank for all direct and reasonable losses suffered because of the failure to fulfil obligations of the servise provider.

Term: The Annex is valid until the full execution of obligations settled in the Annex.

Applicable Law and Dispute Resolution: provided in the Contract No. 14-04-30/01.

Contract with service provider SWIFT – 04.05.2000 S.W.I.F.T. Standard Software Contract, Contract registration No. 203 (with The Society for Worldwide Interbank Financial Telecommunication s.c)

The object of the Contract: Receival of standard software and license from S.W.I.F.T., installation of the system.

Liability: The Bank waives and releases any consequential, collateral, special or indirect damages suffered from S.W.I.F.T.. S.W.I.F.T. shall not incur any liability under this Contract unless written notice of the claim has been given.

Applicable Law and Dispute Resolution: The contract is governed by the Belgian Law and the venue for dispute resolution is the Arbitration of the International Chamber of Commerce (ICC), the arbitration shall take place in Brussels.

Contracts with service provider Forbis UAB or FORBIS SOLUTIONS LTD

21.11.2007 Contract No. 0711-LT-160-ID

The object of the Contract: system's adaptation under the requirements of TARGET 2 functional specifications, installation and maintenance of the system.

Term: The contract is valid until the full execution of obligations settled in the contract.

Applicable Law and Dispute Resolution: The contract is governed by Lithuanian law and the venue for dispute resolution is Lithuanian court.

24.08.2007 Contract No. 283-LT-142-ID

The object of the Contract: Preparation, development, and installation of the utility expenses collection software; Maintenance of the system.

Liability: Parties are liable for losses suffered in accordance with this Contract incurred by the other party.

Applicable Law and Dispute Resolution: The contract is governed by Lithuanian law and the venue for dispute resolution is Lithuanian court.

04.09.2009 Contract No. 90825

The object of the Contract: Modification of BIS Forpost software under the regulations of Law on Payments.

Liability: Parties are liable for losses suffered in accordance with this Contract incurred by the other party.

Applicable Law and Dispute Resolution: The contract is governed by Lithuanian law and the venue for dispute resolution is Lithuanian court.

12.10.2011 Contract No. 22284

The object of the Contract: Changes of the data processing from Forpost to PRDB under the legal obligations set by LB PRDB rules.

Applicable Law and Dispute Resolution: The contract is governed by Lithuanian law and the venue for dispute resolution is Lithuanian court.

07.02.2014 Contract No. 1402-LT-251

The object of the Contract: The purchasing of licenses, works, and maintenance.

Liability: Parties undertake to indemnify each other for all direct losses suffered by each party due to the fault of them. Parties shall not incur any liability under this Contract if damages arise due to technical or network issues.

Term: The Contract is valid until Contract parties mutually agree to terminate the Contract. The Contract is automatically terminated if the Bank looses the respective licence license.

Applicable Law and Dispute Resolution: The contract is governed by Lithuanian law and the venue for dispute resolution is Lithuanian court.

20.11.2013 Sublicense Agreement No. 1311-LT-241

The object of the Agreement: The purchasing of Oracle Form and Reports licenses and technical maintenance settled in the separate agreement.

Liability: Forbis shall not incur any liability occurred while the Bank has used the software under this Contract.

Term: The Contract is valid until Contract parties mutually agree to terminate the Contract.

Applicable Law and Dispute Resolution: The contract is governed by Lithuanian law and the venue for dispute resolution is Lithuanian court.

08.10.2001 Agreement No FD-2001/02

Object of agreement – UAB “Forbis” sells (seller) and UAB „Medicinos banko lizingas“ (buyer) buys the bank's computer program and database, also its installation system and its maintenance and support services.

Applicable law and dispute resolution – The contract is governed by Lithuanian law and the venue for dispute resolution is Lithuanian court.

Other – the customer has the right to use the database for training purposes without any restrictions.

03.17.2004 Agreement No. 357

Object of agreement – Forpost Data Warehouse server preparation, installation and certain subsystem, preparation and installation.

Applicable law and dispute resolution - The contract is governed by Lithuanian law and the venue for dispute resolution is Lithuanian court.

20.06.2003 Agreement No. 192

Object of agreement – Preparation and implementation of certain of the Bank's information system and interoperability subsystem of interbank payment management system.

Applicable law and dispute resolution - The contract is governed by Lithuanian law and the venue for dispute resolution is Lithuanian court.

06.05.2010 Agreement No. 19493

Object of agreement – Forbis undertakes to develop and modify the functionality one of the Forpost subsystem.

Term – the contract is valid until all obligations provided for in the contract are fulfilled.

Applicable law and dispute resolution - the disputes shall be resolved in accordance with the laws of the Republic of Lithuania in court according to the place of the registered office of the customer.

17.03.2004 Agreement No. 357/1

Object of agreement – modification of certain software.

Applicable law and dispute resolution - the disputes shall be resolved in accordance with the laws of the Republic of Lithuania.

17.06.2010 Agreement No. 20238

Object of agreement – Development of special subsystem.

Applicable law and dispute resolution - the disputes shall be resolved in accordance with the laws of the Republic of Lithuania.

26.08.2011 Agreement No. 2011-386

Object of agreement – TARGET2 payments via SWIFT, implementation patch assembly for certain FORPOST versions.

Applicable law and dispute resolution – the disputes shall be resolved in accordance with the laws of the Republic of Lithuania.

V DEBT SECURITIES NOTE

5.1 Interest of Natural and Legal Persons Involved in the Offering

Save for commissions to be paid to the Lead Manager, so far as the Issuer is aware, no person involved in the Offering of the Bonds has an interest material to the issue/offer, nor any conflicting interests.

5.2 Reasons for the Offering and Use of Proceeds

In connection with the issue of the Bonds, the Issuer will receive net proceeds of up to EUR 9,550,000, assuming that all the Bonds are subscribed for and fully paid-up and after substracting all issue related expenses. The Issuer intends to use the net proceeds for improving the Tier 2 capital and strengthen the fulfilment of capital adequacy requirements. The improved Tier 2 capital will enable the Issuer to expand bank loan portfolio, especially in the target segments of small and medium enterprises and agriculture (loans in both of these segments are secured with acceptable collateral). The Issuer currently has enough human and technological resources, as well as sufficient liquidity in order to expand its lending portfolio. The improved Tier 2 capital will allow the Bank to maintain sufficient capital adequacy ratio while increasing bank loan portfolio.

The expenses of the issue of the Bonds mainly consist of the commission to be paid in connection with the issue of the Bonds to the Lead Manager and fees paid to the legal adviser. For more information on this issue please see Section *Placement Agreement* below.

5.3 Information Concerning the Securities to be Offered and Admitted to Trading

Description of the Bonds of the Company to be issued

Securities to be offered and admitted to trading on Nasdaq under the programme:	Subordinated Bonds up to an aggregate principal amount of EUR 10,000,000, qualifying as Tier 2 instruments, which may be issued within the period of 12 months as from approval of the Prospectus
Type of securities:	Subordinated bonds of the Company – unsecured debt bonds with a fixed-term, non-equity (debt) securities under which the Company shall become the debtor of the Bondholders and shall assume obligations for the benefit of the Bondholders
ISIN:	Prior to Offering of the Bonds in each of the respective Tranche, the Issuer shall apply to Nasdaq CSD for assignment of the ISIN to Bonds, which shall be indicated in the Final Terms
Currency of Bonds:	EUR
Legislation, under which the Bonds shall be created:	The Civil Code of the Republic of Lithuania, the Law on Companies, the Law on Securities, Law on Banks and other related legal acts. All the relations of the Company and the Investors in connection with the Bonds shall be determined in accordance with the laws of the Republic of Lithuania, including without limitation, the Law on Companies, Law on Banks and the Law on Protection of Interests of Bondholders. Any disputes, relating to or arising in relation to the Bonds shall be finally settled solely by the courts of the Republic of Lithuania of competent jurisdiction.
Number of Bonds, nominal value per Bond, total nominal value, Issue Price per Bond of each of the respective Tranche:	To be established in the Final Terms of each of the Tranche of Bonds
Form of Bonds:	The Bonds shall be registered in book-entry form. According to the Law on Markets in Financial Instruments the book-entry and accounting of the dematerialized securities in the Republic of Lithuania, which will be admitted to trading on the regulated market (Nasdaq), shall be made by Nasdaq CSD. Entity to be in charge of keeping the records will be Orion securities UAB FMĮ, code 122033915, registered at the address Antano Tumėno str. 4, Vilnius, Lithuania
Credit ratings assigned to the Issuer or the Bonds and status thereof:	Neither the Issuer, nor the Bonds shall be assigned with the credit ratings as a result of the Offering. The claim on the principal amount of the Bonds is wholly subordinated to claims of all non-subordinated creditors.
Redemption price of the Bond:	On the day of redemption, the Bonds shall be repaid in full at their nominal value, with the cumulative interest accrued
Interest rate and dates of payment thereof:	Fixed yield of the Bonds shall be determined and established in the Final Terms. The interest on the Bonds will be paid semi-annually on the dates specified in the Final Terms (the "Interest Payment Date") until the Maturity Date (as defined below) and will be calculated on the aggregate outstanding principal amount of the Bonds of the respective Tranche.

	Interest shall accrue for each interest period from and including the first day of the interest period to (but excluding) the last day of the interest period on the principal amount of Bonds of the respective Tranche outstanding from time to time. The first interest period commences on the Issue Date and ends on the first Interest Payment Date (the “First Interest Period”). Each consecutive interest period begins on the previous Interest Payment Date and ends on the following Interest Payment Date. The last interest period ends on the Maturity Date (as defined below). Interest in respect of the Bonds will be calculated on the basis of the actual number of days elapsed in the relevant interest period divided by actual length in days of the relevant interest period multiplied by frequency factor of 2 , i.e. a day count convention Act/Act (ICMA) will be used. When interest is required to be calculated in respect of a period of less than a full year other than in respect of the First Interest Period, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the “Accrual Date”) to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date. Should any Interest Payment Date fall on a date which is not a Business Day, the payment of the interest due will be postponed to the next Business Day. The postponement of the payment date shall not have an impact on the amount payable.
Maturity (redemption) date of Bonds and principal payment:	The exact maturity date shall be specified in the Final Terms. Each Tranche of Bonds may have a maturity between 5 (five) and 7 (seven) years or such other maturity as the Issuer decides, but in any case not shorter than 5 (five) years. The term for provision of the requests/requirements to redeem the Bonds shall not be applicable, as upon Maturity Date of Bonds, the nominal value thereof with the cumulative interest accrued shall be transferred to the accounts indicated by the Bondholders without separate requests/requirements of the Bondholders. As from this moment the Issuer shall be deemed to have fully performed the obligations, related to the Bonds and their redemption, disregarding the fact, whether the Bondholder actually accepts the indicated funds. In case requisites of the account of the Bondholder changes, he/she/it shall have an obligation to inform the Company thereof. Should the Maturity Date fall on a date which is not a Business Day, the payment of the amount due will be postponed to the next Business Day. The postponement of the payment date shall not have an impact on the amount payable. Following the transfer of the redemption price to the investor’s accounts as indicated above, the Bonds shall be removed from Nasdaq CSD and from Nasdaq. *Redemption of Bonds in case of change in applicable legislation (the “Regulatory Call”)*. The Issuer may chose to redeem the Bonds prior to the Maturity Date in case (i) the Bonds are likely to be excluded from Tier 2 capital of the Issuer for the purposes of the capital adequacy rules applicable to the Issuer at the relevant time (other than the capital adequacy rules as in force on the Issue Date of the relevant Bonds) or (ii) there is a change in the applicable tax treatment of the Bonds which is material and was not foreseeable at the time of the Bonds’ issuance. The Regulatory Call option may be used by the Issuer subject to the prior permission of the LB, provided that at the relevant time such permission is required (but without any requirement for the consent or approval of the Bondholders), and upon giving not less than 15 nor more than 30 days’ irrevocable notice. *Redemption of Bonds by choice of the Issuer (the “Issuer Call”)*. The Issuer may chose to redeem the relevant Bonds prior to Maturity Date but not earlier than 5 (five) years after issue at the amount specified in the applicable Final Terms, subject to the prior permission of the LB, provided that at the relevant time such permission is required (but without any requirement for the consent or approval of the Bondholders), and upon giving not less than 15 nor more than 30 days’ irrevocable notice. The Bondholders do not have a right to require to redeem the Bonds prior to the Maturity Date. If the mentioned amounts are not transferred to the account indicated by the Bondholders, the Bondholders shall have a right to claim for redemption of the Bonds within 3 (three) years after the Maturity Date. If the Bondholders shall not claim

	redemption of the Bonds within the indicated 3 (three) years term, the respective Bondholders shall forfeit the right of claim.
Offering and listing of Bonds:	The Lead Manager shall offer the Bonds to the Investors under the terms and conditions, indicated in the Final Terms of each of the respective Tranche. The Bonds shall be applied for introduction to trading on a Baltic Bond List of Nasdaq once the Bonds are subscribed and fully paid by the Investors and registered with Nasdaq CSD. In case not all the Bonds of the respective Tranche are subscribed and/or fully paid by the Investors, the Management Board may decide to issue and introduce to trading on Nasdaq any lesser number of Bonds, offered during the respective Tranche. The Management expects that the Bonds shall be admitted to trading on Nasdaq within 1 (one) month as from placement of the Bonds the latest. Disregarding this, the Management will put its best endeavours so that this term would be as short as practicable possible. The Issuer shall also put its best efforts to ensure that the Bonds remain listed on Nasdaq. The Issuer shall, following a listing or Admission to trading, take all reasonable actions on its part required as a result of such listing or trading of the Bonds. The Issuer will cover all costs which are related to the Admission of the Bonds to Nasdaq.
No collateral:	The Issuer will not provide any collateral
No cross default:	No cross default provision.
No negative pledge:	No negative pledge provision.
Decision by which the Bonds are issued:	The Offering programme shall be executed based on the decision of the Management Board, dated 24 April 2018. The decisions by which each Tranche of the Bonds shall be issued shall be specified in the Final Terms.
Issue Date of the Bonds:	The Issue Date shall be specified in the Final Terms.
Transfer restrictions:	There are no restrictions on transfer of Bonds as they are described in the applicable Lithuanian laws. However, the Bonds cannot be offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which it would be unlawful or require measures other than those required under Lithuanian laws, including, without limitation, in the United States of America, Australia, Canada, Hong Kong and Japan. For more information on this issue please see Section 5.8 *Notice to Prospective Investors and Selling Restrictions*
Taxation:	All payments in respect of the Bonds by the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (the "Taxes"), unless the withholding or deduction of the Taxes is required by laws of the Republic of Lithuania. In such case, the Issuer shall make such payment after the withholding or deduction has been made and shall account to the relevant authorities in accordance with the applicable laws for the amount so required to be withheld or deducted. The Issuer will not be obliged to make any additional compensation to the Bondholders in respect of such withholding or deduction. For more information, related to taxation of the Bonds, please see Section *Taxation* below
Publication of the Final Terms:	The Final Terms of each Tranche will be approved by the Management Board of the Issuer. Before the Offering of the respective Tranche commences, the Final Terms will be (i) submitted to the LB; and (ii) published on the websites of the Issuer and (for informational purposes only) of the Offering Broker (after Admission to trading on Nasdaq Tranche 1 Bonds, publication of further Final Terms (if any) shall also be made on Nasdaq website at www.nasdaqbaltic.com, as well as in Central Base of the Regulated Information (www.crib.lt))
Estimated Expenses Charged to the Investors:	No expenses or taxes will be charged to the Investors by the Issuer in respect to the Offering of the Bonds. However, the Investors may be obliged to cover expenses which are related to the opening of securities accounts with credit institutions or investment brokerage firms, as well as commissions which are charged by the credit institutions or investment brokerage firms in relation to the execution of the Investor's purchase or selling orders of the Bonds, the holding of the Bonds or any other operations in relation to the Bonds. The Issuer and or the Lead Manager will not compensate the Bondholders for any such expenses

Rights of the Bondholders

A Bond is a fixed-term non-equity (debt) security under which the Company which is the Issuer of the Bond becomes the debtor of the Bondholder and assumes obligations for the benefit of the Bondholder. The Bonds are incorporeal and shall be fixed by entries in the securities accounts of their holders. The Bonds of each respective Tranche of issues shall grant their holders equal rights.

As from the maturity date of the Bonds, Bondholders shall have a right to receive from the Company the nominal value of Bonds and the interest, as indicated above, i.e. he/she/it shall have a right to require, that the Bonds would be redeemed for their redemption price.

Bondholders shall have the rights provided in Law on Protection of Interests of Bondholders, the Civil Code, the Law on Companies, the Law on Banks and other laws regulating the rights of bondholders, as well as the rights specified in the decision to issue Bonds. The Bondholders shall have the following main rights:

- to receive the cumulative interest accrued semi-annually;
- to receive the nominal value of Bonds and the cumulative interest accrued on the maturity date of the Bonds;
- to sell or transfer otherwise all or part of the Bonds;
- to bequeath all or part of owned Bonds to the ownership of other persons (applicable only towards natural persons);
- to participate in the Bondholders' Meetings;
- to vote in Bondholders' Meetings;
- to initiate the convocation of the Bondholders' Meetings following the procedure and in cases provided for in the Law on Protection of Interests of Bondholders;
- to adopt a decision to convene the Bondholders' Meeting following the procedure and in cases provided for in the Law on Protection of Interests of Bondholders;
- to obtain the information about the Issuer, the issue of Bonds or other information related to the protection of his/her/its interests;
- to receive the copy of the contract concluded between the Issuer and the Trustee;
- other rights, established in the applicable laws or in the documents of establishment of the Issuer.

The rights of Bondholders shall be executed during the term of validity of Bonds according to the order, indicated in this Base Prospectus, Final Terms and the applicable Lithuanian laws.

Representation of Bondholders

Law on Protection of Interests of Bondholders foresees that before issuing Bonds offered for public trading, a company must conclude a civil contract with a trustee of the bond holders (the "Trustee") for representation of bondholder's interest. Under this contract, the Trustee shall undertake to safeguard the interests of the holders of a certain bonds issue in their relations with the Issuer and the Issuer shall undertake to pay remuneration thereto. The Manager has the right to conclude and to terminate the contract with the Trustee.

On 10 May 2018, the Issuer has concluded the civil contract with the Trustee (Audifina UAB), which meets the requirements established for the trustees in the Law on Protection of Interests of Bondholders. Contact data of this Trustee is the following: address Ž. Liauksmino str. 3, LT-01101 Vilnius, Lithuania, tel. +370 212 73 65, +370 212 59 78, fax +370 261 29 35, e-mail info@audifina.lt. As indicated above, each Bondholder is entitled to receive the copy of the civil contract concluded between the Issuer and the Trustee from the Issuer or from the Trustee.

The Company shall pay to the Trustee the fee, indicated in the above contract. The fee shall be paid until full execution of the obligations, indicated in the decision to issue the Bonds, except for the cases when the contract ceases earlier.

A contract on protection of Bondholders' interests expires:

1) when the Company properly discharges all its obligations to Bondholders;
2) when an auditor (in this particular case) loses the right to provide relevant services or when the Trustee acquires the legal status of a "legal entity in bankruptcy" or "liquidation";
3) in other cases, set in the contract on protection of Bondholders' interests;
4) in other cases, set in the Law on Protection of Interests of Bondholders, in the Civil Code of the Republic of Lithuania, the Enterprise Bankruptcy Law of the Republic of Lithuania.

Below please find a brief description of certain provisions of the above contract with the Trustee as well as of the applicable Lithuanian laws, related to rights and obligations of the Trustee, etc.

Main Rights of the Trustee

1) to receive the list of Bondholders from the Issuer;
2) to receive the copy of the Issuer's decision to issue the Bonds;
3) to get acquainted with the documents and information which are necessary to fulfil its functions and to receive the copies of such documents;
4) after having obtained the consent of the Bondholders' Meeting, to conclude contracts with third parties when it is necessary to ensure the protection of the interest of Bondholders;
5) to bring an action to the court for the purpose of safeguarding the rights of the Bondholders.

Trustee, acting on behalf of and for the benefit of Bondholders, has the right to exercise rights of a pledgee and mortgagee when Bonds issued by the Company are secured with a pledge or mortgage, respectively.

Main Obligations of the Trustee

1) to take actions in order that the Company fulfilled its obligations towards the Bondholders;
2) to convene Bondholders' Meetings;
3) to publish information regarding the Bondholders' Meetings being convened under procedure of the Law on Protection of Interests of Bondholders;
4) to provide the Bondholders' Meetings with all relevant documents and information;
5) to provide Bondholders' Meeting, in which the question is being addressed regarding approval of the enforcement measures in respect of Issuer's outstanding commitments to Bondholders, the recommendatory opinion, whereby the reasoned opinion to approve or reject the enforcement measures suggested by the Issuer is provided;
6) to execute the decisions of the Bondholders' Meetings;
7) no later than within 5 (five) Business Days as from the day of receipt of a request of the Bondholder(s) to provide information, to gratuitously present all the information about the Issuer, the issue of Bonds or other information related to the protection of his/her/its/their interests;
8) no later than within 3 (three) Business Days as from the day of receipt of a request of the Bondholder(s) to provide a contract concluded between the Issuer and the Trustee, to gratuitously provide to the Bondholder(s) the copy of such contract;
9) to provide the Bondholder(s) with all other information related to the protection of his/her/its/their interests;
10) no later than on the next Business Day to inform the Issuer that the Trustee has lost the right to provide audit services, or acquired legal status "in bankruptcy" or "in liquidation".

Bondholders' Meetings

The right to convene the Bondholders' Meeting shall be vested in the Trustee, the Bondholders who hold no less than one-tenth of the Bonds of the same issue, providing voting right in the Bondholders' Meeting and the Issuer. As a general rule, the Bondholders' Meetings are convened by a decision of the Trustee. The Bondholders and Trustee shall have the right to attend the Bondholders' Meetings. The Trustee must attend the Bondholders's Meeting in cases when the Bondholders who hold no less than one-tenth of the Bonds of the same issue providing voting right in the Bondholders' Meeting approve such a need. The Manager or its authorised person may also attend the Bondholders' Meeting, unless the Bondholders who hold no less than one-tenth of the Bonds of the same issue providing voting right in the Bondholders' Meeting contradict thereto.

All expenses in relation to the convening and holding the Bondholders' Meeting shall be covered by the Issuer.

A notice of convocation of the Bondholders' Meeting no later than 15 (fifteen) Business Days before the date of the Bondholders' Meeting shall be published on the Company's website www.medbank.lt. If any of the Bondholders expressed his/hers/its request to get notifications on the convocation of the Bondholders' Meetings via email and provided the email address, the notice of convocation of the Bondholders' Meeting no later than 15 (fifteen) Business Days before the date of the Bondholders' Meeting shall also be send via the indicated email. The notice of convocation of the Bondholders' Meeting shall specify the details of the Issuer, the ISIN of the Bonds, time, place and agenda of the meeting.

The Trustee is obliged to announce on the convocation of the Bondholders' Meetings on its website (www.audifina.lt) as well.

The Bondholders' Meeting may be convened without observing the above terms, if all the Bondholders of the same issue, the Bonds held by which carry voting right in the Bondholders' Meeting, consents thereto in writing.

A Bondholders' Meeting may take decisions and shall be held valid if attended by the Bondholders who hold more than ½ of Bonds of the same issue, providing voting right in the Bondholders' Meeting. After the presence of a quorum has been established, the quorum shall be deemed to be present throughout the Bondholders' Meeting. If the quorum is not present, the Bondholders' Meeting shall be considered invalid and a repeated Bondholders' Meeting shall be convened.

A repeated Bondholders' Meeting shall be convened after the lapse of at least 5 (five) Business Days and not later than after the lapse of 10 (ten) Business Days following the day of the Bondholders' Meeting which was not held. The Bondholders must be notified of the repeat Bondholders' Meeting not later than 5 (five) Business Days before the repeat Bondholders' Meeting following the order, indicated above.

One Bond of the Company carries one vote. A decision of the Bondholders' Meeting shall be considered taken if more votes of the Bondholders, participating in the Bondholders' Meeting and having a voting right have been cast for it than against it, unless this Law on Protection of Interests of Bondholders requires a larger majority.

The Trustee shall chair the Bondholders' Meetings, unless that meeting decides otherwise. The meeting must also elect the secretary thereof. Minutes of the Bondholders' Meeting shall be taken. The minutes shall be signed in 2 (two) copies (to the Company and to the Trustee) by the chairman and the secretary of the Bondholders' Meeting.

The decisions of the Bondholders' Meeting shall be published on the website of the Trustee after the Bondholders' Meeting as soon as possible and without any delay, except parts of the decisions, which include confidential information.

The Bondholders' Meeting shall take the following decisions, which bind all the Bondholders:

1) to remove the Trustee from its position and appoint a new trustee, which meets the requirements of the applicable laws and to also oblige the Issuer to terminate the contract with the existing Trustee and to conclude the contract with the new appointed trustee;
2) to indicate to the Trustee that the violation committed by the Issuer is minor, thus, there is no necessity to take action regarding protection of rights of Bondholders;
3) to approve the enforcement measures in respect of the Issuer's failed commitments to Bondholders, suggested by the Issuer. This decision shall be adopted by a qualified majority of no less than ¾ of Bondholders, participating in the Bondholders' Meeting and having a voting right;
4) to determine, which information the Trustee will have to provide to the Bondholders' Meetings periodically or at the request of the Bondholders and to establish the procedure of provision such information;
5) to adopt other decisions which according to the provisions of Law on Protection of Interests of Bondholders are assigned to the competence of the Bondholders' Meeting.

Resolutions passed at the Bondholders' Meeting shall be binding on all Bondholders of the same issue, except for the cases, when in the decision of the Bondholders' Meeting the instructions to the Trustee are provided to execute certain actions.

Disputes regarding the decisions, adopted in the Bondholders' Meetings shall be settled in the court. The claim may be brought to the court by the Trustee, the Company or any Bondholder, if there are suspicions, that the content of the decision and/or its form, and/or its adoption procedure contradict to the laws regulating these issues or infringes the legitimate interests of the Bondholders. The term of 20 (twenty) Business Days is established for provision of such claims as from the the date on which the claimant found out or had to find out the respective decision.

Events of Default

If an Event of Default (as defined below) occurs, the Issuer immediately and without any delay shall notify the Bondholders by way of notification on material event about the occurrence of an Event of Default. In case of an Event of Defaut the Bondholders shall have a right to receive payment of the outstanding principal amount of the Bonds and the interest accrued on the Bonds according to the relevant laws governing liquidation or insolvency of the Issuer.

Any one or more of the following events shall have occurred and be continuing shall be considered and an Event of Default:

(i) the Issuer is declared insolvent by the court; or
(ii) an order is made or an effective resolution is passed for the winding-up or liquidation of the Issuer unless this is done in connection with a merger, consolidation or other form of combination with another company, the terms of which merger, consolidation or combination (a) have the effect of the emerging or such other surviving company assuming all obligations contracted by the Issuer in connection with the Bonds or (b) have previously been approved by the resolution of the Bondholders' Meeting.

In case of an Event of Default any Bondholder may, by written notice to the Trustee, effective upon the date of receipt thereof by the Trustee, declare the Bond held by such Bondholder to be forthwith due and payable whereupon the same shall become forthwith due and payable at the Redemption Price of the Bond, together with accrued interest (if any) to the date of repayment, provided that the right to declare Bonds due and payable shall terminate if the situation giving rise to it, where capable of being cured, has been cured before the relevant notice has become effective.

If default is made for more than 30 days in the payment of interest in respect of the Bonds, the sole remedy available to the Bondholder shall be to institute proceedings against the Issuer to demand specific performance for payment of the due but unpaid interest (in Lithuanian *prievolės įvykdymas natūra*) but the Bondholder shall have no acceleration right or other remedies.

Notices

Bondholders shall be advised of matters relating to the Bonds by a notice published in English and Lithuanian on the Issuer's website at www.medbank.lt and, after the Bonds are admitted to the regulated market, also on Nasdaq website at www.nasdaqbaltic.com, as well as in Central Base of the Regulated Information (www.crib.lt). Any such notice shall be deemed to have been received by the Bondholders when published in the manner specified in this Section.

Purchasers

The Issuer and any of its Subsidiaries may at any time purchase the Bonds in any manner and at any price on the secondary market. Bonds held by or for the account of the Issuer or any of its Subsidiaries for their own account will not carry the right to vote at the Bondholders' Meetings and will not be taken into account in determining how many Bonds are outstanding for the purposes of these terms of the Base Prospectus.

Force Majeure

The Issuer, the Offering Broker and/or Nasdaq CSD shall be entitled to postpone the fulfilment of their obligations hereunder, in case the performance is not possible due to continuous existence of any of the following circumstances:

1) action of any authorities, war or threat of war, rebellion or civil unrest;
2) disturbances in postal, telephone or electronic communications which are due to circumstances beyond the reasonable control of the Issuer, the Offering Broker and/or Nasdaq CSD and that materially affect operations of any of them;
3) any interruption of or delay in any functions or measures of the Issuer, the Offering Broker and/or Nasdaq CSD as a result of fire or other similar disaster;
4) any industrial action, such as strike, lockout, boycott or blockade affecting materially the activities of the Issuer, the Offering Broker and/or Nasdaq CSD even if it only affects part of the employees of any of them and whether any of them is involved therein or not; or
5) any other similar *force majeure* or hindrance which makes it unreasonably difficult to carry on the activities of the Issuer, the Offering Broker and/or Nasdaq CSD.

In such case the fulfilment of the obligations may be postponed for the period of the existence of the respective circumstances and shall be resumed immediately after such circumstances cease to exist, provided that the Issuer, the Offering Broker and/or Nasdaq CSD shall put all best efforts to limit the effect of the above referred circumstances and to resume the fulfilment of their obligations, as soon as possible.

Further Issues

The Issuer may from time to time, without the consent of and notice to the Bondholders, create and issue further Bonds whether such further Bonds form a single Tranche with already issued Bonds or not. For the avoidance of doubt, this Section shall not limit the Issuer's right to issue any other bonds.

Taxation

The following is a general summary of certain tax consideration in the Republic of Lithuania in relation to the Bonds. It is not exhaustive and does not purport to be a complete analysis of all tax consequences relating to the Bonds, as well as does not take into account or discuss the tax implications of any country other than the Republic of Lithuania. The information provided in this Section shall not be treated as legal or tax advice; and prospective investors are advised to consult their own tax advisors as to the tax consequences of the subscription, ownership and disposal of the Bonds applicable to their particular circumstances.

This summary is based on the laws of Lithuania as in force on the date of this Base Prospectus and is subject to any change in law that may take effect after such date, provided that such changes could apply also retroactively.

Taxation of the Bondholders Individuals

<u>Resident and Non-resident Individuals</u>

In accordance with the Law of the Republic of Lithuania on Personal Income Tax any interest generated by individuals (both residents and non-residents) from Bonds shall be taxed at a 15 per cent rate personal income tax, except EUR 500 non-taxable minimum applicable to interest from the Bonds.

Individuals (both residents and non-residents) shall also be taxed at a rate of 15 per cent on gains from disposal of the Bonds, except EUR 500 non-taxable minimum applicable to gains from disposal of the Bonds.

However, only permanent residents of Lithuania have an obligation to declare and pay personal income tax. Non-resident has to declare the received income only in case, if he intends to apply a non-taxable minimum of EUR 500, indicated above.

An individual will be considered as a resident of Lithuania during the calendar year for taxation purposes if he/she meets at least one of the criteria laid out in paragraph 1 of Article 4 of the Law On Personal Income Tax of the Republic of Lithuania, i.e.:

- if the individual’s permanent place of residence is in Lithuania during the calendar year;
- if the individual’s place of personal, social or economic interests is in Lithuania rather than in a foreign country during the calendar year;
- if the individual is present in Lithuania for a period or periods in the aggregate of 183 days or more during the calendar year;
- if the individual is present in Lithuania for a period or periods in the aggregate of 280 days or more during successive calendar years and who stayed in Lithuania for a period or periods in the aggregate of 90 days or more in any of such periods (in such case a person is deemed to be a resident of Lithuania for both years of presence in Lithuania).

Taxation of the Bondholders Entities

Resident Entities

An entity will be considered as a resident of Lithuania for tax purposes if it is established and registered in the Republic of Lithuania. This may also include permanent establishments of foreign entities in Lithuania.

In accordance with provisions of the Law of the Republic of Lithuania on Corporate Income Tax any income of a Lithuanian entity (legal person) from the Bonds, including an interest, shall be considered as a taxable income of the entity. Having disposed of the Bonds a Lithuanian entity shall recognize the gain (the difference between the Bonds purchase and sale price). The income from the Bonds interest and the gain from the disposal of the Bonds shall be included into the overall taxable result of the Lithuanian entity which shall be subject to taxation in the manner set forth in the Law of the Republic of Lithuania on Corporate Income Tax.

Non-Resident Entities

Referring to the provisions of the Law of the Republic of Lithuania on Corporate Income Tax, only interest shall be regarded as income of a foreign entity generated not through permanent establishment in the territory of Lithuania.

Income of a foreign entity which is registered or otherwise organised in a state of the EEA or in a state with which a treaty for the avoidance of double taxation has been concluded and brought into effect shall not be subject to taxation.

A 10 percent withholding tax rate shall be imposed on the income of a foreign entity which is not registered or otherwise organised in a state of the EEA or in a state with which a treaty for the avoidance of double taxation has been concluded and brought into effect. In this case, the person paying interest shall charge and pay corporate income tax in Lithuania on the interest paid to foreign entities.

5.4 Terms and Conditions of the Offer

General Information

The Issuer may issue within the period of 12 months as from approval of the Prospectus Bonds up to an aggregate principal amount of EUR 10,000,000. The Bonds shall be issued and offered in tranches (the “Tranches”, individually the “Tranche”). The terms and conditions of each Tranche shall consist of (i) the General Terms and Conditions of Bonds which are identified in Sections *5.3 Information Concerning the Securities to be Offered and Admitted to Trading* and 5.4 *Terms and Conditions of the Offer* and which shall apply to each Tranche and (ii) the Final Terms. Thus, the Bonds of each of the Tranches will generally be subject to identical main terms, except that the Issue Dates, nominal values of Bonds, Issue Prices of Bonds, as well as the Maturity Dates and annual interest rates thereof may be different in respect of different Tranches.

The aggregate principal amount of Bonds of each of the Tranches shall be specified in the Final Terms. The Issuer may decrease the aggregate principal amount of a Tranche as set out in the Final Terms during the Subscription Period of that Tranche.

The Bonds will be offered for subscription for a minimum investment amount (the “Minimum Investment Amount”), which will be specified in the Final Terms.

General Structure of the Offering

This Offering consists of: (i) public offering to Retail Investors and Institutional Investors in the Republic of Lithuania, and (ii) private placement to Institutional Investors and Retail Investors in certain Member States of the EEA in each case pursuant to an exemption under Article 3 of the Prospectus Directive (Directive 2003/71/EC)[12], as implemented by the respective Member States of EEA.

Only such prospective Investors will be eligible to participate in the Offering who at or by the time of placing their orders (before the end of the Subscription Period) have opened securities accounts with entities of their choice which are licensed to provide such services within the territory of the Republic of Lithuania, the Republic of Latvia and/ or the Republic of Estonia.

Thus, according to the information, provided above, the Offering of each of the Tranche shall be structured in the following order:

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[12] One of the following exemptions would be used with this respect, when the offer does not require approval and announcement of the prospectus:
(a) an offer of securities addressed solely to qualified investors; and/or
(b) an offer of securities addressed to fewer than 150 natural or legal persons per Member State, other than qualified investors; and/or
(c) an offer of securities addressed to investors who acquire securities for a total consideration of at least EUR 100,000 per investor, for each separate offer.

(i) the Subscriptions as to acquisition of the Bonds of the respective Tranche shall be received from the Investors as well as paid according to the order, described in this Base Prospectus and Final Terms of the respective Tranche;
(ii) based on the decision of the Management Board the Bonds shall be finally allocated to the Investors;
(iii) the Bonds shall be registered with Nasdaq CSD and distributed to the Investors;
(iv) the Bonds will be introduced to trading on Nasdaq.

Subscription Procedure; invalidity or the Subscription Orders

The subscription period for each respective Tranche (the "Subscription Period") will be specified in the Final Terms. The Investors wishing to subscribe/purchase the Bonds shall submit their orders to acquire the Bonds (the "Subscription Orders" or "Subscriptions") at any time during the Subscription Period to the Offering Broker or its sub-agents (if any), which may be specified in the Final Terms. Total amount of the Bonds to be acquired and indicated in each Subscription Order shall be for at least Minimum Investment Amount. The procedure of submission of the Subscription Orders will be specified in the Final Terms.

All Subscription Orders shall be binding and irrevocable commitment to acquire the allotted Bonds, with the exceptions stated below.

The Subscription Orders shall not be considered valid and shall not be processed in case the purchase amount indicated in the Subscription Orders is less than the Minimum Investment Amount or the Subscription Orders were received after the Subscription Period. Neither the Issuer, nor the Offering Broker has any obligation to inform the Investors about the fact that their Subscription Orders are invalid.

Place of Subscription

The places (exact addresses) where the Subscriptions will be accepted will be indicated in the Final Terms.

Subscriptions will be accepted on a Subscription Orders in Lithuanian or in English (for persons who are not Lithuanian residents), which will be available on the websites of the Issuer and of the Offering Broker and at the address (-es) indicated in the Final Terms. Retail Investors will be allowed to submit a copy of a signed Subscription Order to the Offering Broker by fax or email prior to submitting an original document to the office of the Offering Broker. The original document will have to be submitted to the Offering Broker until the end of Subscription Period. Institutional Investors will be allowed to submit a signed copy of a Subscription Order by fax or email and will not be required to submit an original document.

Subscriptions will be accepted if Investors have a brokerage account agreement with the Offering Broker or other entities of their choice, which are licensed to provide such services within the territory of the Republic of Lithuania, the Republic of Latvia and/ or the Republic of Estonia.

Firms managing securities portfolios on a discretionary basis will have to place subscription orders for the Bonds by submitting the Subscription Order form along with a list of Investors on whose behalf the Subscription Order is placed. The list must include details required to be included in the Subscription Order form with respect to each Investor listed, and must be signed by persons authorised to represent the firm.

General information regarding the Subscription procedure

At the time of placing a Subscription Order, Investors shall be required to make an irrevocable instruction for depositing the Bonds in a securities account maintained in their name and opened with entities of their choice which are licensed to provide such services within the territory of the Republic of Lithuania, the Republic of Latvia and/ or the Republic of Estonia.

By placing a Subscription Order, each Investor will be deemed to have read this Base Prospectus, the Company's Articles of Association and the contract between the Company and the Trustee and accepted their content, as well as have read the Final Terms of the Offering, consented to being allotted a lower number of Bonds than the number specified in such Investor's Subscription Orders, or to not being allotted any Bonds at all, pursuant to the terms and conditions of the Offering.

An Investor will be allowed to submit a Subscription Order either personally or via a representative whom the Investor has authorized (in the form required by law) to submit the Subscription Order. More detailed information concerning the identification of Investors, including requirements concerning documents submitted and the rules for acting through authorized representatives, can be obtained by Investors from the entities accepting Subscription Orders.

An Investor must ensure that all information contained in the Subscription Order is correct, complete and legible. The Issuer reserves the right to reject any Subscription Orders that are incomplete, incorrect, unclear or ineligible, or that have not been completed and submitted and/or have not been supported by the necessary additional documents, requested by the Issuer or the Offering Broker, during the Subscription Period and in accordance with all requirements set out in the terms and conditions of the Offering.

Any consequences of a form of Subscription for the Bonds being incorrectly filled out will be borne by the Investor.

Institutional Investors' Subscription Procedure

Institutional Investors will also be entitled to place multiple Subscription Orders.

The Institutional Investors should contact the Offering Broker for information on detailed rules governing the placement of Subscription Orders, in particular the documents required if an order is placed by a statutory representative, proxy or any other person acting on behalf of an investor.

Institutional Investors that manage assets on behalf of third parties will be allowed to submit a combined order in favour of their customers, attaching a list of such customers.

Withdrawal of the Subscription Orders

Subscription Orders for the Bonds are irrevocable except the right of withdrawal as indicated below.

A Subscription for the Bonds may be withdrawn when after the start of the Offering of each separate Tranche of Bonds, a supplement is made public concerning an event or circumstances occurring before the allotment of the Bonds of the respective Tranche, of which the Issuer became aware before the allotment thereof. The Investor who has made a Subscription for the Bonds of the respective Tranche before the publication of the supplement may withdraw such Subscription by submitting a written statement to the institution where the subscription was made, within 2 (two) Business Days as from the date of the publication of the supplement.

The repayments will be made in accordance with the Subscription Order within 3 (three) Business Days after making the statement on the Subscription cancellation.

Pricing

The Issue Price shall be determined by the Issuer together with the Offering Broker and shall be announced prior to commencement of the Subscription Period. The nominal value and the Issue Price per Bond shall be at least EUR 1,000.

Procedure and dates for payment for the Bonds

Subscriptions for the Bonds by the Retail Investors will have to be fully paid within 3 (three) Business Days after provision of the Subscription Order, however, no later than until the end of the Subscription Period for these Investors. The full payment by the Retail Investors shall mean a payment equal to the number of the Bonds indicated in the Subscription Order multiplied by the Issue Price, indicated in the Final Terms. Payments by these Investors can be made by wire transfer only (cash payments shall not be accepted) and has to be made in EUR to the dedicated Bond proceeds' collection account, managed by the Lead Manager, which is indicated in the Subscription Order. Payments received from Investors will be kept in the dedicated account till the and of Subscription period and will be transferred to the Issuer only after the allotment of the Bonds to the investors is completed.

By submitting a Subscription, the Institutional Investors shall authorize and instruct the broker operating the respective Institutional Investor's cash account connected to its/his/her securities account to block the whole transaction amount on the Institutional Investor's cash account until the settlement is completed or funds are released in accordance with the terms and conditions of the Offering. The transaction amount to be blocked will be equal to the Issue Price multiplied by the number of Bonds which the respective Institutional Investor wishes to acquire. An Institutional Investor must ensure, that no later than on the final date of the Subscription Period, indicated in the Final Terms, there are sufficient funds on its/his/her cash account connected to securities account with the broker to cover the whole transaction amount, as indicated above.

The Investors who have not been allotted any Bonds or whose Subscriptions have been reduced will receive reimbursements of the payment made upon placing the Subscription Order in accordance with instructions provided by each such Investor, as required under the procedures applicable in the investment firm with which the Subscription Order was placed. The reimbursement will take place within 10 (ten) Business Days as from the end of the Subscription Period or from the date of the publication of the supplement to this Base Prospectus on the cancellation of the Offering. The payments shall be returned without any reimbursement for costs incurred by the Investors in the course of subscribing for the Bonds, and shall be net of all transfer expenses and without interest.

Payments for the Bonds are interest free.

A legal consequence of non-payment on time or a partial payment for the Bonds will be the invalidity of the entire Subscription.

Allotment

On the next Business Day following the end of the Subscription Period or about that date the Issuer together with the Offering Broker will decide whether to proceed with the Offering of the Bonds of a Tranche or cancel the respective Offering.

In case the Offering of the Bonds of a Tranche is cancelled, the Issuer will publish an announcement on its website as well as submit this information to the LB.

In case the Issuer decides to proceed with the Offering of the Bonds of a Tranche the following actions shall be taken on the next Business Day following the Subscription Period or about that date:

Allotment of the Bonds to the Investors

The Issuer together with the Offering Broker will establish the exact amount of the Bonds to be allotted with respect to each Subscription Order. The procedure of allotment of the Bonds will be specified in the Final Terms for the Offering of the relevant Tranche.

The Issuer and the Offering Broker will not be obliged to allocate any Bonds to any Investors participating in the Offering and they also may cancel, suspend or postpone the Offering, as indicated below. Furthermore, there will be no target minimum individual allotment to the Investors.

Confirmations

After completion of the allotment the Offering Broker shall submit a trade confirmation (the "Confirmation") to those investors, the Subscription Order(-s) of which will be satisfied not fully (if any). The Confirmation will evidence the extent of satisfaction or rejection of the Subscription Order submitted by the respective Investor and the number of Bonds allotted to it/him/her.

Information about the Results of the Offering

Information about the results of the Offering of each Tranche (amount of the Bonds issued and aggregate principal amount of the respective Tranche) shall be published on the Issuer's website www.medbank.lt and a respective placement report shall be filed with the LB within 3 (three) Business Days after the Issue Date.

Cancellation, Suspension or Postponement of the Offering

The Issuer may cancel the Offering of Bonds of any of the Tranche, upon recommendation of the Offering Broker or at its own initiative, at any time prior to the Settlement Date without disclosing any reason for doing so. The Issuer may also change the dates of opening and closing of the Subscription Period, or decide that the Offering of any of the Tranche will be postponed and that new dates of the Offering will be provided by the Issuer later.

The Issuer may cancel the Offering, upon recommendation of the Offering Broker if the Issuer considers it impracticable or inadvisable to proceed with the Offering. Such reasons include, but are not limited to: (i) suspension or material limitation of trading in securities generally on Nasdaq, as well as any other official stock exchange in the EU and the United States; (ii) sudden and material adverse change in the economic or political situation in Lithuania or worldwide; (iii) a material loss or interference with the Issuer's or its Subsidiaries business, or (iv) any material change or development in or affecting the general affairs, management, financial position, shareholders' equity or results of the Issuer's operations or the operations of the Subsidiaries. In such an event, Subscriptions for the Bonds that have been made will be disregarded, and any Subscription payments made will be returned without interest or any other compensation.

The Issuer may also suspend the Offering, upon recommendation of the Offering Broker. If the Offering is suspended, the Issuer may decide that the Subscriptions made and payments made will be deemed to remain valid, however, for no longer than 7 (seven) Business Days. In such case, the Investors will be allowed to withdraw Subscriptions made by submitting a relevant statement to that effect within 2 (two) Business Days after the report on the suspension is announced.

Any decision on cancellation, suspension, postponement or changes of dates of the Offering will be published in a manner compliant with applicable regulations, as well as market practices in Lithuania.

If the Offering is cancelled or suspended, Investors who placed Subscription Orders and paid for the Subscription will get their payments back:

- if the Offering is cancelled – within 3 (three) Business Days after the public announcement by the Company of the Offering cancellation;
- if the Offering is suspended – within 3 (three) Business Days after the date on which the Investor has made a statement cancelling his/her/its Subscription or 3 (three) Business Days after the date that the Issuer announces that the placed Subscriptions are not valid.

The timely repayment of money paid will be without any interest or compensation.

5.5 Admission to Trading

The Issuer shall submit an application regarding Admission of each Tranche of the Bonds to trading on Nasdaq (the Baltic Bond List). The decision as to Admission of Bonds to trading on Nasdaq shall be adopted by the Board of Nasdaq. The Company shall take implement all the measures, established in Nasdaq rules, needed that the Bonds would be admitted to trading on Nasdaq as soon as practicably possible.

The Management expects that the Bonds of the respective Tranche shall be admitted to trading on Nasdaq within 1 (one) month as from placement thereof to the Investors the latest. Disregarding this, the Management will put its best endeavours so that this term would be as short as practicable possible.

The Issuer shall also put its best efforts to ensure that the Bonds remain listed on Nasdaq. The Issuer shall, following a listing or Admission to trading, take all reasonable actions on its part required as a result of such listing or trading of the Bonds.

The Issuer will cover all costs which are related to the Admission of the Bonds to Nasdaq.

The Issuer does not intend to apply for admission of the Bonds (or part thereof) to trading on other regulated markets or equivalent markets.

5.6 Form of the Final Terms

The following form will be used for defying the Final Terms.

Table 11. Form of the Final Terms

Final Terms dated [___]
Medicinos bankas UAB
Issue of EUR [___] Tranche of Bonds due [___]
under the programme for the issuance of subordinated Bonds
in the total amount of up to EUR 10,000,000, qualifying as Tier 2 capital

Terms used herein shall be deemed to be defined as such for the purposes of the General Terms and Conditions set forth in the Base Prospectus of the offering programme of subordinated Bonds of Medicinos bankas UAB in the total amount of up to EUR 10,000,000, qualifying as Tier 2 capital, which shall be publicly offered in the Republic of Lithuania and admission thereof to trading on the Baltic Bond List of Nasdaq Vilnius AB, dated [___] June 2018 [as supplemented by supplement(s) to it dated [[___] [and [___]] (the "Base Prospectus"), which constitutes a base prospectus for the purposes of Directive 2003/71/EC as amended (which among others includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area (the "Prospectus Directive")).

This document constitutes the Final Terms of the Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus.

Full information on the Issuer and the Offering of the Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. However, a summary of the issue of the Bonds is annexed to these Final Terms.

The Base Prospectus has been published on the Issuer's website www.medbank.lt as well as (for informational purposes only) on the website of the Offering Broker http://orion.lt/.

1.	Issuer:	Medicinos bankas UAB
2.	Currency:	EUR
3.	Tranche number:	[___]
4.	ISIN Code:	[[___]]/[Temporary ISIN Code: [___]].
5.	Aggregate principal amount:	EUR [___] [in addition to [___]]. [*The Issuer may decrease the aggregate principal amount of the Tranche during the Subscription Period of the Tranche. The final aggregate principal amount of the Tranche will be specified in the notification regarding allotment of Bonds to the Investors, which will be published on the websites of the Company and Offering Broker after allotment thereof to the Investors.*]
6.	Nominal amount of the Bond:	EUR [___]
7.	Expected Issue Date:	[___]
8.	Decision by which the Bonds of this Tranche are issued:	[___]
9.	Annual Interest Rate:	[___]
10.	Interest Payment Dates:	[___]
11.	Maturity Date:	[___]
12.	Redemption of Bonds by choice of the Issuer (the "Issuer Call"):	It is subject to the prior permission of the LB (but without any requirement for the consent or approval of the Bondholders), and upon giving not less than 15 not more than 30 days' irrevocable notice. If such redemption is

		executed, on the day of redemption, the Bonds shall be repaid in full at their nominal value, with the cumulative interest accrued
13.	Minimum Investment Amount:	[ ]
14.	Issue Price of the Bond:	EUR [ ]
15.	Subscription Period:	[ ]
16.	Procedure for submission of the Subscription Orders:	[*If any additional information will be provided with regards to the respective Tranche of Bonds.*]
17.	Procedure for allotment of the Bonds and settlement:	[*If any additional information will be provided with regards to the respective Tranche of Bonds.*]
18.	Sub-agents for the Offering Broker (if any):	[ ]
19.	Information about the bonds of the Issuer that are already admitted to trading on regulated market (AB Nasdaq Vilnius):	[ ]
20.	Address(-es) where the Subscriptions will be accepted:	[ ]
Vilnius, [date] [month] [year]		

5.7 Additional Information

Offering Broker

The Issuer has appointed Orion securities UAB FMĮ, with its office at Antano Tumėno str. 4, Vilnius, Lithuania, as the Lead Manager and Offering Broker for the purposes of the Offering and Admission of the Bonds to trading on Nasdaq.

Legal Adviser

The Issuer is being represented by TGS Baltic, with its registered office at Konstitucijos ave. 21A, Vilnius, Lithuania, with respect to legal matters of Lithuania, Offering and Admission. The remuneration of TGS Baltic does not depend on the proceeds from the sale of the Offer Shares.

TGS Baltic has been rendering and may render in the future other legal services to the Issuer, the Group, the Offering Broker with respect to their business activities pursuant to relevant agreements for the provision of legal advisory services. TGS Baltic does not hold any interests in the Issuer. In particular, on the date of this Prospectus, it did not hold Shares in the Issuer.

Placement Agreement

On 13 March 2018 the Issuer has entered, into a placement agreement (the “Placement Agreement”) in respect of the Offering programme with the Offering Broker, in which the Offering Broker committed to undertake certain actions in connection with organization of the Offering.

The Issuer and the Offering Broker do not expect to enter into an underwriting agreement.

The Offering Broker will act as an offering agent with respect to the Bonds for the purposes of the Offering and admission thereof to trading on Nasdaq.

Following the preliminary calculations, the Issuer’s expenses, related to this issue, shall comprise of up to 4.50 percent from the gross proceeds from the placement of the Bonds (including the fees for the Lead Manager, the legal councel, fees to the LB for approval of the Prospectus, fees to Nasdaq CSD and Nasdaq and fees for the preparation of the Prospectus).

The Issuer agreed to pay all commissions and expenses in connection with the Offering. However, Investors will bear their own costs connected with the evaluation and participation in the Offering, e.g. standard brokerage fees charged by broker. Investors may incur currency exchange costs, which will depend on applicable transaction fee and applied exchange rate by their bank or brokerage company.

5.8 Notice to Prospective Investors and Selling Restrictions

The distribution of this Base Prospectus, any Final Terms and the Offering of the Bonds in certain jurisdictions may be restricted by law. Any person residing outside the Republic of Lithuania may receive this Base Prospectus only within limits of applicable special provisions or restrictions. The Issuer requires persons into whose possession this Base Prospectus or any Final Terms comes to inform themselves of and observe all such restrictions. This Base Prospectus and any Final

Terms may not be distributed or published in such countries or jurisdictions or otherwise in such circumstances in which it would be unlawful or require measures other than those required under Lithuanian laws, including the United States of America, Australia, Canada, Hong Kong and Japan. Neither this Base Prospectus nor any Final Terms constitute an offer to sell or a solicitation of an offer to buy the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The Issuer, the Offering Broker or their representatives and/or legal advisers do not accept any legal responsibility whatsoever for any such violations, whether or not a prospective investor is aware of such restrictions.

In addition to that neither this Base Prospectus nor any Final Terms may not be used for, or in connection with, and does not constitute, any offer to sell, or an invitation to purchase, any of the Bonds offered hereby in any jurisdiction in which such offer or invitation would be unlawful. Persons in possession of this Base Prospectus are required to inform themselves about and to observe any such restrictions, including those set out in this Section. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

As a condition for the subscription/purchase of any Bonds in the Offering, each subscriber/purchaser will be deemed to have made, or in some cases be required to make, certain representations and warranties, which will be relied upon by the Company, the Lead Manager and others. The Company reserves the right, at its sole and absolute discretion, to reject any subscription/purchase of Bonds that the Company, the Lead Manager or any agents believe may give rise to a breach or a violation of any law, rule or regulation.

The Bonds have not been approved or disapproved by the US Securities and Exchange Commission, any State securities commission in the United States or any other US regulatory authority, nor have any of the foregoing passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this Base Prospectus. Any representation to the contrary is a criminal offence in the United States.

The Bonds have not been and will not be registered in accordance with the U.S. Securities Act of 1933 (the “Securities Act”) or under the securities laws of any state of the United States of America and accordingly, they may not be offered, sold, resold, granted, delivered, allotted, taken up, transferred or renounced, directly or indirectly, in or into the United States of America, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any securities laws of any state of the United States of America.

Unless specifically otherwise stated in this Base Prospectus, the Bonds may not be, directly or indirectly, offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which it would be unlawful or require measures other than those required under Lithuanian laws including the United States of America, except for the exceptions to registration obligation allowed by the securities laws of the United States of America and its states, Australia, Canada, Hong Kong and Japan. The Issuer and the Offering Broker requires persons into whose possession this Base Prospectus or any Final Terms comes to inform them of and observe all such restrictions.

This Base Prospectus constitutes a prospectus within the meaning of the Prospectus Directive and the Law on Securities (which transposed the Prospectus Directive into the Lithuanian law), for the purpose of giving the information with regard to the Company and the Bonds it intends to offer pursuant to this Base Prospectus, which is necessary to enable prospective Investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Company. This Base Prospectus has been prepared by the Company for use in connection with the Offering in Republic of Lithuania only and for the Admission. The Company and the Lead Manager reserve the right to reject any offer to purchase/subscribe the Bonds, in whole or in part, for any reason.

This Base Prospectus constitutes a Prospectus in the form of a single document within the meaning of Article 5.3 of the Prospectus Directive and Article 6 of the Law on Securities. This Base Prospectus has been filed with, and was approved by the LB, which is the competent authority in Lithuania to approve this document as a Base Prospectus. However, in relation to each member state of the EEA (except Republic of Lithuania) which has implemented the Prospectus Directive (each, a “Relevant Member State”), the Lead Manager has represented and agreed that it has not made and will not make any public offer of Bonds in that Relevant Member State prior to that Relevant Member State’s competent authority receiving a certificate of approval of the LB attesting that the Base Prospectus has been drawn up in accordance with the Law on Securities together with a copy of the Base Prospectus accompanied, if applicable, by a translation of the summary produced under the responsibility of the Company and the due publication of the Base Prospectus in accordance with that Relevant Member State’s applicable rules.

Accordingly, any person making or intending to make an offer within the EEA of Bonds which are the subject of an Offering contemplated by the relevant Final Terms (other than the offer of Bonds in the Republic of Lithuania) may only do so in circumstances in which no obligation arises for the Issuer or the Offering Broker to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer.

ANNEX I (IFRS Financial Statements)

UAB MEDICINOS BANKAS

BANK'S SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

CONTENTS OF FINANCIAL STATEMENTS

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Independent Auditor's Report

To the Shareholders of UAB Medicinos Bankas

Report on the Audit of the Separate and the Consolidated Financial Statements

Opinion

We have audited the separate financial statements of UAB Medicinos Bankas ("the Bank") and the consolidated financial statements UAB Medicinos Bankas and its subsidiaries ("the Group"). The separate financial statements of the Bank and the consolidated financial statements of the Group comprise:

- the separate statement of financial position of the Bank and the consolidated statement of financial position of the Group as at 31 December 2017,
- the separate income statement of the Bank and the consolidated income statement of the Group for the year then ended,
- the separate statement of comprehensive income of the Bank and the consolidated statement of comprehensive income of the Group for the year then ended,
- the separate statement of changes in equity of the Bank and the consolidated statement of changes in equity of the Group for the year then ended,
- the separate statement of cash flows of the Bank and the consolidated statement of cash flows of the Group for the year then ended, and
- the notes to the separate and consolidated financial statements of the Bank and the Group, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the unconsolidated financial position of the Bank and the consolidated financial position of the Group as at 31 December 2017, respectively, and of their respective unconsolidated and consolidated financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements section of our report. We are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of Financial Statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Each audit matter and our respective response are described below.

Valuation of loans and receivables (separate and consolidated financial statements)

See Note 9 and Note 28 to the separate and consolidated financial statements.

The carrying value of loans and receivable in the separate financial statements as at 31 December 2017 amounts to EUR 163,454 thousand and the total impairment loss recognised for the year ended 31 December 2017 amounts to EUR 186 thousand. The carrying value of loans and receivables in the consolidated financial statements as at 31 December 2017 amounts to EUR 163,678 thousand and the total impairment loss recognised for the year ended 31 December 2017 amounts to EUR 233 thousand.

The key audit matter	How the matter was addressed in our audit
Impairment allowances represent management's best estimate of the losses incurred within the loan portfolios at the balance sheet date. They are calculated on a collective basis for portfolios of loans of a similar nature and on an individual basis for significant loans. The calculation of both collective and individual impairment allowances is inherently judgemental for any bank. Individual impairment allowances recognized by the Bank and the Group mostly relate to significant, individually monitored, corporate exposures. The assessment is therefore based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. Collective allowances are predominantly related to small corporate and private exposures and reflect both already existing credit losses and also losses that have been incurred but are not yet identifiable on an individual exposure level. Collective impairment is estimated based on historical pattern of losses over past 3 years.	Our audit procedures included, among others: • testing of controls over the approval, recording and monitoring of loans, including, but not limited to those over loan risk monitoring, identification of loss events, and the calculation of the impairment allowances; • for a sample of loans with higher risk characteristics, such as individually significant exposures, watchlist exposures, restructured loans or exposures with delinquencies, critically assessing, by reference to the underlying loan files, and through discussion with loan officers and credit risk management personnel, the existence of any impairment triggers; • where impairment triggers had been identified, evaluating key assumptions applied, such as discount rates, forecasted business performance as well as, where applicable, collateral values and sales periods used in the forecasts of future cash flows provided as a basis for the assessment of loan impairment; • involving our own valuation specialist in valuation of the fair value of the collateral, which often constitutes the main part of the future cash flows of the impaired loans. Valuation specialists assisted us in:

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For specific impairments, judgement is required to determine when a loss event has occurred and then to estimate the expected future cash flows related to that loan. The audit was focused on impairment due to the materiality of the loan balances and associated impairment allowances and the subjective nature of the impairment calculation. Accordingly, we have identified this area as a key audit matter.	o assessing the appropriateness of the methodology applied by the independent valuer for the collateral valuation performed by comparing it to methodologies commonly used in valuations of similar assets, o assessing the appropriateness of the input data, such as location, size, type of the land usage and infrastructure, years of construction or reconstruction of premises and residential buildings, used in the comparative valuation method by comparing it to external market data and our knowledge of the industry, o challenging the key assumptions used in the income valuation method applied by the independent valuer by comparing the key inputs, such as location, size, rent fees, expenses and occupancy rates, used in the discounted cash flow calculations to our understanding of the borrower current operations and trends, relevant industry data, comparing the forecasted growth rates, the discount rate to the ones used in the industry, o checking mathematical accuracy of the discounted cash flow models used in the valuation of collaterals; • testing the underlying collective impairment calculation, including testing the completeness and accuracy of underlying data for calculation, and assessing the key parameters such as the probability of default and loss given default by comparing them to historical data of the Bank and the Group; • considering adequacy of disclosure in the Bank's and Group's financial statements with respect to the loans and receivables.

Valuation of investment property (consolidated financial statements) and impairment of investments in subsidiaries (separate financial statements)	
See Note 12 and Note 13 to the consolidated and separate financial statements The carrying amount of investment property in the consolidated financial statements as at 31 December 2017 amounts to EUR 6,213 thousand with the net decrease in the fair value of investment property of EUR 680 thousand during the 2017 year. The carrying amount of investments in subsidiaries in the separate financial statements as at 31 December 2017 amounts to EUR 6,439 thousand with the net decrease in the recoverable amount of the investment in subsidiaries by EUR 1,140 thousand during the 2017 year.	
The key audit matter	**How the matter was addressed in our audit**

The main activities of Bank's subsidiaries are management and development of the investment properties. The investment properties are carried at fair value in the consolidated financial statements of the Group whereas the investments in subsidiaries are carried at cost in the separate financial statements of the Bank. As at 31 December 2017 the carrying amount of these investments approximates the Bank's proportionate share of net assets of these subsidiaries. Accordingly, the financial performance and net assets of the subsidiaries are primarily affected by the changes in fair value of investment properties. The majority of the valuation reports for investment properties were prepared by external property valuers hired by management in 2017 and 2016.
 	
We focused on this area as the valuation of the investment properties and determination of the recoverable amount of the investment in the subsidiaries requires the use of significant judgement and subjective assumptions.
 	
Accordingly, we have identified this area as a key audit matter.
	Our audit procedures performed included, among others:
	• assessing the management involvement in selection of an external valuers and appropriate involvement of the management in assessment and approval of valuation results obtained from the valuers;
	• assessing objectivity and professional qualifications of the external valuers;
	• involving our own valuation specialist who assisted us in:
	  o assessing the appropriateness of the valuation methodology applied by the independent valuer by comparing it to methodologies commonly used in valuations of similar assets,
	  o assessing the appropriateness of the key input data, such as location, size, type of the land usage and infrastructure, years of construction or reconstruction of premises and residential buildings, used in the comparative valuation method by comparing it to external market data and our knowledge of the industry,
	  o considering whether the valuation reports prepared in 2016 are still appropriate and relevant by comparing the key assumptions to current external market data;
	• considering the Bank's and the Group's disclosure in relation to the use of estimates and judgements regarding fair value of investment properties and the Bank's and Group's valuation policies adopted and fair value disclosures in Note 12 for compliance with the applicable financial reporting standards,
	• considering the Bank's disclosure in relation to the use of estimate and judgements regarding recoverable amount of investments in subsidiaries as disclosed in Note 13.

Other Information

The other information comprises the information included in the Bank's and the Group's annual report, but does not include the separate and consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate and consolidated financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In addition, our responsibility is to consider whether information included in the Banks's and the Group's annual management report, for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements and whether annual management report has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of audit of the separate and consolidated financial statements, in our opinion, in all material respects:

- The information given in the Bank's and the Group's annual management report for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and
- The Bank's and the Group's annual management report has been prepared in accordance with the requirements of the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania.

Responsibilities of Management and Those Charged with Governance for the Separate and Consolidated Financial Statements

Management is responsible for the preparation of the separate and consolidated financial statements that give a true and fair view 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 separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Bank's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and the Group's or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Under decision of the general shareholders' meeting we were appointed on 20 April 2011 for the first time to audit the Bank's and the Group's separate and consolidated financial statements. Our appointment to audit the Bank's and the Group's separate and consolidated financial statements is renewed each year under decision of the general shareholders' meeting, and the total uninterrupted period of engagement is 7 years.

We confirm that our audit opinion expressed in the Opinion section of our report is consistent with the additional report presented to the Bank and the Group and its Audit Committee.

We confirm that to the best of our knowledge and belief, we have not provided any prohibited non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In the course of audit, we have not provided any other services except for audit of separate and consolidated financial statements.

On behalf of KPMG Baltics, UAB

Domantas Dabulis
Partner pp
Certified Auditor

Vilnius, the Republic of Lithuania
13 March 2018

(All amounts in EUR thousand unless otherwise stated)

ANNUAL MANAGEMENT REPORT

The reporting period covered by the Consolidated Annual Report

Year 2017.

Group companies, contact details and types of their main activities

Company name	UAB Medicinos Bankas
Legal form	Joint stock company
Legal address	Pamėnkalnio St. 40, LT-01114 Vilnius
Legal entity code	112027077
Registration date and place	24 November 1992, Vilnius (as KB Ancorobank), and 16 January 1997 reorganized into UAB Medicinos Bankas.
Telephone	(8 5) 264 48 00
Facsimile	(8 5) 264 48 01
E-mail address	info@medbank.lt
Website address	www.medbank.lt

Main activities. UAB Medicinos Bankas is a joint stock company, a credit institution operating on share capital basis and is licensed by the Bank of Lithuania to engage in such types of activities as acceptance of deposits and other refundable means from non-professional market participants and funds lending, also it is entitled to engage in offering other financial services and assumes relevant related risks and liability.

Company name	UAB MB Turtas
Legal form	Joint stock company
Legal address	Pamėnkalnio St. 40, LT-01114 Vilnius
Legal entity code	302426051
Registration date and place	12 August 2009, Vilnius
Telephone	8 612 35933
Facsimile	(8 5) 264 48 01
E-mail address	mbturtas@medbank.lt
Website address	www.mbturtas.lt

Main activities. Real estate management and development.

Company name	UAB MB Valda
Legal form	Joint stock company
Legal address	Pamėnkalnio St. 40, LT-01114 Vilnius
Legal entity code	302461718
Registration date and place	30 November 2009, Vilnius
Telephone	8 612 62039
Facsimile	(8 5) 264 48 01
E-mail address	mbvalda@medbank.lt
Website address	www.mbturtas.lt

Main activities. Real estate management and development.

Company name	UAB MB Investicija
Legal form	Joint stock company
Legal address	Pamėnkalnio St. 40-17, LT-01114 Vilnius
Legal entity code	302700004
Registration date and place	16 December 2011, Vilnius
Telephone	8 682 82107
Facsimile	(8 5) 264 48 01
E-mail address	info@mbinvesticija.lt
Website address	www.mbturtas.lt

Main activities. Real estate management and development.

(All amounts in EUR thousand unless otherwise stated)

Company name	UAB TG Invest-1
Legal form	Joint stock company
Legal address	Pamėnkalnio St. 40-5, LT-01114 Vilnius
Legal entity code	302464707
Registration date and place	17 May 2013, Vilnius
Telephone	8 682 82107
Facsimile	(8 5) 264 48 01
E-mail address	e-saskaita@tginvest1.lt
Website address	www.mbturtas.lt

Main activities. Real estate management and development.

Company name	SIA Nida Capital
Legal form	Joint stock company
Legal address	Valnu St. 3-25, LV-1050 Riga
Legal entity code	40103774894
Registration date and place	31 March 2014, Riga
Telephone	8 612 23 933
Facsimile	(8 5) 264 48 01
E-mail address	info@medbank.lt
Website address	www.mbturtas.lt

Main activities. Real estate management and development.

Company name	UAB Saugus Kreditas
Legal form	Joint stock company
Legal address	Panerių St. 42, LT-03202 Vilnius
Legal entity code	302547722
Registration date and place	01 September 2010, Vilnius
Telephone	8 700 33303
E-mail address	info@sauguskreditas.lt
Website address	www.sauguskreditas.lt

Main activities. Granting of consumer credit to natural persons.

1. Objective overview of the Bank's and the Group's status, activities and development, analysis of the Group's financial performance

In 2017, the Group earned net profit of EUR 1.63 million, the Bank – EUR 1.65 million. It was mostly influenced by the Group's decrease of impairment of loans and other financial assets of 87.18 percent or EUR 1.58 million and higher net foreign exchange gain of 20.19 percent or EUR 0.64 million. The Group's revenue from net service fee and commission income increased by 18.89 percent or EUR 0.52 million.

The Group's net interest income during the year increased by 10.2 percent and amounted to EUR 6.67 million.

The Group's operating expenses increased by 14.88 percent or EUR 1.47 million mainly due increase of other operating expenses.

At the end of 2017, the Group's assets amounted to EUR 285.19 million, since 2016 the assets increased by EUR 25.92 million or 10.00 percent. The Group's loan and receivables portfolio during the year 2017 increased by 12.42 percent and reached EUR 163.68 million, the increase mainly related to the purchase of a loan portfolio from UAB Baltijos Kreditų Sprendimai with fair value of EUR 18.30 million and a purchase of consumers credit company UAB Saugus Kreditas (value of assets – EUR 0.27 million). The proportion between total provisions and loan portfolio of the Group during the year decreased from 3.75 percent at the beginning of the year to 3.40 percent at the end of the year 2017.

During the year, deposits in the Bank increased by 11.04 percent to EUR 251.86 million.

At the end of 2017, the shareholders' equity of the Group was EUR 27.44 million, i.e. it increased during the year by EUR 1.63 million or 6.30 percent. During the year, the Group's capital adequacy ratio, which reflects the Group's assumed risk coverage by capital and the Group's stability, increased from 14.08 percent at the end of 2016 to 15.01 percent at the end of the year 2017.

Description of the main risk types and uncertainties

The risks related to activities of the Group and the Bank are managed in line with the principles of Risk Management Policy approved by the Board of the Bank. Certain operating risks are hedged by implementing the internal system of limits. The structure of Group's risks is traditional, i.e. credit, market, liquidity, and operating risks prevail.

In 2017, the Bank complied with all the prudential requirements specified by the Bank of Lithuania: capital or own fund requirements, additional capital buffer requirements, liquidity requirements and large exposure requirement.

Ratios and prudential requirements for banking activities

- **Capital or own funds requirements** — banks shall satisfy the following own funds requirements:
• a common equity Tier 1 capital ratio of 4.5 per cent;
• a Tier 1 capital adequacy ratio of 6 per cent;
• a total capital ratio of 8 per cent.

- Additional capital buffer requirements:
• capital conservation buffer of 2.5 per cent;
• institution's special countercyclical capital buffer requirement. Currently, a special countercyclical buffer requirement of 0 per cent is applied;
• other systematically important institutions buffer requirement.

– **Liquidity requirements** – the value of the liquidity coverage ratio (LCR) cannot be less than 100 per cent.

– **The large exposure requirement** — Exposure to a client or a group of connected clients, i.e. loans granted, also any asset or off-balance-sheet asset share cannot exceed 25 per cent of the institutions eligible capital.

Credit risk

Credit risk is the risk that the Group and the Bank will incur loss because their customers or counterparties failed to discharge their contractual obligations. The Group and the Bank manage and control credit risk by setting limits on the amount of risk they are willing to accept for individual counterparties and for industry concentrations, and by monitoring exposures in relation to such limits. The Group has established a credit quality review process to provide early identification of changes in the creditworthiness of counterparties, including regular collateral revision. The credit quality review process allows the Group and the Bank to assess the potential loss to which it is exposed and to take the necessary corrective action.

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments related to financial instruments as they actually fall due. In order to manage liquidity risk, the Group and the Bank perform daily monitoring of internal limits and future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process.

Market risk

The Group and the Bank experience risk exposed to effects of fluctuation in the prevailing foreign currency exchange rates on their financial position and cash flows. The currency risk is managed by monitoring the risk exposure against the limits established for single open currency position. Positions are monitored on a daily basis. The Bank's policy is to keep foreign exchange positions more or less closed.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the interest rate gaps and the minimum interest rate margin. The limits are monitored on a monthly basis. Interest rate risk is managed by forecasting the market interest rates and by managing the mismatches between assets and liabilities from re-pricing maturities.

Real estate market price risk is the risk to incur losses due to low market liquidity that disables to sell assets at the desired time for a desired price or a possibility to sell available assets (investments) is lost. The market risk is managed and controlled by continuous market monitoring and analysis of forecasted market changes.

Operational risk

Operational risk is the risk to incur losses due to improper internal processes, human mistakes, system disorders or external factors. Definition of operational risk involves legal and reputational risks.

Detailed information about main risks and implementation of prudential requirements set by the Bank of Lithuania is presented in explanatory notes to the financial statements for the year 2017.

(All amounts in EUR thousand unless otherwise stated)

2. Non-financial performance analysis of the Bank and the Group, environmental protection and human resource information

UAB Medicinos Bankas is a member of Global Compact – the international movement for socially responsible business initiated by the United Nations – that encourages businesses to develop their activities on the basis of ten universal principles concerning human rights, employee rights and environmental protection, as well as to contribute to the fight against corruption. The Group expects that implementation of principles of Global Compact will form the basis for long-term value for the Group customers, staff, and shareholders.

The Group continued to provide its long time support to the Charity and Support Fund of S. Karosas. The fund was established 19 years ago, has provided financial support to young musicians and future artists, therefore the Group is glad to be a part of the country's artistic and cultural development.

As at 31 December 2017 the Bank employed 383 employees (417 employees as at 31 December 2016).

3. Notes on consolidated financial statements and data

Key financial data are presented in the Group's consolidated financial statements.

4. Data on acquisition of own shares

UAB Medicinos Bankas and the Group's enterprises do not have own shares, they did not acquire or transfer own shares during the reporting period.

5. Information about the Bank's branches and representatives

At the end of 2017, the Bank had 53 client service subdivisions: 8 branches, 45 customer service divisions and subdivisions in different regions of Lithuania.

Bank branches:

Centras Branch
Pamėnkalnio St. 40, LT-01114 Vilnius

Šalčininkai Branch
Vilniaus St. 63, LT-17116 Šalčininkai

Kaunas Branch
Donelaičio St. 76, LT-44248 Kaunas

Klaipėda Branch
Šermukšnių St. 1, LT-91206 Klaipėda

Šiauliai Branch
Varpo St. 25-10, LT-76298 Šiauliai

Panevėžys Branch
J. Basanavičiaus St. 3, LT-35182 Panevėžys

Lazdijai Branch
Seinų St. 5-41A, LT-67113 Lazdijai

Telšių Branch
Kęstučio St. 1A – 2, LT-87121 Telšiai

6. Material events after the end of financial year

There were no material events after the end of the financial year to be disclosed in the financial statements or explanatory notes.

7. Company's business planning & *forecasting*

The Bank has developed a long-term plan for the period from 2018 until 2022.

Major assumptions of the Bank's plan for the period 2018–2022 are as follows

	2018	2019	2020	2021	2022
Assumption					
Increase of loan portfolio	**4.42%**	**1.99%**	**2.18%**	**3.27%**	**2.62%**
Changes in liabilities to customers	**-1.07%**	**2.08%**	**0.61%**	**0.20%**	**0.61%**
Increase in net interest income	**7.74%**	**20.10%**	**3.89%**	**5.06%**	**7.51%**
ROE	**5.27%**	**11.76%**	**10.99%**	**11.81%**	**11.62%**

(All amounts in EUR thousand unless otherwise stated)

The main objectives of the Bank are to ensure a profitable and successfully growing banking business by providing high quality services to the Bank's target customers – micro, small and medium-sized businesses. The Group's management structure ensures prompt and high quality work with customers in selecting the individual client-tailored solutions and rapid response into changes in the financial markets. Rational customer service network enables the Group to ensure growing income from the daily financial services provision. Despite the rapid development of information technologies, direct human contact remains very important, which is based on the relationships between the Group and its customers based on mutual trust and respect screened by the long-term co-operation.

Another important factor to the Bank's business perspectives now and in the future is continuous development of banking innovations, by adopting and developing of both new services and new technologies.

Taking into consideration the increasing supervisory requirements, the economic environment and the strategic goal to ensure stable performance, the Bank pays special attention to increase its own capital basis. As a part of this strategy, in the near future the major shareholder intends to increase the Bank's capital basis by transferring all profit earned in 2017–2019 into capital reserves. According to the Bank's plan, this would amount to about EUR 6.7 million (EUR 1.6 million in 2018, EUR 1.5 million in 2019 and 3.6 million in 2020).

8. The Group's information on the remuneration policy and its implementation

Remuneration Policy of UAB Medicinos Bankas, which was approved on 27 April 2017 by the decision of the Supervisory Board decision, applies to the Bank's and the Group's staff.

According to this policy, the Group's managers and employees, who take decisions on transactions with evidence of the risk, and to employees controlling conclusion of such transactions are exempt from variable remuneration. This should increase Group's efficiency and reliability in risk management.

The remuneration of the Group's employees consists of a contract of employment, additional occasional payments (allowances and presents) and variable component. Contract of employment, which certain amount is agreed under contract of employment, and a variable component, the amount and payment terms of which depend on the Group's and the individual employee's performance and which may be paid in cash and non-cash instruments. Variable part cannot exceed 100% of annual employee salary amount.

Employees' salary is the biggest part of his remuneration and reflects employees' professional experience and responsibility level in organization.

Variable component could be paid:
- For additional (parallel) job;
- For substitution of temporary free position;
- For temporary bigger work flow.

Variable component could not exceed 50% of annual employee salary amount.

Conditions, value and circumstances of Additional occasional payments are described under the Group's internal acts.

The Group's CEO takes decisions related with value of contract of employment, value of variable component or additional occasional payment according this remuneration policy and other internal acts.

The Bank's Supervisory Board is responsible for setting the principles of the Remuneration Policy and calculation models of the variable part of the remuneration. Due to the Group's size, organizational structure, operational nature and scale there is no the Remuneration Committee. Its functions is dedicated to The Bank's Supervisory Board. The Bank's Supervisory Board assesses Remunerations policy adequacy to Groups taken risk, capital of the Bank, its liquidity and compatibility with Bank strategy and long term performance interests.

General quantitative information by business areas:

Year 2017	Fixed remuneration (thous. EUR)*	Variable remuneration (thous. EUR)	Number of recipients
UAB Medicinos Bankas	**5,025**	**113**	**383**
The Bank's senior management	248	-	4
Employees who's decisions could significantly impact the risk taken	456	-	17
Other employees	4,321	113	362
Employees of the Group companies	110	-	13
Total for the Group	**5,135**	113	**396**

* Paid amounts without taxes paid by employer

The variable remuneration for the performance of the year 2017 was not paid to the Bank's senior management, risk taking employees and employees responsible for control.

The total variable remuneration payments were for the Bank's employees, subject only to the general principles of the Remuneration Policy. All of designated variable part of the remuneration in 2017 was paid in cash.

Benefit appointment related with the termination of a contract:

Year 2017	Number of recipients	Amount of severance pay (thous. EUR)	Biggest amount for one recipient (thous. EUR)
The Bank	34	137	23
The Group companies	-	-	-

9. Information on the internal management

According to the Statute of UAB Medicinos Bankas, internal Bank bodies are:

• The General Meeting of Shareholders (hereinafter "the Meeting");
• The Supervisory Board (hereinafter "the Council");
• The Management Board (hereinafter "the Board");
• Chief Executive Officer.

The competence of the General Meeting of Shareholders and shareholders' rights and their exercising are provided for by the laws of the Republic of Lithuania.

The Council, the Board and the Chief Executive Officer are the Bank's management bodies. The Chief Executive Officer and the members of the Management Board do not hold any other managerial positions in other legal entities.

The Council is a collegiate supervisory body carrying out the function of supervision over the Bank's activities. The Council consisting of 3 members is elected by the Meeting. The Council elects the Management Board members and revokes them from their positions, supervises over the activities of the Management Board and Chief Executive Officer and has other rights and duties assigned by laws of the Republic of Lithuania and by the Bank's Statute.

The Management Board is a collegiate management body of the Bank, consisting of 4 members and elected by the Council. The Management Board manages the Bank, handles its daily matters, represents the Bank's interests and is liable for the financial services of the Bank as prescribed by law. The Management Board elects and revokes Head of the Management Board and Chief Executive Officer and his deputies and has other rights and duties assigned by laws of the Republic of Lithuania and by the Bank's Statute. Individual members of the Management Board have no powers granted to them as members of the Management Board, they act jointly as a collegiate body and separately as heads of relevant divisions of UAB Medicinos Bankas.

Head of the Management Board jointly acts as the Chief Executive Officer. Chief Executive Officer is the sole governing body of the Bank. Chief Executive Officer acts in the name of the Bank, organizes the Bank's day-to-day activities and has other functions assigned by laws of the Republic of Lithuania and by the Bank's Statute.

Chief Executive Officer has 3 deputies:

Deputy Chief Executive Officer for finance markets,
Deputy Chief Executive Officer for law,
Deputy Chief Executive Officer for finance management. Deputy Chief Executive Officer for finance management acts as the Chief Financial Officer at the same time.

Committees of the Bank

The Bank has continuously operating non-structural divisions: Loan, Internal Audit and Risk Management committees. Formation of the Loan, Internal Audit and Risk Management committees, their activities and competence is established by the Supervisory Authority legislation, the Statute, committee regulations and other regulations approved by the Bank bodies.

Loan Committee examines the loan application documents, takes decisions regarding loans granting and the conditions for granting loans and their amendments, evaluates credit risk, provides suggestions on the loan, the loan interest rate, improvement of loan administration procedures, and performs other functions approved by the Board. The Board approves the members of the Loan Committee and performs its supervision.

The Risk Management Committee determines, assesses, monitors and controls all types of risks faced by the Bank and the Bank's financial group. The Committee also controls the acceptable risk parameters, and performs other functions prescribed by the regulations. The Board approves the members of the Risk Management Committee and performs its supervision.

The Bank Audit Committee periodically discusses the effectiveness of the Bank's internal control systems, coordinates and periodically evaluates the internal audit department's work. The Committee discusses internal and external audit reports and performs other duties prescribed by the Supervisory Authority legislation and by the regulations of the Internal Audit Committee. The Council approves the members of the Internal Audit Committee and the Committee's regulations, and performs the supervision of the Committee.

10. Internal control system of the Bank

Requirements for internal control system of the Bank are established by laws and the legislation of the Supervisory Authority. The reliable and proper internal control system and an independent Audit Division ensure efficiency of the Bank's internal control.

Audit Division is the Bank's internal audit unit that develops internal control system evaluation methods, analyses and evaluates the adequacy and efficiency of the Bank's internal control system, and the use of internal control procedures. Internal Audit Division checks whether the assumption of risk does not exceed the Bank's risk limits and compliance with legislative requirements and the requirements of the Supervisory Authority, the implementation of the Bank's business strategy, the Bank's policies and compliance with the Bank's policy and procedures; it also performs other functions prescribed by the regulations. Internal Audit Division activities and regulations are approved by the Internal Audit Committee.

Acting Chairman of the Board and Chief Executive Officer Dalia Klišauskienė

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The Group					The Bank		
31 December 2017	**31 December 2016 (restated)**	**31 December 2015 (restated)**	**Assets**	**Notes**	**31 December 2017**	**31 December 2016 (restated)**	**31 December 2015 (restated)**
			Cash and due from central bank				
24,478	*21,588*	*24,327*	*Cash*		*24,478*	*21,588*	*24,327*
29,042	*21,058*	*1,550*	*Placements with the central bank*	5	*29,042*	*21,058*	*1,550*
53,520	42,646	25,877			53,520	42,646	25,877
11,539	11,983	19,034	Placements with banks and other credit institutions	6	11,496	11,982	19,008
			Financial assets at fair value through profit or loss				
7	*30*	*41*	*Derivative financial instruments*	15	*7*	*30*	*41*
-	*7,763*	*8,676*	*Debt securities*	7	*-*	*7,763*	*8,676*
7	*7,793*	8,717			*7*	*7,793*	8,717
39,860	33,660	24,943	Held-to-maturity investments	8	39,860	33,660	24,943
147,280	127,101	122,366	Loans to customers	9	147,123	127,080	122,349
2,923	3,696	4,714	Receivables with deferred payment	9	2,657	2,665	3,259
1,636	4,222	5,271	Loans to bank and financial institutions	9	1,835	4,222	5,271
11,839	10,572	11,393	Finance lease receivable	9	11,839	10,572	11,393
163,678	145,591	143,744			163,454	144,539	142,272
-	-	-	Investments in subsidiaries	13	6,439	14,494	16,105
6,213	8,354	11,192	Investment property	12	1,370	913	1,200
5,343	4,389	3,988	Property and equipment	10	5,338	4,389	3,988
264	383	276	Intangible assets	11	243	383	276
			Tax assets				
15	-	-	*Current taxes*		15	-	-
1,897	*1,897*	*1,607*	*Deferred taxes*	30	*1,897*	*1,897*	*1,607*
1,912	1,897	1,607			1,912	1,897	1,607
2,849	2,572	3,729	Other assets	14	2,529	2,401	3,031
285,185	**259,268**	**243,107**	**Total assets**		**286,168**	**265,097**	**247,024**

(continued on the next page)

The accompanying notes on pages 25 to 105 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

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

The Group					The Bank		
31 December 2017	31 December 2016 (restated)	31 December 2015 (restated)	Liabilities	Notes	31 December 2017	31 December 2016 (restated)	31 December 2015 (restated)
3,600	4,435	4,310	Due to banks and other credit institutions	16	3,600	4,435	4,310
31	19	16	Derivative financial instruments	15	31	19	16
251,855	226,809	211,982	Due to customers	17	252,920	232,702	213,945
1,000	1,000	-	Subordinated loans	18	1,000	1,000	-
-	-	131	Debt securities issued	18		-	2,270
			Tax liabilities				
-	*21*	*12*	*Current taxes*	30	-	*21*	*12*
-	-	-	*Deferred taxes*		-	-	-
-	21	12			-	21	12
1,258	1,169	1,362	Other liabilities	19	1,152	1,103	1,179
257,744	**233,453**	**217,813**	**Total liabilities**		**258,703**	**239,280**	**221,732**
			Equity				
19,948	19,948	19,948	Share capital	20	19,948	19,948	19,948
828	281	793	Retained earnings		852	283	791
339	343	348	Revaluation reserve of property and equipment	20	339	343	348
6,326	5,243	4,205	Other reserves	20	6,326	5,243	4,205
27,441	**25,815**	**25,294**	**Total shareholders' equity**		**27,465**	**25,817**	**25,292**
285,185	**259,268**	**243,107**	**Total liabilities and shareholders' equity**		**286,168**	**265,097**	**247,024**

The accompanying notes on pages 25 to 105 are an integral part of these financial statements. The financial statements were authorised for issue on 13 March 2018. These financial statements were approved on behalf of the Bank by:

Acting Chairman of the Board and Chief Executive Officer	D. Klišauskienė	
Director of Accounting and Reporting Department, Chief Accountant	A. Tonkich	

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED INCOME STATEMENTS

The Group 2017	The Group 2016 (restated)		Notes	The Bank 2017	The Bank 2016 (restated)
8,224	7,652	Interest income	22	8,161	7,642
(1,558)	(1,603)	Interest expenses	22	(1,558)	(1,603)
6,666	**6,049**	**Net interest income**		**6,603**	**6,039**
3,742	3,293	Service fee and commission income	23	3,746	3,293
(450)	(524)	Service fee and commission expenses	23	(435)	(524)
3,292	**2,769**	**Net service fee and commission income**		**3,311**	**2,769**
-	-	Net result on equity securities trading		(29)	-
9	602	Net result on securities trading	24	9	602
3,822	3,180	Net foreign exchange gain	25	3,822	3,180
100	226	Net result from operations with derivatives	15	100	226
-	-	Impairment of investments into subsidiaries	13	(1,140)	(1,611)
(974)	(1,216)	Net result on operations on investment property	12, 26	(56)	(153)
333	372	Other income	27	186	353
13,248	**11,982**	**Total operating income**		**12,806**	**11,405**
(233)	(1,817)	Impairment of loans and other financial assets	28	(186)	(1,548)
13,015	**10,165**	**Operating income after impairment**		**12,620**	**9,857**
(6,777)	(6,292)	Salaries and benefits	29	(6,618)	(6,189)
(382)	(312)	Depreciation	10	(382)	(312)
(200)	(184)	Amortisation	11	(190)	(184)
(4.023)	(3,120)	Other operating expenses	29	(3,776)	(2,912)
(11,382)	**(9,908)**	**Total operating expenses**		**(10,966)**	**(9,597)**
1,633	**257**	**Operating profit (loss)**		**1,654**	**260**
(7)	**263**	**Income tax expense**	30	**(7)**	**263**
1,626	**520**	**Profit (loss) for the year**		**1,647**	**523**
1,626	**520**	**Attributable to equity holders of the Bank**		**1,647**	**523**

The accompanying notes on pages 25 to 105 are an integral part of these financial statements. The financial statements were authorised for issue on 13 March 2018. These financial statements were approved on behalf of the Bank by:

Acting Chairman of the Board and Chief Executive Officer	D. Klišauskienė	
Director of Accounting and Reporting Department, Chief Accountant	A. Tonkich	

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The Bank	**31 December 2017**	**31 December 2016 (restated)**
Items that will never be reclassified to profit or loss		
Change in PPE revaluation	5	6
Transfer of depreciation for PPE net of tax	(4)	(5)
Other	-	1
Items that are or may be reclassified to profit or loss	**1**	**2**
Net amount transferred to profit or loss (available-for-sale financial assets)	-	-
Related tax	-	-
Other comprehensive income (expenses), net of tax	**1**	**2**
Profit (loss) for the year	1,647	523
Total comprehensive income	**1,648**	**525**
Attributable to:		
Equity holders of the Bank	**1,648**	**525**

The Group	**31 December 2017**	**31 December 2016 (restated)**
Items that will never be reclassified to profit or loss		
Change in PPE revaluation	4	5
Transfer of depreciation for PPE net of tax	(4)	(5)
Other	-	1
Items that are or may be reclassified to profit or loss	-	1
Related tax	-	-
Other comprehensive income (expenses), net of tax	-	1
Profit (loss) for the year	1,626	520
Total comprehensive income	**1,626**	**521**
Attributable to:		
Equity holders of the Bank	**1,626**	**521**

The accompanying notes on pages 25 to 105 are an integral part of these financial statements. The financial statements were authorised for issue on 13 March 2018. These financial statements were approved on behalf of the Bank by:

Acting Chairman of the Board and Chief Executive Officer	D. Klišauskienė	
Director of Accounting and Reporting Department, Chief Accountant	A. Tonkich	

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The Bank

	Share capital	Retained earnings (restated)	Revaluation reserve of property and equipment	Financial assets revaluation reserve	Other reserves	Total
At 1 January 2016, as previously reported	**19,948**	**1,037**	**348**	**-**	**4,205**	**25,538**
Correction or errors (Note 36)		(246)				(246)
At 1 January 2016, restated	**19,948**	**791**	**348**	**-**	**4,205**	**25,292**
Total comprehensive income, restated						
Profit or loss, restated	-	523	-	-	-	**523**
Other comprehensive income (expenses)	-	6	(5)	-	1	**2**
Transactions with owners of the Bank						
Transfer to reserves	-	(1,037)	-	-	1,037	**-**
At 31 December 2016, restated	**19,948**	**283**	**343**	**-**	**5,243**	**25,817**
Total comprehensive income						
Profit or loss	-	1,647	-	-	-	**1,647**
Other comprehensive income (expenses)	-	5	(4)	-	-	**1**
Transactions with owners of the Bank						
Transfer to reserves	-	(1,083)	-	-	1,083	**-**
At 31 December 2017	**19,948**	**852**	**339**	**-**	**6,326**	**27,465**

(continued on the next page)

The accompanying notes on pages 25 to 105 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

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

The Group

	Share capital	Retained earnings (restated)	Revaluation reserve of property and equipment	Financial assets revaluation reserve	Other reserves	Total
At 1 January 2016, as previously reported	**19,948**	**1,039**	**348**	**-**	**4,205**	**25,540**
Correction or errors (Note 36)		(246)				(246)
At 1 January 2016, restated	**19,948**	**793**	**348**	**-**	**4,205**	**25,294**
Total comprehensive income, restated						
Profit or loss	-	520	-	-	-	**520**
Other comprehensive income (expenses)	-	5	(5)	-	1	**1**
Transactions with owners of the Bank	-					
Transfer to reserves		(1,037)	-	-	1,037	**-**
At 31 December 2016, restated	**19,948**	**281**	**343**	**-**	**5,243**	**25,815**
Total comprehensive income						
Profit or loss	-	1,626	-	-	-	**1,626**
Other comprehensive income (expenses)	-	4	(4)	-	-	**-**
Transactions with owners of the Bank						
Transfer to reserves	-	(1,083)	-	-	1,083	**-**
At 31 December 2017	**19,948**	**828**	**339**	**-**	**6,326**	**27,441**

The accompanying notes on pages 25 to 105 are an integral part of these financial statements. The financial statements were authorised for issue on 13 March 2018. These financial statements were approved on behalf of the Bank by:

Acting Chairman of the Board and Chief Executive Officer	D. Klišauskienė	
Director of Accounting and Reporting Department, Chief Accountant	A. Tonkich	

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED CASH FLOW STATEMENTS

The Group				The Bank	
2017	**2016 (restated)**		**Notes**	**2017**	**2016 (restated)**
		Operating activities			
1,626	520	Profit (loss) for the year		1,647	523
		Adjustments to reconcile net profit or loss to net cash:			
582	496	Depreciation and amortisation	10, 11	572	496
158	(308)	(Gain) loss on disposal of property and equipment and investment property		(125)	17
233	1,817	Impairment of loans	28	186	1,548
-	-	Impairment of investments in subsidiaries	13	1,140	1,611
680	1,498	Impairment of investment property	12, 26	45	110
(35)	(14)	Derivatives revaluation	15	(35)	(14)
29	(73)	Elimination of accrued vacation pay		29	(73)
7	(263)	Income tax expenses	30	7	(263)
320	396	Elimination of other non-cash items		244	397
3,600	4,069	Cash flows from (to) operating activities before changes in operating assets and liabilities		3,710	4,352
		Changes in operating assets and liabilities:			
7,763	913	Changes in trading debt securities		7,763	913
(49)	(344)	Changes in compulsory reserves		(49)	(344)
(66)	700	Changes in amounts due from banks		(66)	700
(3,012)	(8,904)	Loans to customers		(2,754)	(6,698)
(18,295)	-	Purchased loan portfolio		(18,295)	-
773	1,064	Receivables with deferred payment	9	8	640
2,586	1,043	Loans to financial institutions		2,387	1,043
(1,267)	805	Finance lease receivable		(1,267)	805
(835)	125	Changes in due to banks and other credit institutions		(835)	125
19,551	13,815	Changes in due to customers		14,719	17,745
(291)	1,046	Changes in other assets and liabilities		(80)	636
10,458	14,332	Net cash flows from operating activities before income tax		5,241	19,917
-	-	Income tax (paid)		-	-
10,458	**14,332**	**Net cash flows from operating activities after income tax**		**5,241**	**19,917**
		Investing activities			
(1,914)	(1,036)	(Acquisitions) of intangible assets and property and equipment	10, 11	(1,878)	(1,036)
-	-	(Acquisitions) of investment property	12	-	-
2,697	4,008	Proceeds from sale of property and equipment and investment property		940	587
		Investments in subsidiaries		(754)	-
-	-	Disposal of subsidiaries		7,650	-
12,130	10,211	Redemption of held-to-maturity financial assets		12,130	10,211
(18,330)	(18,928)	(Acquisitions) of available-for-sale and held-to-maturity financial assets		(18,330)	(18,928)
(5,417)	**(5,745)**	**Net cash flows to investing activities**		**(242)**	**(9,166)**

(continued on the next page)

The accompanying notes on pages 25 to 105 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED CASH FLOW STATEMENTS (CONT'D)

The Group				The Bank	
2017	**2016 (restated)**		**Notes**	**2017**	**2016 (restated)**
		Financing activities			
-	-	Bonds issued		-	-
-	(131)	Bonds (redeemed)		-	(2,270)
-	1,000	Subordinated loans received		-	1,000
8,907	2,381	Loans received		8,907	2,381
(3,412)	(1,369)	Loans (repaid)		(3,412)	(1,369)
5,495	**1,881**	**Net cash flows from (to) financing activities**		**5,495**	**(258)**
(221)	(394)	Effect of exchange rate changes on cash and cash equivalents	25	(221)	(394)
10,315	**10,074**	**Net increase (decrease) in cash and cash equivalents**		**10,273**	**10,099**
52,735	42,661	Cash and cash equivalents at 1 January		52,734	42,635
63,050	**52,735**	**Cash and cash equivalents at 31 December**	31	**63,007**	**52,734**
		Additional information to operating cash flows			
8,875	4,423	Interest received		8,851	4,406
(1,438)	(1,672)	Interest (paid)		(1,435)	(1,672)

The accompanying notes on pages 25 to 105 are an integral part of these financial statements. The financial statements were authorised for issue on 13 March 2018. These financial statements were approved on behalf of the Bank by:

Acting Chairman of the Board and Chief Executive Officer	D. Klišauskienė	
Director of Accounting and Reporting Department, Chief Accountant	A. Tonkich	

(All amounts in EUR thousand unless otherwise stated)

Note 1 Background information

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

Pamėnkalnio St. 40,
Vilnius, Lithuania.

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

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

As at 31 December 2017 the Bank employed 383 employees (417 employees as at 31 December 2016). As at 31 December 2017 the Group employed 396 employees (422 employees as at 31 December 2016).

As at 31 December 2017 the shareholders of the Bank were as follows:

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

As at 31 December 2016 the shareholders of the Bank were as follows:

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

The issued share capital consists of 137,750 ordinary shares with the par value of EUR 144.81 each. As at 31 December 2017 and 2016, all shares were fully paid.

Note 2 Basis of preparation and significant accounting policies

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

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

Effect on financial statements of application of new standards and amendments and new interpretations to standards

Changes in accounting policies

The Group and the Bank have consistently applied the accounting policies set out in Note 2 to all periods presented in these financial statements.

Certain comparative amounts in the statement of financial position, the statement of profit or loss and OCI, the statement of changes in equity and the statement of cash flows have been restated as a result of correction of errors as presented in the Note 36.

The Group and the Bank have adopted the new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2017.

Standards, interpretations and amendments to published standards that are not yet effective

The following new Standards, interpretations and amendments are not yet effective for the annual reporting period ended 31 December 2017 and have not been applied in preparing these financial statements. Those which may be relevant to the Group and the Bank are set out below. The Group and the Bank do not plan to adopt these standards early.

(i) IFRS 9 Financial Instruments (2014) (Effective for annual periods beginning on or after 1 January 2018, to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.)

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

(All amounts in EUR thousand unless otherwise stated)

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

Standards, interpretations and amendments to published standards that are not yet effective (cont'd)

Classification – Financial assets (cont'd)

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The Standard eliminates the existing IAS 39 categories of held to maturity, assets stated at fair value through profit (loss), loans and receivables, and assets available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the Standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on the Bank's assessment, the change in the classification of the financial instruments as at 1 January 2018 is presented below:

The Bank	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Financial assets				
Cash and due from central bank	Loans and receivables	Amortised cost	53,520	53,520
Placements with banks and other credit institutions	Amortised cost	Amortised cost	11,496	11,496
Held-to-maturity investments	HTM	Amortised cost	39,860	39,860
Loans	Loans and receivables	Amortised cost	163,202	162,969
Receivables	Loans and receivables	Amortised cost	252	252
Other assets	Loans and receivables	Amortised cost	2,529	2,529
Total financial assets			**270,859**	**270,626**
Financial liabilities				
Due to banks and other credit institutions	Amortised cost	Amortised cost	3,600	3,600
Due to customers, including letters of credit	Amortised cost	Amortised cost	252,920	252,920
Subordinated loans	Amortised cost	Amortised cost	1,000	1,000
Other liabilities	Amortised cost	Amortised cost	1,152	1,152
Total financial liabilities			**258,672**	**258,672**

The Group	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Financial assets				
Cash and due from central bank	Loans and receivables	Amortised cost	53,520	53,520
Placements with banks and other credit institutions	Amortised cost	Amortised cost	11,539	11,539
Held-to-maturity investments	HTM	Amortised cost	39,860	39,860
Loans	Loans and receivables	Amortised cost	163,426	163,192
Receivables	Loans and receivables	Amortized cost	252	252
Other assets	Loans and receivables	Amortised cost	2,849	2,849
Total financial assets			**271,446**	**271,212**
Financial liabilities				
Due to banks and other credit institutions	Amortised cost	Amortised cost	3,600	3,600
Due to customers, including letters of credit	Amortised cost	Amortised cost	251,855	251,855
Subordinated loans	Amortised cost	Amortised cost	1,000	1,000
Other liabilities	Amortised cost	Amortised cost	1,258	1,258
Total financial liabilities			**257,713**	**257,713**

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

Standards, interpretations and amendments to published standards that are not yet effective (cont'd)

The business model assessment

The purpose of the Group's business model is both to collect contractual cash flows (*held-to-collect*) and if cash flows are solely payments of principal and interest on the principal amount outstanding. This *held-to-collect* model is used for Group management, risk management of financial instruments and the development of an internal control system. Financial assets are measured at amortised cost. At 29/09/2017 the Board of directors made a strategical decision to refuse the trading of debt securities. As a result the Group has no financial instruments whose purpose is to obtain cash flows from their sale. The Group financial plan does not provide an application of other business models.

SPPI test

All the loans and receivables were assessed according to the SPPI test. The principal amount is the fair value of the financial assets on initial recognition according to the accounting policy and meets the SPPI criterion. Interest is consideration for the time value of money (TVM), for the credit risk associated with the principal amount outstanding. The credit risk element is evaluated. TVM for transactions with fixed rates is an implicit component. For variable rates the Bank assessed the modification of TVM element and the result is that modifications don't give rise to a significant difference between the contractual cash flows and the cash flows that would arise if the TVM element was not modified. The estimated impact is EUR 11.5 thousand and it is insignificant because it takes only 0.14 per cent of the interest income during 2017. Therefore, in the opinion of the management, loans and amounts receivable meet the SPPI requirements.

The expected credit loss impairment model

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This requires considerable judgement as to how the changes in economic factors affect ECLs, which are determined on a probability-weighted basis.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs (Stage 1). These are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs (Stage 2, Stage 3). These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not.

Due to the change in credit risk since initial recognition loans are divided into three stages:

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

Under Stage 2 (significant increase in credit risk) there are loans with:

- More than 30 days past due in principal and/or interest payments;
- Borrower‘s internal credit rating is C and lower;
- Financial asset modification than doesn‘t result derecognition;
- Other individual events, with insignificant influence on borrower ability to meet contractual future cash flows.

Under Stage 3 (default) there are loans with:

- More than 90 days past due in principal and/or interest payments;
- Credit-impaired loans;
- Financial asset modification that results in derecognition due to deterioration in the borrower‘s financial state;

(All amounts in EUR thousand unless otherwise stated)

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

Standards, interpretations and amendments to published standards that are not yet effective (cont'd)

The expected credit loss impairment model (cont'd)

- Purchased assets with a significant increase in credit risk at initial recognition (POCI assets);
- Other loss events, when only cash flows from the collateral sale are expected.

Values used for calculation of the expected credit loss (ECL): different loss given default (LGD) based on loan-to-value (LTV) rates:

Groups	PD										LGD	
	1Y	2Y	3Y	4Y	5Y	6Y	7Y	8Y	9Y	10Y and more	LTV>100%	LTV<100%
Individuals	2.05%	4.06%	6.02%	7.95%	9.84%	11.69%	13.50%	15.27%	17.01%	18.71%	24.21%	7.79%
Corporates (other risk)	1.68%	3.33%	4.96%	6.55%	8.12%	9.67%	11.18%	12.68%	14.14%	15.59%	18.75%	13.61%
Corporates (real estate risk)	2.76%	5.44%	8.05%	10.59%	13.06%	15.46%	17.79%	20.06%	22.27%	24.41%	16.17%	8.23%

The expected ECLs were calculated based on the actual credit loss experience over the past seven years. The Group performed calculation of ECL rates separately for three groups – corporates with real estate activity risk, corporates with other risk and individuals. Due to the small amount of loans exposures in loan portfolio each group was attributed accordingly to corporates or individuals, and corporates were segmented as those that are linked the real estate industry (real estate development, rent or selling) or not.

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

The Group estimated that application of IFRS 9's requirements as at 1 January 2018 results in an increase of impairment allowance by EUR 260 thousand compared to impairment recognised in accordance with IAS 39.

BANK	Gross carrying amount	Estimated additional impairment loss allowance	Off-balance sheet exposures	Estimated additional impairment loss allowance for off-balance sheet exposures	TOTAL Estimated additional impairment loss allowance	Credit impaired
Stage 1 Performing	142,532	157	9,663	26	183	No
Stage 2 Under-Performing	6,057	24	43	-	24	No
Stage 3 Non-Performing	14,613	52	51	-	52	Yes
Total	163,202	233	9,757	26	259	

GROUP	Gross carrying amount	Estimated additional impairment loss allowance	Off-balance sheet exposures	Estimated additional impairment loss allowance for off-balance sheet exposures	TOTAL Estimated additional impairment loss allowance	Credit impaired
Stage 1 Performing	142,695	158	9,663	26	184	No
Stage 2 Under-Performing	6,074	24	43	-	24	No
Stage 3 Non-Performing	14,657	52	51	-	52	Yes
Total	163,426	234	9,757	26	260	

The gross carrying amount is less than the amount of loans and receivables presented in the statement of financial position because EUR 252 thousand financial instruments consist of money transfer accounts for MoneyGram International, Global Blue Lietuva UAB, RIA Financial Services Continental Exchange Solutions and UNISTREAM. The credit risk for the financial instruments is considered very low, there is no significant credit risk increase from initial recognition and, therefore, the impairment loss allowance was not estimated for them. The credit risk monitoring of these instruments is carried out in accordance with the Bank's internal rules.

(All amounts in EUR thousand unless otherwise stated)

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

Standards, interpretations and amendments to published standards that are not yet effective (cont'd)

The expected credit loss impairment model (cont'd)

The Bank has considered that the credit risk for other financial assets such as placements with other banks and other credit institutions, and held-to-maturity investments is very low and, therefore, did not access the impact of initial IFRS 9 application.

The Group has assessed the estimated total impact that the initial application of IFRS 9 will have on its consolidated financial statements. The estimated impact of the adoption of this standard on the Group's equity as at 1 January 2018 is based on assessments undertaken to date and is summarised below:

	Estimated additional impairment recognised at 1 January 2018
Loans and other receivables	234
Off-balance sheet exposures	26

	Estimated additional impairment recognised at 1 January 2018
Decrease in retained earnings	260

The total estimated adjustment to the opening balance of the Group's equity as at 1 January 2018 is EUR 260 thousand. The principal component of the estimated adjustment is decrease of EUR 260 thousand in retained earnings due to impairment losses on financial assets.

The Group	Share capital	Retained earnings	Revaluation reserve of property and equipment	Financial assets revaluation reserve	Other reserves	Total
As at 31 December 2016, restated	**19,948**	**281**	**343**	**-**	**5,243**	**25,815**
Total comprehensive income						
Profit of loss	-	1,626	-	-	-	**1,626**
Other comprehensive income (expenses)	-	4	(4)	-	-	**-**
Transactions with owners of the Bank						
Transfer to reserves	-	(1,083)	-	-	1,083	**-**
As at 31 December 2017	**19,948**	**828**	**339**	**-**	**6,326**	**27,441**
Influence of 9 IFRS	-	(260)	-	-	-	(260)
As at 1 January 2018	**19,948**	**568**	**339**	**-**	**6,326**	**27,181**

Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and the Group has no current intention to do so. The Group's assessment did not indicate any material impact of IFRS 9's requirements regarding the classification of financial liabilities as at 31 December 2017.

(All amounts in EUR thousand unless otherwise stated)

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

Standards, interpretations and amendments to published standards that are not yet effective (cont'd)

Adoption

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Group plans to take advantage of the exemption allowing it not to restate comparative Information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in retained earnings and reserves as at 1 January 2018.

(ii) IFRS 15 Revenue from contracts with customers (Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The Group and the Bank assessed the potential impact of IFRS 15 on the Group's and the Bank's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Group's and the Bank's financial statements. The timing and measurement of the Bank's revenues are not expected to change under IFRS 15 because of the nature of the Bank's operations and the types of revenues it earns.

The Group	As reported at 31 December 2017	Estimated adjustments due to adoption of IFRS 15
Fee and commission income	3,742	-

(iii) IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.)

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

The Group and the Bank has not yet completed its initial assessment of the potential impact of IFRS 16 on the Group's and the Bank's financial statements. Based on preliminary estimations, the Bank expects that the amendments, when initially applied, will not have material impact on the financial statements.

Operating lease expenses of the Group and the Bank as to operating lease contracts as at 31 December 2017 are disclosed in the Note 21 to the financial statements.

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

Standards, interpretations and amendments to published standards that are not yet effective (cont'd)

(iv) Annual Improvements to IFRSs

Annual improvements to IFRSs 2014–2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 Disclosure of Interest in Other Entities are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

None of these amendments are expected to have a significant impact on the financial statements of the Group and the Bank.

Basis of consolidation

The consolidated financial statements are prepared annually for the year ended 31 December and include the parent Bank and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year using consistent accounting policies.

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Non-controlling interests

At the date of acquisition, non-controlling interests (NCIs) are measured at their proportionate share of the acquiree's identifiable net assets. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Inter-company transactions between the Group companies are eliminated.

Subsidiaries in the separate financial statements are accounted at cost, less impairment. That means the income from the investment is recognised only to the extent that the Bank receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

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

Financial assets and financial liabilities

The Group and the Bank recognise financial assets and liabilities in their statement of financial position when, and only when, the Group and the Bank become a party to the contractual provisions of the instrument.

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group and the Bank determine the classification of their financial assets upon initial recognition and, where allowed and appropriate, re-evaluate this classification at each financial year-end.

All "regular way" purchases and sales of investments are recognised using settlement date accounting. The settlement date is the date when an asset is delivered to or by the Group and the Bank. Settlement date accounting refers to the recognition of an asset on the day it is transferred to the Group and the Bank, and to the derecognition of an asset on the day it is transferred by the Group and the Bank.

Financial assets at acquisition date, which belong to the trading book, are classified in the following categories:

- Financial assets *at fair value through profit or loss*
- Financial assets available-for-sale

Financial instruments, which are held in order to resell and/or which are held to receive benefit from actual or expected short term fluctuations, are included in the Bank's trading book. The trading book consists of all financial instruments, which are held for trading purposes and available-for-sale, balance sheet and off balance sheet positions.

Financial assets acquired for trading purposes are composed from short term investments in debt securities and shares, which are acquired in order to get profit from the price and interest rate fluctuations as well as which are going to be actively traded.

Financial assets, which are planned to be held for indefinite time period and which could be sold in order to maintain liquidity or when their price will be changing, are considered to be in the category of available-for-sale financial assets.

<u>Financial assets or financial liabilities at fair value through profit or loss</u>

Financial assets

A financial asset is classified as at fair value through profit and loss if it is classified as held for trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit and loss are measured at fair value and changes therein, including any interest of dividend income, are recognised in profit or loss.

Derivative financial instruments

The Bank uses derivatives such as foreign exchange forwards and swaps. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative; they are initially recognised in the statement of financial position at their fair value on the settlement date. Changes in the fair value of derivatives held for trading are included in net trading income.

Fair values of the derivative financial instruments are disclosed in Note 15.

In 2017, the Bank granted certain loans to customers with variable interest rate; however, the floor for interest rate was also set in the agreements. The floor is an integral part of the agreement. Accounting standards mandate that if at the moment of granting the loan the floor interest rate approximates the market variable interest rate, then the embedded derivative is closely related with host contract and thus may be accounted for together.

<u>Held-to-maturity investments</u>

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group and the Bank have the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This 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 and discounts. For investments carried at amortised cost, gains and losses are recognised in the profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

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

Financial assets and financial liabilities (cont'd)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and advances are recognised on drawdown. From the date of signing a contractual agreement to the drawdown date they are accounted for as off-balance sheet items.

Loan agreements foresee the possibility of repayment before the maturity date. The management of the Group and the Bank cannot estimate how often or when clients would use such an option and therefore the cash flows or the expected life cannot be estimated reliably and, consequently, the contractual cash flows over the full contractual term were used by the Group and the Bank in determining the effective interest rate.

Factoring

A factoring transaction is a funding transaction whereby the Group and the Bank finance their customers through buying their receivable claims. Companies transfer rights to invoices due at a future date to the Group and the Bank. Factoring transactions comprise factoring transactions with a right to recourse (the Group and the Bank are entitled to sell the overdue claim back to the customer) and factoring transactions without a right to recourse (the Group and the Bank are not entitled to sell the overdue claim back to the customer). The factor's revenue comprises the lump-sum contract fee charged on the conclusion of the contract, commission fees charged for processing the invoices, and interest income depending on the duration of the payment term set by the purchaser. Gains and losses are recognised in profit or loss when the factoring receivables are derecognised or impaired, as well as through the amortisation process.

The factoring balance includes the aggregate amount of factored invoices outstanding as at the reporting date and all amounts accrued for the unpaid amount.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity through other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in profit or loss.

Debt issued and other borrowed funds

Issued financial instruments and their components are classified as liabilities, where the substance of the contractual arrangement results in the Group and the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of compound financial instruments, that contain both liability and equity elements, are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amounts separately determined as the fair value of the liability component on the date of issue.

After initial recognition, debt issued and other borrowings, which are not designated at fair value through profit or loss, are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

Repurchase agreements

Securities sold that are subject to linked repurchase agreements are retained in the financial statements as trading or investment securities and the liability to the counterparty of the agreement is included in deposits from banks, other deposits, or deposits due to customers, as appropriate. Securities purchased under agreements to resell are recorded as loans and advances to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and amortised over the life of repurchase agreements using effective interest rate for the whole period.

Borrowed securities are not included in the financial statements, unless they were sold to a third party. In that case a liability for the obligation to return these securities is recognised at fair value as a trading liability.

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

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group and the Bank have transferred their rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group and the Bank either (a) have transferred substantially all the risks and rewards of the asset, or (b) have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

Where the Group and the Bank have transferred their rights to receive cash flows from an asset or have entered into a pass-through arrangement, and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's and the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's and the Bank's continuing involvement is the amount of the transferred asset that the Group and the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's and the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-offs

In 2014 the Bank started to apply partial write-offs. Partial write-off may be applicable only for clients having the status of defaulted clients, if there is no evidence that full or partial Bank claim (principal, accrued interest and other charges) towards the client will be covered (e.g. the client has the status of bankrupt procedure, or the Bank has initiated legal procedure and there is not enough collateral and no expected cash flow or any other property to fully cover part of the claim).

When the loans and advances cannot be recovered and all collateral has been realised, they are written-off and charged against impairment for incurred credit losses. The management of the Group and the Bank makes the decision on writing-off loans. Recoveries of loans previously written-off are credited to the profit or loss.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Employee benefits

Short-term employee benefits

Short-term employee benefits are recognised as a current expense in the period when employees render services. These include salaries and wages, social security contributions, bonuses, paid holidays and other benefits. There are no significant long-term employee benefits.

Social security contributions

The Bank pays social security contributions to the State Social Security Fund (hereinafter referred to as the Fund) on behalf of its employees in accordance with the local legal requirements. The social security contributions are recognised as an expense on an accrual basis and are included within personnel expenses.

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

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to EUR at the official exchange rate of the Bank of Lithuania (spot exchange rate) prevailing at the dates of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in currencies other than EUR are recognised in the profit or loss.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot exchange rate prevailing at the date of the statement of financial position. Gains and losses resulting from the translation of items of the statement of financial position are recognised in the profit or loss. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, while non-monetary assets carried at fair value or revalued amounts are translated at the exchange rate when the fair value was determined.

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

	31 December 2017	31 December 2016
USD	1,1993	1,0453

Interest revenue and expenses

Interest revenue and expense are recognised in the profit or loss on an accrual basis using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Fees and commission

Fees and commission revenue and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission revenue, including account servicing fees, investment management fees, sales commission, placement fees and other are recognised on accrual basis as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to the transaction and service fees, which are expensed as the services are received.

Expenses

Other expenses are recognised on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred. The amount of expenses is usually accounted for as the amount paid or due.

Dividends

Dividend revenue is recognised when the right to receive payment is established.

Cash and cash equivalents

Cash, current accounts with the Bank of Lithuania and current accounts with other banks due to their high liquidity with maturity up to three months from the date of placement are accounted for as cash and cash equivalents in the statement of cash flows. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the profit or loss in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Intangible assets

Initially intangible assets acquired by the Group and the Bank are stated at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. The Group and the Bank do not have any intangible assets with indefinite life.

Intangible assets with finite lives are amortised over the useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense when incurred.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the intangible assets, from the date that it is available for use. The estimate useful life of software is 3–7 years.

Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of that equipment. The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in the profit or loss as incurred.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Buildings are recorded at revalued amounts, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which is determined using fair value at the date of statement of financial position. The fair value of the buildings is determined by appraisals undertaken by certified independent valuators. The depreciation of buildings is calculated on a straight-line basis over their estimated useful lives. The revaluation reserve for buildings is being reduced each period by the difference between depreciation based on the revalued carrying amount of the asset and that based on its original cost, which is transferred directly to retained earnings.

In the case of revaluation, when the estimated fair value of an asset is lower than its carrying amount, the carrying amount of this asset is immediately reduced to the amount of fair value and such decrease is recognised as an expense. However, such impairment is deducted from the amount of increase of the previous revaluation of this asset accounted for in the revaluation reserve to the extent it does not exceed the amount of such increase.

In the case of revaluation, when the estimated fair value of an asset is higher than its carrying amount, the carrying amount of this asset is increased to the amount of fair value and such increase is recorded in the revaluation reserve of property and equipment within equity.

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

Property and equipment (cont'd)

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives for property and equipment are as follows:

Buildings	60–90 years
IT hardware	3–6 years
Vehicles	6 years
Fixtures and fittings	3–10 years

Depreciation methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each financial year-end.

Leasehold improvements are amortised over the shorter of the remaining lease term and their useful lives. The asset's useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group and the Bank have a currently enforceable legal right to set off the amounts and intend either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's and the Bank's trading activity.

Fair values of financial assets and liabilities

Fair value is 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 in the principal, or in its absence, the most advantageous market to which the Group and the Bank have access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Group and the Bank measure the fair value of an instrument using quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

For financial instruments traded in active financial markets the fair value is determined by reference to quoted market prices. Bid prices are used for assets and ask prices are used for liabilities. In the absence of an active market the fair value of interest-bearing financial instruments is estimated based on discounted cash flows using the interest rates for items with similar terms and risk characteristics. For unquoted equity investments fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same and discounted cash flow analysis.

Measurement of fair values

A number of the Group and Bank accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group and the Bank use market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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

Measurement of fair values (cont'd)

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 9 – Loans and receivables
Note 10 – Property and equipment
Note 12 – Investment property
Note 32 – Fair value of financial instruments

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the profit or loss;
- a gain or loss on an available-for-sale financial asset is recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses on debt financial instruments) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the profit or loss. Interest in relation to an available-for-sale financial asset is recognised as earned in the profit or loss calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

Impairment of financial assets

The Group and the Bank assess at each date of the statement of financial position whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Due from banks and loans and advances to customers

For amounts due from banks and loans and advances to customers carried at amortised cost, the Group and the Bank first assess individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group and the Bank determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, they include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding possible future credit losses that have not yet been incurred). 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 profit or loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

The present value of the estimated future cash flows is discounted using the financial asset's original effective interest rate. If loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. 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.

In assessing collective impairment the Group and the Bank use statistical modelling of 2 years historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling.

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

Impairment of financial assets (cont'd)

Due from banks and loans and advances to customers (cont'd)

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale investments

In the case if investments are 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. The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of investment is less than its cost. 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 profit or loss – is removed from equity and recognised in the profit or loss.

Held-to-maturity investments

For held-to-maturity investments the Group and the Bank assess individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts previously charged are credited to the profit or loss. However, the reversal does not result in a carrying amount that exceeds what the amortised cost would have been absent any impairment.

Renegotiated loans

Where possible, the Group and the Bank seek to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan terms. A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Management continuously reviews renegotiated loans to ensure that all criteria are met and that the future payments are likely to occur. The loans continue to be the subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Collective impairment

Individually assessed loans which are not known to be impaired are assessed collectively. Incurred losses which were not estimated during the individual assessment because of lack of time to get information about the events related to these losses are assessed collectively based on historical data.

Impairment of other assets

The carrying amounts of the Group's and the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

If such an indication exists, the Group and the Bank make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in profit or loss.

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

Impairment of other assets (cont'd)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount determined, net of depreciation (if any), had no impairment loss been recognised for the asset in prior years. The reversal of impairment is recognised as profit or loss, unless the assets are carried at revalued amounts. If that is the case, such reversal is recognised as income to the extent it does not exceed the previous revaluation decrease recognised in profit or loss, and the remaining part as a revaluation increase. After such a reversal the depreciation charge (if any) is adjusted in future periods to allocate the asset's revised carrying amount, on a systematic basis over its remaining useful life.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Finance – the Group and the Bank as lessee

The Group and the Bank recognise finance leases as assets and liabilities in the statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments, each determined at inception of the lease. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine. Otherwise, the Group's and the Bank's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Operating – the Group and the Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other administrative and operating expenses.

Finance leases – the Group and the Bank as lessor

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 annuity method, which reflects a constant periodic rate of return.

Share capital

Share capital is presented in the statement of financial position at the amount subscribed.

Income tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is calculated based on the Lithuanian tax legislation.

In accordance with the Law on Corporate Income Tax of the Republic of Lithuania, the current income tax rate is 15% on taxable income. Expenses related with taxation charges and included in these financial statements are based on calculations made by the management in accordance with Lithuanian tax legislation.

Tax losses can be carried forward for an indefinite period, except for the losses incurred as a result of disposal of securities. As at the taxable year 2015, ordinary tax losses carried forward can only be set off against up to 70% of the calculated taxable profits of the taxable period. The losses from disposal of securities can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

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

Income tax (cont'd)

Deferred taxes are calculated using the liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax laws that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred tax assets have been recognised in the statement of financial position to the extent the management believes they will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

Other taxes

Real estate annual tax rate is up to 3% on the tax value of property and equipment and foreclosed assets. The Bank is also obliged to pay land and land rent taxes, make payments to guarantee fund and social security contributions. These taxes are included in other expenses in the income statement.

Off-balance sheet items

All liabilities that may be recognised in the statement of financial position in the future are accounted for as off-balance sheet liabilities. This allows the Group and the Bank to assess capital requirement and to attract the necessary funding to cover these liabilities.

Related parties

Parties are considered to be related if one party has the ability to unilaterally or jointly control the other party or exercise significant influence over the other party in making financial or operational decisions, or where parties are under common control. In addition, members of key management personnel as well as their close family members and entities controlled by them, and close family members of individuals that unilaterally or jointly control the Bank or exercise significant influence over it. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Credit-related commitments

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group and the Bank are potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group and the Bank monitor the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Commitments to extend credit are treated as risk assets for capital adequacy calculation purposes.

In the ordinary course of the business the Group and the Bank issue financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, under Other Liabilities caption, being premium received. Subsequent to initial recognition, the Group's and the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required for settling any financial obligation arising as a result of the guarantee where payment has become probable.

Any increase in the liability relating to financial guarantees is recorded to profit or loss under Impairment expenses caption. The premium received is recognised in profit or loss in Net fees and commissions income caption on a straight line basis over the life of guarantee.

Guarantees represent irrevocable assurances that the Group and the Bank will make payments in the event when a customer cannot meet its obligations to the third parties. In case of execution of such a guarantee it is subsequently accounted for as statement of financial position item and is subject for impairment assessment. Until a guarantee is terminated, it is treated as risk asset for capital adequacy calculation purposes.

Documentary and commercial letters of credit represent written undertakings by the Group and the Bank on behalf of a customer authorising a third party to draw drafts on the Group and the Bank up to a stipulated amount under specific terms and conditions. Letters of credit are collateralised by the underlying shipments of goods. Letters of credit are treated as risk assets for capital adequacy calculation purposes.

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

Provisions

Provisions are recognised when the Group and the Bank have a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow or recourses embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The expense relating to any provision is presented in the profit or loss. If the effect of the time value of money is material, provisions are discounted using current pre-tax rate that reflects the risks specific to the liability. Where discounting is used the increase in the provision due to the passage of time is recognised as a borrowing cost.

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits is probable.

Subsequent events

Events subsequent to the year-end that provide additional information about the Group's and the Bank's position at the date of the statement of financial position (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

Note 3 Use of estimates and judgements in the preparation of financial statements

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation and judgements used in the preparation of the accompanying financial statements relate to evaluation of impairment losses for loans and other receivables, available-for-sale and held-to-maturity investments, investments in subsidiaries, fair value measurement, realisation of deferred tax asset, finance leases and derecognition of financial assets and going concern.

Below are presented key assumptions concerning the future and other key sources of estimation uncertainty at the date of the statement of financial position that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment losses on loans and receivables

The Group and the Bank regularly review their loans and receivables to assess impairment. The Group and the Bank use their experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and historical data relating to similar borrowers is available. Similarly, the Group and the Bank estimate changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables when scheduling its future cash flows. The Group and the Bank use their experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. For further information see note 9 and Note 34.

Fair value of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in profit or loss. Based on the policy of the Bank and the Group, investment property has to be revaluated by external valuators at least every 3 years. For further information see Note 12.

Fair value of property and equipment

The buildings are carried at revalued amount which is their fair value as at the revaluation date less subsequently accumulated depreciation and impairment. Revaluations are carried out regularly, at least every 5 years, ensuring that the carrying amount of buildings does not significantly differ from their fair values as at reporting date. The fair value of buildings is established by certified independent real estate valuators.

Note 3 Use of estimates and judgements in the preparation of financial statements (cont'd)

Impairment losses on loans and receivables (cont'd)

Fair value of property and equipment (cont'd)

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets. The revaluation reserve of buildings is reduced by an equivalent amount of annual depreciation charged on revalued buildings each year and is transferred directly to retained earnings.

In case of revaluation, when the estimated fair value of the assets exceeds their carrying value, the carrying value is increased to the fair value and the amount of increase is included into revaluation reserve of property and equipment as other comprehensive income in equity. However, such increase in revaluation is recognised as income to the extent it does not exceed the decrease of previous revaluation recognised in profit or loss. Depreciation is calculated from the depreciable amount which is equal to acquisition cost less residual value of an asset. More information in Note 10.

Impairment of available-for-sale and held-to-maturity investments

The determination of impairment indication is based on comparison of the financial instrument's carrying value and fair value. The Group uses valuation models based on quoted market prices of similar products.

For the purposes of impairment loss measurement, the Bank's management makes estimates of any expected changes in future cash flows from a specific financial instrument based on analysis of financial position of the issuer of the financial instrument. Held to maturity investments are disclosed in Note 8.

Write-off of loans and receivables

In 2014, the Bank started to apply partial write-offs. Partial write-off is applied only for the defaulted clients, if there is no evidence that full or partial Bank claim (principal, accrued interest and other charges) towards the client will be satisfied (e.g. the client has entered bankruptcy, or the Bank has initiated a legal procedure and there is not enough collateral and no expected cash flow or any other property to fully cover part of the claim). More information in Note 9.

Impairment losses on investments in subsidiaries

The Bank tests investments in its subsidiaries for impairment when impairment indicators are identified. The Bank applies the adjusted net asset method for evaluation of the fair value of its subsidiaries. Taking into consideration activities of the subsidiaries, the investment value is measured based on the fair value of the subsidiaries' assets and liabilities. At the end of each year the Bank evaluates investment amount into each subsidiary against subsidiaries' assets and liabilities stated at fair value. The value of the investment property owned by subsidiaries and specified in external valuation reports is adjusted by a certain coefficient defined by the management of the Bank depending on the type of the investment property and associated risks (Note 13).

Adjustments are recorded when the estimation of the fair value of the investment in subsidiaries indicates impairment of the Bank's investment.

Finance leases

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.

Deferred tax asset

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies (Note 30).

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. Please refer to Note 34 for description of change in estimates on loan impairment.

Note 4 Going concern

The separate and consolidated financial statements have been prepared on a going concern basis.

(All amounts in EUR thousand unless otherwise stated)

Note 5 Placements with the central bank

The Group 31 December 2017	The Group 31 December 2016		The Bank 31 December 2017	The Bank 31 December 2016
1,943	1,894	Compulsory reserve with the central bank	1,943	1,894
27,099	19,164	Correspondent account with the central bank	27,099	19,164
29,042	**21,058**	**Placements with the central bank**	**29,042**	**21,058**

The Bank is being charged for holding compulsory reserves, i.e. for the whole amount of the compulsory reserves applying the European Central Bank's (ECB) main refinance operations interest rate. Moreover, the central bank of Lithuania calculates the interest amount for funds which exceed the amount of the compulsory reserves, applying the European Central Bank's (ECB) interest rate for using the deposit facility.

Note 6 Placements with banks and other credit institutions

The Group 31 December 2017	The Group 31 December 2016		The Bank 31 December 2017	The Bank 31 December 2016
6,929	7,530	Current accounts with correspondent banks	6,886	7,529
4,610	4,453	Term deposits	4,610	4,453
11,539	**11,983**	**Placements with banks and other credit institutions**	**11,496**	**11,982**

As at 31 December 2017, the Group and the Bank have pledged term deposits with the carrying amount of EUR 1,208 thousand for the possibility to perform FX transactions while as at 31 December 2016 EUR 1,200 thousand were pledged for the possibility to perform FX transactions.

As at 31 December 2017, the Group and the Bank have pledged term deposits with the carrying amount of EUR 66 thousand for an issued guarantee.

Note 7 Financial assets at fair value through profit or loss

The Group and the Bank

The Group 31 December 2017	The Group 31 December 2016		The Bank 31 December 2017	The Bank 31 December 2016
-	814	Government bonds of the Republic of Lithuania	-	814
-	531	Financial institution bonds	-	531
-	192	Non-financial company bonds	-	192
-	1,147	Government bonds of the Republic of Bulgaria	-	1,147
-	285	Government bonds of the Kingdom of Spain	-	285
-	1,216	Government bonds of the Republic of Latvia	-	1,216
-	997	Government bonds of the Republic of Slovenia	-	997
-	113	Government bonds of the Republic of Turkey	-	113
-	2,468	Government bonds of the Republic of Hungary	-	2,468
-	**7,763**	**Debt securities at fair value**	**-**	**7,763**

As at 31 December 2017 the Group and the Bank had no debt securities recognised at fair value through profit or loss. The debt securities were sold in 2017.

(All amounts in EUR thousand unless otherwise stated)

Note 7 Financial assets at fair value through profit or loss (cont'd)

Coupon rates and maturities of the debt securities are as follows:

	2017		2016	
	%	Maturity	%	Maturity
Government bonds of the Republic of Lithuania	-	-	0.60	2019
Financial institution bonds	-	-	3.25–4.25	2018
Non-financial company bonds	-	-	1.5	2017
Government bonds of the Republic of Bulgaria	-	-	4.25	2017
Government bonds of the Kingdom of Spain	-	-	4.60	2019
Government bonds of the Republic of Latvia	-	-	5.25	2017–2020
Government bonds of the Republic of Slovenia	-	-	4.75	2018
Government bonds of the Republic of Turkey	-	-	5.88	2019
Government bonds of the Republic of Hungary	-	-	4.13–5.75	2018

Note 8 Held-to-maturity investments

Held-to-maturity investments are as follows:

The Group			The Bank	
31 December 2017	31 December 2016		31 December 2017	31 December 2016
18,017	17,998	Government bonds of the Republic of Lithuania	18,017	17,998
-	-	Bank bonds	-	-
1,220	829	Non-financial company bonds	1,220	829
-	521	Government bonds of the Republic of Bulgaria	-	521
1,600	1,087	Government bonds of the Republic of Iceland	1,600	1,087
1,869	1,006	Government bonds of the Kingdom of Spain	1,869	1,006
1,943	-	Government bonds of the Republic of Belgium	1,943	-
1,058	1,115	Government bonds of the Republic of Croatia	1,058	1,115
1,003	3,921	Government bonds of the Republic of Latvia	1,003	3,921
2,127	2,163	Government bonds of the Republic of Poland	2,127	2,163
2,075	2,109	Government bonds of the Republic of Romania	2,075	2,109
2,565	-	Government bonds of the Republic of Slovenia	2,565	-
3,347	960	Government bonds of the Republic of Sweden	3,347	960
1,668	-	Government bonds of the Republic of Finland	1,668	-
-	510	Government bonds of the Republic of Turkey	-	510
1,368	1,441	Government bonds of the Republic of Hungary	1,368	1,441
39,860	**33,660**	**Held-to-maturity investments**	**39,860**	**33,660**

As at 31 December 2017, the Group and the Bank had held-to-maturity debt securities held as collateral amounting to EUR 8,188 thousand (EUR 6,633 thousand as at 31 December 2016) to secure the repurchase agreement under targeted longer-term refinancing operations provided by ECB.

(All amounts in EUR thousand unless otherwise stated)

Note 8 Held-to-maturity investments (continued)

Coupon rates and maturities of held-to-maturity investments are as follows:

	2017		2016	
	%	Maturity	%	Maturity
Government bonds of the Republic of Lithuania	0.3–5.5	2018–2024	1.50–5.50	2017–2024
Bank bonds	-	-	-	-
Non-financial company bonds	1.25–4.5	2018–2020	4.25–4.50	2018–2020
Government bonds of the Republic of Bulgaria	-	-	4.25	2017
Government bonds of the Republic of Iceland	2.5	2020	2.5	2020
Government bonds of the Republic of Belgium	1.125–1.5	2018		
Government bonds of the Kingdom of Spain	0.25–4.00	2018–2019	0.25	2019
Government bonds of the Republic of Croatia	5.875	2018	5.88	2018
Government bonds of the Republic of Latvia	0.25	2018	5.25	2017
Government bonds of the Republic of Poland	0.875–4.00	2019–2021	0.88–4.00	2019–2021
Government bonds of the Republic of Slovenia	4.125–4.75	2018–2019		
Government bonds of the Republic of Romania	2.75–4.625	2020–2025	2.75–4.63	2020–2025
Government bonds of the Republic of Swedish	0.875–1.00	2018	0.88	2018
Government bonds of the Republic of Finland	1.00	2018		
Government bonds of the Republic of Turkey	-	-	7.5	2017
Government bonds of the Republic of Hungary	5.75–6	2018–2019	5.75–6.00	2018–2019

Note 9 Loans and receivables

Loans to customers and receivables comprise:

	The Bank	
	31 December 2017	31 December 2016
Loans to customers, including short-term bills of exchange	152,518	134,797
Receivable with deferred payment	2,661	2,673
Overdrafts	1,348	1,683
Factoring	759	173
Leasing	11,874	10,613
	169,160	**149,939**
Less: individual impairment	(5,461)	(5,006)
Less: collective impairment	(245)	(394)
Loans and receivables, net	**163,454**	**144,539**

	The Group	
	31 December 2017	31 December 2016
Loans to customers, including short-term bills of exchange	152,523	134,818
Receivable with deferred payment	2,927	3,973
Overdrafts	1,348	1,683
Factoring	759	173
Leasing	11,874	10,613
	169,431	**151,260**
Less: individual impairment	(5,506)	(5,275)
Less: collective impairment	(247)	(394)
Loans and receivables, net	**163,678**	**145,591**

(All amounts in EUR thousand unless otherwise stated)

Note 9 Loans and receivables (cont'd)

On 15 September 2017, the Bank and the Group have purchased the loan portfolio of private persons with the nominal value of EUR 27,396 thousand and net discount of EUR 9,179 thousand. The acquisition value of the acquired portfolio amounted to EUR 18,295 thousand, considering directly attributable transaction cost of the financial asset. The gain of EUR 222 thousand was recognised from the above acquisition.

As at 31 December 2017, the Group and the Bank had a concentration of loans within the loan portfolio represented by loans issued to 10 major clients, the amount of which was EUR 29,522 thousand or 18.06% of the Group's net loan portfolios (EUR 29,431 thousand or 20.10% in 2016). As at 31 December 2017, the total impairment of these loans issued to 10 major clients in the Bank and in the Group amounted to EUR 42 thousand (EUR 34 thousand as at 31 December 2016).

Receivable with deferred payment includes the Bank's or the Group's receivables under instalment sale contracts of investment property or sale agreements of creditor's claims of the Bank. Under those sale agreements a buyer usually pays the Bank or the Group initial payment which is at least 10 percent of contractual amount and repays the rest amount of debt at the end of the contract and accrued interest on a regular basis according to the terms and conditions of sale contract. Management of credit risk derived from receivables with deferred payment complies with the general credit risk management principles described in Note 34 and credit risk exposure is mitigated using mortgage of real estate or pledge of creditor claims.

The movements in impairment of loans and receivables were as follows:

	The Bank		
	Corporate loans	**Individuals loans**	**Impairment total**
As at 31 December 2016	**4,419**	**981**	**5,400**
Individual impairment	**4,047**	**959**	**5,006**
Loans and receivables	4,038	959	4,997
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	9	-	9
Collective impairment	**372**	**22**	**394**
Loans and receivables	336	20	356
Loans to banks	-	-	-
Loans to financial institutions	6	-	6
Receivables from leasing	30	2	32
Impairment charged to profit or loss (Note 28)	**1,718**	**796**	**2,514**
Loans and receivables	1,670	795	2,465
Loans to banks	2	-	2
Loans to financial institutions	14	-	14
Receivables from leasing	32	1	33
Reversal of impairment charged to profit or loss (Note 28)	**(1,517)**	**(270)**	**(1,787)**
Loans and receivables	(1,460)	(268)	(1,728)
Loans to banks	(2)	-	(2)
Loans to financial institutions	(18)	-	(18)
Receivables from leasing	(37)	(2)	(39)
Write-offs	**(275)**	**(146)**	**(421)**
Loans and receivables	(275)	(146)	(421)
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	-	-	-
As at 31 December 2017	**4,345**	**1,361**	**5,706**
Individual impairment	**4,152**	**1,309**	**5,461**
Loans and receivables	4,135	1,309	5,444
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	17	-	17
Collective impairment	**193**	**52**	**245**
Loans and receivables	174	51	225
Loans to banks	-	-	-
Loans to financial institutions	2	-	2
Receivables from leasing	17	1	18

(All amounts in EUR thousand unless otherwise stated)

Note 9 Loans and receivables (cont'd)

	The Group		
	Corporate loans	Individuals loans	Impairment total
As at 31 December 2016	**4,688**	**981**	**5,669**
Individual impairment	**4,316**	**959**	**5,275**
Loans and receivables	4,307	959	5,266
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	9	-	9
Collective impairment	**372**	**22**	**394**
Loans and receivables	336	20	356
Loans to banks	-	-	-
Loans to financial institutions	6	-	6
Receivables from leasing	30	2	32
Impairment charged to profit or loss (Note 28)	**1,718**	**843**	**2,561**
Loans and receivables	1,670	842	2,512
Loans to banks	2	-	2
Loans to financial institutions	14	-	14
Receivables from leasing	32	1	33
Reversal of impairment charged to profit or loss (Note 28)	**(1,517)**	**(270)**	**(1,787)**
Loans and receivables	(1,460)	(268)	(1,728)
Loans to banks	(2)	-	(2)
Loans to financial institutions	(18)	-	(18)
Receivables from leasing	(37)	(2)	(39)
Write-offs	**(544)**	**(146)**	**(690)**
Loans and receivables	(544)	(146)	(690)
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	-	-	-
As at 31 December 2017	**4,345**	**1,408**	**5,753**
Individual impairment	**4,152**	**1,354**	**5,506**
Loans and receivables	4,135	1,354	5,489
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	17	-	17
Collective impairment	**193**	**54**	**247**
Loans and receivables	174	53	227
Loans to banks	-	-	-
Loans to financial institutions	2	-	2
Receivables from leasing	17	1	18

(All amounts in EUR thousand unless otherwise stated)

Note 9 Loans and receivables (cont'd)

	The Bank		
	Corporate loans	**Individuals loans**	**Impairment total**
As at 31 December 2015	**5,263**	**1,754**	**7,017**
Individual impairment	**4,918**	**1,731**	**6,649**
Loans and receivables	4,916	1,731	6,647
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	2	-	2
Collective impairment	**345**	**23**	**368**
Loans and receivables	300	22	322
Loans to banks	-	-	-
Loans to financial institutions	12	-	12
Receivables from leasing	33	1	34
Impairment charged to profit or loss (Note 28)	**3,400**	**741**	**4,141**
Loans and receivables	3,361	740	4,101
Loans to banks	-	-	-
Loans to financial institutions	1	-	1
Receivables from leasing	38	1	39
Reversal of impairment charged to profit or loss (Note 28)	**(1,559)**	**(269)**	**(1,828)**
Loans and receivables	(1,518)	(269)	(1,787)
Loans to banks	-	-	-
Loans to financial institutions	(7)	-	(7)
Receivables from leasing	(34)	-	(34)
Write-offs	**(2,685)**	**(1,245)**	**(3,930)**
Loans and receivables	(2,685)	(1,245)	(3,930)
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	-	-	0
As at 31 December 2016	**4,419**	**981**	**5,400**
Individual impairment	**4,047**	**959**	**5,006**
Loans and receivables	4,038	959	4,997
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	9	-	9
Collective impairment	**372**	**22**	**394**
Loans and receivables	336	20	356
Loans to banks	-	-	-
Loans to financial institutions	6	-	6
Receivables from leasing	30	2	32

(All amounts in EUR thousand unless otherwise stated)

Note 9 Loans and receivables (cont'd)

	The Group		
	Corporate loans	Individuals loans	Impairment total
As at 31 December 2015	**5,263**	**1,754**	**7,017**
Individual impairment	**4,918**	**1,731**	**6,649**
Loans and receivables	4,916	1,731	6,647
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	2	-	2
Collective impairment	**345**	**23**	**368**
Loans and receivables	300	22	322
Loans to banks	-	-	-
Loans to financial institutions	12	-	12
Receivables from leasing	33	1	34
Impairment charged to profit or loss (Note 28)	**3,669**	**741**	**4,410**
Loans and receivables	3,630	740	4,370
Loans to banks	-	-	-
Loans to financial institutions	1	-	1
Receivables from leasing	38	1	39
Reversal of impairment charged to profit or loss (Note 28)	**(1,559)**	**(269)**	**(1,828)**
Loans and receivables	(1,518)	(269)	(1,787)
Loans to banks	-	-	-
Loans to financial institutions	(7)	-	(7)
Receivables from leasing	(34)	-	(34)
Write-offs	**(2,685)**	**(1,245)**	**(3,930)**
Loans and receivables	(2,685)	(1,245)	(3,930)
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	-	-	-
As at 31 December 2016	**4,688**	**981**	**5,669**
Individual impairment	**4,316**	**959**	**5,275**
Loans and receivables	4,307	959	5,266
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	9	-	9
Collective impairment	**372**	**22**	**394**
Loans and receivables	336	20	356
Loans to banks	-	-	-
Loans to financial institutions	6	-	6
Receivables from leasing	30	2	32

In 2014, the Bank started to apply partial write-offs. Partial write-off is applied only for the defaulted clients, if there is no evidence that full or partial Bank claim (principal, accrued interest and other charges) towards the client will be satisfied (e.g. the client has entered bankruptcy, or the Bank has initiated a legal procedure and there is not enough collateral and no expected cash flow or any other property to fully cover part of the claim).

As at 31 December 2017, the outstanding amount of loans written-off in the Bank amounted to EUR 18.6 million (EUR 39.6 million as at 31 December 2016). During 2017, the income received from the written-off loans amounted to EUR 533 thousand (amounted to EUR 810 thousand during 2016), EUR 142 thousand have been received for sold written-off loan portfolio which amounted to EUR 17 million nominal value.

The impairment calculation policy is disclosed in the Note 34.

(All amounts in EUR thousand unless otherwise stated)

Note 10 Property and equipment

The movements in property and equipment were as follows:

The Bank

	Land, buildings and other real estate	Vehicles	Office equipment and other	Total
Acquisition cost or revalued amounts				
Balance as at 31 December 2016	**3,992**	**546**	**2,378**	**6,916**
Additions (reconstruction)	1,269	211	349	1,829
Disposals and write-offs	(499)	(12)	(414)	(925)
Balance as at 31 December 2017	**4,762**	**745**	**2,313**	**7,820**
Accumulated depreciation and impairment losses				
Balance as at 31 December 2016	**441**	**157**	**1,929**	**2,527**
Depreciation for the year	54	107	221	382
Disposals and write-offs	(16)	(5)	(406)	(427)
Balance as at 31 December 2017	**479**	**259**	**1,744**	**2,482**
Net book value				
As at 31 December 2016	**3,551**	**389**	**449**	**4,389**
As at 31 December 2017	**4,283**	**486**	**569**	**5,338**

The Group

	Land, buildings and other real estate	Vehicles	Office equipment and other	Total
Acquisition cost or revalued amounts				
Balance as at 31 December 2016	**3,992**	**546**	**2,378**	**6,916**
Additions (reconstruction)	1,269	211	354	1,834
Disposals and write-offs	(499)	(12)	(414)	(925)
Balance as at 31 December 2017	**4,762**	**745**	**2,318**	**7,825**
Accumulated depreciation and impairment losses				
Balance as at 31 December 2016	**441**	**157**	**1,929**	**2,527**
Depreciation for the year	54	107	221	382
Disposals and write-offs	(16)	(5)	(406)	(427)
Balance as at 31 December 2017	**479**	**259**	**1,744**	**2,482**
Net book value				
As at 31 December 2016	**3,551**	**389**	**449**	**4,389**
As at 31 December 2017	**4,283**	**486**	**574**	**5,343**

(All amounts in EUR thousand unless otherwise stated)

Note 10 Property and equipment (cont'd)

The Bank (Group)

	Land, buildings and other real estate	Vehicles	Office equipment and other	Total
Acquisition cost or revalued amounts				
Balance as at 31 December 2015	**3,749**	**330**	**2,396**	**6,475**
Additions	243	307	194	744
Disposals and write-offs	-	(91)	(212)	(303)
Balance as at 31 December 2016	**3,992**	**546**	**2,378**	**6,916**
Accumulated depreciation and impairment losses				
Balance as at 31 December 2015	**397**	**168**	**1,922**	**2,487**
Depreciation for the year	44	61	207	312
Disposals and write-offs	-	(72)	(200)	(272)
Balance as at 31 December 2016	**441**	**157**	**1,929**	**2,527**
Net book value				
As at 31 December 2015	**3,352**	**162**	**474**	**3,988**
As at 31 December 2016	**3,551**	**389**	**449**	**4,389**

As at 31 December 2017 and 2016, the Bank and the Group did not have property and equipment purchased under finance lease agreements.

As at 31 December 2016 and 2017, the owner occupied buildings of the Group and the Bank are accounted for at the revalued amounts. The Bank renovated a part of the premises and made the valuation of the entire building in 2016 on the basis of the comparative method. The value according to the valuation report approximates the net book value of the building; therefore, there was no impact recorded due to the recent valuation. Had the buildings been booked at historical costs, the carrying amount of buildings of the Group and the Bank as at 31 December 2017 would be EUR 3,676 thousand (EUR 2,896 thousand as at 31 December 2016).

The following table shows the valuation technique used in measuring the fair value of property, as well as the significant unobservable inputs used:

Type	Valuation technique
Buildings and land with the carrying amount of EUR 4,283 thousand located in Vilnius, Kaunas and Klaipėda.	Every five years an independent valuator evaluates real estate owned by the Bank. Last evaluations for Klaipėda buildings were made in 2018 and for Vilnius and Kaunas building in 2017 by using different valuation techniques: the comparative method and the income method. The fair value was based on the results of comparable sales of similar buildings and land.

(All amounts in EUR thousand unless otherwise stated)

Note 11 Intangible assets

The movements in intangible assets were as follows:

	The Bank	The Group
	Software	**Software**
Acquisition cost		
Balance as at 31 December 2016	**1,959**	**1,959**
Additions	49	80
Disposals and write-offs	(6)	(6)
Balance as at 31 December 2017	**2,002**	**2,033**
Accumulated amortisation		
Balance as at 31 December 2016	**1,576**	**1,576**
Charges for the year	190	200
Disposals and write-offs	(7)	(7)
Balance as at 31 December 2017	**1,759**	**1,769**
Net book value		
As at 31 December 2016	**383**	**383**
As at 31 December 2017	**243**	**264**

	The Bank	The Group
	Software	**Software**
Acquisition cost		
Balance as at 31 December 2015	**1,669**	**1,669**
Additions	292	292
Disposals and write-offs	(2)	(2)
Balance as at 31 December 2016	**1,959**	**1,959**
Accumulated amortisation		
Balance as at 31 December 2015	**1,393**	**1,393**
Charges for the year	184	184
Disposals and write-offs	(1)	(1)
Balance as at 31 December 2016	**1,576**	**1,576**
Net book value		
As at 31 December 2015	**276**	**276**
As at 31 December 2016	**383**	**383**

As at 31 December 2017 and 2016, the Bank and the Group did not have any intangible assets acquired under finance lease agreements.

(All amounts in EUR thousand unless otherwise stated)

Note 12 Investment property

	The Bank 2017	The Bank 2016
Balance at the beginning of year	**913**	**1,200**
Additions	1,070	395
Disposals	(568)	(572)
Changes in fair value	(45)	(110)
Balance at the end of year	**1,370**	**913**

	The Group 2017	The Group 2016
Balance at the beginning of year	**8,354**	**11,192**
Additions	1,871	2,329
Disposals	(3,332)	(3,669)
Changes in fair value	(680)	(1,498)
Balance at the end of year	**6,213**	**8,354**

The Bank's and the Group's additions to the investment property represent the assets taken over for impaired loans. This is not a cash flow transaction; therefore, the acquisitions to the investment property by the Bank and the Group are zero in the Separate and Consolidated Cash Flow Statements. Some items of the investment property were sold by issuing a new loan to the acquirer; therefore, the disposal proceeds were decreased by EUR 250 thousand in the cash flow statement of the Bank and by EUR 976 thousand in the cash flow statement of the Group.

The fair value of investment properties owned by subsidiaries as at December 31:

	2017	2016
UAB MB Turtas	401	1,320
UAB MB Valda	831	1,144
UAB MB Investicija	554	849
UAB TG Invest-1	2,470	3,542
SIA Nida Capital	586	586
Total	**4,842**	**7,441**

Investment property consists of repossessed assets for defaulted loans. The fair value of investment properties has been determined using valuation reports prepared by external valuators. In addition, the management of the Bank decided to use adjustment coefficients varying as at 31 December 2017 from 0.72 to 0.98 (0.64 to 0.99 as at 31 December 2016), depending on the type of investment property, taking into consideration the liquidity of the asset, VAT risks, costs and other factors:

	2017			2016		
Type of investment property	**Fair value as to valuation reports**	**Adjustment coefficient**	**Adjusted fair value**	**Fair value as to valuation reports**	**Adjustment coefficient**	**Adjusted fair value**
Buildings	3,315		2,843	5,032		4,184
Land plots	4,501		3,369	4,985		4,130
Other	1		1	63		40
Total	**7,817**	0.79	**6,213**	**10,080**	0.83	**8,354**

Note 12 Investment property (cont'd)

During 2017 the Group engaged independent valuation specialists to revaluate the investment property which had been evaluated as early as 4 years ago according to the requirements of the Group's accounting policy. Independent valuations of the Investment property or Consultation regarding expected price were obtained from independent valuators. Repeated valuations of property at net values for each relevant year were the following:

- EUR 4,991 thousand or 80.34% of the investment property in 2017;
- EUR 1,004 thousand or 16.16% in 2016;
- EUR 129 thousand or 2.07% in 2015;
- EUR 89 thousand or 1.44% in 2014.

The Group recognised EUR 680 thousand fair value decrease of investment property in 2017 (EUR 1,498 thousand in 2016).

The price range of land plots, buildings and equipment used in determining the fair value according to their purpose were as follows:

2017 The Bank

Land plots	Price range per are, in EUR thousand
Agricultural	0.01–0.42
Residential	7.45
Other	0.63

Buildings	Price range per sq. m., in EUR thousand
Commercial	0.04–1.18
Residential	0.32–9.92
Other	0.11

2017 The Group

Land plots	Price range per are, in EUR thousand
Agricultural	0.01–0.67
Forestry	0.04
Residential	0.02–7.45
Other	0.01–16.20

Buildings	Price range per sq. m., in EUR thousand
Commercial	0.04–1.18
Residential	0.03–9.92
Outbuildings	0.06
Other	0.11

Note 12 Investment property (cont'd)

2016 The Bank

Land plots	Price range per are, in EUR thousand
Agricultural	0.01–0.11
Forestry	7.45
Other	0.93

Buildings	Price range per sq. m., in EUR thousand
Commercial	0.13
Residential	0.33–1.36
Other	0.11

Other	Price range per unit, in EUR thousand
Other assets	4.18

2016 The Group

Land plots	Price range per are, in EUR thousand
Agricultural	0.01–0.67
Forestry	0.04
Residential	0.04–7.45
Other	0.01–16.20

Buildings	Price range per sq. m., in EUR thousand
Commercial	0.06–1.26
Residential	0.02–1.60
Outbuildings	0.06
Other	0.11

Investment properties are based on the fair value, which is determined based on valuation performed by independent valuators by using comparative value, discounted cash flows from rental or other income and cost approach to valuation methods. Comparative value method is used to determine the market value of comparable properties with similar transaction prices or offer price, taking into account the differences between the object and comparable assets. The use of this method is based on the principle of replacement by the other assets. Discounted cash flows technique: the model is based on expected discounted cash flows from rental or other income. Cost approach to valuation technique: it is a method of appraising property based on the depreciated reproduction or replacement cost (new) of similar assets, plus the market value of the site.

Applying the comparative value method, property assessor must collect and analyse more data on events in the area of similar items for sale and purchase transactions, as well as the proposed sale of similar items. If the property assessor has insufficient information about similar objects (analogue) in the area, he must explore comparable analogues in other areas of comparable facilities and to clarify the difference. In order to calculate the adjustments, there is a need to compare the data and to clarify correction factors: the time correction factor, the size of the area correction factor, correction factor for the financial conditions, other correction factors, expressing the differences of physical and terms of use conditions.

The fair value of investment property was determined by external, independent property valuators, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuators provide the fair value of the Group's investment property portfolio every 3 years. As at 31 December 2017, the Group had investment property in the amount of EUR 89 thousand that was revalued more than 3 years ago.

As mentioned above, in addition to external valuations, the management of the Bank decided to use adjustment coefficients depending on the type of investment property taking into consideration liquidity of the asset, VAT risks, costs and other factors.

(All amounts in EUR thousand unless otherwise stated)

Note 12 Investment property (cont'd)

The fair value measurement for investment property of EUR 6,213 thousand has been categorised as a Level 3 in the fair value hierarchy. The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used:

Type		Valuation technique
Commercial properties of EUR 1,439 thousand	Of EUR 312 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar buildings.
	Of EUR 373 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar buildings as well as income method applying capitalization calculation manner.
	Of EUR 521 thousand	Income method (discounted cash flow method).
	Of EUR 9 thousand	Expenses method.
	Of EUR 224 thousand	Comparative value technique and the expenses method.
Outbuildings of EUR 223 thousand	Of EUR 223 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar buildings.
Residential properties of EUR 1,179 thousand	Of EUR 1,179 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar buildings.
Other properties of EUR 2 thousand	Of EUR 2 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar buildings.
Agricultural land plots of EUR 971 thousand	Of EUR 971 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar land plots.
Forestry land plots of EUR 14 thousand	Of EUR 14 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar land plots.
Residential land plots of EUR 1,980 thousand	Of EUR 1,980 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar land plots.
Other land plots of EUR 405 thousand	Of EUR 405 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar land plots.

(All amounts in EUR thousand unless otherwise stated)

Note 13 Investment in subsidiaries

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

In 2017, the operating result of subsidiaries was a loss of EUR 1,440 thousand (loss of EUR 1,396 thousand in 2016), which was mainly affected by the loss of EUR 918 thousand (EUR 1,063 thousand in 2016) from the sale and the revaluation of the repossessed assets.

	The Bank 2017	The Bank 2016
Balance at the beginning of the year	**14,494**	**16,105**
Additions	764	-
Disposal (nominal value)	(13,056)	-
Reversal of impairment of the disposed assets	5,377	-
Additional impairment of investment in subsidiaries	(1,140)	(1,611)
	(8,055)	**(1,611)**
Balance at the end of the year	**6,439**	**14,494**

During 2017 the Bank transferred an additional contribution of EUR 731 thousand (in cash) to form legal reserves of the subsidiaries. Furthermore, the subsidiary UAB Saugus Kreditas was acquired in October 2017, as disclosed below.

In 2017 the Bank disposed a part of the shares in certain subsidiaries to other subsidiaries for the agreed price based on the adjusted net asset method which is applied to evaluate the fair value of subsidiaries. The shares were disposed for EUR 7,650 thousand (in cash), the net financial impact through profit and loss is a realised loss of EUR 29 thousand. The subsidiaries are partly owned directly and partly indirectly. There was no disposal of shares outside the Group.

Balance as at 31 December 2017	**Ownership (%)**	**Direct ownership (%)**	**Nominal amount**	**Impairment**	**Carrying value**
UAB MB Turtas	100	22.46	753	(304)	449
UAB MB Valda	100	32.52	1,150	(116)	1,034
UAB MB Investicija	100	47.94	1,481	(150)	1,331
UAB TG Invest-1	100	73.22	3,567	(527)	3,040
SIA Nida capital	100	100	850	(298)	552
UAB Saugus Kreditas	100	100	64	(31)	33
Total			**7,865**	**(1,426)**	**6,439**
Balance as at 31 December 2016	**Ownership (%)**	**Direct ownership (%)**	**Nominal amount**	**Impairment**	**Carrying value**
UAB MB Turtas	100	100	5,489	(2,326)	3,163
UAB MB Valda	100	100	5,127	(1,787)	3,340
UAB MB Investicija	100	100	5,792	(2,789)	3,003
UAB TG Invest-1	100	100	5,792	(1,393)	4,399
SIA Nida Capital	100	100	850	(261)	589
Total			**23,050**	**(8,556)**	**14,494**

Fair value evaluation of investment in subsidiaries

The Bank tests investments in its subsidiaries for impairment when impairment indicators are identified. The Bank applies the adjusted net asset method for evaluation of the fair value of its subsidiaries. The value of the investment property owned by subsidiaries and specified in external valuation reports is adjusted by a certain coefficient defined by the management of the Bank depending on the type of the investment property and associated risks (see Note 12).

Adjustments are recorded when estimation of the fair value of investment in subsidiaries indicates impairment of the Bank's investment.

Acquisition of subsidiaries

On 17/10/2017 the Group acquired UAB Saugus Kreditas.

(All amounts in EUR thousand unless otherwise stated)

Note 13 Investment in subsidiaries (cont'd)

The following is the information on fair values for 2017 at the moment of acquisition and the resulting goodwill:

Percentage ownership interest	100%
Date of purchase	17/10/2017
Acquired assets and liabilities:	
Non-current assets	35
Current assets	235
Non-current liabilities	(185)
Current liabilities	(21)
Net assets	**64**
Share acquired	**64**
Consideration transferred	**(33)**
Goodwill	**31**
Written off to other operating expenses	**31**

The fair value of non-current assets was established based on the market prices of similar assets and the recoverable amount of such assets.

Cash paid for acquired subsidiaries consisted of the following:

Paid for the shares:	(33)
Cash at the moment of acquisition	10
Set-off amount payable to the shareholder	(197)
Cash received (paid) at the moment of acquisition	**(220)**

Note 14 Other assets

Other assets comprise:

The Group			The Bank	
31 December 2017	**31 December 2016**		**31 December 2017**	**31 December 2016**
2,006	1,997	Prepayments	1,997	1,979
484	276	Receivables from customers	223	126
80	-	Receivable value added tax	56	-
108	104	Deferred expenses	108	102
-	159	Cash (litas coins and banknotes)	-	159
209	82	Other	183	81
2,887	2,618		2,567	2,447
(38)	(46)	Less: impairment for losses from receivables	(38)	(46)
2,849	**2,572**	**Other assets**	**2,529**	**2,401**

(All amounts in EUR thousand unless otherwise stated)

Note 15 Derivative financial instruments

The Bank and the Group

31 December 2017	Notional amount Purchase	Fair value Assets	Fair value Liabilities
Foreign exchange forwards (EUR)	7,321	7	19
Foreign exchange swaps (EUR)	2,100	-	12
Foreign exchange swaps (DKK)	202	-	-
		7	**31**

The Bank and the Group

31 December 2016	Notional amount Purchase	Fair value Assets	Fair value Liabilities
Foreign exchange forwards (EUR)	7,270	28	12
Foreign exchange swaps (EUR)	1,834	2	7
		30	**19**

As at 31 December 2017, the Group and the Bank have pledged term deposits with the carrying amount of EUR 1,209 thousand (EUR 1,200 thousand as at 31 December 2016) for the foreign exchange forward agreements.

Bank uses FX forwards and FX swaps as hedge instruments, without applying the hedge account technique.

The Group 2017	The Group 2016		The Bank 2017	The Bank 2016
44	(69)	Realised result from swaps	44	(69)
80	284	Realised result from foreign exchange forwards	80	284
(12)	(6)	Unrealised result from swaps	(12)	(6)
(12)	17	Unrealised result from foreign exchange forwards	(12)	17
100	**226**	**Net gain (loss) from operations with derivative financial instruments**	**100**	**226**

Note 16 Due to banks and other credit institutions

The Group 31 December 2017	The Group 31 December 2016		The Bank 31 December 2017	The Bank 31 December 2016
-	4	Term deposits	-	4
3,000	3,000	Deposits CB (ECB Open market operations)	3,000	3,000
600	1,431	Current accounts and overnight deposits	600	1,431
3,600	**4,435**	**Amounts due to banks and other credit institutions**	**3,600**	**4,435**

As at 31 December 2017, interest rates on amounts due to banks and other credit institutions were 0% (from 0.05% to 0.5% as at 31 December 2016).

(All amounts in EUR thousand unless otherwise stated)

Note 16 Due to banks and other credit institutions (cont'd)

Break-down by maturities and contractual interest rates of the amounts due to banks and other credit institutions:

Country	Currency of issue	Maturity	Interest rate	31 December 2017 The Bank	31 December 2017 The Group
Lithuania	EUR	-	0.00	600	600
Lithuania	EUR	-	0.00	-	-
Lithuania	EUR	2020	0.00	3,000	3,000
Total				**3,600**	**3,600**

Country	Currency of issue	Maturity	Interest rate	31 December 2016 The Bank	31 December 2016 The Group
Lithuania	EUR	-	0.00	1,431	1,431
Lithuania	EUR	2017	0.6	4	4
Lithuania	EUR	2020	0.00	3,000	3,000
Total				**4,435**	**4,435**

Interest rate related with liabilities to EUR 3,000 thousand agreement are under conditions and will depend on lending history of the Bank therefore the cost of this liability may vary from 0 to 0.4 negative percent (this year 0 percent).

As at 31 December 2017, the loan of EUR 3,000 thousand was received based on the repurchase agreement under targeted longer-term refinancing operations provided by ECB. Securities amounting to EUR 8,188 thousand (31 December 2016: EUR 6,633 thousand) and loans receivable amounting to EUR 1,368 thousand (31 December 2016: EUR 1,368 thousand) were held to secure the loan from targeted longer-term refinancing operations (Note 8 and Note 9).

Note 17 Due to customers

Amounts due to customers comprise:

The Group 31 December 2017	The Group 31 December 2016		The Bank 31 December 2017	The Bank 31 December 2016
165,306	153,414	Term deposits	165,306	153,414
77,025	69,367	Current accounts	78,090	75,260
		Lending funds		
9,426	3,682	UAB Investicijų ir Verslo Garantijos	9,426	3,682
98	346	Rural Credit Guarantee Fund (UAB Žemės Ūkio Paskolų Garantijų Fondas)	98	346
251,855	**226,809**	**Amounts due to customers**	**252,920**	**232,702**
13,997	**12,416**	**Out of which held as security against guarantees and loans**	**13,997**	**12,416**

As at 31 December 2017, amounts due to ten largest customers of the Bank amounted to EUR 20,566 thousand or 8.13% of the Bank's deposit holders (EUR 14,797 thousand or 6.36% in 2016).

(All amounts in EUR thousand unless otherwise stated)

Note 17 Due to customers (cont'd)

Amounts due to customers include accounts with the following types of customers:

The Group			The Bank	
31 December 2017	31 December 2016		31 December 2017	31 December 2016
179,604	172,403	Individuals	179,604	172,403
51,915	45,408	Corporate enterprises	52,980	51,301
6,881	1,846	Financial institutions	6,881	1,846
13,455	7,152	Government departments and state owned enterprises	13,455	7,152
251,855	**226,809**	**Amounts due to customers**	**252,920**	**232,702**

An analysis of customer accounts by sector is as follows:

The Group			The Bank	
31 December 2017	31 December 2016		31 December 2017	31 December 2016
179,604	172,403	Individuals	179,604	172,403
14,244	5,148	Insurance and other financial services	14,244	5,148
13,082	5,645	Transport and communication	13,082	5,645
12,024	14,614	Trade	12,024	14,614
6,560	6,066	Agriculture	6,560	6,066
5,203	6,905	Real estate and construction	6,268	12,798
3,916	1,755	Water supply, waste management	3,916	1,755
2,936	3,186	Manufacturing	2,936	3,186
2,833	1,350	Professional, scientific and technical activities	2,833	1,350
2,161	1,134	Administrative and support service activities	2,161	1,134
2,060	2,153	Public administration and defence, compulsory social security	2,060	2,153
1,022	952	Energy	1,022	952
6,210	5,498	Other	6,210	5,498
251,855	**226,809**	**Amounts due to customers**	**252,920**	**232,702**

Note 18 Subordinated loans (the Bank)

Subordinated loans

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

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

Debt securities issued

As at 31 December 2017 and 2016, the Bank and the Group had no bonds issued.

(All amounts in EUR thousand unless otherwise stated)

Note 19 Other liabilities

Other liabilities comprise:

The Group			The Bank	
31 December 2017	31 December 2016		31 December 2017	31 December 2016
510	483	Accrued payments to employees	510	483
30	-	Prepayments (advance payments)	-	-
142	189	Accrued expenses	130	189
158	134	Deferred income	158	134
184	152	Fee payable to the State Social Insurance Board	184	152
30	-	Payable to the Latvian Road Transport Administration	30	-
204	211	Other	140	145
1,258	**1,169**	**Other liabilities**	**1,152**	**1,103**

Note 20 Shareholders' equity

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

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

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

The Group			The Bank	
31 December 2017	31 December 2016		31 December 2017	31 December 2016
2,528	2,528	Special reserve to cover possible losses	2,528	2,528
141	87	Legal reserve	141	87
3,657	2,628	Reserve capital	3,657	2,628
6,326	**5,243**	**Total other reserves**	**6,326**	**5,243**

Nature and purpose of reserves

Legal reserve

The Bank's legal reserve amounted to EUR 141 thousand as at 31 December 2017 (EUR 87 thousand as at 31 December 2016). A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profit are compulsory until the reserve reaches 10% of the share capital. The legal reserve can be used to cover the Bank's operating losses and for share capital increase.

Reserve capital

The Bank's and the Group's reserve capital amounting to EUR 2,528 thousand as at 31 December 2017 (EUR 2,628 thousand as at 31 December 2016) is created from additional shareholders' contributions and the profit of the Bank. The purpose of the reserve capital is to guarantee the financial stability of the Bank. The reserve capital can be used to cover the Bank's operating losses and for share capital increase.

Special reserve to cover possible losses

The Bank has created a special reserve to cover possible losses, which could be used to cover future possible losses.

Revaluation reserve of property and equipment

The revaluation reserve of property and equipment is used to record increase in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

(All amounts in EUR thousand unless otherwise stated)

Note 21 Contractual commitments and contingencies

The contractual commitments and contingencies comprise the following:

The Group 31 December 2017	The Group 31 December 2016		The Bank 31 December 2017	The Bank 31 December 2016
		Credit related commitments and guarantees		
8,994	9,746	Credit related commitments	8,994	9,746
763	477	Guarantees	763	477
9,757	**10,223**		**9,757**	**10,223**
(638)	(1,978)	Less: cash held as security against letters of credit and guarantees	(638)	(1,978)
9,119	**8,245**	**Total credit related commitments and guarantees**	**9,119**	**8,245**
		Operating lease commitments		
448	370	Not later than 1 year	437	370
841	481	Later than 1 year but not later than 5 years	841	481
40	32	Later than 5 years	40	32
1,329	**883**	**Total operating lease commitments**	**1,318**	**883**

In 2017 the Bank's and the Group's operating lease expenses (rent of premises) amounted to EUR 756 thousand (EUR 585 thousand in 2016).

Contingent tax liabilities

The tax authorities have not carried out a full-scope tax audit of the Bank for the period from 2011 to 2017. The tax authorities may at any time during 6 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.

The State Tax Inspectorate carried an inspection for the period from 01/01/2012 until 31/12/2013.

Insurance

The Group is a member of the obligatory deposit insurance system. The system operates under the Lithuanian legislation and is governed by State Company Deposit and Investment Insurance (Indėlių ir Investicijų Draudimas VĮ). The insurance covers the Bank's liabilities to natural persons and legal entities for the amount of up to EUR 100,000 for each individual in case of business failure.

(All amounts in EUR thousand unless otherwise stated)

Note 22 Net interest income

The Group 2017	The Group 2016		The Bank 2017	The Bank 2016
6,474	5,539	On loans to customers	6,411	5,529
552	722	On impaired loans to customers	552	722
456	515	Leasing	456	515
130	107	Delinquency	130	107
545	656	On held-to-maturity investments	545	656
-	11	On available-for-sale investments	-	11
35	22	On placements with the banks and other credit institutions	35	22
32	80	On investments at fair value through profit or loss	32	80
8,224	**7,652**	**Interest revenue**	**8,161**	**7,642**
(499)	(817)	On obligations to customers, including letters of credit	(499)	(817)
(954)	(763)	Deposit insurance	(954)	(763)
(20)	(2)	On subordinated loans	(20)	(2)
(85)	(21)	On obligations to banks and other credit institutions	(85)	(21)
(1,558)	**(1,603)**	**Interest expenses**	**(1,558)**	**(1,603)**
6,666	**6,049**	**Net interest income**	**6,603**	**6,039**

In 2017 and 2016 the Bank received income from delinquency charges of EUR 130 thousand and EUR 107 thousand respectively, accounted for under the line delinquency. The major part of the income from delinquency charges is related with the cover of non-performing loans. The Bank recognises delinquency charges only when it is aware that the income from delinquency charges will be received.

Note 23 Net service fee and commission income

Net fee and commission income comprises:

The Group 2017	The Group 2016		The Bank 2017	The Bank 2016
2,961	2,605	Cash operations and customer service	2,961	2,605
485	556	Settlements operations	485	556
286	122	Remittances	286	122
3	3	Guarantees	3	3
7	7	Other	11	7
3,742	**3,293**	**Service fee and commission income**	**3,746**	**3,293**
(110)	(189)	Rent fee according to agreements	(110)	(189)
(232)	(238)	Cash operations	(232)	(238)
(26)	(35)	Settlements operations	(26)	(35)
(15)	(11)	Securities transactions	(15)	(11)
(67)	(51)	Other	(52)	(51)
(450)	**(524)**	**Service fee and commission expense**	**(435)**	**(524)**
3,292	**2,769**	**Net service fee and commission income**	**3,311**	**2,769**

(All amounts in EUR thousand unless otherwise stated)

Note 24 Net profit (loss) on securities trading

The Group 2017	The Group 2016		The Bank 2017	The Bank 2016
10	358	Realised gain (loss)	10	358
(1)	244	Unrealised gain (loss)	(1)	244
9	**602**	**Net profit (loss) on securities trading**	**9**	**602**

Note 25 Net foreign exchange gain

The Group 2017	The Group 2016		The Bank 2017	The Bank 2016
4,043	3,574	Gain on dealing in foreign currencies	4,043	3,574
(221)	(394)	Revaluation of items in statement of financial position, net	(221)	(394)
3,822	**3,180**	**Net foreign exchange gain**	**3,822**	**3,180**

Note 26 Net result on operations with investment property

The Group 2017	The Group 2016		The Bank 2017	The Bank 2016
(294)	282	Realised gain (loss)	(11)	(43)
(680)	(1,498)	Changes in fair value	(45)	(110)
(974)	**(1,216)**	**Net result on operations on investment property**	**(56)**	**(153)**

For more details on changes in the fair value for investment property see Note 12.

Note 27 Other income (expenses)

The Group 2017	The Group 2016		The Bank 2017	The Bank 2016
-	270	Received compensation under the settlement agreement	-	270
136		Income from real estate disposal	136	-
83	-	Income from disposal of claim right	-	
15	-	Insurance benefit	-	-
10	42	Rental revenue	10	8
-	-	Intergroup income	20	18
89	60	Other income (expenses)	20	57
333	**372**	**Total other income (expenses)**	**186**	**353**

Note 28 Impairment of loans and other financial assets

The Group 2017	The Group 2016		The Bank 2017	The Bank 2016
(780)	(2,576)	Impairment loss on loans and receivables	(733)	(2,307)
6	(5)	Impairment loss on leasing	6	(5)
8	(46)	Reversal of impairment / (impairment) of other assets	8	(46)
533	810	Recovery of loans previously written-off	533	810
(233)	**(1,817)**	**Total impairment of loans and other financial assets**	**(186)**	**(1,548)**

(All amounts in EUR thousand unless otherwise stated)

Note 28 Impairment of loans and other financial assets (cont'd)

Impairment loss on loans and receivables for the year 2017 and 2016 by main factors is as follows:

The Group			The Bank	
2017	**2016**		**2017**	**2016**
(733)	(1,015)	Due to changes of collateral value	(733)	(1,015)
329	(182)	Due to changes of cash flow	329	(182)
(74)	(249)	Due to postponement of collateral realization (time effect)	(74)	(249)
(254)	(1,081)	Loss of expected cash flow	(208)	(812)
(143)	76	Administrative expenses	(143)	76
-	(159)	VAT risk	-	(159)
147	(26)	Impairment for general loan portfolio credit risk	148	(26)
533	810	Cash flow (recovery) from written-off loans	533	810
(38)	9	Other factors	(38)	9
(233)	**(1,817)**	**Total impairment loss on loans and receivables**	**(186)**	**(1,548)**

Impairment expenses for the year 2017 and 2016 by industry sectors are as follows:

The Group			The Bank	
2017	**2016**		**2017**	**2016**
174	(488)	Real estate operations	174	(219)
(355)	(90)	Individuals	(308)	(90)
(228)	(379)	Manufacturing	(228)	(379)
(22)	(86)	Real estate constructions	(22)	(86)
(5)	(354)	Services	(5)	(354)
168	(70)	Trading enterprises	168	(70)
3	(46)	Agriculture and food processing	3	(46)
(6)	(283)	Transport	(6)	(283)
8	3	Energy	8	3
30	(24)	Local government	30	(24)
(233)	**(1,817)**	**Total impairment of loans and other financial assets**	**(186)**	**(1,548)**

(All amounts in EUR thousand unless otherwise stated)

Note 29 Operating expenses

Salaries and benefits and other operating expenses are as follows:

The Group 2017	The Group 2016		The Bank 2017	The Bank 2016
		Salaries and benefits		
(5,169)	(4,808)	Salaries and bonuses	(5,048)	(4,738)
(1,608)	(1,475)	Social security costs	(1,570)	(1,451)
-	(9)	Other employment taxes	-	-
(6,777)	**(6,292)**	**Total salaries and benefits**	**(6,618)**	**(6,189)**
		Other operating expenses		
(854)	(655)	Occupancy and rent	(853)	(655)
(335)	(332)	Office supplies	(335)	(332)
(449)	(336)	Expenses for service providers for the bank	(449)	(336)
(538)	(330)	Taxes other than income tax	(450)	(271)
(296)	(313)	Communication	(296)	(313)
(53)	(103)	Debt recovery costs	(53)	(103)
(193)	(180)	Transportation expenses	(193)	(180)
(107)	(103)	Expenses related with investment property	(17)	(6)
(100)	(78)	Security	(100)	(78)
(113)	(130)	Marketing and advertising	(113)	(130)
(43)	(25)	Legal and consultancy	(43)	(25)
(97)	(69)	Personnel training	(97)	(69)
(38)	(41)	Representation	(38)	(41)
(7)	(40)	Business travel and related	(7)	(24)
(235)	-	Fine Imposed by the Bank of Lithuania	(235)	-
(103)	(49)	Disposable items	(103)	(49)
(28)	(31)	Stationary supplies	(28)	(31)
(67)	(82)	Insurance expenses	(67)	(82)
(18)	(18)	Participation fees	(18)	(18)
(349)	(205)	Other	(281)	(169)
(4,023)	**(3,120)**	**Total other operating expenses**	**(3,776)**	**(2,912)**

The Board of the Bank of Lithuania under its decision of 30 June 2017 decided to impose a fine to UAB Medicinos Bankas equal to 1.5 percentage of its general income for the year 2016. It was also decided to temporarily, until the Bank of Lithuania will decide to revoke it, limit the Bank‘s lending to its major shareholder and its directly or indirectly controlled companies.

(All amounts in EUR thousand unless otherwise stated)

Note 30 Income tax

The Group's and the Bank's income tax is specified below:

The Group 2017	The Group 2016		The Bank 2017	The Bank 2016
(7)	(26)	Current income tax expenses	(7)	(26)
-	289	Change in deferred income tax	-	289
(7)	**263**	**Total income tax income (expenses)**	**(7)**	**263**
		Components of deferred income tax		
		Deferred income tax assets:		
2,862	3,134	Tax loss carried forward	2,358	2,616
18	18	Accruals	18	18
37	59	Collective impairment for loans	37	59
2,917	**3,211**	**Deferred income tax assets**	**2,413**	**2,693**
(867)	(1,223)	Less: not recognised part of deferred tax asset	(363)	(705)
2,050	**1,988**	**Deferred income tax assets**	**2,050**	**1,988**
		Deferred income tax liabilities:		
(60)	(61)	Revaluation of property and equipment	(60)	(61)
(93)	(30)	Other	(93)	(30)
(153)	**(91)**	**Deferred income tax liabilities**	**(153)**	**(91)**
1,897	**1,897**	**Deferred income tax, net**	**1,897**	**1,897**
		Deferred tax income (expense) recognised:		
	1	In the statement of OCI		1
	1	In the income statement		1

Deferred income tax assets are recognised for tax loss carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. Deferred tax assets on tax losses carried forward of EUR 2,420 thousand at the Bank and EUR 5,780 thousand at the Group have not been recognised because of realisation uncertainty.

Deferred tax components related to revaluation of available-for-sale financial instruments and revaluation of property and equipment are accounted for in equity.

(All amounts in EUR thousand unless otherwise stated)

Note 30 Income tax (cont'd)

Amounts recognised in other comprehensive income

The Bank (Group)

	2017			2016		
	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
Revaluation of property and equipment	(3)	-	(3)	(4)	1	(3)
Available-for-sale investment securities	-	-	-	-	-	-
Total	**(3)**		**(3)**	**(4)**	**1**	**(3)**

Reconciliation of effective tax rate

The income tax expense, applicable to the result of the current year, can be reconciled with the income tax expenses calculated using statutory income tax rate for the pre-tax income as follows:

The Group 2017		The Group 2016			The Bank 2017		The Bank 2016	
	1,633		257	Profit before tax		1,654		260
15%	245	15%	39	Profit tax calculated at 15% tax rate	15%	248	15%	39
(105%)	(1,708)	(52)%	(135)	Non-taxable income	(94%)	(1,561)	(21)%	(56)
92%	1,529	152%	390	Non-deductible expenses	102%	1,682	112%	292
				Change in unrecognised deferred tax asset				
(22%)	(363)	(75)%	(193)	Utilisation of tax losses carried forward	(16%)	(258)	(56)%	(146)
-	-	-	-	Utilisation of tax losses of the subsidiaries	(6%)	(105)	-	-
18%	304	-	-	Current year tax losses for which no deferred tax asset is recognised	-	-	-	-
		(143)%	(364)	Recognition of previously unrecognised tax losses	-	-	(151)%	(393)
(0%)	**(7)**	**(101)%**	**(263)**	**Total income tax (income) expenses**	**(0%)**	**(7)**	**(101)%**	**(263)**

(All amounts in EUR thousand unless otherwise stated)

Note 30 Income tax (cont'd)

Movement in deferred tax balances

The Bank (Group)

				Balance at 31 December 2017		
	Net balance at 1 January	**Recognised in profit or loss**	**Recognised in OCI**	**Net**	**Deferred tax assets**	**Deferred tax liabilities**
Property and equipment	(61)	-	1	(60)	-	(60)
Available-for-sale securities	-	-	-	-	-	-
Tax loss carry-forwards	1,940	56	-	1,996	1,996	-
Other tax assets	48	6	-	54	54	-
Other tax liabilities	(30)	(63)	-	(93)	-	(93)
Total	**1,897**	**(1)**	**1**	**1,897**	**2,050**	**(153)**

				Balance at 31 December 2016		
	Net balance at 1 January	**Recognised in profit or loss**	**Recognised in OCI**	**Net**	**Deferred tax assets**	**Deferred tax liabilities**
Property and equipment	(62)	-	1	(61)	-	(61)
Available-for-sale securities	-	-	-	-	-	-
Tax loss carry-forwards	1,618	322	-	1,940	1,940	-
Other tax assets	75	(27)	-	48	48	-
Other tax liabilities	(24)	(6)	-	(30)	-	(30)
`Total	**1,607**	**289**	**1**	**1,897**	**1,988**	**(91)**

Note 31 Cash and cash equivalents

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

The Group			**The Bank**	
31 December 2017	**31 December 2016**		**31 December 2017**	**31 December 2016**
24,478	21,588	Cash on hand	24,478	21,588
27,099	19,164	Current accounts with the Bank of Lithuania	27,099	19,164
6,929	7,530	Current accounts with other credit institutions	6,886	7,529
4,544	4,453	Term deposits with credit institutions up to 90 days	4,544	4,453
63,050	**52,735**	**Cash and cash equivalents**	**63,007**	**52,734**

Note 32 Fair values of financial instruments

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

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

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

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

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

(All amounts in EUR thousand unless otherwise stated)

Note 32 Fair values of financial instruments (cont'd)

Balances with the Central Bank. The carrying amount equals to the fair value as these are current accounts at the Bank of Lithuania.

Financial assets at fair value through profit or loss and available-for-sale financial assets. The carrying amount is the fair value of such investments.

Held-to-maturity investments. Their fair value was calculated based on market quotations.

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

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

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

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

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

The Bank	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and due from central bank	53,520	53,520	42,646	42,646
Placements with banks and other credit institutions	11,496	11,496	11,982	11,982
Held-to-maturity investments	39,860	40,462	33,660	34,878
Loans and receivables	163,454	167,120	144,539	150,465
Other assets	2,529	2,529	2,401	2,401
Total financial assets	**270,859**	**275,127**	**235,228**	**242,372**
Financial liabilities				
Due to banks and other credit institutions	3,600	3,600	4,435	4,435
Due to customers, including letters of credit	252,920	254,196	232,702	233,529
Debt securities issued	-	-	-	-
Subordinated loans	1,000	1,000	1,000	1,000
Other liabilities	1,152	1,152	1,103	1,103
Total financial liabilities	**258,672**	**259,948**	**239,240**	**240,067**

The Group	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and due from central bank	53,520	53,520	42,646	42,646
Placements with banks and other credit institutions	11,539	11,539	11,983	11,983
Held-to-maturity investments	39,860	40,462	33,660	34,878
Loans and receivables	163,678	167,344	145,591	151,517
Other assets	2,849	2,849	2,572	2,572
Total financial assets	**271,446**	**275,714**	**236,452**	**243,596**
Financial liabilities				
Due to banks and other credit institutions	3,600	3,600	4,435	4,435
Due to customers, including letters of credit	251,855	253,131	226,809	227,635
Debt securities issued	-	-	-	-
Subordinated loans	1,000	1,000	1,000	1,000
Other liabilities	1,258	1,258	1,169	1,169
Total financial liabilities	**257,713**	**258,989**	**233,413**	**234,239**

(All amounts in EUR thousand unless otherwise stated)

Note 32 Fair values of financial instruments (cont'd)

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

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

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

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

The fair value of all Bank contracted derivatives is defined as Level 2. These are mainly FX swaps and derivatives which are revaluated using discounted cash flow or present value calculation method. In all cases revaluation is based on market observable inputs. Debt securities are priced in accordance to market quotes and, in cases when there is no active market for particular security, the price for this kind of security is determined with the reference to market observable inputs. As at 31 December 2017 and 2016, due to absence of active market, bonds issued by other Lithuanian and foreign banks were classified under Level 2. There were no movements of financial instruments between Level 1 and Level 2 in 2017 and 2016.

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

The Bank (Group)

As at 31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments	-	7	-	7
Financial assets designated at fair value through profit or loss	-	-	-	-
Available-for-sale financial assets	-	-	-	-
Financial liabilities				
Derivative financial instruments	-	31	-	31

As at 31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments	-	30	-	30
Financial assets designated at fair value through profit or loss	7,040	723	-	7,763
Available-for-sale financial assets	-	-	-	-
Financial liabilities				
Derivative financial instruments	-	19	-	19

(All amounts in EUR thousand unless otherwise stated)

Note 32 Fair values of financial instruments (cont'd)

Financial instruments not measured at fair value

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

Bank

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total carrying amount**
Assets				
Cash and due from banks	53,520	11,496	-	65,016
Held-to-maturity investments	-	39,860	-	39,860
Loans to customers	-	137,910	9,213	147,123
Receivables with deferred payment	-	2,657	-	2,657
Loans to financial institutions	-	1,835		1,835
Receivables from leasing	-	11,821	18	11,839
Other assets	-	2,529	-	2,529
Total financial assets	**53,520**	**208,108**	**9,231**	**270,859**
Liabilities				
Due to banks and other credit institutions	-	3,600	-	3,600
Due to customers	-	252,920	-	252,920
Debt securities issued	-	-	-	-
Subordinated loan		1,000		1,000
Other liabilities	-	1,152	-	1,152
Total financial liabilities	**-**	**258,772**	**-**	**258,772**

31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total carrying amount**
Assets				
Cash and due from banks	42,646	11,982	-	54,628
Held-to-maturity investments	-	33,660	-	33,660
Loans to customers	-	114,769	12,311	127,080
Receivables with deferred payment	-	2,665	-	2,665
Loans to financial institutions	-	4,222	-	4,222
Receivables from leasing	-	10,436	136	10,572
Other assets	-	2,401	-	2,401
Total financial assets	**42,646**	**180,135**	**12,447**	**235,228**
Liabilities				
Due to banks and other credit institutions	-	4,435	-	4,435
Due to customers	-	232,702	-	232,702
Debt securities issued	-	-	-	-
Subordinated loans		1,000		1,000
Other liabilities	-	1,103	-	1,103
Total financial liabilities	**-**	**239,240**	**-**	**239,240**

(All amounts in EUR thousand unless otherwise stated)

Note 32 Fair values of financial instruments (cont'd)

Group

31 December 2017	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Cash and due from banks	53,520	11,539	-	65,059
Held-to-maturity investments	-	39,860	-	39,860
Loans to customers	-	138,017	9,263	147,280
Receivables with deferred payment	-	2,923	-	2,923
Loans to financial institutions	-	1,636	-	1,636
Receivables from leasing	-	11,821	18	11,839
Other assets	-	2,849	-	2,849
Total financial assets	**53,520**	**208,645**	**9,281**	**271,446**
Liabilities				
Due to banks and other credit institutions	-	3,600	-	3,600
Due to customers	-	251,855	-	251,855
Debt securities issued	-	-	-	-
Subordinated loan		1,000		1,000
Other liabilities	-	1,258	-	1,258
Total financial liabilities	**-**	**257,713**	**-**	**257,713**

31 December 2016	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Cash and due from banks	42,646	11,983	-	54,629
Held-to-maturity investments	-	33,660	-	33,660
Loans to customers	-	114,789	12,312	127,101
Receivables with deferred payment	-	3,377	319	3,696
Loans to financial institutions	-	4,222	-	4,222
Receivables from leasing	-	10,436	136	10,572
Other assets	-	2,572	-	2,572
Total financial assets	**42,646**	**181,039**	**12,767**	**236,452**
Liabilities				
Due to banks and other credit institutions	-	4,435	-	4,435
Due to customers	-	226,809	-	226,809
Debt securities issued	-	-	-	-
Subordinated loans		1,000		1,000
Other liabilities	-	1,169	-	1,169
Total financial liabilities	**-**	**233,413**	**-**	**233,413**

The following table shows the valuation techniques used by the Bank and the Group in measuring Level 2 and Level 3 fair values (where the fair value differs from the carrying amount), as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs
Held-to-maturity investments	Discounted cash flows	Discount rates
Loans and receivables, loans to banks, loans to financial institutions, receivables from leasing	Discounted cash flows	Discount rates, default rates, expected lifetime
Due to customers	Discounted cash flows	Discount rates
Debt securities issued	Discounted cash flows	Discount rates
Subordinated loans	Discounted cash flows	Discount rates

(All amounts in EUR thousand unless otherwise stated)

Note 33 Related party transactions

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

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

The Bank, 2017	Shareholders	Subsidiaries	Key management personnel	Other*
Loans outstanding as at 31 December 2017, net	-	199	42	1,296
Interest rate,%	-	5	0-4.0	4.0-4.5
Interest income on loans	-	3	1	144
Impairment of loans	-	-	-	-
Term deposits as at 31 December 2017	-	-	3	253
Interest expense on deposits	-	-	-	(3)
Interest rate,%	-	-	0.2-0.6	0.15–6.5
Demand accounts as at 31 December 2017	4	1,065	80	2,996
Bonds issued as at 31 December 2017	-	-	-	-
Interest expense on bonds	-	-	-	-
Interest rate,%	-	-	-	-
Subordinated loans as at 31 December 2017	1,000	-	-	-
Interest expense on subordinated loans	(20)	-	-	-
Interest rate,%	2	-	-	-
Service fee and commission revenue	1	-	-	14
Service fee and commission expenses	-	-	-	(3)
Other operating revenue	-	20	-	-
Other operating expenses	-	-	(40)	(95)

The Bank, 2016	Shareholders	Subsidiaries	Key management personnel	Other*
Loans outstanding as at 31 December 2016, net	-	-	45	3,894
Interest rate,%	-	-	0–3.0	0–5.84
Interest income on loans	-	-	1	134
Impairment of loans	-	-	-	253
Term deposits as at 31 December 2016	-	-	3	362
Interest expense on deposits	-	-	-	(17)
Interest rate,%	-	-	0.25–0.50	0.15–6.5
Demand accounts as at 31 December 2016	80	5,893	38	4,185
Bonds issued as at 31 December 2016	-	-	-	-
Interest expense on bonds	-	-	-	-
Interest rate,%	-	-	-	-
Subordinated loans as at 31 December 2016	1,000	-	-	-
Interest expense on subordinated loans	(2)	-	-	-
Interest rate,%	2	-	-	-
Service fee and commission revenue	1	-	-	13
Service fee and commission expenses	-	-	-	(1)
Other operating revenue	-	18	1	4
Other operating expenses	-	-	(49)	(78)

(All amounts in EUR thousand unless otherwise stated)

Note 33 Related party transactions (cont'd)

The Group, 2017	**Shareholders**	**Key management personnel**	**Other***
Loans outstanding as at 31 December 2017, net	-	42	1,296
Interest rate,%	-	0–4.0	4.0–4.5
Interest income on loans	-	1	144
Impairment of loans	-	-	-
Term deposits as at 31 December 2017	-	3	253
Interest expense on deposits	-	-	(3)
Interest rate,%	-	0.2–0.6	0.15–6.5
Demand accounts as at 31 December 2017	4	82	2,994
Bonds issued as at 31 December 2017	-	-	-
Interest expense on bonds	-	-	-
Interest rate,%	-	-	-
Subordinated loans as at 31 December 2017	1,000	-	-
Interest expense on subordinated loans	(20)	-	-
Interest rate,%	2	-	-
Service fee and commission revenue	1	-	14
Service fee and commission expenses	-	-	(3)
Other operating revenue	-	-	-
Other operating expenses	-	(41)	(94)

The Group, 2016	**Shareholders**	**Key management personnel**	**Other***
Loans outstanding as at 31 December 2016, net	-	46	3,899
Interest rate,%	-	0–3.0	0–5.84
Interest income on loans	-	1	134
Impairment of loans	-	-	253
Term deposits as at 31 December 2016	-	3	362
Interest expense on deposits	-	-	(17)
Interest rate,%	-	0.25–0.60	0.15–6.5
Demand accounts as at 31 December 2016	80	40	4,183
Bonds issued as at 31 December 2016	-	-	-
Interest expense on bonds	-	-	-
Interest rate,%	-	-	-
Subordinated loans as at 31 December 2016	1,000	-	-
Interest expense on subordinated loans	(2)	-	-
Interest rate,%	2	-	-
Service fee and commission revenue	1	-	13
Service fee and commission expenses	-	-	(1)
Other operating revenue	-	1	4
Other operating expenses	-	(50)	(77)

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

(All amounts in EUR thousand unless otherwise stated)

Note 33 Related party transactions (cont'd)

The Group

Compensation of key management personnel comprised the following:

	2017	2016
Salaries and other short-term benefits	261	319
Social security costs	82	97
Total key management personnel compensation	**343**	**416**

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

Note 34 Risk management

Risk is inherent in the Bank's and the Group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's and the Group's continuing profitability and each individual within the Bank and the Group is accountable for the risk exposures relating to his or her responsibilities.

The Group and the Bank are exposed to credit risk, liquidity risk and market risk, it is also subject to operating risk.

<u>Risk management structure</u>

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Supervisory Board

The Supervisory Board has the responsibility for monitoring the overall risk process within the Bank and the Group.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Audit Committee

Audit Committee periodically reviews efficiency of the Bank's internal control procedures, it coordinates and periodically assesses the work of internal audit, monitors and assesses internal and external auditor's reports.

Risk Department

The Risk Department is responsible for monitoring compliance with risk principles, policies and limits, across the Group and the Bank.

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risk of the Group and the Bank.

The Bank Audit Division

Risk management processes throughout the Group and the Bank are audited annually by the internal audit that examines both the adequacy of the procedures and the Bank's and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Note 34 Risk management (cont'd)

Risk measurement and reporting systems

The Group and the Bank apply credit risk management measures, which could relevantly be divided into two types:
1) Measures that help to avoid decisions to grant unwarrantably risky 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.

Monitoring and controlling of risks are primarily performed based on limits established by the Group and the Bank. These limits reflect the business strategy and market environment of the Group and the Bank as well as the level of risk that the Bank or the Group is willing to accept.

Information compiled from all the business is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Risk Committee and the head of each business division.

The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Supervisory Board receives a comprehensive risk report once a quarter which is designed to provide all necessary information to assess and conclude on the risks of the Group and the Bank.

A daily briefing is given to the Board of Directors on the utilisation of market limits, analysis of proprietary investments and liquidity.

The Group measures credit risk arising from receivables for assets sold with deferred payment by asking to provide additional collateral, by signing real estate deal with restricted use of assets or by postponing ownership of asset sold until the final settlement of the agreed amount.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk

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

In cases, when cash flows of nonperforming loans are based on expected cash flows to be recovered from sale of collateral, value of the collateral is an important estimate in calculating impairment losses for loans and receivables. Sensitivity analysis of real estate market prices is presented in section *Market risk*.

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

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

The Group 31 December 2017	The Group 31 December 2016		The Bank 31 December 2017	The Bank 31 December 2016
		Statement of financial position items, other than trading and investment activities		
29,042	21,058	Balances with the Bank of Lithuania	29,042	21,058
11,539	11,983	Due from banks	11,496	11,982
147,280	127,101	Loans to customers	147,123	127,080
2,923	3,696	Receivable with deferred payment	2,657	2,665
1,636	4,222	Loans to bank and financial institutions	1,835	4,222
11,839	10,572	Receivables from leasing	11,839	10,572
204,259	**178,632**		**203,992**	**177,579**
		Off balance sheet items		
763	477	Guarantees	763	477
8,994	9,746	Loan commitments	8,994	9,746
214,016	**188,855**	**Total balance and off balance sheet items, other than trading and investment activities**	**213,749**	**187,802**
		Trading and investment activities		
		Financial assets at fair value through profit or loss		
7	*30*	*Derivative financial instruments*	*7*	*30*
-	*7,763*	*Debt securities*	*-*	*7,763*
		Held-to-maturity investments		
39,860	*33,660*	*Debt securities*	*39,860*	*33,660*
39,867	**41,453**	**Total trading and investment activities**	**39,867**	**41,453**
253,883	**230,308**	**Total credit exposure**	**253,616**	**229,255**

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the possible maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Maximum exposure to credit risk without taking into account any collateral and other credit enhancement (cont'd)

	31 December 2017 The Bank	31 December 2017 The Group	31 December 2016 The Bank	31 December 2016 The Group
Contracted amount				
Loan and credit line commitments	6,604	6,604	7,841	7,841
Undrawn overdraft facilities	2,390	2,390	1,905	1,905
Guarantees and letters of credit	763	763	477	477
Total	**9,757**	**9,757**	**10,223**	**10,223**

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Restricted assets (pledged or otherwise restricted use):

	31 December 2017 The Bank (Group)	31 December 2016 The Bank (Group)
Due from banks	1,275	1,200
Debt securities	8,188	6,633
Loans issued	1,368	1,368
Total	**10,831**	**9,201**

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

	The Bank (Group)	
	31 December 2017	31 December 2016
Government bonds	38,640	39,871
Bank and corporate bonds	1,220	1,552
Derivatives	7	30
Total	**39,867**	**41,453**

Bonds exposure by rating grade	The Bank (Group)	
	31 December 2017	31 December 2016
High grade (AAA-A)	32,690	28,260
Standard grade (B-BBB+)	7,170	13,163
Not rated	-	-
Total	**39,860**	**41,423**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Risk concentration of the maximum exposure to credit risk

Tables below present the breakdown of trading and investment activities by geographical region:

	The Bank (the Group)							
	31 December 2017				31 December 2016			
Bonds exposure by geography	Government bonds	Bank bonds	Financial institution bonds	Non-financial institution bonds	Government bonds	Bank bonds	Financial institution bonds	Non-financial institution bonds
Lithuania	18,017	-	-	-	18,813	-	-	-
Georgia	-	-	-	-	-	-	-	-
Bulgaria	-	-	-	-	1,668	-	-	-
Iceland	1,600	-	-	-	1,087	-	-	-
Spain	1,869	-	-	-	1,291	-	-	-
Croatia	1,058	-	-	-	1,114	-	-	-
Latvia	1,003	-	-	-	5,137	-	-	-
Poland	2,127	-	-	-	2,163	-	-	-
Romania	2,075	-	-	-	2,109	-	-	-
Slovenia	2,565	-	-	-	997	-	-	-
Sweden	3,347	-	-	-	960	-	-	-
Turkey		-	-	-	623	-	-	-
Hungary	1,368	-	-	-	3,909	-	-	-
Germany	-	-	-	421	-	-	531	192
Estonia	-	-	-	799	-	-	-	829
Finland	1,668	-	-	-	-	-	-	-
Belgium	1,943	-	-	-	-	-	-	-
Total	**38,640**			**1,220**	**39,871**	**-**	**531**	**1,021**

The Group and the Bank have no impaired or overdue amounts within trading and investment activities.

For trading and investment activities, the Group and the Bank have assigned "AAA" to "A" (based on Fitch ratings or similar international rating agency equivalent) rating bonds to high grade, "BBB" to "B" rating bonds – to standard grade.

Corporate and bank bonds by sectors

The Bank (the Group)	**31 December 2017**	**31 December 2016**
Finance (Bank)	-	-
Real estate	-	192
Energy	799	-
General public administration activities	421	829
Other monetary intermediation	-	531
Total	**1,220**	**1,552**

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 Bank of Lithuania requirements to limit exposures to a single borrower and large exposures, the Group also sets exposure requirement that the exposure of the borrowers may not exceed the established internal 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 Note 34, Credit risk.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Risk concentration of the maximum exposure to credit risk (cont'd)

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.

Exposure by geographical area

The geographical concentration risk is not recognised in the Group's business since the principle of focusing on domestic customers is followed. The Bank's maximum credit exposure to one client or counterparty before impairment as at 31 December 2017 was EUR 4,835 thousand (EUR 4,173 thousand as at 31 December 2016), and after application of all credit risk mitigation measures as at 31 December 2017 was EUR 4,828 thousand (EUR 4,167 thousand as at 31 December 2016). The proportion to the Bank's capital was 20.99% (16.68% as at 31 December 2016).

The Bank, 2017	**Corporate loans**	**Individuals loans**	**Total**
Lithuania	182,366	27,511	**209,877**
United States of America	9	-	**9**
Germany	-	25	**25**
Austria	2,270	-	**2,270**
Russia	135	420	**555**
Belarus	1	110	**111**
Poland	13	-	**13**
France	-	189	**189**
United Kingdom	7	260	**267**
Other	132	301	**433**
	184,933	**28,816**	**213,749**

The Group, 2017	**Corporate loans**	**Individuals loans**	**Total**
Lithuania	182,433	27,670	**210,103**
United States of America	9	-	**9**
Germany	-	25	**25**
Austria	2,270	-	**2,270**
Russia	135	420	**555**
Belarus	1	110	**111**
Poland	13	-	**13**
France	-	189	**189**
United Kingdom	7	260	**267**
Other	174	300	**474**
Total	**185,042**	**28,974**	**214 ,016**

The Bank, 2016	**Corporate loans**	**Individuals loans**	**Total**
Lithuania	172,609	10,119	**182,728**
United States of America	671	-	**671**
Germany	120	26	**146**
Austria	2,632	-	**2,632**
Russia	177	593	**770**
Belarus	6	144	**150**
Poland	12	-	**12**
France	-	202	**202**
United Kingdom	-	192	**192**
Other	116	184	**300**
Total	**176,343**	**11,460**	**187,803**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Risk concentration of the maximum exposure to credit risk (cont'd)

Exposure by geographical area (cont'd)

The Group, 2016	Corporate loans	Individuals loans	Total
Lithuania	173,498	10,283	**183,781**
United States of America	671	-	**671**
Germany	120	26	**146**
Austria	2,632	-	**2,632**
Russia	176	594	**770**
Belarus	6	144	**150**
Poland	12	-	**12**
France	-	202	**202**
United Kingdom	-	192	**192**
Other	116	184	**300**
Total	**177,231**	**11,625**	**188,856**

Risk by sector

An industry sector split of the Bank's and the Group's financial assets before taking into account collateral held is as follows:

The Bank, 2017	Total
Corporate loans	**184,933**
Trading enterprises	19,651
Real estate operations	24,632
Real estate constructions	5,366
Transport	13,675
Manufacturing	9,748
Services	30,883
Agriculture and food processing	30,256
Energy	4,748
Financial services	42,503
Local government	3,471
Individuals loans	**28,816**
Total	**213,749**

The Group, 2017	Total
Corporate loans	**185,041**
Trading enterprises	19,651
Real estate operations	24,632
Real estate constructions	5,366
Transport	13,676
Manufacturing	9,748
Services	30,948
Agriculture and food processing	30,256
Energy	4,748
Financial services	42,545
Local government	3,471
Individuals loans	**28,975**
Total	**214,016**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Risk concentration of the maximum exposure to credit risk (cont'd)

Risk by sector (cont'd)

The Bank, 2016	**Corporate loans**
Corporate loans	**176,343**
Trading enterprises	23,830
Real estate operations	23,621
Real estate constructions	3,032
Transport	8,369
Manufacturing	16,588
Services	29,131
Agriculture and food processing	21,358
Energy	5,171
Financial services	33,662
Local government	11,581
Individuals loans	**11,460**
Total	**187,803**

The Group, 2016	**Corporate loans**
Corporate loans	**177,231**
Trading enterprises	23,852
Real estate operations	24,163
Real estate constructions	3,032
Transport	8,369
Manufacturing	16,588
Services	29,454
Agriculture and food processing	21,358
Energy	5,171
Financial services	33,663
Local government	11,581
Individuals loans	**11,625**
Total	**188,856**

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The ability to repay loan is the primary criterion in loan evaluation, though the Group and the Bank always demand collateral. Acceptable collaterals are classified into real estate, movable properties, guarantees, insurance, financial assets and other. Assets accepted as collateral are estimated at their fair value, while estimating present value of the loan taking into account the costs for obtaining and selling the collateral. When real estate is appraised, the Group and the Bank also take into account its liquidity and useful life.

According to the Bank's policy for evaluation of collaterals, different types of collaterals need to be revaluated in different timescale: residential buildings – at least every 5 years, commercial buildings – every 4 years, land – 3-5 years, vehicles – 1 years, other collaterals from 1 to 3 years. In addition to that there is also a requirement that in case of significant price correction in the real estate market or other significant change in economic environment, revaluation of all Bank's collateral should be performed.

The fair value of the rest collateral is appraised using both external and internal valuators.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Risk concentration of the maximum exposure to credit risk (cont'd)

The main types of collateral by fair value of collateral established on the last appraisal date are as follows:

Collateral and other credit enhancements (cont'd)

The Bank (Group), 2017	Corporate loans	Individuals loans	Total
Real estate	240,821	82,834	**323,655**
Securities	1,763	-	**1,763**
Vehicles	37,338	545	**37,883**
Equipment	21,494	118	**21,612**
Cash	846	102	**948**
Credit insurance	1,273	838	**2,111**
Guarantees received	15,348	6	**15,354**
Other	25,362	45	**25,406**
Total	**344,245**	**84,488**	**428,733**

The Bank, 2016	Corporate loans	Individuals loans	Total
Real estate	188,002	28,047	**216,049**
Securities	1,083	0	**1,083**
Vehicles	34,040	569	**34,609**
Equipment	19,483	22	**19,505**
Cash	271	36	**307**
Credit insurance	1,001	186	**1,187**
Guarantees received	12,963	13	**12,976**
Other	21,302	217	**21,519**
Total	**278,145**	**29,090**	**307,235**

The Group, 2016	Corporate loans	Individuals loans	Total
Real estate	188,245	28,141	**216,386**
Securities	1,083	0	**1,083**
Vehicles	34,040	569	**34,609**
Equipment	19,483	22	**19,505**
Cash	271	36	**307**
Credit insurance	1,001	186	**1,187**
Guarantees received	12,963	13	**12,976**
Other	21,302	217	**21,519**
Total	**278,388**	**29,184**	**307,572**

Pledged real estate value (related with NPL assets) is based on the valuation reports of licensed appraisers. New vehicles and equipment collateral value is based on acquisition value according to the acquisition document, used vehicles and equipment – based on the valuation reports of licensed appraisers (revaluation is performed every 3 years for not impaired loans and every 2 years for impaired loans). Guarantees are presented based on contractual terms. Cash is presented as the balance in the account on the reporting day. Securities are presented at their nominal value. Credit insurance value is based on the management's evaluation based on the documents from insurance companies. The value of other collaterals (goods, inventories) is based on the management's evaluation.

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Credit quality per class of financial asset

The credit quality of financial assets is managed by the Bank and the Group using an internal credit assessment system as described below.

Impairment and provisioning policies

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

The Group and the Bank carry 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.

Impairment and provisioning policies

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 recognised as a loss event on the loan evaluation day.

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 90 days;
3) the loan is being restructured;
4) funds granted to the borrower are used not according to the loan purpose, the implementation terms of investment project are violated or collateral value decreases, 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).

Rating of loans

When evaluating loans, the Group and the Bank apply specific valuation criteria and procedures on the clients. The main criteria for evaluation are those related to client's financial position assessment. The financial position of the client is analysed based on constantly renewed financial information, also taking into account variations in certain financial ratios, affecting the position of the client. Based on a set of defined criteria, ratings are assigned to the clients. High grade ("A" rating group) rating is assigned to reliable transactions, i.e. clients' operations are stable, the client complies with provisions of credit agreement, collateral is of good quality. Standard grade ratings ("B" rating group) are assigned to clients with minor breaches in provisions and loans secured with collateral. Substandard grade ratings ("C" rating group) are assigned to clients not past due but with worse financial situation and restructured clients' loans with identified default risk.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Rating of loans (cont'd)

The Bank, 2017	Neither past due nor impaired					
	High grade	Standard grade	Substandard grade	Unrated	Past due or individually impaired	Total
Asset classes						
Corporate loans	12,197	110,590	1,629	252	10,175	134,843
Individuals loans	19,484	1,783	1,280	-	6,064	28,611
Total	**31,681**	**112,373**	**2,909**	**252**	**16,239**	**163,454**

The Group, 2017	Neither past due nor impaired					
	High grade	Standard grade	Substandard grade	Unrated	Past due or individually impaired	Total
Asset classes						
Corporate loans	12,197	110,657	1,629	252	10,174	134,909
Individuals loans	19,548	1,783	1,292	-	6,145	28,769
Total	**31,745**	**112,440**	**2,921**	**252**	**16,320**	**163,678**

The Bank, 2016	Neither past due nor impaired					
	High grade	Standard grade	Substandard grade	Unrated	Past due or individually impaired	Total
Asset classes						
Corporate loans	32,358	86,006	1,533	332	12,891	133,120
Individuals loans	4,502	263	1,013	-	5,641	11,419
Total	**36,860**	**86,269**	**2,546**	**332**	**18,532**	**144,539**

The Group, 2016	Neither past due nor impaired					
	High grade	Standard grade	Substandard grade	Unrated	Past due or individually impaired	Total
Asset classes						
Corporate loans	32,358	86,574	1,852	332	12,891	134,007
Individuals loans	4,502	263	1,178	-	5,641	11,584
Total	**36,860**	**86,837**	**3,030**	**332**	**18,532**	**145,591**

As at 31 December 2017 the Group and the Bank have accepted collateral for the past due or individually impaired loans in the total amount of EUR 26,645 thousand (EUR 29,167 thousand as at 31 December 2016). As at 31 December 2017 the Group's and the Bank's fair value of collateral for impaired loans was EUR 13,716 thousand (EUR 17,709 thousand as at 31 December 2016).

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Ageing analysis of past due but not impaired loans per class of financial asset

The Bank , 2017	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Asset classes					
Corporate loans	2,900	339	70	273	**3,582**
Collaterals for overdue loans	4,833	620	128	755	**6,336**
Individuals loans	2,294	146	199	805	**3,444**
Collaterals for overdue loans	6,769	452	513	1,871	**9,605**

The Group, 2017	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Asset classes					
Corporate loans	2,900	339	70	273	**3,582**
Collaterals for overdue loans	4,833	620	128	755	**6,336**
Individuals loans	2,379	157	199	805	**3,540**
Collaterals for overdue loans	6,769	452	513	1,871	**9,605**

The Bank (Group), 2016	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Asset classes					
Corporate loans	1,699	312	2,078	24	**4,133**
Collaterals for overdue loans	3,258	609	2,407	268	**6,542**
Individuals loans	1,600	66	-	42	**1,708**
Collaterals for overdue loans	8,618	55	-	81	**8,754**

As at 31 December 2017 the Bank has EUR 12,094 thousand renegotiated loans due to financial difficulties of the clients (EUR 18,592 thousand as at 31 December 2016).

Loans and receivables per period overdue (excluding the impaired loans) and the value of collaterals pledged to secure them:

The Bank, 2017	**Not overdue**	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and receivables						
Loans and receivables	147,197	5,194	485	269	1,079	**154,224**
Collaterals	398,472	11,602	1,073	641	2,626	**414,413**
Over (under) collateralised	**251,276**	**6,408**	**588**	**372**	**1,547**	**260,190**

The Group, 2017	**Not overdue**	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and receivables						
Loans and receivables	147,341	5,214	496	269	1,079	**154,399**
Collaterals	398,472	11,602	1,073	641	2,626	**414,413**
Over (under) collateralised	**251,132**	**6,388**	**577**	**372**	**1,547**	**260,015**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Ageing analysis of past due but not impaired loans per class of financial asset (cont'd)

The Bank, 2016	**Not overdue**	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and receivables						
Loans and receivables	126,446	3,305	379	2,091	66	**132,287**
Collaterals	273,887	11,875	664	2,407	349	**289,182**
Over (under) collateralised	**147,441**	**8,570**	**285**	**316**	**283**	**156,895**

The Group, 2016	**Not overdue**	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and receivables						
Loans and receivables	126,885	3,305	379	2,091	359	**133,019**
Collaterals	273,933	11,875	664	2,407	640	**289,519**
Over (under) collateralised	**147,048**	**8,570**	**285**	**316**	**281**	**156,500**

Collective impairment

The collective impairment (in percentage) for loans is calculated annually. The calculations are performed using historical data of 3-year period. As the ratio of collective impairment is recalculated annually, the assumptions made are also revised annually. In 2017, the estimated weighted average loss ratio of 0.15% was established and approved. In 2016 the average rate was increased from 0.15% to 0.3% after the review of the Bank of Lithuania (Note 35).

Sensitivity analysis:

The Bank / the Group		**2017**	**2016**
	Ratio change	**Pre-tax impact on profit**	
Collectively impaired loans and receivables	+0.1 pp	(154)	(152)
	-0.1 pp	154	152

Liquidity risk

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

The major part of term deposits in the Bank's and the Group's deposit portfolio are placed for 6 to 13 month period, and average monthly fluctuations of this portfolio not exceeding more than 5 percent according to historical data. Several year statistics of the Group and the Bank show that activities of the Group and the Bank ensure stable level of those funds, also most of such funds are extended after maturity; this allows investing them into longer term financial assets.

From the beginning of 2015, the mandatory requirements of compliance with liquidity coverage ratio came into force according to Regulation (EU) No 575/2013 of the European Parliament and of the Council. The liquidity coverage ratio (LCR) refers to highly liquid assets held by the Bank or the Group in order to meet short-term obligations. The Bank or the Group is required to hold an amount of highly-liquid assets, such as cash treasury bonds and other liquid financial instruments, equal to or greater than net cash outflow over a 30-day period, i.e. liquidity coverage ratio cannot be lower than 100 percent. The liquidity coverage ratio of the Bank was started to be measured from the beginning of 2014, but it wasn't a compulsory requirement. Liquidity coverage ratios of the Bank and the Group are as follows:

The Group			**The Bank**	
31 December 2017	**31 December 2016**		**31 December 2017**	**31 December 2016**
90,760	78,583	Liquid assets	90,760	78,583
12,423	9,307	Short-term (up to 30 days) obligations	12,575	11,516
731	**844**	**LCR (%)**	**722**	**682**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Liquidity risk (cont'd)

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

The Bank	31 December 2017							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	Total
Assets:								
Cash and due from banks	60,406	3,335	-	66	-	-	1,209	**65,016**
Investments in debt securities	-	3,575	11,420	7,575	10,343	6,947	-	**39,860**
Investments in subsidiaries	-	-	-	-	-	-	6,439	**6,439**
Loans to customers	-	3,943	5,246	25,987	46,105	59,748	6,094	**147,123**
Receivables with deferred payment	-	4	-	-	2,653	-	-	**2,657**
Loans to bank and financial institutions	-	249	7	1,579	-	-	-	**1,835**
Receivables from leasing	-	275	542	2,286	4,600	3,942	194	**11,839**
Other assets	-	1,725	-	-	-	-	9,674	**11,399**
Total	**60,406**	**13,106**	**17,215**	**37,493**	**63,701**	**70,637**	**23,610**	**286,168**
Liabilities:								
Due to banks and other credit institutions	600	-	-	-	3,000	-	-	**3,600**
Due to customers	78,091	16,958	23,637	92,793	25,218	16,220	3	**252,920**
Debt securities issued	-	-	-	-	-	-	-	**-**
Subordinated loans	-	-	-	-	-	1,000	-	**1,000**
Other liabilities	19	1,146	2	7	5	4	-	**1,183**
Total	**78,710**	**18,104**	**23,639**	**92,800**	**28,223**	**17,224**	**3**	**258,703**
Net position	**(18,304)**	**(4,998)**	**(6,424)**	**(55,307)**	**35,478**	**53,413**	**23,607**	**27,465**
Accumulated gap	***(18,304)***	***(23,302)***	***(29,726)***	***(85,033)***	***(49,555)***	***3,858***	***27,465***	
Loan commitments	**-**	8,994	-	-	-	-	-	**8,994**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Liquidity risk (cont'd)

The Bank	**31 December 2016**							
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Without maturity**	**Total**
Assets:								
Cash and due from banks	50,175	3,253	-	-	-	-	1,200	**54,628**
Investments in debt securities	-	83	5,986	8,634	13,830	12,834	56	**41,423**
Investments in subsidiaries	-	-	-	-	-	-	14,494	**14,494**
Loans to customers	-	3,780	5,913	26,849	42,154	40,883	7,501	**127,080**
Receivables with deferred payment	-	-	-	-	-	2,662	3	**2,665**
Loans to bank and financial institutions	-	273	120	239	691	2,899	-	**4,222**
Receivables from leasing	-	231	423	2,340	3,931	3,487	160	**10,572**
Other assets	-	1,917	-	2	-	-	8,094	**10,013**
Total	**50,175**	**9,537**	**12,442**	**38,064**	**60,606**	**62,765**	**31,508**	**265,097**
Liabilities:								
Due to banks and other credit institutions	1,431	-	-	4	-	3,000	-	**4,435**
Due to customers	75,262	18,192	24,354	90,266	15,571	9,053	4	**232,702**
Debt securities issued	-	-	-	-	-	-	-	**-**
Subordinated loans	-	-	-	-	-	1,000	-	**1,000**
Other liabilities	7	1,120	2	5	5	4	-	**1,143**
Total	**76,700**	**19,312**	**24,356**	**90,275**	**15,576**	**13,057**	**4**	**239,280**
Net position	**(26,525)**	**(9,775)**	**(11,914)**	**(52,211)**	**45,030**	**49,708**	**31,504**	**25,817**
Accumulated gap	***(26,525)***	***(36,300)***	***(48,214)***	***(100,425)***	***(55,395)***	***(5,687)***	***25,817***	***-***
Loan commitments		9,746						**9,746**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Liquidity risk (cont'd)

The Group	**31 December 2017** On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	Total
Assets:								
Cash and due from banks	60,449	3,335	-	66	-	-	1,209	**65,059**
Investments in debt securities	-	3,575	11,420	7,575	10,343	6,947	-	**39,860**
Loans to customers	-	3,959	5,263	26,031	46,137	59,748	6,142	**147,280**
Receivables with deferred payment	-	4	13	40	2,760	106	-	**2,923**
Loans to bank and financial institutions	-	249	7	1,380	-	-	-	**1,636**
Receivables from leasing	-	275	542	2,286	4,600	3,942	194	**11,839**
Other assets	-	2,045	-	-	-	-	14,543	**16,588**
Total	**60,449**	**13,442**	**17,245**	**37,378**	**63,840**	**70,743**	**22,088**	**285,185**
Liabilities:								
Due to banks and other credit institutions	600	-	-	-	3,000	-	-	**3,600**
Due to customers	77,026	16,958	23,637	92,793	25,218	16,220	3	**251,855**
Debt securities issued	-	-	-	-	-	-	-	**-**
Subordinated loans	-	-	-	-	-	1,000	-	**1,000**
Other liabilities	19	1,252	2	7	5	4	-	**1,289**
Total	**77,645**	**18,210**	**23,639**	**92,800**	**28,223**	**17,224**	**3**	**257,744**
Net position	**(17,196)**	**(4,768)**	**(6,394)**	**(55,422)**	**35,617**	**53,519**	**22,085**	**27,441**
Accumulated gap	**(17,196)**	**(21,964)**	**(28,358)**	**(83,780)**	**(48,163)**	**5,356**	**27,441**	
Loan commitments	**-**	8,994	-	-	-	-	-	**8,994**

The Group	**31 December 2016** On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	Total
Assets:								
Cash and due from banks	50,176	3,253	-	-	-	-	1,200	**54,629**
Investments in debt securities	-	83	5,986	8,634	13,830	12,834	56	**41,423**
Loans to customers	-	3,780	5,920	26,852	42,161	40,887	7,501	**127,101**
Receivables with deferred payment	125	-	-	318	264	2,986	3	**3,696**
Loans to bank and financial institutions	-	273	120	239	691	2,899	-	**4,222**
Receivables from leasing	-	231	423	2,340	3,931	3,487	160	**10,572**
Other assets	-	2,067	-	2	-	-	15,556	**17,625**
Total	**50,301**	**9,687**	**12,449**	**38,385**	**60,877**	**63,093**	**24,476**	**259,268**
Liabilities:								
Due to banks and other credit institutions	1,431	-	-	4	-	3,000	-	**4,435**
Due to customers	69,369	18,192	24,354	90,266	15,571	9,053	4	**226,809**
Debt securities issued	-	-	-	-	-	-	-	**-**
Subordinated loans	-	-	-	-	-	1,000	-	**1,000**
Other liabilities	73	1,120	2	5	5	4	-	**1,209**
Total	**70,873**	**19,312**	**24,356**	**90,275**	**15,576**	**13,057**	**4**	**233,453**
Net position	**(20,572)**	**(9,625)**	**(11,907)**	**(51,890)**	**45,301**	**50,036**	**24,472**	**25,815**
Accumulated gap	***(20,572)***	***(30,197)***	***(42,104)***	***(93,994)***	***(48,693)***	***1,343***	***25,815***	
Loan commitments		9,746						**9,746**

Overdue loans are disclosed under column "Without maturity" as at 31 December 2017 and 2016.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Liquidity risk (cont'd)

The following tables provide an analysis of financial liabilities based on contractual undiscounted repayment obligations:

The Bank

	31 December 2017							
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Without maturity**	**Total**
Liabilities:								
Due to banks and other credit institutions	600	-	-	-	3,000	-		**3,600**
Due to customers	78,088	17,061	23,804	93,546	25,953	17,095	4	**255,551**
Debt securities issued	-	-	-	-	-	-	-	**-**
Subordinated loans	-	-	-	-	-	1,000	-	**1,000**
Other liabilities	19	1,146	2	7	5	4	-	**1,183**
Guarantees	763	-	-	-	-	-	-	**763**
Credit commitments	8,994	-	-	-	-	-	-	**8,994**
Total undiscounted financial liabilities	**88,464**	**18,207**	**23,806**	**93,553**	**28,958**	**18,099**	**4**	**271,091**

The Bank

	31 December 2016							
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Without maturity**	**Total**
Liabilities:								
Due to banks and other credit institutions	1,431	-	-	4	-	3,000	-	**4,435**
Due to customers	75,262	18,276	24,471	90,848	16,118	9,649	4	**234,628**
Debt securities issued								**-**
Subordinated loans	-	-	-	-	-	1,000	-	**1,000**
Other liabilities	8	1,120	2	5	5	4	-	**1,144**
Guarantees	477	-	-	-	-	-	-	**477**
Credit commitments	9,746	-	-	-	-	-	-	**9,746**
Total undiscounted financial liabilities	**86,924**	**19,396**	**24,473**	**90,857**	**16,123**	**13,653**	**4**	**251,430**

The Group

	31 December 2017							
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Without maturity**	**Total**
Liabilities:								
Due to banks and other credit institutions	600	-	-	-	3,000	-	-	**3,600**
Due to customers	77,023	17,061	23,804	93,546	25,953	17,095	4	**254,486**
Debt securities issued	-	-	-	-	-	-	-	**-**
Subordinated loans	-	-	-	-	-	1,000	-	**1,000**
Other liabilities	19	1,252	2	7	5	4	-	**1,289**
Guarantees	763	-	-	-	-	-	-	**763**
Credit commitments	8,994	-	-	-	-	-	-	**8,994**
Total undiscounted financial liabilities	**87,399**	**18,313**	**23,806**	**93,553**	**28,958**	**18,099**	**4**	**270,132**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Liquidity risk (cont'd)

The Group

	31 December 2016							
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Without maturity**	**Total**
Liabilities:								
Due to banks and other credit institutions	1,431	-	-	4	-	3,000	-	**4,435**
Due to customers	69,369	18,276	24,471	90,848	16,118	9,649	4	**228,735**
Debt securities issued								**-**
Subordinated loans	-	-	-	-	-	1,000	-	**1,000**
Other liabilities	8	1,186	2	5	5	4	-	**1,210**
Guarantees	477	-	-	-	-	-	-	**477**
Credit commitments	9,746	-	-	-	-	-	-	**9,746**
Total undiscounted financial liabilities	**81,031**	**19,462**	**24,473**	**90,857**	**16,123**	**13,653**	**4**	**245,603**

The Group and the Bank do not expect to pay under any of the guarantees, though they were included in the range on demand assuming worst case scenario. In case of failure of clients to fulfil the obligations where the Group and the Bank have issued guarantees, guarantees would become payable on demand.

Market risk

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

The Bank and the Group by managing loans in foreclosure processes and holding as investment property repossessed assets face real estate market price risk. Real estate market price risk is the risk to incur losses due to low market liquidity that disables to sell assets at the desired time for a desired price or a possibility to sell available assets (investments) is lost.

The Bank

		Effect for profit and loss	
	Changes in presumptions	**31 December 2017**	**31 December 2016**
Land	+ 10%	443	344
Commercial property	+ 10%	596	414
Residential property	+ 10%	540	379
Other assets	+ 10%	143	116
Total		**1,722**	**1,253**
Land	- 10%	(443)	(344)
Commercial property	- 10%	(596)	(414)
Residential property	- 10%	(540)	(379)
Other assets	- 10%	(143)	(116)
Total		**(1,722)**	**(1,253)**

The Group

		Effect for profit and loss	
	Changes in presumptions	**31 December 2017**	**31 December 2016**
Land	+ 10%	742	729
Commercial property	+ 10%	697	554
Residential property	+ 10%	602	593
Other assets	+ 10%	165	142
Total		**2,206**	**2,018**
Land	- 10%	(742)	(729)
Commercial property	- 10%	(697)	(554)
Residential property	- 10%	(602)	(593)
Other assets	- 10%	(165)	(142)
Total		**(2,206)**	**(2,018)**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Interest rate risk

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

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

The Bank (The Group)		Effect on net interest income	
	Interest rate change	31 December 2017	31 December 2016
LTL	+ 1%	-	-
EUR	+ 1%	502	99
USD	+ 1%	77	41
Other	+ 1%	5	4
LTL	- 1%	-	-
EUR	- 1%	(502)	(99)
USD	- 1%	(77)	(41)
Other	- 1%	(5)	(4)

The table below summarises the Group's and the Bank's exposure to interest rate risk as at 31 December 2017 and 2016. The table below includes the Group's and the Bank's assets and liabilities at carrying amounts, classified by the earlier of contractual re-pricing or maturity dates.

	31 December 2017						
The Bank	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets:							
Cash and due from banks	3,335	-	-	-	-	-	**3,335**
Loans and receivables	32,615	38,300	63,652	18,255	5,063	6,472	**164,357**
Investments in debt securities	3,575	11,420	5,796	1,773	10,343	6,947	**39,854**
Other assets	203	20	30	30			**283**
Sensitive assets to interest rate fluctuation	**39,728**	**49,740**	**69,478**	**20,058**	**15,406**	**13.419**	**207,829**
Non-sensitive assets to interest rate fluctuation							**78,412**
Liabilities:							
Due to banks and other credit institutions	-	-	-	-	-	-	-
Due to customers	16,207	23,038	30,194	61,540	23,282	8,291	**162,552**
Debt securities issued	-	-	-	-	-	-	-
Other liabilities	1,723					8,800	**10,523**
Sensitive liabilities to interest rate fluctuation	**17,930**	**23,038**	**30,194**	**61,540**	**23,282**	**17,091**	**173,075**
Non-sensitive liabilities and equity to interest rate fluctuation							**113,166**
Total interest sensitivity gap	**21,798**	**26,702**	**39,284**	**(41,482)**	**(7,876)**	**(3,672)**	**-**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Interest rate risk (cont'd)

The Bank	**31 December 2016** **Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets:							
Cash and due from banks	3,290	78	-	-	-	-	**3,368**
Loans and receivables	14,432	33,329	46,690	30,049	4683	6,145	**135,328**
Investments in debt securities	82	5,986	1,954	6,680	13,822	12,833	**41,357**
Other assets	80	20	31	61	90	-	**282**
Sensitive assets to interest rate fluctuation	**17,884**	**39,413**	**48,675**	**36,790**	**18,595**	**18,978**	**180,335**
Non-sensitive assets to interest rate fluctuation							**85,562**
Liabilities:							
Due to banks and other credit institutions	-	-	-	4	-	-	**4**
Due to customers	16,406	24,102	37,170	52,810	15,217	5,048	**150,753**
Debt securities issued	-	-	-	-	-	-	**-**
Other liabilities	3,931	-	-	-	-	1,096	**5,027**
Sensitive liabilities to interest rate fluctuation	**20,337**	**24,102**	**37,170**	**52,814**	**15,217**	**6,144**	**155,784**
Non-sensitive liabilities and equity to interest rate fluctuation							**110,113**
Total interest sensitivity gap	**(2,453)**	**15,311**	**11,505**	**(16,024)**	**3,378**	**12,834**	**-**

The Group	**31 December 2017** **Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets:							
Cash and due from banks	3,335	-	-	-	-	-	**3,335**
Loans and receivables	32,627	38,328	63,681	18,120	5,199	6,578	**164,533**
Investments in debt securities	3,575	11,420	5,796	1,773	10,343	6,947	**39,854**
Other assets	203	20	30	30			**283**
Sensitive assets to interest rate fluctuation	**39,740**	**49,768**	**69,507**	**19,923**	**15,542**	**13,525**	**208,005**
Non-sensitive assets to interest rate fluctuation							**77,254**
Liabilities:							
Due to banks and other credit institutions							
Due to customers	16,207	23,038	30,194	61,540	23,282	8,291	**162,552**
Debt securities issued	-	-	-	-	-	-	-
Other liabilities	1,723					8,800	**10,523**
Sensitive liabilities to interest rate fluctuation	**17,930**	**23,038**	**30,194**	**61,540**	**23,282**	**17,091**	**173,075**
Non-sensitive liabilities and equity to interest rate fluctuation							**112,183**
Total interest sensitivity gap	**21,810**	**26,730**	**39,313**	**(41,617)**	**(7,740)**	**(3,566)**	**-**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Interest rate risk (cont'd)

	31 December 2016						
The Group	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets:							
Cash and due from banks	3,290	78	-	-	-	-	**3,368**
Loans and receivables	14,432	33,336	46,797	30,264	4,954	6,473	**136,256**
Investments in debt securities	82	5,986	1,954	6,680	13,822	12,833	**41,357**
Other assets	80	20	31	61	90	-	**282**
Sensitive assets to interest rate fluctuation	**17,884**	**39,420**	**48,782**	**37,005**	**18,866**	**19,306**	**181,263**
Non-sensitive assets to interest rate fluctuation							**78,805**
Liabilities:							
Due to banks and other credit institutions	-	-	-	4	-	-	**4**
Due to customers	16,406	24,102	37,170	52,810	15,217	5,048	**150,753**
Debt securities issued	-	-	-	-	-	-	**-**
Other liabilities	3,931	-	-	-	-	1,096	**5,027**
Sensitive liabilities to interest rate fluctuation	**20,337**	**24,102**	**37,170**	**52,814**	**15,217**	**6,144**	**155,784**
Non-sensitive liabilities and equity to interest rate fluctuation							**104,503**
Total interest sensitivity gap	**(2,453)**	**15,318**	**11,612**	**(15,809)**	**3,649**	**13,162**	**-**

The Bank and the Group is exposed to the price risk, which arises from investments measured as fair value though profit and loss (FVTPL). The management of the Group monitors the proportions of debt securities in its investment portfolio based on market indices. The Bank estimates the impact of the change in market yields on the value of the securities designated at fair value portfolio as at 31 December 2016. The Bank had no securities designated at fair value portfolio as at 31 December 2017.

The table below shows the impact of the change in value of securities designated at fair value if the yield increases/decreases by one percentage point on pre-tax income and equity:

The Bank / the Group		**2017**	**2016**
	Yield change	**Pre-tax impact on profit**	
Securities designated at FVTPL	+1%	-	(93)
	-1%	-	95

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Currency risk

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

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

The Bank	**Statement of financial position**		**Off Balance sheet**			
31 December 2017	Assets	Equity and liabilities	Contingent claims	Contingent liabilities	Open position	Position as % of capital
EUR	253,510	263,234	9,840	202	(86)	(0.40)%
USD	19,963	19,622	-	417	(76)	(0.35)%
Other currencies	12,695	3,312	201	9,448	136	0.63%
Total assets	**286,168**	**286,168**	**10,041**	**10,067**		
Long positions						320
Short positions						(260)
Eligible capital						21,426
Open foreign currency position 2017						**1.50%**

The Bank	**Statement of financial position**		**Off Balance sheet**			
31 December 2016	Assets	Equity and liabilities	Contingent claims	Contingent liabilities	Open position	Position as % of capital
EUR	233,790	243,281	9,104	-	(387)	(1.99)%
USD	19,485	19,441	-	-	44	0.23%
Other currencies	11,822	2,375	-	9,096	351	1.81%
Total assets	**265,097**	**265,097**	**9,104**	**9,096**		
Long positions						420
Short positions						(25)
Eligible capital						19,422
Open foreign currency position 2016						**2.16%**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Currency risk (cont'd)

The Group	**Statement of financial position**		**Off Balance sheet**			
31 December 2017	Assets	Equity and liabilities	Contingent claims	Contingent liabilities	Open position	Position as % of capital
EUR	252,527	262,251	9,840	202	(86)	(0.39)%
USD	19,963	19,622	-	417	(76)	(0.35)%
Other currencies	12,695	3,312	201	9,448	136	0.62%
Total assets	**285,185**	**285,185**	**10,041**	**10,067**		
Long positions						320
Short positions						(260)
Eligible capital						21,907
Open foreign currency position 2017						**1.46%**

The Group	**Statement of financial position**		**Off Balance sheet**			
31 December 2016	Assets	Equity and liabilities	Contingent claims	Contingent liabilities	Open position	Position as % of capital
EUR	227,961	237,452	9,104	-	(387)	(1.88)%
USD	19,485	19,441	-	-	44	0.21%
Other currencies	11,822	2,375	-	9,096	351	1.70%
Total assets	**259,268**	**259,268**	**9,104**	**9,096**		
Long positions						420
Short positions						(25)
Eligible capital						20,622
Open foreign currency position 2016						**2.04%**

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

	2017	**2016**
Increase in FX rates by 10%	6	40
Decrease in FX rates by 10%	(6)	(40)

Anti-money laundering risk management

UAB Medicinos Bankas is implementing money laundering and terrorist financing prevention policy according to the legislation of the Republic of Lithuania and international legislation.

The Bank's money laundering and terrorist financing prevention policy's aims, its implementation procedures and instruments are regulated in the special Bank's documents.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Anti-money laundering risk management (cont'd)

Main procedures of money laundering and terrorist financing prevention:
- Know Your Customer procedures;
- customer identification;
- monitoring of the financial transactions performed by customers;
- identification of suspicious transactions and termination hereof (special systems introduced at the Bank enable to efficiently implement the procedure);
- keeping of information about transactions performed by customers and register handling;
- providing timely information to the Bank staff and training;
- internal control.

The Bank is following strict ethical and moral norms and is working with those clients whose funds and assets are reasonable and whose legitimacy is not doubtful.

Note 35 Capital

The Group's and the Bank's capital management procedures are based on the regulatory capital requirements contained in the Capital Requirements Directive (CRD) and in the Capital Requirements Regulation (CRR), which took effect on 1 January 2015. The CRD consists of three pillars two of which were represented in the financial statements:

Pillar one contains a set of rules for the mathematical calculation of capital requirements for credit, market and operational risks. These rules are set by Regulation (EU) No. 575/2013 of the European Parliament and of the Council and require banks to maintain a common equity Tier 1 capital ratio of 4.5% and a total capital adequacy ratio of 8% of risk-weighted assets. On 30 June 2015 a new requirement for Tier 1 equity items came into effect. According to these requirements, there is a need to accumulate additional reserve, which is equal to 2.5 percentage from generally evaluated risk amount. The risk weighted asset is determined based on a standard method when different risk weight is attributed to different categories of asset based on its type and risk involved, taking into account collateral and warranties, which hedge the risk. Off-balance sheet positions are evaluated in a similar way. Operating risk capital adequacy requirement is determined based on the base indicator method. From December 2018 the obligation to accumulate an additional countercyclical capital buffer of 0.5 per cent will come into force. From 2018 December the set countercyclical capital buffer rate would increase capital assets by approximately EUR 610 thousand.

CRD IV and CRR requirements for the Bank's capital adequacy ratios for the year end in percentage

Capital components	**2016**	**2017**	**2018**
General capital adequacy ratio	8.00	8.00	8.00
General capital adequacy ratio plus Pillar II	11.40	11.40	11.40
General capital adequacy ratio plus Pillar II and Capital conservation buffer	13.90	13.90	13.90

Pillar two describes the supervisory review process and requires banks to carry out an internal capital adequacy assessment process (ICAAP).

The Bank's internal capital adequacy monitoring process is reviewed at least once a year and the most critical risks to the Bank are determined. The Bank assesses that credit, market, liquidity, concentration and operating risks are the most important to the Bank's activities. Also, during the review process all of the above mentioned risks are divided into sub-categories. All structural units of the Bank are involved in self-assessment to exposure of such risks. Based on the identified significant risks, an additional capital adequacy requirement (in addition to the Pillar one ratio) is determined. An additional required capital is determined on a periodical basis based on stress testing and internal capital adequacy assessment.

Based on self-assessment results the Bank's management determined that credit risk is the most significant to the Bank. Concentration risk is assessed as a part of credit risk. Operating risk was assessed as moderate in the Bank. The following subcategories of operating risk are analysed in the Bank: IT risk and the Bank's employees' mistake risk. Liquidity risk is managed centrally; however, due to the fact that the Bank does not have a strong parent company (financial institution), this risk is assessed as medium. Market risk includes foreign exchange, debt securities price risks. Other risks are considered as not material. There are internal regulations in the Bank which determine risk management process integrity. The risks taken by the Bank are controlled by limit system that is implemented in the Bank. In addition to the limit system, additional measures such as risk source monitoring and informing Bank's management are applied.

In addition to assessment of various risks and calculation of required additional capital stress testing for credit, liquidity, market, interest rate, foreign exchange and operational risks is performed. The purpose of such test is to determine whether the Bank's capital is sufficient to cover potential losses due to possible deterioration of the financial position of the Bank. Stress testing is performed once a year in order to comply with the regulations set by the Bank of Lithuania.

(All amounts in EUR thousand unless otherwise stated)

Note 35 Capital (cont'd)

The primary objectives of the Group's and the Bank's capital management are to ensure that the Group and the Bank comply with externally imposed capital requirements and that the Group and the Bank maintain healthy capital ratios in order to support their business and to maximise the shareholders' value. Taking into consideration Regulation (EU) No. 575/2013 of the European Parliament and of the Council and capital adequacy requirements, the Bank's and the Group's total capital adequacy ratio should not be less than 13.90 percent. As at 31 December 2017, the Group's and the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

Capital adequacy ratio, according to the requirements of the Bank of Lithuania, was estimated as follows:

	2017		2016	
	Group	Bank	Group (restated)*	Bank (restated)*
Capital adequacy ratio	**15.01**	**14.59**	**14.08**	**12.79**
As reported in previous year financial statements			17.04	16.47

* After the inspection performed by the Bank of Lithuania in 2017, the calculation of the capital adequacy ratio for 2016 was adjusted (explained below).

The Capital adequacy ratio is estimated by taking into consideration share capital, retained earnings, reserve capital, legal reserve and revaluation reserves, but excluding the current year result until the approval of the annual shareholder's meeting. Furthermore, the increase in the impairment provisions decrease the capital base, not taking into consideration any reversal of the provisions during the year. As the net result of the year subsequently is included in the capital base after the annual results are approved by the shareholder, for the disclosure purposes the Bank and the Group presented the Capital adequacy ratio including the current year result and not taking into consideration the increase in the impairment provisions.

	2017		2016	
	Group	Bank	Group (restated)	Bank (restated)
Capital adequacy ratio (taking into consideration the current year result and not taking into consideration the net increase in the impairment provisions)	**17.77**	**17.70**	**15.84**	**15.27**

The result for the reporting year will be included in the capital base after the general shareholders' meeting approves the annual statements and if the profit is transferred to capital reserves.

The Bank's capital adequacy ratio for 2016 was adjusted due to the following:

1) Tier 1 capital, which comprises share capital, retained earnings, reserve capital, legal reserve and revaluation reserves, was adjusted for:
   a. reduced by not including the profit of EUR 1 077 thousand for 2016;
   b. general and specific credit risk provisions were included which decreased Tier 1 equity by EUR 3,249 thousand;
   c. additional special provision of EUR 246 thousand (see Note 36) decreased the retained earnings;
2) Tier 2 capital was adjusted as the subordinated loan of EUR 1 000 thousand was not included in the capital base.

The Group's capital adequacy ratio for 2016 was adjusted due to the following:

1) Tier 1 capital, which comprises share capital, retained earnings, reserve capital, legal reserve and revaluation reserves, was adjusted for:
   a. reduced by not including the profit of EUR 1 074 thousand for 2016;
   b. general and specific credit risks provisions were included which decreased Tier 1 equity by EUR 2,050 thousand;
   c. additional special provision of EUR 246 thousand (see Note 36) decreased the retained earnings;
2) Tier 2 capital was adjusted as the subordinated loan of EUR 1 000 thousand was not included in the capital base.

Considering the above adjustments, the Bank and the Group as at 31 December 2016 has not complied with the restated general capital adequacy ratio plus Pillar II and Capital conservation buffer for 2016. On 30 March 2017 the shareholder approved the annual results for 2016, transferring the profit of 2016 year to the capital reserves. After the approval of the shareholder results, the Bank and Group complied with the capital adequacy ratio.

After the review of the regulator, the Bank took actions to improve the procedures in the bank according to decisions of the regulator. The lending to the shareholder-related companies was reduced by approximately EUR 2.5 million during 2017. When the limitations were eliminated, the regulator approved the inclusion of the subordinated loan to the Tier 2 capital base.

(All amounts in EUR thousand unless otherwise stated)

Note 36 Corrections of errors

Correction of errors in its financial statements since 2015.

STATEMENTS OF FINANCIAL POSITION

	The Group			The Bank		
Assets	**31 December 2015**	**Adjustment**	**31 December 2015 (restated)**	**31 December 2015**	**Adjustment**	**31 December 2015 (restated)**
Loans to customers	122,612	(246)	122,366	122,595	(246)	122,349
Receivables with deferred payment	4,714	-	4,714	3,259	-	3,259
Loans to bank and financial institutions	5,271	-	5,271	5,271	-	5,271
Finance lease receivable	11,393	-	11,393	11,393	-	11,393
	143,990	(246)	143,744	142,518	(246)	142,272
Total assets	**243,353**	**(246)**	**243,107**	**247,270**	**(246)**	**247,024**

Equity	**31 December 2015**	**Adjustment**	**31 December 2015 (restated)**	**31 December 2015**	**Adjustment**	**31 December 2015 (restated)**
Retained earnings	1,039	(246)	793	1,037	(246)	791
Total shareholders' equity	**25,540**	**(246)**	**25,294**	**25,538**	**(246)**	**25,292**

	The Group			The Bank		
Assets	**31 December 2016**	**Adjustment**	**31 December 2016 (restated)**	**31 December 2016**	**Adjustment**	**31 December 2016 (restated)**
Loans to customers	127,875	(774)	127,101	127,854	(774)	127,080
Receivables with deferred payment	3,700	(4)	3,696	2,669	(4)	2,665
Loans to bank and financial institutions	4,228	(6)	4,222	4,228	(6)	4,222
Finance lease receivable	10,588	(16)	10,572	10,588	(16)	10,572
	146,391	(800)	145,591	145,339	(800)	145,539
Total assets	**260,068**	**(800)**	**259,268**	**265,897**	**(800)**	**265,097**

Equity	**31 December 2016**	**Adjustment**	**31 December 2016 (restated)**	**31 December 2016**	**Adjustment**	**31 December 2016 (restated)**
Retained earnings	1,081	(800)	281	1,083	(800)	283
Total shareholders' equity	**26,615**	**(800)**	**25,815**	**26,617**	**(800)**	**25,817**

(All amounts in EUR thousand unless otherwise stated)

Note 36 Corrections of errors (cont'd)

INCOME STATEMENTS

The Group				The Bank		
31 December 2016	**Adjustment**	**31 December 2016 (restated)**		**31 December 2016**	**Adjustment**	**31 December 2016 (restated)**
(1,263)	(554)	(1,817)	Impairment of loans and other financial assets	(994)	(554)	(1,548)
1,074	**(554)**	**520**	**Profit (loss) for the year**	**1,077**	**(554)**	**523**

There was no impact of the correction of errors on operating, investing and financing cash flows for the year ended 2016.

Note 37 Events after the reporting date

There were no material subsequent events that would require adjustment of or disclosure in those financial statements of the Group and the Bank.

UAB MEDICINOS BANKAS

BANK'S SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2016
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

CONTENTS OF FINANCIAL STATEMENTS

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Website: kpmg.com/lt

Independent Auditor's Report

To the Shareholders of UAB Medicinos Bankas

Opinion

We have audited the separate financial statements of UAB Medicinos Bankas (hereinafter "the Bank"), which comprise the separate statement of financial position as at 31 December 2016, the separate statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

We have also audited the consolidated financial statements of UAB Medicinos Bankas and its subsidiaries (hereinafter "the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Bank as at 31 December 2016, and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements* section of our report. We are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Bank's consolidated annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the separate and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Company code: 111494971
VAT code: LT114949716

Responsibilities of Management and Those Charged with Governance for the Separate and Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these separate and consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Bank's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditor's report is Domantas Dabulis.

On behalf of KPMG Baltics, UAB

Domantas Dabulis
Partner pp
Certified Auditor

Rūta Kupinienė
Certified auditor

Vilnius, the Republic of Lithuania
20 March 2017

(All amounts in EUR thousand unless otherwise stated)

ANNUAL MANAGEMENT REPORT

The reporting period covered by the Consolidated Annual Report

Year 2016.

Group companies, contact details and types of their main activities

Company name	UAB Medicinos Bankas
Legal form	Joint stock company
Legal address	Pamėnkalnio St. 40, LT-01114 Vilnius
Legal entity code	112027077
Registration date and place	24 November 1992, Vilnius (as KB Ancorobank), and 16 January 1997 reorganized into UAB Medicinos Bankas.
Telephone	(8 5) 264 48 00
Facsimile	(8 5) 264 48 01
E-mail address	info@medbank.lt
Website address	www.medbank.lt

Main activities. UAB Medicinos Bankas is a joint stock company, a credit institution operating on share capital basis and is licensed by the Bank of Lithuania to engage in such types of activities as acceptance of deposits and other refundable means from non-professional market participants and funds lending, also it is entitled to engage in offering other financial services and assumes relevant related risks and liability.

Company name	UAB MB Turtas
Legal form	Joint stock company
Legal address	Pamėnkalnio St. 40, LT-01114 Vilnius
Legal entity code	302426051
Registration date and place	12 August 2009, Vilnius
Telephone	8 612 35933
Facsimile	(8 5) 264 48 01
E-mail address	mbturtas@medbank.lt
Website address	www.mbturtas.lt

Main activities. Real estate management and development.

Company name	UAB MB Valda
Legal form	Joint stock company
Legal address	Pamėnkalnio St. 40, LT-01114 Vilnius
Legal entity code	302461718
Registration date and place	30 November 2009, Vilnius
Telephone	8 612 62039
Facsimile	(8 5) 264 48 01
E-mail address	mbvalda@medbank.lt
Website address	www.mbturtas.lt

Main activities. Real estate management and development.

Company name	UAB MB Investicija
Legal form	Joint stock company
Legal address	Pamėnkalnio St. 40-17, LT-01114 Vilnius
Legal entity code	302700004
Registration date and place	16 December 2011, Vilnius
Telephone	8 682 82107
Facsimile	(8 5) 264 48 01
E-mail address	info@mbinvesticija.lt
Website address	www.mbturtas.lt

Main activities. Real estate management and development.

(All amounts in EUR thousand unless otherwise stated)

Company name	UAB TG Invest-1
Legal form	Joint stock company
Legal address	Pamėnkalnio St. 40-5, LT-01114 Vilnius
Legal entity code	302464707
Registration date and place	17 May 2013, Vilnius
Telephone	8 682 82107
Facsimile	(8 5) 264 48 01
E-mail address	e-saskaita@tginvest1.lt
Website address	www.mbturtas.lt

Main activities. Real estate management and development.

Company name	SIA Nida Capital
Legal form	Joint stock company
Legal address	Valnu St. 3-25, LV-1050 Riga
Legal entity code	40103774894
Registration date and place	31 March 2014, Riga
Telephone	8 612 23 933
Facsimile	(8 5) 264 48 01
E-mail address	info@medbank.lt
Website address	www.mbturtas.lt

Main activities. Real estate management and development.

1. Objective overview of the Bank's and the Group's status, activities and development, analysis of the Group's financial performance

In 2016, net profit earned by the Group was EUR 1.07 million, by the Bank EUR 1.08 million. It was mostly influenced by the Group's lower impairment losses of loans, which decreased by 34.12 percent or EUR 0.65 million. The Group's revenue from net service fee and commission income increased by 32.93 percent or EUR 0.69 million.

The Group's revenue from foreign exchange trading decreased by EUR 1.17 million and the annual amount was EUR 3.18 million. The Group's net interest income during the year amounted to EUR 6.05 million.

The Group's operating expenses increased by 3.22 percent or EUR 0.31 million due to salary increase.

At the end of 2016, the Group's assets amounted to EUR 260.07 million, since 2015 the assets increased by EUR 16.72 million or 6.87 percent. The Group's loan and receivables portfolio during the year 2016 increased by 1.67 percent and reached EUR 146.39 million. The proportion between specific provisions and loan portfolio during the year decreased from 4.45 percent at the beginning of the year to 3.07 percent at the end of the year 2016.

During the year, deposits increased by 6.99 percent to EUR 226.81 million.

At the end of 2016, the shareholders' equity of the Group was EUR 26.62 million, i.e. it increased during the year by EUR 1.08 million or 4.21 percent. During the year, the Group's capital adequacy ratio, which reflects the Group's assumed risk coverage by capital and the Group's stability, increased from 14.19 percent at the end of 2015 to 17.03 percent at the end of the year 2016.

Description of the main risk types and uncertainties

The risks related to activities of the Group and the Bank are managed in line with the principles of Risk Management Policy approved by the Board of the Bank. Certain operating risks are hedged by implementing the internal system of limits. The structure of Group's risks is traditional, i.e. credit, market, liquidity, and operating risks prevail.

In 2016, the Bank complied with all the prudential requirements specified by the Bank of Lithuania: own fund requirements, liquidity requirements and maximum exposure to a single borrower ratio.

Ratios and prudential requirements for banking activities

Own funds requirements — banks shall satisfy the following own funds requirements:
- a common equity Tier 1 capital ratio of 4.5 per cent;
- a Tier 1 capital adequacy ratio of 6 per cent;
- a total capital ratio of 8 per cent.

– **Liquidity requirements** – the value of the liquidity coverage ratio (LCR) cannot be less than 100 per cent.

– **Maximum exposure to a single borrower ratio** — the amount of loans to a single borrower, taking into account the impact of credit risk mitigation measures, shall not be above 25 per cent of a bank's eligible capital. When the client is an institution (a bank or an investment company) or when a group of connected clients includes one or several institutions, that value shall not be above 25 per cent of the institution's eligible capital, or EUR 150 million (taking into account which of the values is larger). The amount of loans granted by the bank to its parent undertaking, other subsidiaries of this parent undertaking is not limited if the whole financial group's supervision on a consolidated basis is carried out following the Capital Requirements Directive and Regulation (CRDIV/CRR) or analogous standards effective in a third country.

Credit risk

Credit risk is the risk that the Group and the Bank will incur loss because their customers or counterparties failed to discharge their contractual obligations. The Group and the Bank manage and control credit risk by setting limits on the amount of risk they are willing to accept for individual counterparties and for industry concentrations, and by monitoring exposures in relation to such limits. The Group has established a credit quality review process to provide early identification of changes in the creditworthiness of counterparties, including regular collateral revision. The credit quality review process allows the Group and the Bank to assess the potential loss to which it is exposed and to take the necessary corrective action.

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments related to financial instruments as they actually fall due. In order to manage liquidity risk, the Group and the Bank perform daily monitoring of internal limits and future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process.

Market risk

The Group and the Bank experience risk exposed to effects of fluctuation in the prevailing foreign currency exchange rates on their financial position and cash flows. The currency risk is managed by monitoring the risk exposure against the limits established for single open currency position. Positions are monitored on a daily basis. The Bank's policy is to keep foreign exchange positions more or less closed.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the interest rate gaps and the minimum interest rate margin. The limits are monitored on a monthly basis. Interest rate risk is managed by forecasting the market interest rates and by managing the mismatches between assets and liabilities from re-pricing maturities.

Real estate market price risk is the risk to incur losses due to low market liquidity that disables to sell assets at the desired time for a desired price or a possibility to sell available assets (investments) is lost. The market risk is managed and controlled by continuous market monitoring and analysis of forecasted market changes.

Operational risk

Operational risk is the risk to incur losses due to improper internal processes, human mistakes, system disorders or external factors. Definition of operational risk involves legal and reputational risks.

Detailed information about main risks and implementation of prudential requirements set by the Bank of Lithuania is presented in explanatory notes to the financial statements for the year 2016.

2. Non-financial performance analysis of the Bank and the Group, environmental protection and human resource information

UAB Medicinos Bankas is a member of Global Compact – the international movement for socially responsible business initiated by the United Nations – that encourages businesses to develop their activities on the basis of ten universal principles concerning human rights, employee rights and environmental protection, as well as to contribute to the fight against corruption. The Group expects that implementation of principles of Global Compact will form the basis for long-term value for the Group customers, staff, and shareholders.

The Group continued to provide its long time support to the Charity and Support Fund of S. Karosas. The fund was established 18 years ago, has provided financial support to young musicians and future artists, therefore the Group is glad to be a part of the country's artistic and cultural development.

As of 31 December 2016 the Group employed 417 employees (484 employees as of 31 December 2015).

(All amounts in EUR thousand unless otherwise stated)

3. Notes on consolidated financial statements and data

Key financial data are presented in the Group's consolidated financial statements.

4. Data on acquisition of own shares

UAB Medicinos Bankas and the Group's enterprises do not have own shares, they did not acquire or transfer own shares during the reporting period.

5. Information about the Bank's branches and representatives

At the end of 2016, the Bank had 57 client service subdivisions: 7 branches, 49 customer service divisions and subdivisions, 1 exchange offices in different regions of Lithuania.

Bank branches:

Centras Branch
Pamėnkalnio St. 40, LT-01114 Vilnius

Šalčininkai Branch
Vilniaus St. 63, LT-17116 Šalčininkai

Kaunas Branch
Vytauto Avenue 14, LT-44355 Kaunas

Klaipėda Branch
Šermukšnių St. 1, LT-91206 Klaipėda

Šiauliai Branch
Varpo St. 25-10, LT-76298 Šiauliai

Panevėžys Branch
J. Basanavičiaus St. 3, LT-35182 Panevėžys

Lazdijai Branch
Seinų St. 5-41A, LT-67113 Lazdijai

6. Material events after the end of financial year

There were no material events after the end of the financial year to be disclosed in the financial statements or explanatory notes.

7. Company's business planning & forecasting

The Bank has developed a strategic plan for the period from 2016 until 2018.

Major assumptions of the Bank's strategic plan for the period 2016–2018 are as follows:

Assumption	2017	2018
Increase of performing loan portfolio	12.11%	11.80%
Changes in liabilities to customers	3.59%	5.62%
Increase in net interest income	24.00%	18.32%
ROE	5.82%	8.61%
Impairment expenses in comparison with loan portfolio	0.52%	0.44%

The main objectives of the Bank are to ensure a profitable and successfully growing banking business by providing high quality services to the Bank's target customers – micro, small and medium-sized businesses. The Group's management structure ensures prompt and high quality work with customers in selecting the individual client-tailored solutions and rapid response into changes in the financial markets. Rational customer service network enables the Group to ensure growing income from the daily financial services provision. Despite the rapid development of information technologies, direct human contact remains very important, which is based on the relationships between the Group and its customers based on mutual trust and respect screened by the long-term co-operation.

Another important factor to the Bank's business perspectives now and in the future is continuous development of banking innovations, by adopting and developing of both new services and new technologies.

(All amounts in EUR thousand unless otherwise stated)

Taking into consideration the increasing supervisory requirements, the economic environment and the strategic goal to ensure stable performance, the Bank pays special attention to increase its own capital basis. As a part of this strategy, in the near future the major shareholder intends to increase the Bank's capital basis by transferring all profit earned in 2016–2018 into capital reserves. This would amount to about EUR 7.7 million (EUR 1.1 million in 2017, EUR 2.7 million in 2018 and EUR 3.9 million in 2019).

8. The Group's information on the remuneration policy and its implementation

Remuneration Policy of UAB Medicinos Bankas, which was approved on 20 April 2016 by the decision of the Supervisory Board decision, applies to the Bank's and the Group's staff.

According to this policy, the Group's managers and employees, who take decisions on transactions with evidence of the risk, and to employees controlling conclusion of such transactions are exempt from variable remuneration. This should increase Group's efficiency and reliability in risk management.

The remuneration of the Group's employees consists of a contract of employment, additional occasional payments (allowances and presents) and variable component. Contract of employment, which certain amount is agreed under contract of employment, and a variable component, the amount and payment terms of which depend on the Group's and the individual employee's performance and which may be paid in cash and non-cash instruments. Variable part cannot exceed 100% of annual employee salary amount.

Employees' salary is the biggest part of his remuneration and reflects employees' professional experience and responsibility level in organization.
Variable component could be paid:
- For additional (parallel) job;
- For substitution of temporary free position;
- For temporary bigger work flow.

Variable component could not exceed 50% of annual employee salary amount.

Conditions, value and circumstances of Additional occasional payments are described under the Group's internal acts.

The Group's CEO takes decisions related with value of contract of employment, value of variable component or additional occasional payment according this remuneration policy and other internal acts.

The Bank's Supervisory Board is responsible for setting the principles of the Remuneration Policy and calculation models of the variable part of the remuneration. Due to the Group's size, organizational structure, operational nature and scale there is no the Remuneration Committee. Its functions is dedicated to The Bank's Supervisory Board. The Bank's Supervisory Board assesses Remunerations policy adequacy to Groups taken risk, capital of the Bank, its liquidity and compatibility with Bank strategy and long term performance interests.

General quantitative information by business areas:

Year 2016	Fixed remuneration (thous. EUR)*	Variable remuneration (thous. EUR)	Number of recipients
UAB Medicinos Bankas	**4,762**	**119**	**417**
The Bank's senior management	310	-	4
Employees subject to specific principles	285	-	11
Other employees	4,167	119	402
Employees of the Group companies	78	-	5
Total for the Group	**4,840**	**119**	**422**

* Paid amounts without taxes paid by employer

The variable remuneration for the performance of the year 2016 was not paid to the Bank's senior management, risk taking employees and employees responsible for control. T

The total variable remuneration payments were for the Bank's employees, subject only to the general principles of the Remuneration Policy. All of designated variable part of the remuneration in 2016 was paid in cash.

In 2016 deferred variable remuneration was not paid.

Benefit appointment related with the termination of a contract:

Year 2016	Number of recipients	Amount of severance pay (thous. EUR)	Biggest amount for one recipient (thous. EUR)
The Bank	62	208	37
The Group companies	-	-	-

9. Information on the internal management

According to the Statute of UAB Medicinos Bankas, internal Bank bodies are:

• The General Meeting of Shareholders (hereinafter “the Meeting”);
• The Supervisory Board (hereinafter “the Council”);
• The Management Board (hereinafter “the Board”);
• Chief Executive Officer.

The competence of the General Meeting of Shareholders and shareholders’ rights and their exercising are provided for by the laws of the Republic of Lithuania.

The Council, the Board and the Chief Executive Officer are the Bank’s management bodies.

The Council is a collegiate supervisory body carrying out the function of supervision over the Bank’s activities. The Council consisting of 4 members is elected by the Meeting. The Council elects the Management Board members and revokes them from their positions, supervises over the activities of the Management Board and Chief Executive Officer and has other rights and duties assigned by laws of the Republic of Lithuania and by the Bank’s Statute.

The Management Board is a collegiate management body of the Bank, consisting of 4 members and elected by the Council. The Management Board manages the Bank, handles its daily matters, represents the Bank’s interests and is liable for the financial services of the Bank as prescribed by law. The Management Board elects and revokes Head of the Management Board and Chief Executive Officer and his deputies and has other rights and duties assigned by laws of the Republic of Lithuania and by the Bank’s Statute. Individual members of the Management Board have no powers granted to them as members of the Management Board, they act jointly as a collegiate body and separately as heads of relevant divisions of UAB Medicinos Bankas.

Head of the Management Board jointly acts as the Chief Executive Officer. Chief Executive Officer is the sole governing body of the Bank. Chief Executive Officer acts in the name of the Bank, organizes the Bank’s day-to-day activities and has other functions assigned by laws of the Republic of Lithuania and by the Bank’s Statute.

Chief Executive Officer has 3 deputies:

Deputy Chief Executive Officer for finance markets,
Deputy Chief Executive Officer for law,
Deputy Chief Executive Officer for finance management. Deputy Chief Executive Officer for finance management acts as the Chief Financial Officer at the same time.

Committees of the Bank

The Bank has continuously operating non-structural divisions: Loan, Internal Audit and Risk Management committees. Formation of the Loan, Internal Audit and Risk Management committees, their activities and competence is established by the Supervisory Authority legislation, the Statute, committee regulations and other regulations approved by the Bank bodies.

Loan Committee examines the loan application documents, takes decisions regarding loans granting and the conditions for granting loans and their amendments, evaluates credit risk, provides suggestions on the loan, the loan interest rate, improvement of loan administration procedures, and performs other functions approved by the Board. The Board approves the members of the Loan Committee and performs its supervision.

The Risk Management Committee determines, assesses, monitors and controls all types of risks faced by the Bank and the Bank's financial group. The Committee also controls the acceptable risk parameters, and performs other functions prescribed by the regulations. The Board approves the members of the Risk Management Committee and performs its supervision.

The Bank Audit Committee periodically discusses the effectiveness of the Bank's internal control systems, coordinates and periodically evaluates the internal audit department's work. The Committee discusses internal and external audit reports and performs other duties prescribed by the Supervisory Authority legislation and by the regulations of the Internal Audit Committee. The Council approves the members of the Internal Audit Committee and the Committee’s regulations, and performs the supervision of the Committee.

10. Internal control system of the Bank

Requirements for internal control system of the Bank are established by laws and the legislation of the Supervisory Authority. The reliable and proper internal control system and an independent Audit Division ensure efficiency of the Bank's internal control.

Audit Division is the Bank's internal audit unit that develops internal control system evaluation methods, analyses and evaluates the adequacy and efficiency of the Bank's internal control system, and the use of internal control procedures. Internal Audit Division checks whether the assumption of risk does not exceed the Bank's risk limits and compliance with legislative requirements and the requirements of the Supervisory Authority, the implementation of the Bank's business strategy, the Bank's policies and compliance with the Bank's policy and procedures; it also performs other functions prescribed by the regulations. Internal Audit Division activities and regulations are approved by the Internal Audit Committee.

Acting Chairman of the Board and Chief Executive Officer Dalia Klišauskienė

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The Group				The Bank	
31 December 2016	**31 December 2015**	**Assets**	**Notes**	**31 December 2016**	**31 December 2015**
		Cash and due from central bank			
21,588	*24,327*	*Cash*		*21,588*	*24,327*
21,058	*1,550*	*Placements with the central bank*	5	*21,058*	*1,550*
42,646	25,877			42,646	25,877
11,983	19,034	Placements with banks and other credit institutions	6	11,982	19,008
		Financial assets at fair value through profit or loss			
30	*41*	*Derivative financial instruments*	15	*30*	*41*
7,763	*8,676*	*Debt securities*	7	*7,763*	*8,676*
7,793	8,717			*7,793*	8,717
33,660	24,943	Held-to-maturity investments	8	33,660	24,943
127,875	122,612	Loans to customers	9	127,854	122,595
3,700	4,714	Receivables with deferred payment	9	2,669	3,259
4,228	5,271	Loans to bank and financial institutions	9	4,228	5,271
10,588	11,393	Finance lease receivable	9	10,588	11,393
146,391	143,990			145,339	142,518
-	-	Investments in subsidiaries	13	14,494	16,105
8,354	11,192	Investment property	12	913	1,200
4,389	3,988	Property and equipment	10	4,389	3,988
383	276	Intangible assets	11	383	276
		Tax assets			
	-	*Current taxes*			-
1,897	*1,607*	*Deferred taxes*	30	*1,897*	*1,607*
1,897	1,607			1,897	1,607
2,572	3,729	Other assets	14	2,401	3,031
260,068	**243,353**	**Total assets**		**265,897**	**247,270**

(continued on the next page)

The accompanying notes on pages 21 to 96 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

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

The Group				The Bank	
31 December 2016	31 December 2015	Liabilities and equity	Notes	31 December 2016	31 December 2015
		Liabilities			
4,435	4,310	Due to banks and other credit institutions	16	4,435	4,310
19	16	Derivative financial instruments	15	19	16
226,809	211,982	Due to customers	17	232,702	213,945
1,000	-	Subordinated loans	18	1,000	-
-	131	Debt securities issued	18	-	2,270
		Tax liabilities			
21	*12*	*Current taxes*	30	*21*	*12*
-	-	*Deferred taxes*		-	-
21	12			21	12
1,169	1,362	Other liabilities	19	1,103	1,179
233,453	**217,813**	**Total liabilities**		**239,280**	**221,732**
		Equity			
19,948	19,948	Share capital	20	19,948	19,948
1,081	1,039	Retained earnings		1,083	1,037
343	348	Revaluation reserve of property and equipment	20	343	348
5,243	4,205	Other reserves	20	5,243	4,205
26,615	**25,540**	**Total shareholders' equity**		**26,617**	**25,538**
260,068	**243,353**	**Total liabilities and shareholders' equity**		**265,897**	**247,270**

The accompanying notes on pages 21 to 96 are an integral part of these financial statements. The financial statements were authorised for issue on 20 March 2016. These financial statements were approved on behalf of the Bank by:

Acting Chairman of the Board and Chief Executive Officer	D. Klišauskienė	
Director of Accounting and Reporting Department, Chief Accountant	A. Tonkich	

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED INCOME STATEMENTS

The Group				The Bank	
2016	**2015**		**Notes**	**2016**	**2015**
7,652	8,192	Interest income	22	7,642	8,192
(1,603)	(2,040)	Interest expenses	22	(1,603)	(2,099)
6,049	**6,152**	**Net interest income**		**6,039**	**6,093**
3,293	3,310	Service fee and commission income	23	3,293	3,310
(524)	(1,227)	Service fee and commission expenses	23	(524)	(1,227)
2,769	**2,083**	**Net service fee and commission income**		**2,769**	**2,083**
-	30	Net result on equity securities trading		-	30
602	(167)	Net result on securities trading	24	602	(167)
3,180	4,353	Net foreign exchange gain	25	3,180	4,353
226	424	Net result from operations with derivatives	15	226	424
-	-	Impairment of investments into subsidiaries	13	(1,611)	(668)
(1,216)	(510)	Net result on operations on investment property	12, 26	(153)	(34)
372	218	Other income	27	353	137
11,982	**12,583**	**Total operating income**		**11,405**	**12,251**
(1,263)	(1,917)	Impairment of loans and other financial assets	28	(994)	(1,917)
10,719	**10,666**	**Operating income after impairment**		**10,411**	**10,334**
(6,292)	(5,934)	Salaries and benefits	29	(6,189)	(5,902)
(312)	(258)	Depreciation	10	(312)	(258)
(184)	(196)	Amortisation	11	(184)	(196)
(3,120)	(3,211)	Other operating expenses	29	(2,912)	(2,943)
(9,908)	**(9,599)**	**Total operating expenses**		**(9,597)**	**(9,299)**
811	**1,067**	**Operating profit (loss)**		**814**	**1,035**
263	**(3)**	**Income tax expense**	30	**263**	**(3)**
1,074	**1,064**	**Profit (loss) for the year**		**1,077**	**1,032**
1,074	**1,064**	**Attributable to equity holders of the Bank**		**1,077**	**1,032**

The accompanying notes on pages 21 to 96 are an integral part of these financial statements. The financial statements were authorised for issue on 20 March 2016. These financial statements were approved on behalf of the Bank by:

Acting Chairman of the Board and Chief Executive Officer	D. Klišauskienė	
Director of Accounting and Reporting Department, Chief Accountant	A. Tonkich	

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The Group			The Bank	
31 December 2016	**31 December 2015**		**31 December 2016**	**31 December 2015**
		Items that will never be reclassified to profit or loss		
5	5	Change in PPE revaluation	6	5
(5)	(4)	Transfer of depreciation for PPE net of tax	(5)	(4)
1	-	Other	1	-
1	1		2	1
		Items that are or may be reclassified to profit or loss		
-	-	Net amount transferred to profit or loss (available-for-sale financial assets)	-	-
-	-	Related tax	-	-
-	-		-	-
1	1	**Other comprehensive income (expenses), net of tax**	2	1
1,074	1,064	Profit (loss) for the year	1,077	1,032
1,075	1,065	**Total comprehensive income**	1,079	1,033
		Attributable to:		
1,075	**1,065**	**Equity holders of the Bank**	**1,079**	**1,033**

The accompanying notes on pages 21 to 96 are an integral part of these financial statements. The financial statements were authorised for issue on 20 March 2016. These financial statements were approved on behalf of the Bank by:

Acting Chairman of the Board and Chief Executive Officer	D. Klišauskienė	
Director of Accounting and Reporting Department, Chief Accountant	A. Tonkich	

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The Bank

	Share capital	Retained earnings	Revaluation reserve of property and equipment	Financial assets revaluation reserve	Other reserves	Total
At 1 January 2015	**19,948**	**(9,496)**	**352**	**-**	**11,677**	**22,481**
Total comprehensive income						
Profit or loss	-	1,032	-	-	-	**1,032**
Other comprehensive income (expenses)	-	5	(4)	-	-	**1**
Transactions with owners of the Bank						
Cover of loss	-	7,472	-	-	(7,472)	**-**
Shareholder contribution	-	2,024	-	-	-	**2,024**
At 31 December 2015	**19,948**	**1,037**	**348**	**-**	**4,205**	**25,538**
Total comprehensive income						
Profit of loss	-	1,077	-	-	-	**1,077**
Other comprehensive income (expenses)	-	6	(5)		1	**2**
Transactions with owners of the Bank	**-**					
Transfer to reserves		(1,037)			1,037	**-**
At 31 December 2016	**19,948**	**1,083**	**343**	**-**	**5,243**	**26,617**

(continued on the next page)

The accompanying notes on pages 21 to 96 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

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

The Group

	Share capital	Retained earnings	Revaluation reserve of property and equipment	Financial assets revaluation reserve	Other reserves	Total
At 1 January 2015	19,948	(9,526)	352	-	11,677	22,451
Total comprehensive income						
Profit or loss	-	1,064	-	-	-	1,064
Other comprehensive income (expenses)	-	5	(4)	-	-	1
Transactions with owners of the Bank						
Cover of loss	-	7,472	-	-	(7,472)	-
Shareholder contribution	-	2,024	-	-	-	2,024
At 31 December 2015	19,948	1,039	348	-	4,205	25,540
Total comprehensive income						
Profit of loss	-	1,074	-	-	-	1,074
Other comprehensive income (expenses)	-	5	(5)		1	1
Transactions with owners of the Bank	-					
Transfer to reserves		(1,037)			1,037	-
At 31 December 2016	19,948	1,081	343	-	5,243	26,615

The accompanying notes on pages 21 to 96 are an integral part of these financial statements. The financial statements were authorised for issue on 20 March 2016. These financial statements were approved on behalf of the Bank by:

Acting Chairman of the Board and Chief Executive Officer	D.Klišauskienė	
Director of Accounting and Reporting Department, Chief Accountant	A. Tonkich	

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED CASH FLOW STATEMENTS

The Group				The Bank	
2016	**2015**		**Notes**	**2016**	**2015**
		Operating activities			
1,074	1,064	Profit (loss) for the year		1,077	1,032
		Adjustments to reconcile net profit or loss to net cash:			
496	454	Depreciation and amortisation	10, 11	496	454
(308)	(182)	(Gain) loss on disposal of property and equipment and investment property		17	(52)
1,263	1,917	Impairment of loans	28	994	1,917
-	-	Impairment of investments in subsidiaries	13	1,611	668
1,498	346	Impairment of investment property	12, 26	110	-
(14)	(25)	Derivatives revaluation	15	(14)	(25)
(73)	(55)	Elimination of accrued vacation pay		(73)	(55)
(263)	3	Income tax expenses	30	(263)	3
396	(363)	Elimination of other non-cash items		397	(363)
4,069	3,159	Cash flows from (to) operating activities before changes in operating assets and liabilities		4,352	3,579
		Changes in operating assets and liabilities:			
913	(6,952)	Changes in trading debt securities		913	(6,952)
(344)	3,314	Changes in compulsory reserves		(344)	3,314
700	(200)	Changes in amounts due from banks		700	(200)
(8,904)	(22,555)	Loans to customers		(6,698)	(17,742)
1,064	-	Receivables with deferred payment	9	640	-
1,043	(1,350)	Loans to financial institutions		1,043	(1,350)
805	(2,883)	Finance lease receivable		805	(2,883)
125	(1,840)	Changes in due to banks and other credit institutions		125	(1,840)
13,815	(479)	Changes in due to customers		17,745	(5,086)
1,046	(2,476)	Changes in other assets and liabilities		636	(1,942)
14,332	(32,262)	Net cash flows from operating activities before income tax		19,917	(31,102)
	-	Income tax (paid)			-
14,332	**(32,262)**	**Net cash flows from operating activities after income tax**		**19,917**	**(31,102)**
		Investing activities			
(1,036)	(2,007)	(Acquisitions) of intangible assets and property and equipment	10, 11	(1,036)	(2,007)
-	-	(Acquisitions) of investment property	12	-	-
4,008	6,430	Proceeds from sale of property and equipment and investment property		587	1,835
	-	Investment in subsidiaries		-	-
-		Proceeds from disposal / redemption of available-for-sale debt securities		-	1,319
10,211	8,020	Redemption of held-to-maturity financial assets		10,211	8,020
(18,928)	(3,027)	(Acquisitions) of available-for-sale and held-to-maturity financial assets		(18,928)	(3,027)
(5,745)	**9,416**	**Net cash flows to investing activities**		**(9,166)**	**6,140**

(continued on the next page)

The accompanying notes on pages 21 to 96 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED CASH FLOW STATEMENTS (CONT'D)

The Group				The Bank	
2016	**2015**		**Notes**	**2016**	**2015**
		Financing activities			
-	131	Bonds issued		-	2,270
(131)	-	Bonds (redeemed)		(2,270)	-
1,000	-	Subordinated loans received		1,000	-
-	2,024	Shareholder contribution		-	2,024
2,381	1,351	Loans received		2,381	1,351
(1,369)	(2,869)	Loans (repaid)		(1,369)	(2,869)
1,881	**637**	**Net cash flows (to) financing activities**		**(258)**	**2,776**
(394)	363	Effect of exchange rate changes on cash and cash equivalents	25	(394)	363
10,074	**(21,846)**	**Net (decrease) increase in cash and cash equivalents**		**10,099**	**(21,823)**
42,661	64,507	Cash and cash equivalents at 1 January		42,635	64,458
52,735	**42,661**	**Cash and cash equivalents at 31 December**	31	**52,734**	**42,635**
		Additional information to operating cash flows			
4,423	6,365	Interest received		4,406	6,365
(1,672)	(2,183)	Interest (paid)		(1,672)	(2,242)

The accompanying notes on pages 21 to 96 are an integral part of these financial statements. The financial statements were authorised for issue on 20 March 2016. These financial statements were approved on behalf of the Bank by:

Acting Chairman of the Board and Chief Executive Officer	D. Klišauskienė	
Director of Accounting and Reporting Department, Chief Accountant	A. Tonkich	

(All amounts in EUR thousand unless otherwise stated)

Note 1 Background information

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

Pamėnkalnio St. 40,
Vilnius, Lithuania.

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

The financial statements of the Group include the financial statements of the Bank and its fully owned subsidiaries UAB MB Turtas, UAB MB Valda, UAB MB Investicija, UAB TG Invest-1 and SIA Nida Capital (main activity of all companies – real estate management and development), which were established on 12 August 2009, 30 November 2009 and 16 December 2011 respectively. UAB TG Invest-1 was bought on 17 May 2013, SIA Nida Capital was established on 31 March 2014. On 7th of December 2015 the Group sold its subsidiary UAB Valturta.

As of 31 December 2016 the Bank employed 417 employees (484 employees as of 31 December 2015). As of 31 December 2016 the Group employed 422 employees (488 employees as of 31 December 2015).

As of 31 December 2016 the shareholders of the Bank were as follows:

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

As of 31 December 2015 the shareholders of the Bank were as follows:

	Ordinary shares held	Per cent of ownership
Mr. Saulius Karosas	123,250	89.47
Western Petroleum Ltd.	13,600	9.87
Other	900	0.66
Total	**137,750**	**100.00**

The issued share capital consists of 137,750 ordinary shares with the par value of EUR 144.81 each. As of 31 December 2016 and 2015, all shares were fully paid.

Note 2 Basis of preparation and significant accounting policies

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

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

Effect on financial statements of application of new standards and amendments and new interpretations to standards

Changes in accounting policies

The Group and the Bank have consistently applied the accounting policies set out in Note 2 to all periods presented in these financial statements.

The Group and the Bank have adopted the new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016:

The following new standards and amendments with effective date of 1 January 2016 did not have any impact on these consolidated financial statements:

- IFRS 14 Regulatory Deferral Accounts;
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11);
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38);
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41);
- Equity Method in Separate Financial Statements (Amendments to IAS 27);
- Annual Improvements to IFRSs 2012-20147 Cycle – various standards;
- Investments Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28);
- Disclosure Initiative (Amendments to IAS 1).

Standards, interpretations and amendments to published standards that are not yet effective

The following new Standards, interpretations and amendments are not yet effective for the annual reporting period ended 31 December 2016 and have not been applied in preparing these financial statements. Those which may be relevant to the Group and the Bank are set out below. The Group and the Bank do not plan to adopt these standards early.

(i) IFRS 9 Financial Instruments (2014) (Effective for annual periods beginning on or after 1 January 2018, to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.)

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

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

Standards, interpretations and amendments to published standards that are not yet effective (cont'd)

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since the classification and the measurement of the Entity's financial instruments are expected to change.

The actual impact of adopting IFRS 9 on the Group's Consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial Instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new Standard will require the Group to revise its accounting processes and internal Controls related to reporting financial Instruments and these changes are not yet complete. However, the Group has performed a preliminary assessment of the potential impact of adoption of IFRS 9 based on its positions at 31 December 2016 and during 2016 under IAS 39.

Classification - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The Standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the Standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its preliminary assessment, the Group does not believe that the new classification requirements, if applied at 31 December 2016, would have had a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis. At 31 December 2016, the Group had no equity investments classified as available-for-sale.

Impairment - Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity Instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. The Group's preliminary assessment indicated that application of IFRS 9's impairment requirements at 31 December 2016 would probably have resulted in an increase of approximately €1 million impairment allowances at that date compared with impairment losses recognised under IAS 39. However, the Group has not yet finalised the impairment methodologies that it will apply under IFRS 9.

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

Standards, interpretations and amendments to published standards that are not yet effective (cont'd)

Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and the Group has no current intention to do so. The Group's preliminary assessment did not indicate any material impact if IFRS 9's requirements regarding the classification of financial liabilities were applied at 31 December 2016

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Group plans to take advantage of the exemption allowing it not to restate comparative Information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in retained earnings and reserves as at 1 January 2018.

The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity Instruments not held for trading as at FVOCI.

(ii) IFRS 15 Revenue from contracts with customers (Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Bank's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Bank's financial statements. The timing and measurement of the Bank's revenues are not expected to change under IFRS 15 because of the nature of the Entity's operations and the types of revenues it earns.

(iii) Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The effective date has not yet been determined by the IASB, however earlier adoption is permitted.)

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

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

Standards, interpretations and amendments to published standards that are not yet effective (cont'd)

The Bank does not expect that the amendments, when initially applied, will have material impact on the financial statements.

(iv) IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.) This pronouncement is not yet endorsed by the EU.

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

The Bank does not expect that the new Standard, when initially applied, will have material impact on the financial statements.

(v) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Bank expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the entity because the bank does not enter into share-based payment transactions.

(vi) Amendments to IAS 7 (Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

The Bank expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Bank.

(vii) Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (Effective for annual periods beginning on or after 1 January 2017; to be applied prospectively. Early application is permitted.) This pronouncement is not yet endorsed by the EU.

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The Entity expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Bank because the Bank already measures future taxable profit in a manner consistent with the Amendments.

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

Standards, interpretations and amendments to published standards that are not yet effective (cont'd)

(viii) Amendments to IAS 40 Transfers of Investment Property (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. This pronouncement is not yet endorsed by the EU.

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Bank does not expect that the amendments will have a material impact on the financial statements because the Bank transfers a property asset to, or from, investment property only when there is an actual change in use.

(ix) IFRIC 22 Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018). This pronouncement is not yet endorsed by the EU.

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Bank does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Bank uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

(x) Annual Improvements to IFRSs

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 Disclosure of Interest in Other Entities are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

None of these amendments are expected to have a significant impact on the financial statements of the Entity.

Basis of consolidation

The consolidated financial statements are prepared annually for the year ended 31 December and include the parent Bank and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year using consistent accounting policies.

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

Basis of consolidation (cont'd)

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Non-controlling interests

At the date of acquisition, non-controlling interests (NCIs) are measured at their proportionate share of the acquiree's identifiable net assets. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Inter-company transactions between the Group companies are eliminated.

Subsidiaries in the separate financial statements are accounted at cost, less impairment. That means the income from the investment is recognised only to the extent that the Bank receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

Financial assets and financial liabilities

The Group and the Bank recognise financial assets and liabilities in their statement of financial position when, and only when, the Group and the Bank become a party to the contractual provisions of the instrument.

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group and the Bank determine the classification of their financial assets upon initial recognition and, where allowed and appropriate, re-evaluate this classification at each financial year-end.

All "regular way" purchases and sales of investments are recognised using settlement date accounting. The settlement date is the date when an asset is delivered to or by the Group and the Bank. Settlement date accounting refers to the recognition of an asset on the day it is transferred to the Group and the Bank and to the derecognition of an asset, on the day that it is transferred by the Group and the Bank.

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

Financial assets and financial liabilities (cont'd)

Financial assets at acquisition date, which belong to the trading book, are classified in the following categories:

- Financial assets *at fair value through profit or loss*
- Financial assets available-for-sale

Financial instruments, which are held in order to resell and/or which are held to receive benefit from actual or expected short term fluctuations, are included in the Bank's trading book. The trading book consists of all financial instruments, which are held for trading purposes and available-for-sale, balance sheet and off balance sheet positions.

Financial assets acquired for trading purposes are composed from short term investments in debt securities and shares, which are acquired in order to get profit from the price and interest rate fluctuations as well as which are going to be actively traded.

Financial assets, which are planned to be held for indefinite time period and which could be sold in order to maintain liquidity or when their price will be changing, are considered to be in the category of available-for-sale financial assets.

Financial assets or financial liabilities at fair value through profit or loss

Financial assets

A financial asset is classified as at fair value through profit and loss if it is classified as held for trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit and loss are measured at fair value and changes therein, including any interest of dividend income, are recognised in profit or loss.

Derivative financial instruments

The Bank uses derivatives such as foreign exchange forwards and swaps. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative; they are initially recognised in the statement of financial position at their fair value on the settlement date. Changes in the fair value of derivatives held for trading are included in net trading income.

Fair values of the derivative financial instruments are disclosed in Note 15.

In 2016, the Bank granted certain loans to customers with variable interest rate; however, the floor for interest rate was also set in the agreements. The floor is an integral part of the agreement. Accounting standards mandate that if at the moment of granting the loan the floor interest rate approximates the market variable interest rate, then the embedded derivative is closely related with host contract and thus may be accounted for together.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group and the Bank have the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This 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 and discounts. For investments carried at amortised cost, gains and losses are recognised in the profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and advances are recognised on drawdown. From the date of signing a contractual agreement to the drawdown date they are accounted for as off balance sheet items.

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

Financial assets and financial liabilities (cont'd)

Loans and receivables (cont'd)

Loan agreements foresee the possibility of repayment before the maturity date. The management of the Group and the Bank cannot estimate how often or when clients would use such an option and therefore the cash flows or the expected life cannot be estimated reliably and, consequently, the contractual cash flows over the full contractual term were used by the Group and the Bank in determining the effective interest rate.

Factoring

A factoring transaction is a funding transaction whereby the Group and the Bank finance their customers through buying their receivable claims. Companies transfer rights to invoices due at a future date to the Group and the Bank. Factoring transactions comprise factoring transactions with a right to recourse (the Group and the Bank are entitled to sell the overdue claim back to the customer) and factoring transactions without a right to recourse (the Group and the Bank are not entitled to sell the overdue claim back to the customer). The factor's revenue comprises the lump-sum contract fee charged on the conclusion of the contract, commission fees charged for processing the invoices, and interest income depending on the duration of the payment term set by the purchaser. Gains and losses are recognised in profit or loss when the factoring receivables are derecognised or impaired, as well as through the amortisation process.

The factoring balance includes the aggregate amount of factored invoices outstanding as of the reporting date and all amounts accrued for the unpaid amount.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity through other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in profit or loss.

Debt issued and other borrowed funds

Issued financial instruments and their components are classified as liabilities, where the substance of the contractual arrangement results in the Group and the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of compound financial instruments, that contain both liability and equity elements, are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amounts separately determined as the fair value of the liability component on the date of issue.

After initial recognition, debt issued and other borrowings, which are not designated at fair value through profit or loss, are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

Repurchase agreements

Securities sold that are subject to linked repurchase agreements are retained in the financial statements as trading or investment securities and the liability to the counterparty of the agreement is included in deposits from banks, other deposits, or deposits due to customers, as appropriate. Securities purchased under agreements to resell are recorded as loans and advances to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and amortised over the life of repurchase agreements using effective interest rate for the whole period.

Borrowed securities are not included in the financial statements, unless they were sold to a third party. In that case a liability for the obligation to return these securities is recognised at fair value as a trading liability.

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

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group and the Bank have transferred their rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group and the Bank either (a) have transferred substantially all the risks and rewards of the asset, or (b) have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

Where the Group and the Bank have transferred their rights to receive cash flows from an asset or have entered into a pass-through arrangement, and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's and the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's and the Bank's continuing involvement is the amount of the transferred asset that the Group and the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's and the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-offs

In 2014 the Bank started to apply partial write-offs. Partial write-off may be applicable only for clients having the status of defaulted clients, if there is no evidence that full or partial Bank claim (principal, accrued interest and other charges) towards the client will be covered (e.g. the client has the status of bankrupt procedure, or the Bank has initiated legal procedure and there is not enough collateral and no expected cash flow or any other property to fully cover part of the claim).

When the loans and advances cannot be recovered and all collateral has been realised, they are written-off and charged against impairment for incurred credit losses. The management of the Group and the Bank makes the decision on writing-off loans. Recoveries of loans previously written-off are credited to the profit or loss.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Employee benefits

Short-term employee benefits

Short-term employee benefits are recognised as a current expense in the period when employees render services. These include salaries and wages, social security contributions, bonuses, paid holidays and other benefits. There are no significant long-term employee benefits.

Social security contributions

The Bank pays social security contributions to the State Social Security Fund (hereinafter referred to as the Fund) on behalf of its employees in accordance with the local legal requirements. The social security contributions are recognised as an expense on an accrual basis and are included within personnel expenses.

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

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to EUR at the official exchange rate of the Bank of Lithuania (spot exchange rate) prevailing at the dates of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in currencies other than EUR are recognised in the profit or loss.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot exchange rate prevailing at the date of the statement of financial position. Gains and losses resulting from the translation of items of the statement of financial position are recognised in the profit or loss. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, while non-monetary assets carried at fair value or revalued amounts are translated at the exchange rate when the fair value was determined.

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

	31 December 2016	31 December 2015
USD	1,0453	1.0926

Interest revenue and expenses

Interest revenue and expense are recognised in the profit or loss on an accrual basis using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Fees and commission

Fees and commission revenue and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission revenue, including account servicing fees, investment management fees, sales commission, placement fees and other are recognised on accrual basis as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to the transaction and service fees, which are expensed as the services are received.

Expenses

Other expenses are recognised on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred. The amount of expenses is usually accounted for as the amount paid or due.

Dividends

Dividend revenue is recognised when the right to receive payment is established.

Cash and cash equivalents

Cash, current accounts with the Bank of Lithuania and current accounts with other banks due to their high liquidity with maturity up to three months from the date of placement are accounted for as cash and cash equivalents in the statement of cash flows. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the profit or loss in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Intangible assets

Initially intangible assets acquired by the Group and the Bank are stated at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. The Group and the Bank do not have any intangible assets with indefinite life.

Intangible assets with finite lives are amortised over the useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense when incurred.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the intangible assets, from the date that it is available for use. The estimate useful life of software is 3–7 years.

Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of that equipment. The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in the profit or loss as incurred.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Buildings are recorded at revalued amounts, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which is determined using fair value at the date of statement of financial position. The fair value of the buildings is determined by appraisals undertaken by certified independent valuators. The depreciation of buildings is calculated on a straight-line basis over their estimated useful lives. The revaluation reserve for buildings is being reduced each period by the difference between depreciation based on the revalued carrying amount of the asset and that based on its original cost, which is transferred directly to retained earnings.

In the case of revaluation, when the estimated fair value of an asset is lower than its carrying amount, the carrying amount of this asset is immediately reduced to the amount of fair value and such decrease is recognised as an expense. However, such impairment is deducted from the amount of increase of the previous revaluation of this asset accounted for in the revaluation reserve to the extent it does not exceed the amount of such increase.

In the case of revaluation, when the estimated fair value of an asset is higher than its carrying amount, the carrying amount of this asset is increased to the amount of fair value and such increase is recorded in the revaluation reserve of property and equipment within equity.

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

Property and equipment (cont'd)

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives for property and equipment are as follows:

Buildings	60–90 years
IT hardware	3–6 years
Vehicles	6 years
Fixtures and fittings	3–10 years

Depreciation methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each financial year-end.

Leasehold improvements are amortised over the shorter of the remaining lease term and their useful lives. The asset's useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group and the Bank have a currently enforceable legal right to set off the amounts and intend either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's and the Bank's trading activity.

Fair values of financial assets and liabilities

Fair value is 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 in the principal, or in its absence, the most advantageous market to which the Group and the Bank have access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Group and the Bank measure the fair value of an instrument using quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

For financial instruments traded in active financial markets the fair value is determined by reference to quoted market prices. Bid prices are used for assets and ask prices are used for liabilities. In the absence of an active market the fair value of interest-bearing financial instruments is estimated based on discounted cash flows using the interest rates for items with similar terms and risk characteristics. For unquoted equity investments fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same and discounted cash flow analysis.

Measurement of fair values

A number of the Group and Bank accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group and the Bank use market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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

Measurement of fair values (cont'd)

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 9 – Loans and receivables
Note 10 – Property and equipment
Note 12 – Investment property
Note 32 – Fair value of financial instruments

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:
- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the profit or loss;
- a gain or loss on an available-for-sale financial asset is recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses on debt financial instruments) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the profit or loss. Interest in relation to an available-for-sale financial asset is recognised as earned in the profit or loss calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

Impairment of financial assets

The Group and the Bank assess at each date of the statement of financial position whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Due from banks and loans and advances to customers

For amounts due from banks and loans and advances to customers carried at amortised cost, the Group and the Bank first assess individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group and the Bank determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, they include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding possible future credit losses that have not yet been incurred). 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 profit or loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

The present value of the estimated future cash flows is discounted using the financial asset's original effective interest rate. If loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. 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.

In assessing collective impairment the Group and the Bank use statistical modelling of 2 years historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling.

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

Impairment of financial assets (cont'd)

Due from banks and loans and advances to customers (cont'd)

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale investments

In the case if investments are 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. The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of investment is less than its cost. 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 profit or loss – is removed from equity and recognised in the profit or loss.

Held-to-maturity investments

For held-to-maturity investments the Group and the Bank assess individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts previously charged are credited to the profit or loss. However, the reversal does not result in a carrying amount that exceeds what the amortised cost would have been absent any impairment.

Renegotiated loans

Where possible, the Group and the Bank seek to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan terms. A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Management continuously reviews renegotiated loans to ensure that all criteria are met and that the future payments are likely to occur. The loans continue to be the subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Collective impairment

Individually assessed loans which are not known to be impaired are assessed collectively. Incurred losses which were not estimated during the individual assessment because of lack of time to get information about the events related to these losses are assessed collectively based on historical data.

Impairment of other assets

The carrying amounts of the Group's and the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

If such an indication exists, the Group and the Bank make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in profit or loss.

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

Impairment of other assets (cont'd)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount determined, net of depreciation (if any), had no impairment loss been recognised for the asset in prior years. The reversal of impairment is recognised as profit or loss, unless the assets are carried at revalued amounts. If that is the case, such reversal is recognised as income to the extent it does not exceed the previous revaluation decrease recognised in profit or loss, and the remaining part as a revaluation increase. After such a reversal the depreciation charge (if any) is adjusted in future periods to allocate the asset's revised carrying amount, on a systematic basis over its remaining useful life.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Finance – the Group and the Bank as lessee

The Group and the Bank recognise finance leases as assets and liabilities in the statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments, each determined at inception of the lease. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine. Otherwise, the Group's and the Bank's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Operating – the Group and the Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other administrative and operating expenses.

Finance leases – the Group and the Bank as lessor

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 annuity method, which reflects a constant periodic rate of return.

Share capital

Share capital is presented in the statement of financial position at the amount subscribed.

Income tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is calculated based on the Lithuanian tax legislation.

In accordance with the Law on Corporate Income Tax of the Republic of Lithuania, the current income tax rate is 15% on taxable income. Expenses related with taxation charges and included in these financial statements are based on calculations made by the management in accordance with Lithuanian tax legislation.

Tax losses can be carried forward for an indefinite period, except for the losses incurred as a result of disposal of securities. As of the taxable year 2015, ordinary tax losses carried forward can only be set off against up to 70% of the calculated taxable profits of the taxable period. The losses from disposal of securities can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

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

Income tax (cont'd)

Deferred taxes are calculated using the liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax laws that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred tax assets have been recognised in the statement of financial position to the extent the management believes they will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

Other taxes

Real estate annual tax rate is up to 3% on the tax value of property and equipment and foreclosed assets. The Bank is also obliged to pay land and land rent taxes, make payments to guarantee fund and social security contributions. These taxes are included in other expenses in the income statement.

Off-balance sheet items

All liabilities that may be recognised in the statement of financial position in the future are accounted for as off-balance sheet liabilities. This allows the Group and the Bank to assess capital requirement and to attract the necessary funding to cover these liabilities.

Related parties

Parties are considered to be related if one party has the ability to unilaterally or jointly control the other party or exercise significant influence over the other party in making financial or operational decisions, or where parties are under common control. In addition, members of key management personnel as well as their close family members and entities controlled by them, and close family members of individuals that unilaterally or jointly control the Bank or exercise significant influence over it. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Credit-related commitments

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group and the Bank are potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group and the Bank monitor the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Commitments to extend credit are treated as risk assets for capital adequacy calculation purposes.

In the ordinary course of the business the Group and the Bank issue financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, under Other Liabilities caption, being premium received. Subsequent to initial recognition, the Group's and the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required for settling any financial obligation arising as a result of the guarantee where payment has become probable.

Any increase in the liability relating to financial guarantees is recorded to profit or loss under Impairment expenses caption. The premium received is recognised in profit or loss in Net fees and commissions income caption on a straight line basis over the life of guarantee.

Guarantees represent irrevocable assurances that the Group and the Bank will make payments in the event when a customer cannot meet its obligations to the third parties. In case of execution of such a guarantee it is subsequently accounted for as statement of financial position item and is subject for impairment assessment. Until a guarantee is terminated, it is treated as risk asset for capital adequacy calculation purposes.

Documentary and commercial letters of credit represent written undertakings by the Group and the Bank on behalf of a customer authorising a third party to draw drafts on the Group and the Bank up to a stipulated amount under specific terms and conditions. Letters of credit are collateralised by the underlying shipments of goods. Letters of credit are treated as risk assets for capital adequacy calculation purposes.

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

Provisions

Provisions are recognised when the Group and the Bank have a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow or recourses embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The expense relating to any provision is presented in the profit or loss. If the effect of the time value of money is material, provisions are discounted using current pre-tax rate that reflects the risks specific to the liability. Where discounting is used the increase in the provision due to the passage of time is recognised as a borrowing cost.

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits is probable.

Subsequent events

Events subsequent to the year-end that provide additional information about the Group's and the Bank's position at the date of the statement of financial position (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

Note 3 Use of estimates and judgements in the preparation of financial statements

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation and judgements used in the preparation of the accompanying financial statements relate to evaluation of impairment losses for loans and other receivables, available-for-sale and held-to-maturity investments, investments in subsidiaries, fair value measurement, realisation of deferred tax asset, finance leases and derecognition of financial assets and going concern.

Below are presented key assumptions concerning the future and other key sources of estimation uncertainty at the date of the statement of financial position that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment losses on loans and receivables

The Group and the Bank regularly review their loans and receivables to assess impairment. The Group and the Bank use their experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and historical data relating to similar borrowers is available. Similarly, the Group and the Bank estimate changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables when scheduling its future cash flows. The Group and the Bank use their experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. For further information see note 9 and Note 34.

Fair value of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in profit or loss. Based on the policy of the Bank and the Group, investment property has to be revaluated by external valuators at least every 3 years. For further information see Note 12.

Fair value of property and equipment

The buildings are carried at revalued amount which is their fair value as at the revaluation date less subsequently accumulated depreciation and impairment. Revaluations are carried out regularly, at least every 5 years, ensuring that the carrying amount of buildings does not significantly differ from their fair values as at reporting date. The fair value of buildings is established by certified independent real estate valuators.

Note 3 Use of estimates and judgements in the preparation of financial statements (cont'd)

Impairment losses on loans and receivables (cont'd)

Fair value of property and equipment (cont'd)

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets. The revaluation reserve of buildings is reduced by an equivalent amount of annual depreciation charged on revalued buildings each year and is transferred directly to retained earnings.

In case of revaluation, when the estimated fair value of the assets exceeds their carrying value, the carrying value is increased to the fair value and the amount of increase is included into revaluation reserve of property and equipment as other comprehensive income in equity. However, such increase in revaluation is recognised as income to the extent it does not exceed the decrease of previous revaluation recognised in profit or loss. Depreciation is calculated from the depreciable amount which is equal to acquisition cost less residual value of an asset. More information in Note 10.

Impairment of available-for-sale and held-to-maturity investments

The determination of impairment indication is based on comparison of the financial instrument's carrying value and fair value. The Group uses valuation models based on quoted market prices of similar products.

For the purposes of impairment loss measurement, the Bank's management makes estimates of any expected changes in future cash flows from a specific financial instrument based on analysis of financial position of the issuer of the financial instrument. Held to maturity investments are disclosed in Note 8.

Write-off of loans and receivables

In 2014, the Bank started to apply partial write-offs. Partial write-off is applied only for the defaulted clients, if there is no evidence that full or partial Bank claim (principal, accrued interest and other charges) towards the client will be satisfied (e.g. the client has entered bankruptcy, or the Bank has initiated a legal procedure and there is not enough collateral and no expected cash flow or any other property to fully cover part of the claim). More information in Note 9.

Impairment losses on investments in subsidiaries

The Bank tests investments in its subsidiaries for impairment when impairment indicators are identified. The Bank applies the adjusted net asset method for evaluation of the fair value of its subsidiaries. Taking into consideration activities of the subsidiaries, the investment value is measured based on the fair value of the subsidiaries' assets and liabilities. At the end of each year the Bank evaluates investment amount into each subsidiary against subsidiaries' assets and liabilities stated at fair value. The value of the investment property owned by subsidiaries and specified in external valuation reports is adjusted by a certain coefficient defined by the management of the Bank depending on the type of the investment property and associated risks (Note 13).

Adjustments are recorded when the estimation of the fair value of the investment in subsidiaries indicates impairment of the Bank's investment.

Finance leases

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.

Deferred tax asset

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies (Note 30).

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. Please refer to Note 34 for description of change in estimates on loan impairment.

Note 4 Going concern

The separate and consolidated financial statements have been prepared on a going concern basis.

(All amounts in EUR thousand unless otherwise stated)

Note 5 Placements with the central bank

The Group			The Bank	
31 December 2016	31 December 2015		31 December 2016	31 December 2015
1,894	1,550	Compulsory reserve with the central bank	1,894	1,550
19,164	-	Correspondent account with the central bank	19,164	-
21,058	**1,550**	**Placements with the central bank**	**21,058**	**1,550**

The Bank is being charged for holding compulsory reserves, i.e. for the whole amount of the compulsory reserves applying the European Central Bank's (ECB) main refinance operations interest rate. Moreover, the central bank of Lithuania calculates the interest amount for funds which exceed the amount of the compulsory reserves, applying the European Central Bank's (ECB) interest rate for using the deposit facility.

Note 6 Placements with banks and other credit institutions

The Group			The Bank	
31 December 2016	31 December 2015		31 December 2016	31 December 2015
7,530	12,511	Current accounts with correspondent banks	7,529	12,485
4,453	6,523	Term deposits	4,453	6,523
11,983	**19,034**	**Placements with banks and other credit institutions**	**11,982**	**19,008**

As of 31 December 2016, the Group and the Bank have pledged term deposits with the carrying amount of EUR 1,200 thousand for the possibility to perform spot transactions while as of 31 December 2015 EUR 700 thousand were pledged for the possibility to perform spot transactions.

Note 7 Financial assets at fair value through profit or loss

The Group and the Bank

The Group			The Bank	
31 December 2016	31 December 2015		31 December 2016	31 December 2015
814	8,676	Government bonds of the Republic of Lithuania	814	8,676
531	-	Financial institution bonds	531	-
192	-	Non-financial company bonds	192	-
1,147	-	Government bonds of the Republic of Bulgaria	1,147	-
285	-	Government bonds of the Kingdom of Spain	285	-
1,216	-	Government bonds of the Republic of Latvia	1,216	-
997	-	Government bonds of the Republic of Slovenia	997	-
113	-	Government bonds of the Republic of Turkey	113	-
2,468	-	Government bonds of the Republic of Hungary	2,468	-
7,763	**8,676**	**Debt securities at fair value**	**7,763**	**8,676**

As of 31 December 2016 and 31 December 2015, the Group and the Bank had no debt securities at fair value through profit or loss held as collateral to secure reverse repurchase agreements.

(All amounts in EUR thousand unless otherwise stated)

Note 7 Financial assets at fair value through profit or loss (cont'd)

Coupon rates and maturities of the debt securities are as follows:

	2016		2015	
	%	Maturity	%	Maturity
Government bonds of the Republic of Lithuania	0.60	2019	2.10–3.40	2019–2024
Financial institution bonds	3.25-4.25	2018	-	-
Non-financial company bonds	1.5	2017	-	-
Government bonds of the Republic of Bulgaria	4.25	2017	-	-
Government bonds of the Kingdom of Spain	4.60	2019	-	-
Government bonds of the Republic of Latvia	5.25	2017-2020	-	-
Government bonds of the Republic of Slovenia	4.75	2018	-	-
Government bonds of the Republic of Turkey	5.88	2019	-	-
Government bonds of the Republic of Hungary	4.13-5.75	2018	-	-

Note 8 Held-to-maturity investments

Held-to-maturity investments are as follows:

The Group			The Bank	
31 December 2016	31 December 2015		31 December 2016	31 December 2015
17,998	23,986	Government bonds of the Republic of Lithuania	17,998	23,986
-	957	Bank bonds	-	957
829	-	Non-financial company bonds	829	-
521	-	Government bonds of the Republic of Bulgaria	521	-
1,087	-	Government bonds of the Republic of Iceland	1,087	-
1,006	-	Government bonds of the Kingdom of Spain	1,006	
1,115	-	Government bonds of the Republic of Croatia	1,115	
3,921	-	Government bonds of the Republic of Latvia	3,921	
2,163	-	Government bonds of the Republic of Poland	2,163	
2,109	-	Government bonds of the Republic of Romania	2,109	-
960	-	Government bonds of the Republic of Sweden	960	-
510	-	Government bonds of the Republic of Turkey	510	-
1,441	-	Government bonds of the Republic of Hungary	1,441	-
33,660	**24,943**	**Held-to-maturity investments**	**33,660**	**24,943**

As of 31 December 2016 the Group and the Bank had held-to-maturity debt securities held as collateral amounting to EUR 6,633 thousand (EUR 7,707 thousand as of 31 December 2015) to secure reverse repurchase agreements.

(All amounts in EUR thousand unless otherwise stated)

Note 8 Held-to-maturity investments (continued)

Coupon rates and maturities of held-to-maturity investments are as follows:

	2016		2015	
	%	Maturity	%	Maturity
Government bonds of the Republic of Lithuania	1.50–5.50	2017–2024	1.20–5.50	2016–2024
Bank bonds	-	-	7.75	2017
Non-financial company bonds	4.25-4.50	2018-2020	-	-
Government bonds of the Republic of Bulgaria	4.25	2017	-	-
Government bonds of the Republic of Iceland	2.5	2020	-	-
Government bonds of the Kingdom of Spain	0.25	2019	-	-
Government bonds of the Republic of Croatia	5.88	2018	-	-
Government bonds of the Republic of Latvia	5.25	2017	-	-
Government bonds of the Republic of Poland	0.88-4.00	2019-2021	-	-
Government bonds of the Republic of Romania	2.75-4.63	2020-2025	-	-
Government bonds of the Republic of Swedish	0.88	2018	-	-
Government bonds of the Republic of Turkey	7.5	2017	-	-
Government bonds of the Republic of Hungary	5.75-6.00	2018-2019	-	-

Note 9 Loans and receivables

Loans to customers and receivables comprise:

	The Bank	
	31 December 2016	31 December 2015
Loans to customers, including short-term bills of exchange	134,797	133,043
Receivable with deferred payment	2,673	3,259
Overdrafts	1,683	1,372
Factoring	173	185
Leasing	10,613	11,430
	149,939	**149,289**
Less: individual impairment	(4,401)	(6,403)
Less: collective impairment	(199)	(368)
Loans and receivables, net	**145,339**	**142,518**

	The Group	
	31 December 2016	31 December 2015
Loans to customers, including short-term bills of exchange	134,818	133,060
Receivable with deferred payment	3,973	4,714
Overdrafts	1,683	1,372
Factoring	173	185
Leasing	10,613	11,430
	151,260	**150,761**
Less: individual impairment	(4,670)	(6,403)
Less: collective impairment	(199)	(368)
Loans and receivables, net	**146,391**	**143,990**

(All amounts in EUR thousand unless otherwise stated)

Note 9 Loans and receivables (cont'd)

As of 31 December 2016 the Group and the Bank had a concentration of loans within the loan portfolio represented by loans issued to 10 major clients, the amount of which was EUR 32,870 thousand or 21.45% of the Group's and the Bank's net loan portfolios (EUR 26,623 thousand or 18.45% in 2015). As of 31 December 2016, total impairment of these loans issued to 10 major clients in the Bank and in the Group amounted to EUR 49 thousand (EUR 72 thousand as of 31 December 2015).

Receivable with deferred payment includes the Bank's or the Group's receivables under instalment sale contracts of investment property or sale agreements of creditor's claims of the Bank. Under those sale agreements a buyer usually pays the Bank or the Group initial payment which is at least 10 percent of contractual amount and repays the rest amount of debt and accrued interest on a regular basis according to the terms and conditions of sale contract. Management of credit risk derived from receivables with deferred payment complies with the general credit risk management principles described in Note 34 and credit risk exposure is mitigated using mortgage of real estate or pledge of creditor claims.

The movements in impairment of loans and receivables were as follows:

	The Bank		
	Corporate loans	**Individuals loans**	**Impairment total**
As of 31 December 2015	**5,017**	**1,754**	**6,771**
Individual impairment	**4,672**	**1,731**	**6,403**
Loans and receivables	4,670	1,731	6,401
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	2	-	2
Collective impairment	**345**	**23**	**368**
Loans and receivables	300	22	322
Loans to banks	-	-	-
Loans to financial institutions	12	-	12
Receivables from leasing	33	1	34
Impairment charged to profit or loss (Note 28)	**2,882**	**703**	**3,585**
Loans and receivables	2,858	703	3,561
Loans to banks	-	-	-
Loans to financial institutions	1	-	1
Receivables from leasing	23	-	23
Reversal of impairment charged to profit or loss (Note 28)	**(1,557)**	**(269)**	**(1,826)**
Loans and receivables	(1,516)	(269)	(1,785)
Loans to banks	-	-	-
Loans to financial institutions	(7)	-	(7)
Receivables from leasing	(34)	-	(34)
Write-offs	**(2,685)**	**(1,245)**	**(3,930)**
Loans and receivables	(2,685)	(1,245)	(3,930)
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	-	-	-
As of 31 December 2016	**3,657**	**943**	**4,600**
Individual impairment	**3,469**	**932**	**4,401**
Loans and receivables	3,460	932	4,392
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	9	-	9
Collective impairment	**188**	**11**	**199**
Loans and receivables	167	10	177
Loans to banks	-	-	-
Loans to financial institutions	6	-	6
Receivables from leasing	15	1	16

(All amounts in EUR thousand unless otherwise stated)

Note 9 Loans and receivables (cont'd)

	The Group		
	Corporate loans	**Individuals loans**	**Impairment total**
As of 31 December 2015	**5,017**	**1,754**	**6,771**
Individual impairment	**4,672**	**1,731**	**6,403**
Loans and receivables	4,670	1,731	6,401
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	2	-	2
Collective impairment	**345**	**23**	**368**
Loans and receivables	300	22	322
Loans to banks	-	-	-
Loans to financial institutions	12	-	12
Receivables from leasing	33	1	34
Impairment charged to profit or loss (Note 28)	**3,152**	**703**	**3,855**
Loans and receivables	3,128	703	3,831
Loans to banks	-	-	-
Loans to financial institutions	1	-	1
Receivables from leasing	23	-	23
Reversal of impairment charged to profit or loss (Note 28)	**(1,558)**	**(269)**	**(1,827)**
Loans and receivables	(1,517)	(269)	(1,786)
Loans to banks	-	-	-
Loans to financial institutions	(7)	-	(7)
Receivables from leasing	(34)	-	(34)
Write-offs	**(2,685)**	**(1,245)**	**(3,930)**
Loans and receivables	(2,685)	(1,245)	(3,930)
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	-	-	-
As of 31 December 2016	**3,926**	**943**	**4,869**
Individual impairment	**3,738**	**932**	**4,670**
Loans and receivables	3,729	932	4,661
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	9	-	9
Collective impairment	**188**	**11**	**199**
Loans and receivables	167	10	177
Loans to banks	-	-	-
Loans to financial institutions	6	-	6
Receivables from leasing	15	1	16

In 2014, the Bank started to apply partial write-offs. Partial write-off is applied only for the defaulted clients, if there is no evidence that full or partial Bank claim (principal, accrued interest and other charges) towards the client will be satisfied (e.g. the client has entered bankruptcy, or the Bank has initiated a legal procedure and there is not enough collateral and no expected cash flow or any other property to fully cover part of the claim).

As of 31 December 2016 the outstanding amount of loans written-off in the Bank amounted to EUR 39.6 million (EUR 27.2 million as of 31 December 2015). During 2016, the income received from the written-off loans amounted to EUR 810 thousand (during 2015 amounted to EUR 532 thousand)

The impairment calculation policy is disclosed in the Note 34.

(All amounts in EUR thousand unless otherwise stated)

Note 9 Loans and receivables (cont'd)

	The Bank (Group)		
	Corporate loans	Individuals loans	Impairment total
As of 31 December 2014	**7,277**	**3,611**	**10,888**
Individual impairment	**7,008**	**3,587**	**10,595**
Loans and receivables	7,008	3,587	10,595
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	-	-	-
Collective impairment	**269**	**24**	**293**
Loans and receivables	233	23	256
Loans to banks	-	-	-
Loans to financial institutions	11	-	11
Receivables from leasing	25	1	26
Impairment charged to profit or loss (Note 28)	**2,713**	**514**	**3,227**
Loans and receivables	2,695	514	3,209
Loans to banks	-	-	-
Loans to financial institutions	1	-	1
Receivables from leasing	17	-	17
Reversal of impairment charged to profit or loss (Note 28)	**-627**	**-150**	**-777**
Loans and receivables	-620	-150	-770
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	-7	-	-7
Write-offs	**-4,346**	**-2,221**	**-6,567**
Loans and receivables	-4,346	-2,221	-6,567
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	-	-	-
As of 31 December 2015	**5,017**	**1,754**	**6,771**
Individual impairment	**4,672**	**1,731**	**6,403**
Loans and receivables	4,670	1,731	6,401
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	2	-	2
Collective impairment	**345**	**23**	**368**
Loans and receivables	300	22	322
Loans to banks	-	-	-
Loans to financial institutions	12	-	12
Receivables from leasing	33	1	34

(All amounts in EUR thousand unless otherwise stated)

Note 10 Property and equipment

The movements in property and equipment were as follows:

The Bank (Group)

	Land, buildings and other real estate	Vehicles	Office equipment and other	Total
Acquisition cost or revalued amounts				
Balance as of 31 December 2015	**3,749**	**330**	**2,396**	**6,475**
Additions (reconstruction)	243	307	194	744
Disposals and write-offs	-	(91)	(212)	(303)
Balance as of 31 December 2016	**3,992**	**546**	**2,378**	**6,916**
Accumulated depreciation and impairment losses				
Balance as of 31 December 2015	**397**	**168**	**1,922**	**2,487**
Depreciation for the year	44	61	207	312
Disposals and write-offs	-	(72)	(200)	(272)
Balance as of 31 December 2016	**441**	**157**	**1,929**	**2,527**
Net book value				
As of 31 December 2015	**3,352**	**162**	**474**	**3,988**
As of 31 December 2016	**3,551**	**389**	**449**	**4,389**

The Bank (Group)

	Land, buildings and other real estate	Vehicles	Office equipment and other	Total
Acquisition cost or revalued amounts				
Balance as of 31 December 2014	**2,063**	**353**	**2,342**	**4,758**
Additions	1,705	34	178	1,917
Disposals and write-offs	(19)	(57)	(124)	(200)
Balance as of 31 December 2015	**3,749**	**330**	**2,396**	**6,475**
Accumulated depreciation and impairment losses				
Balance as of 31 December 2014	**393**	**187**	**1,836**	**2,416**
Depreciation for the year	35	36	187	258
Disposals and write-offs	(31	(55)	(101	(187)
Balance as of 31 December 2015	**397**	**168**	**1,922**	**2,487**
Net book value				
As of 31 December 2014	**1,670**	**166**	**506**	**2,342**
As of 31 December 2015	**3,352**	**162**	**474**	**3,988**

As of 31 December 2016 and 2015 there were no finance lease agreements. During the year 2015 the Bank bought part of central premises in Pamėnkalnio St. 40, Vilnius. These premises had been rented before this agreement came into effect. The purchase price of the building was set in accordance with the valuation performed in 2015. The valuation was performed by using comparative value technique.

As of 31 December 2016 owner occupied buildings of the Group and the Bank are accounted for at the revalued amounts. The Bank renovated part of the premises and made the valuation of the entire building in 2016 on the basis of comparative method. The value according to the valuation report approximates to the net book value of the building, therefore there was no impact recorded due to the recent valuation. Had the buildings been booked at historical costs, the carrying amount of buildings of the Group and the Bank as of 31 December 2016 would be EUR 2,896 thousand (EUR 2,899 thousand as of 31 December 2015).

(All amounts in EUR thousand unless otherwise stated)

Note 10 Property and equipment (cont'd)

The following table shows the valuation technique used in measuring the fair value of property, as well as the significant unobservable inputs used:

Type	Valuation technique
Buildings and land with the carrying amount of EUR 3,352 thousand located in Vilnius, Kaunas and Klaipėda.	Every five years independent valuator evaluates real estate owned by the Bank. Last evaluations for Kaunas and Klaipėda buildings were made in 2012 and for Vilnius building in 2016 by using different value techniques: the comparative method and the income method. The fair value was based on results of comparable sales of similar buildings and land.

Note 11 Intangible assets

The movements in intangible assets were as follows:

	The Bank	The Group
	Software	Software
Acquisition cost		
Balance as of 31 December 2015	**1,669**	**1,669**
Additions	292	292
Disposals and write-offs	(2)	(2)
Balance as of 31 December 2016	**1,959**	**1,959**
Accumulated amortisation		
Balance as of 31 December 2015	**1,393**	**1,393**
Charges for the year	184	184
Disposals and write-offs	(1)	(1)
Balance as of 31 December 2016	**1,576**	**1,576**
Net book value		
As of 31 December 2015	**276**	**276**
As of 31 December 2016	**383**	**383**

	The Bank	The Group
	Software	Software
Acquisition cost		
Balance as of 31 December 2014	**1,581**	**1,581**
Additions	90	90
Disposals and write-offs	(2)	(2)
Balance as of 31 December 2015	**1,669**	**1,669**
Accumulated amortisation		
Balance as of 31 December 2014	**1,199**	**1,199**
Charges for the year	196	196
Disposals and write-offs	(2)	(2)
Balance as of 31 December 2015	**1,393**	**1,393**
Net book value		
As of 31 December 2014	**382**	**382**
As of 31 December 2015	**276**	**276**

As of 31 December 2016 and 2015 the Group and the Bank did not have any intangible assets acquired under finance lease agreements.

(All amounts in EUR thousand unless otherwise stated)

Note 12 Investment property

	The Bank 2016	The Bank 2015
Balance at the beginning of year	**1,200**	**1,327**
Additions	395	1,643
Disposals	(572)	(1,770)
Changes in fair value	(110)	-
Balance at the end of year	**913**	**1,200**

	The Group 2016	The Group 2015
Balance at the beginning of year	**11,192**	**12,789**
Additions	2,329	6,439
Disposals	(3,669)	(7,690)
Changes in fair value	(1,498)	(346)
Balance at the end of year	**8,354**	**11,192**

The Bank's and the Group's additions to the investment property represent the assets taken over for impaired loans. This is not a cash flow transaction; therefore, the acquisitions to the investment property by the Bank and the Group are zero in the Separate and Consolidated Cash Flow Statements.

The fair value of investment properties owned by subsidiaries as at December 31:

	2016	2015
UAB MB Turtas	1,320	1,305
UAB MB Valda	1,144	2,398
UAB MB Investicija	849	1,599
UAB TG Invest-1	3,542	4,104
SIA Nida Capital	586	586
Total	**7,441**	**9,992**

Investment property consists of repossessed assets for defaulted loans. The fair value of investment properties has been determined using valuation reports prepared by external valuators. In addition, the management of the Bank decided to use adjustment coefficients varying from 0.64 to 0.99, depending on the type of investment property, taking into consideration the liquidity of the asset, VAT risks, costs and other factors:

	2016			2015		
Type of investment property	**Fair value as to valuation reports**	**Adjustment coefficient**	**Adjusted fair value**	**Fair value as to valuation reports**	**Adjustment coefficient**	**Adjusted fair value**
Buildings	5,032		4,184	6,108		5,430
Land plots	4,985		4,130	7,412		5,709
Other	63		40	70		53
Total	**10,080**	0.83	**8,354**	**13,590**	0.82	**11,192**

Note 12 Investment property (cont'd)

During 2016 the Group engaged independent valuation specialists to revaluate the investment property which had been evaluated as early as 3 years ago according to the requirements of the Group's accounting policy. Independent valuations of the Investment property or Consultation regarding expected price were obtained from independent valuators. Repeated valuations of property at net values for each relevant year were the following:

- EUR 6,397 thousand or 76.57% of the investment property in 2016;
- EUR 213 thousand or 2.55% in 2015;
- EUR 1 734 thousand or 20.75% in 2014;
- EUR 10 thousand or 0.13% in 2013.

The Group recognised EUR 1,498 thousand fair value decrease of investment property in 2016 (EUR 346 thousand in 2015).

The price range of land plots, buildings and equipment used in determining the fair value according to their purpose were as follows:

2016 The Bank

Land plots	Price range per are, in EUR thousand
Agricultural	0.01-0.11
Residential	7.45
Other	0.93

Buildings	Price range per sq. m., in EUR thousand
Commercial	0.13
Residential	0.33-1.36
Other	0.11

Other	Price range per unit, in EUR thousand
Other assets	4.18

2016 The Group

Land plots	Price range per are, in EUR thousand
Agricultural	0.01-0.67
Forestry	0.04
Residential	0.04-7.45
Other	0.01-16.20

Buildings	Price range per sq. m., in EUR thousand
Commercial	0.06-1.26
Residential	0.02-1.60
Outbuildings	0.06
Other	0.11

Other	Price range per unit, in EUR thousand
Other assets	40.23

Note 12 Investment property (cont'd)

2015 The Bank

Land plots	Price range per are, in EUR thousand
Agricultural	0.01–0.22
Forestry	0.04
Other	1.06

Buildings	Price range per sq. m., in EUR thousand
Commercial	0.13
Residential	0.03–1.36
Other	0.11

Other	Price range per unit, in EUR thousand
Other assets	6.06

2015 The Group

Land plots	Price range per are, in EUR thousand
Agricultural	0.01–1.08
Forestry	0.01–0.07
Residential	0.10–6.14
Other	0.01–16.53

Buildings	Price range per sq. m., in EUR thousand
Commercial	0.06–1.28
Residential	0.03–1.36
Outbuildings	0.06
Other	0.11

Other	Price range per unit, in EUR thousand
Other assets	52.58

Investment properties are stated at fair value, which is determined based on valuation performed by independent valuators by using comparative value, discounted cash flows from rental or other income and cost approach to valuation methods. Comparative value method is used to determine the market value of comparable properties with similar transaction prices or offer price, taking into account the differences between the object and comparable assets. The use of this method is based on the principle of replacement by the other assets. Discounted cash flows technique: the model is based on expected discounted cash flows from rental or other income. Cost approach to valuation technique: it is a method of appraising property based on the depreciated reproduction or replacement cost (new) of improvements, plus the market value of the site.

Applying the comparative value method, property assessor must collect and analyse more data on events in the area of similar items for sale and purchase transactions, as well as the proposed sale of similar items. If the property assessor has insufficient information about similar objects (analogue) in the area, he must explore comparable analogues in other areas of comparable facilities and to clarify the difference. In order to calculate the adjustments, there is a need to compare the data and to clarify correction factors: the time correction factor, the size of the area correction factor, correction factor for the financial conditions, other correction factors, expressing the differences of physical and terms of use conditions.

The fair value of investment property was determined by external, independent property valuators, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuators provide the fair value of the Group's investment property portfolio every 3 years. As of 31 December 2016 the Group had investment property in the amount of EUR 11 thousand that was revalued more than 3 years ago.

As mentioned above, in addition to external valuations, the management of the Bank decided to use adjustment coefficients depending on the type of investment property taking into consideration liquidity of the asset, VAT risks, costs and other factors.

The fair value measurement for investment property of EUR 8,354 thousand has been categorised as a Level 3 in the fair value hierarchy. The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used:

(All amounts in EUR thousand unless otherwise stated)

Note 12 Investment property (cont'd)

Type		Valuation technique
Commercial properties of EUR 1,382 thousand	Of EUR 362 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar buildings.
	Of EUR 502 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar buildings as well as income method applying capitalization calculation manner.
	Of EUR 510 thousand	Income method (discounted cash flow method).
	Of EUR 8 thousand	Expenses method.
Outbuildings of EUR 225 thousand	Of EUR 225 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar buildings.
Residential properties of EUR 2,574 thousand	Of EUR 1,894 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar buildings.
	Of EUR 190 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar buildings as well as income method applying capitalization calculation manner.
	Of EUR 490 thousand	Income method (discounted cash flow method).
Other properties of EUR 42 thousand	Of EUR 42 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar buildings.
Agricultural land plots of EUR 1,833 thousand	Of EUR 1,833 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar land plots.
Forestry land plots of EUR 14 thousand	Of EUR 14 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar land plots.
Residential land plots of EUR 1,844 thousand	Of EUR 1,844 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar land plots.
Other land plots of EUR 440 thousand	Of EUR 440 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar land plots.

(All amounts in EUR thousand unless otherwise stated)

Note 13 Investment in subsidiaries

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

In 2016, the operating result of subsidiaries was a loss of EUR 1,396 thousand (loss of EUR 635 thousand in 2015), which was mainly affected by the loss of EUR 844 thousand (EUR 476 thousand in 2015) from the sale and the revaluation of the repossessed assets.

	The Bank	The Bank
	2016	2015
Balance at the beginning of the year	**16,105**	**18,092**
Additions	-	-
Disposals	-	(1,319)
Impairment of investment in subsidiaries	(1,611)	(668)
	(1,611)	**(1,987)**
Balance at the end of the year	**14,494**	**16,105**

Balance as of 31 December 2016	**Ownership (%)**	**Nominal amount**	**Carrying value**
UAB MB Turtas	100	5,489	3,163
UAB MB Valda	100	5,127	3,340
UAB MB Investicija	100	5,792	3,003
UAB TG Invest-1	100	5,792	4,399
SIA Nida capital	100	850	589
Total		**23,050**	**14,494**

Balance as of 31 December 2015	**Ownership (%)**	**Nominal amount**	**Carrying value**
UAB MB Turtas	100	5,489	3,634
UAB MB Valda	100	5,127	3,687
UAB MB Investicija	100	5,792	3,237
UAB TG Invest-1	100	5,792	4,935
SIA Nida capital	100	850	612
Total		**23,050**	**16,105**

Fair value evaluation of investment in subsidiaries

The Bank tests investments in its subsidiaries for impairment when impairment indicators are identified. The Bank applies the adjusted net asset method for evaluation of the fair value of its subsidiaries. The value of the investment property owned by subsidiaries and specified in external valuation reports is adjusted by a certain coefficient defined by the management of the Bank depending on the type of the investment property and associated risks (see Note 12).

Adjustments are recorded when estimation of the fair value of investment in subsidiaries indicates impairment of the Bank's investment.

Note 14 Other assets

Other assets comprise:

The Group			The Bank	
31 December 2016	31 December 2015		31 December 2016	31 December 2015
1,997	1,800	Prepayments	1,979	1,558
276	183	Receivables from customers	126	126
-	109	Receivable value added tax	-	-
104	58	Deferred expenses	102	58
-	84	The State Company "Deposit and Investment Insurance"	-	84
159	1,057	Cash (litas coins and banknotes)	159	1,057
82	438	Other	81	148
2,618	3,729		2,447	3,031
(46)	-	Less: impairment for losses from receivables	(46)	-
2,572	**3,729**	**Other assets**	**2,401**	**3,031**

(All amounts in EUR thousand unless otherwise stated)

Note 15 Derivative financial instruments

The Bank and the Group

31 December 2016	**Notional amount Purchase**	**Fair value Assets**	**Fair value Liabilities**
Foreign exchange forwards (EUR)	7,270	28	12
Foreign exchange swaps (EUR)	1,834	2	7
		30	**19**

The Bank and the Group

31 December 2015	**Notional amount Purchase**	**Fair value Assets**	**Fair value Liabilities**
Foreign exchange forwards (EUR)	7,351	28	8
Foreign exchange forwards (USD)	-	-	-
Foreign exchange swaps (EUR)	1,679	13	8
Foreign exchange swaps (USD)	4,576	-	-
		41	**16**

As of 31 December 2016, the Group and the Bank have pledged term deposits with the carrying amount of EUR 1,200 thousand (EUR 500 thousand as of 31 December 2015) for the foreign exchange forward agreements.

In 2016 and 2015, the Bank granted certain loans to customers with variable interest rate; however, the floor for interest rate was also set in the agreements. The floor is an integral part of the agreements. Accounting standards mandate that if at the moment of granting the loan the floor interest rate is close to the market variable interest rate, then the embedded derivative is closely related with host contract and thus might be accounted together.

Bank uses FX forwards and FX swaps as hedge instruments, without applying hedge account technique.

The Group			**The Bank**	
2016	**2015**		**2016**	**2015**
(69)	133	Realised result from swaps	(69)	133
284	266	Realised result from foreign exchange forwards	284	266
(6)	5	Unrealised result from swaps	(6)	5
17	20	Unrealised result from foreign exchange forwards	17	20
226	**424**	**Net gain (loss) from operations with derivative financial instruments**	**226**	**424**

Note 16 Due to banks and other credit institutions

The Group			**The Bank**	
31 December 2016	**31 December 2015**		**31 December 2016**	**31 December 2015**
4	4	Term deposits	4	4
3,000	3,000	Deposits CB (ECB Open market operations)	3,000	3,000
1,431	1,306	Current accounts and overnight deposits	1,431	1,306
4,435	**4,310**	**Amounts due to banks and other credit institutions**	**4,435**	**4,310**

As of 31 December 2016, interest rates on amounts due to banks and other credit institutions varied from 0.05% to 0.5% (from 0.05% to 0.5% as of 31 December 2015).

(All amounts in EUR thousand unless otherwise stated)

Note 16 Due to banks and other credit institutions (cont'd)

Break down by maturities and contractual interest rates of the amounts due to banks and other credit institutions:

Country	Currency of issue	Maturity	Interest rate	31 December 2016 The Bank	31 December 2016 The Group
Lithuania	EUR	-	0.00	1,431	1,431
Lithuania	EUR	2017	0.6	4	4
Lithuania	EUR	2020	0.00	3,000	3,000
Total				**4,435**	**4,435**

Interest rate related with liabilities to EUR 3,000 thousand agreement are under conditions and will depend on landing results therefore the cost of this liability may vary from 0 to 0.4 negative percent (this year 0 percent).

Country	Currency of issue	Maturity	Interest rate	31 December 2015 The Bank	31 December 2015 The Group
Lithuania	EUR	2016	0.05-0.5	4,306	4,306
Lithuania	EUR	-	-	4	4
Total				**4,310**	**4,310**

As of 31 December 2016 the loan of EUR 3,000 thousand was received based on the reverse repurchase agreement. Securities amounting to EUR 8,001 thousand were held to secure the reverse repurchase agreement (see Note 7 and Note 8).

As of 31 December 2015 the loan of EUR 5,988 thousand was received based on the reverse repurchase agreement. Securities amounting to EUR 7,023 thousand were held to secure the reverse repurchase agreement (see Note 7 and Note 8).

Note 17 Due to customers

Amounts due to customers comprise:

The Group 31 December 2016	The Group 31 December 2015		The Bank 31 December 2016	The Bank 31 December 2015
153,414	144,740	Term deposits	153,414	144,740
69,367	64,225	Current accounts	75,260	66,188
		Lending funds		
3,682	678	UAB Investicijų ir Verslo Garantijos	3,682	678
346	2,339	Rural Credit Guarantee Fund (UAB Žemės Ūkio Paskolų Garantijų Fondas)	346	2,339
226,809	**211,982**	**Amounts due to customers**	**232,702**	**213,945**
12,416	**11,609**	**Out of which held as security against guarantees and loans**	**12,416**	**11,609**

As of 31 December 2016 amounts due to ten largest customers of the Bank amounted to EUR 14,797 thousand or 6.36% of the Bank's deposit holders (EUR 14,080 thousand or 6.58% in 2015).

(All amounts in EUR thousand unless otherwise stated)

Note 17 Due to customers (cont'd)

Amounts due to customers include accounts with the following types of customers:

The Group			The Bank	
31 December 2016	**31 December 2015**		**31 December 2016**	**31 December 2015**
172,403	163,328	Individuals	172,403	163,328
45,408	44,031	Corporate enterprises	51,301	45,994
1,846	660	Financial institutions	1,846	660
7,152	3,963	Government departments and state owned enterprises	7,152	3,963
226,809	**211,982**	**Amounts due to customers**	**232,702**	**213,945**

An analysis of customer accounts by sector is as follows:

The Group			The Bank	
31 December 2016	**31 December 2015**		**31 December 2016**	**31 December 2015**
172,403	163,328	Individuals	172,403	163,328
5,148	4,013	Insurance and other financial services	5,148	4,013
14,614	14,690	Trade	14,614	14,690
6,905	5,043	Real estate and construction	12,798	7,006
5,645	5,482	Transport and communication	5,645	5,482
3,186	2,685	Manufacturing	3,186	2,685
6,066	4,048	Agriculture	6,066	4,048
952	835	Energy	952	835
11,890	11,858	Other	11,890	11,858
226,809	**211,982**	**Amounts due to customers**	**232,702**	**213,945**

Note 18 Debt securities issued (the Bank)

Currency of issue	**Maturity**	**Contractual interest rates**	**Book value of issue as of 31 December 2016**	**Book value of issue as of 31 December 2015**
Litas	2016	1.45	-	2,270
			-	**2,270**

As of 31 December 2016 and 2015 the Group had no unlisted bonds issued.

Subordinated loans

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

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

(All amounts in EUR thousand unless otherwise stated)

Note 19 Other liabilities

Other liabilities comprise:

The Group			The Bank	
31 December 2016	31 December 2015		31 December 2016	31 December 2015
483	554	Accrued payments to employees	483	554
-	36	Prepayments (advance payments)	-	-
189	176	Accrued expenses	189	176
134	120	Deferred income	134	120
152	155	Fee payable to the State Social Insurance Board	152	155
-	109	VAT payable		-
211	212	Other	145	174
1,169	**1,362**	**Other liabilities**	**1,103**	**1,179**

Note 20 Shareholders' equity

As of 31 December 2016 and 2015 the share capital of the Group and the Bank consisted of 137,750 ordinary shares with the par value of EUR 144.81 each. All shares are issued, authorised and fully paid. The shares are not listed.

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

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

The Group			The Bank	
31 December 2016	31 December 2015		31 December 2016	31 December 2015
2,528	2,528	Special reserve to cover possible losses	2,528	2,528
87	35	Legal reserve	87	35
2,628	1,642	Reserve capital	2,628	1,642
5,243	**4,205**	**Total other reserves**	**5,243**	**4,205**

Nature and purpose of reserves

Legal reserve

The Bank's legal reserve amounted to EUR 87 thousand as of 31 December 2016 (EUR 35 thousand as of 31 December 2015). A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profit are compulsory until the reserve reaches 10% of the share capital. The legal reserve can be used to cover the Bank's operating losses and for share capital increase.

Reserve capital

The Bank's and the Group's reserve capital amounting to EUR 2,628 thousand as of 31 December 2016 (EUR 1,642 thousand as of 31 December 2015) is created from additional shareholders' contributions and the profit of the Bank. The purpose of the reserve capital is to guarantee the financial stability of the Bank. The reserve capital can be used to cover the Bank's operating losses and for share capital increase.

Special reserve to cover possible losses

The Bank has created a special reserve to cover possible losses, which will be used to cover future possible losses.

Revaluation reserve of property and equipment

The revaluation reserve of property and equipment is used to record increase in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

(All amounts in EUR thousand unless otherwise stated)

Note 21 Contractual commitments and contingencies

Contractual commitments and contingencies

The contractual commitments and contingencies comprise the following:

The Group 31 December 2016	The Group 31 December 2015		The Bank 31 December 2016	The Bank 31 December 2015
		Credit related commitments and guarantees		
9,746	11,218	Credit related commitments	9,746	11,714
477	1,140	Guarantees	477	1,140
10,223	**12,358**		**10,223**	**12,854**
(1,978)	(1,655)	Less: cash held as security against letters of credit and guarantees	(1,978)	(1,655)
8,245	**10,703**	**Total credit related commitments and guarantees**	**8,245**	**11,199**
		Operating lease commitments		
370	324	Not later than 1 year	370	324
481	415	Later than 1 year but not later than 5 years	481	415
32	-	Later than 5 years	32	-
883	**739**	**Total operating lease commitments**	**883**	**739**

In 2016 the Bank's and the Group's operating lease expenses amounted to EUR 585 thousand (EUR 643 thousand in 2015).

Contingent tax liabilities

The tax authorities have not carried out a full-scope tax audit of the Bank for the period from 2011 to 2016. 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.

The State Tax Inspectorate carried an inspection for the period from 01/01/2012 until 31/12/2013.

Insurance

The Group is a member of the obligatory deposit insurance system. The system operates under the Lithuanian legislation and is governed by State Company Deposit and Investment Insurance (Indėlių ir Investicijų Draudimas VĮ). The insurance covers the Bank's liabilities to natural persons and legal entities for the amount of up to EUR 100,000 for each individual in case of business failure.

(All amounts in EUR thousand unless otherwise stated)

Note 22 Net interest income

The Group			The Bank	
2016	**2015**		**2016**	**2015**
5,539	4,567	On loans to customers	5,529	4,567
722	1,676	On impaired loans to customers	722	1,676
515	429	Leasing	515	429
107	569	Delinquency	107	569
656	846	On held-to-maturity investments	656	846
11	-	On available-for-sale investments	11	-
22	13	On placements with the banks and other credit institutions	22	13
80	92	On investments at fair value through profit or loss	80	92
7,652	**8,192**	**Interest revenue**	**7,642**	**8,192**
(817)	(1,273)	On obligations to customers, including letters of credit	(817)	(1,273)
(763)	(763)	Deposit insurance	(763)	(763)
(2)	-	On subordinated loans	(2)	-
-	(1)	On debt securities issued	-	(60)
(21)	(3)	On obligations to banks and other credit institutions	(21)	(3)
(1,603)	**(2,040)**	**Interest expenses**	**(1,603)**	**(2,099)**
6,049	**6,152**	**Net interest income**	**6,039**	**6,093**

In the year 2016 and 2015 the Bank had received income from delinquency charges of EUR 107 thousand and EUR 569 thousand respectively, accounted for under line *delinquency*. The major part of the income from delinquency charges is related with the cover of non-performing loans. The Bank recognises delinquency charges only when it is aware that the income from delinquency charges will be received.

Note 23 Net service fee and commission income

Net fee and commission income comprises:

The Group			The Bank	
2016	**2015**		**2016**	**2015**
2,605	2,583	Cash operations	2,605	2,583
556	594	Settlements operations	556	594
122	119	Remittances	122	119
3	3	Guarantees	3	3
7	11	Other	7	11
3,293	**3,310**	**Service fee and commission income**	**3,293**	**3,310**
(189)	(813)	Rent fee according to agreements	(189)	(813)
(238)	(291)	Cash operations	(238)	(291)
(35)	(56)	Settlements operations	(35)	(56)
(11)	(9)	Securities transactions	(11)	(9)
(51)	(58)	Other	(51)	(58)
(524)	**(1,227)**	**Service fee and commission expense**	**(524)**	**(1,227)**
2,769	**2,083**	**Net service fee and commission income**	**2,769**	**2,083**

(All amounts in EUR thousand unless otherwise stated)

Note 24 Net profit (loss) on securities trading

The Group 2016	The Group 2015		The Bank 2016	The Bank 2015
358	(105)	Realised gain (loss)	358	(105)
244	(62)	Unrealised gain (loss)	244	(62)
602	**(167)**	**Net profit (loss) on securities trading**	**602**	**(167)**

Note 25 Net foreign exchange gain

The Group 2016	The Group 2015		The Bank 2016	The Bank 2015
3,574	4,716	Gain on dealing in foreign currencies	3,574	4,716
(394)	(363)	Revaluation of items in statement of financial position, net	(394)	(363)
3,180	**4,353**	**Net foreign exchange gain**	**3,180**	**4,353**

Note 26 Net result on operations with investment property

The Group 2016	The Group 2015		The Bank 2016	The Bank 2015
282	(164)	Realised gain (loss)	(43)	(34)
(1,498)	(346)	Changes in fair value	(110)	-
(1,216)	**(510)**	**Net result on operations on investment property**	**(153)**	**(34)**

For more details on changes in the fair value for investment property see Note 12.

Note 27 Other income (expenses)

The Group 2016	The Group 2015		The Bank 2016	The Bank 2015
270	-	Received compensation under the settlement agreement	270	-
42	98	Rental revenue	8	3
5	14	Sale of assets (commemorative coins)	5	14
-	-	Intergroup income	18	31
55	106	Other income (expenses)	52	89
372	**218**	**Total other income (expenses)**	**353**	**137**

Note 28 Impairment of loans and other financial assets

The Group 2016	The Group 2015		The Bank 2016	The Bank 2015
(2,038)	(2,439)	Impairment loss on loans and receivables	(1,769)	(2,439)
11	(10)	Impairment loss on leasing	11	(10)
(46)	-	Reversal of impairment / (impairment) of other assets	(46)	-
810	532	Recovery of loans previously written-off	810	532
(1,263)	**(1,917)**	**Total impairment of loans and other financial assets**	**(994)**	**(1,917)**

(All amounts in EUR thousand unless otherwise stated)

Note 28 Impairment of loans and other financial assets (cont'd)

Impairment loss on loans and receivables for the year 2016 and 2015 by main factors is as follows:

The Group 2016	The Group 2015		The Bank 2016	The Bank 2015
(1,015)	(523)	Due to changes of collateral value	(1,015)	(523)
(182)	(426)	Due to changes of cash flow	(182)	(426)
(249)	(137)	Due to postponement of collateral realization (time effect)	(249)	(137)
-	(421)	Due to priority of delinquency charges	-	(421)
(722)	(561)	Loss of expected cash flow	(453)	(561)
76	(101)	Administrative expenses	76	(101)
(159)	(90)	VAT risk	(159)	(90)
169	(73)	Impairment for general loan portfolio credit risk	169	(73)
810	532	Cash flow (recovery) from written-off loans	810	532
9	(117)	Other factors	9	(117)
(1,263)	**(1,917)**	**Total impairment loss on loans and receivables**	**(994)**	**(1,917)**

Impairment expenses for the year 2016 and 2015 by industry sectors are as follows:

The Group 2016	The Group 2015		The Bank 2016	The Bank 2015
(209)	(852)	Real estate operations	60	(852)
(52)	(314)	Individuals	(52)	(314)
(359)	76	Manufacturing	(359)	76
(83)	165	Real estate constructions	(83)	165
(251)	(201)	Services	(251)	(201)
(21)	(518)	Trading enterprises	(21)	(518)
(19)	(73)	Agriculture and food processing	(19)	(73)
(273)	(184)	Transport	(273)	(184)
10	(6)	Energy	10	(6)
(6)	(10)	Local government	(6)	(10)
(1,263)	**(1,917)**	**Total impairment of loans and other financial assets**	**(994)**	**(1,917)**

(All amounts in EUR thousand unless otherwise stated)

Note 29 Operating expenses

Salaries and benefits and other operating expenses are as follows:

The Group 2016	The Group 2015		The Bank 2016	The Bank 2015
		Salaries and benefits		
(4,808)	(4,519)	Salaries and bonuses	(4,729)	(4,492)
(1,475)	(1,406)	Social security costs	(1,451)	(1,401)
(9)	(9)	Other employment taxes	(9)	(9)
(6,292)	**(5,934)**	**Total salaries and benefits**	**(6,189)**	**(5,902)**
		Other operating expenses		
(655)	(697)	Occupancy and rent	(655)	(697)
(332)	(378)	Office supplies	(332)	(378)
(336)	(370)	Expenses for service providers for the bank	(336)	(370)
(330)	(380)	Taxes other than income tax	(271)	(292)
(313)	(330)	Communication	(313)	(330)
(103)	(76)	Debt recovery costs	(103)	(74)
(180)	(205)	Transportation expenses	(180)	(205)
(103)	(123)	Expenses related with investment property	(6)	(11)
(78)	(51)	Security	(78)	(51)
(130)	(76)	Marketing and advertising	(130)	(76)
(25)	(38)	Legal and consultancy	(25)	(38)
(69)	(47)	Personnel training	(69)	(47)
(41)	(37)	Representation	(41)	(37)
(40)	(8)	Business travel and related	(24)	(8)
(82)	(56)	Insurance expenses	(82)	(56)
(18)	(18)	Participation fees	(18)	(18)
(285)	(321)	Other	(249)	(255)
(3,120)	**(3,211)**	**Total other operating expenses**	**(2,912)**	**(2,943)**

(All amounts in EUR thousand unless otherwise stated)

Note 30 Income tax

The Group's and the Bank's income tax is specified below:

The Group 2016	The Group 2015		The Bank 2016	The Bank 2015
(26)	(13)	Current income tax expenses	(26)	(13)
289	10	Change in deferred income tax	289	10
263	**(3)**	**Total income tax income (expenses)**	**263**	**(3)**
		Components of deferred income tax		
		Deferred income tax assets:		
2,742	3,038	Tax loss carried forward	2,554	2,762
677	676	Impairment of subsidiaries/investment property	1,355	1,134
17	20	Accruals	17	20
30	55	Collective impairment for loans	30	55
3,466	3,789	Deferred income tax assets	3,956	3,971
(1,478)	(2,096)	Less: not recognised part of deferred tax asset	(1,968)	(2,278)
1,988	1,693	Deferred income tax assets	1,988	1,693
		Deferred income tax liabilities:		
(61)	(62)	Revaluation of property and equipment	(61)	(62)
(30)	(24)	Other	(30)	(24)
(91)	(86)	Deferred income tax liabilities	(91)	(86)
1,897	**1,607**	**Deferred income tax, net**	**1,897**	**1,607**
		Deferred tax income (expense) recognised:		
1	1	In the statement of OCI	1	1
289	10	In the income statement	289	10

Deferred income tax assets are recognised for tax loss carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. Deferred tax assets on tax losses carried forward of EUR 13,120 thousand at the Bank and EUR 9,853 thousand at the Group have not been recognised because of realisation uncertainty.

Deferred tax components related to revaluation of available-for-sale financial instruments and revaluation of property and equipment are accounted for in equity.

(All amounts in EUR thousand unless otherwise stated)

Note 30 Income tax (cont'd)

Amounts recognised in other comprehensive income

The Bank (Group)

	2016			2015		
	Before tax	**Tax (expense) benefit**	**Net of tax**	**Before tax**	**Tax (expense) benefit**	**Net of tax**
Revaluation of property and equipment	(4)	1	(3)	(5)	1	(4)
Available-for-sale investment securities	-	-	-	-	-	-
Total	**(4)**	**1**	**(3)**	**(5)**	**1**	**(4)**

Reconciliation of effective tax rate

The income tax expense, applicable to the result of the current year, can be reconciled with the income tax expenses calculated using statutory income tax rate for the pre-tax income as follows:

The Group 2016		The Group 2015			The Bank 2016		The Bank 2015	
	811		1,067	Profit before tax		814		1,035
15 %	122	15%	160	Profit tax calculated at 15% tax rate	15 %	122	15%	155
(23) %	(187)	(32)%	(335)	Non-taxable income	(13) %	(106)	(14)%	(150)
47 %	384	17%	177	Non-deductible expenses	35 %	285	17%	176
(4) %	(29)	15%	146	Change in unrecognised deferred tax asset	(1) %	(11)	(3)%	(33)
(28)%	(231)	(15)%	(145)	Utilisation of tax losses carried forward	(28)%	(231)	(15)%	(145)
(40)%	(322)			Recognition of previously unrecognised tax losses	(40)%	(322)	-	-
(32) %	**(263)**	**0%**	**3**	**Total income tax (income) expenses**	**(32) %**	**(263)**	**0%**	**3**

(All amounts in EUR thousand unless otherwise stated)

Note 30 Income tax (cont'd)

Movement in deferred tax balances

The Bank (Group)

	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Balance at 31 December 2016 Net	Deferred tax assets	Deferred tax liabilities
Property and equipment	(62)	-	1	(61)	-	(61)
Available-for-sale securities	-	-	-	-	-	-
Tax loss carry-forwards	1,618	322	-	1,940	1,940	-
Other tax assets	75	(27)	-	48	48	-
Other tax liabilities	(24)	(6)	-	(30)	-	(30)
Total	**1,607**	**289**	**1**	**1,897**	**1,988**	**(91)**

	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Balance at 31 December 2015 Net	Deferred tax assets	Deferred tax liabilities
Property and equipment	(63)	-	1	(62)	-	(62)
Available-for-sale securities	-	-	-	-	-	-
Tax loss carry-forwards	1,618	-	-	1,618	1,618	-
Other tax assets	65	10	-	75	75	-
Other tax liabilities	(24)	-	-	(24)	-	(24)
Total	**1,596**	**10**	**1**	**1,607**	**1,693**	**(86)**

Note 31 Cash and cash equivalents

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

The Group 31 December 2016	The Group 31 December 2015		The Bank 31 December 2016	The Bank 31 December 2015
21,588	24,327	Cash on hand	21,588	24,327
19,164	-	Current accounts with the Bank of Lithuania	19,164	-
7,530	12,511	Current accounts with other credit institutions	7,529	12,485
4,453	5,823	Term deposits with credit institutions up to 90 days	4,453	5,823
52,735	**42,661**	**Cash and cash equivalents**	**52,734**	**42,635**

Note 32 Fair values of financial instruments

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

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

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

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

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

(All amounts in EUR thousand unless otherwise stated)

Note 32 Fair values of financial instruments (cont'd)

Balances with the Central Bank. The carrying amount equals to the fair value as these are current accounts at the Bank of Lithuania.

Financial assets at fair value through profit or loss and available-for-sale financial assets. The carrying amount is the fair value of such investments.

Held-to-maturity investments. Their fair value was calculated based on market quotations.

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

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

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

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

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

	2016		2015	
The Bank	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Cash and due from central bank	42,646	42,646	25,877	25,877
Placements with banks and other credit institutions	11,982	11,982	19,008	19,008
Held-to-maturity investments	33,660	34,878	24,943	27,732
Loans and receivables	145,339	151,265	142,518	140,030
Other assets	2,401	2,401	1,329	1,329
Total financial assets	**236,028**	**243,172**	**213,675**	**213,976**
Financial liabilities				
Due to banks and other credit institutions	4,435	4,435	4,310	4,310
Due to customers, including letters of credit	232,702	233,529	213,945	214,699
Debt securities issued	-	-	2,270	2,271
Subordinated loans	1,000	1,000	-	-
Other liabilities	1,103	1,103	341	341
Total financial liabilities	**239,240**	**240,067**	**220,866**	**221,621**

	2016		2015	
The Group	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Cash and due from central bank	42,646	42,646	25,877	25,877
Placements with banks and other credit institutions	11,983	11,983	19,034	19,034
Held-to-maturity investments	33,660	34,878	24,943	27,732
Loans and receivables (including finance lease receivables)	146,391	152,317	143,990	141,502
Other assets	2,572	2,572	1,393	1,393
Total financial assets	**237,252**	**244,396**	**215,237**	**215,538**
Financial liabilities				
Due to banks and other credit institutions	4,435	4,435	4,310	4,310
Due to customers, including letters of credit	226,809	227,635	211,982	212,736
Debt securities issued	-	-	131	132
Subordinated loans	1,000	1,000	-	-
Other liabilities	1,169	1,169	379	379
Total financial liabilities	**233,413**	**234,239**	**216,802**	**217,557**

(All amounts in EUR thousand unless otherwise stated)

Note 32 Fair values of financial instruments (cont'd)

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

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

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

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

The fair value of all Bank contracted derivatives is defined as Level 2. These are mainly FX swaps and derivatives which are revaluated using discounted cash flow or present value calculation method. In all cases revaluation is based on market observable inputs. Debt securities are priced in accordance to market quotes and, in cases when there is no active market for particular security, the price for this kind of security is determined with the reference to market observable inputs. As of 31 December 2016 and 2015 due to absence of active market, bonds issued by other Lithuanian and foreign banks were classified under Level 2. There were no movements of financial instruments between Level 1 and Level 2 in 2016 and 2015.

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

The Bank (Group)

As of 31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments	-	30	-	30
Financial assets designated at fair value through profit or loss	7,040	723	-	7,763
Available-for-sale financial assets	-	-	-	-
Financial liabilities				
Derivative financial instruments	-	19	-	19

As of 31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments	-	41	-	41
Financial assets designated at fair value through profit or loss	8,676	-	-	8,676
Available-for-sale financial assets	-	-	-	-
Financial liabilities				
Derivative financial instruments	-	16	-	16

(All amounts in EUR thousand unless otherwise stated)

Note 32 Fair values of financial instruments (cont'd)

Financial instruments not measured at fair value

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

Bank

31 December 2016	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Cash and due from banks	42,646	11,982	-	54,628
Held-to-maturity investments	-	33,660	-	33,660
Loans to customers	-	114,938	12,916	127,854
Receivables with deferred payment	-	2,669	-	2,669
Loans to financial institutions	-	4,228	-	4,228
Receivables from leasing	-	10,452	136	10,588
Other assets	-	2,401	-	2,401
Total financial assets	**42,646**	**180,330**	**13,052**	**236,028**
Liabilities				
Due to banks and other credit institutions	-	4,435	-	4,435
Due to customers	-	232,702	-	232,702
Debt securities issued	-	-	-	-
Subordinated loan		1,000		1,000
Other liabilities	-	1,103	-	1,103
Total financial liabilities	**-**	**239,240**	**-**	**239,240**

31 December 2015	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Cash and due from banks	25,877	19,008	-	44,885
Held-to-maturity investments	-	24,943	-	24,943
Loans to customers	-	108,447	12,883	121,330
Receivables with deferred payment	-	4,688	-	4,688
Loans to financial institutions	-	5,107	-	5,107
Receivables from leasing	-	11,393	-	11,393
Other assets	-	1,329	-	1,329
Total financial assets	**25,877**	**176,477**	**12,883**	**213,675**
Liabilities				
Due to banks and other credit institutions	-	4,310	-	4,310
Due to customers	-	213,945	-	213,945
Debt securities issued	-	2,270	-	2,270
Subordinated loans		-		-
Other liabilities	-	341	-	341
Total financial liabilities	**-**	**220,866**	**-**	**220,866**

(All amounts in EUR thousand unless otherwise stated)

Note 32 Fair values of financial instruments (cont'd)

Group

31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total carrying amount**
Assets				
Cash and due from banks	42,646	11,983	-	54,629
Held-to-maturity investments	-	33,660	-	33,660
Loans to customers	-	114,958	12,917	127,875
Receivables with deferred payment	-	3,381	319	3,700
Loans to financial institutions	-	4,228	-	4,228
Receivables from leasing	-	10,452	136	10,588
Other assets	-	2,572	-	2,572
Total financial assets	**42,646**	**181,234**	**13,372**	**237,252**
Liabilities				
Due to banks and other credit institutions	-	4,435	-	4,435
Due to customers	-	226,809	-	226,809
Debt securities issued	-	-	-	-
Subordinated loan		1,000		1,000
Other liabilities	-	1,169	-	1,169
Total financial liabilities	**-**	**233,413**	**-**	**233,413**

31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total carrying amount**
Assets				
Cash and due from banks	25,877	19,034	-	44,911
Held-to-maturity investments	-	24,943	-	24,943
Loans to customers	-	108,464	12,883	121,347
Receivables with deferred payment	-	6,143	-	6,143
Loans to financial institutions	-	5,107	-	5,107
Receivables from leasing	-	11,393	-	11,393
Other assets	-	1,393	-	1,393
Total financial assets	**25,877**	**176,477**	**12,883**	**215,237**
Liabilities				
Due to banks and other credit institutions	-	4,310	-	4,310
Due to customers	-	211,982	-	211,982
Debt securities issued	-	131	-	131
Subordinated loans		-		-
Other liabilities	-	379	-	379
Total financial liabilities	**-**	**216,802**	**-**	**216,802**

The following table shows the valuation techniques used by the Bank and the Group in measuring Level 2 and Level 3 fair values (where the fair value differs from the carrying amount), as well as the significant unobservable inputs used:

Type	**Valuation technique**	**Significant unobservable inputs**
Held-to-maturity investments	Discounted cash flows	Discount rates
Loans and receivables, loans to banks, loans to financial institutions, receivables from leasing	Discounted cash flows	Discount rates, default rates, expected lifetime
Due to customers	Discounted cash flows	Discount rates
Debt securities issued	Discounted cash flows	Discount rates
Subordinated loans	Discounted cash flows	Discount rates

(All amounts in EUR thousand unless otherwise stated)

Note 33 Related party transactions

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

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

The Bank, 2016	Shareholders	Subsidiaries	Key management personnel	Other*
Loans outstanding as of 31 December 2016, net	-	-	46	4,150
Interest rate, %	-	-	0–3.0	0–5.84
Interest income on loans	-	-	1	134
Impairment of loans	-	-	-	-
Term deposits as of 31 December 2016	-	-	3	362
Interest expense on deposits	-	-	-	(17)
Interest rate, %	-	-	0.25–0.50	0.15–6.5
Demand accounts as of 31 December 2016	80	5,893	38	4,185
Bonds issued as of 31 December 2016	-	-	-	-
Interest expense on bonds	-	-	-	-
Interest rate, %	-	-	-	-
Subordinated loans as of 31 December 2016	1,000	-	-	-
Interest expense on subordinated loans	(2)	-	-	-
Interest rate, %	2	-	-	-
Service fee and commission revenue	1	-	-	13
Service fee and commission expenses	-	-	-	(1)
Other operating revenue	-	18	1	4
Other operating expenses	-	-	(49)	(78)

The Bank, 2015	Shareholders	Subsidiaries	Key management personnel	Other*
Loans outstanding as of 31 December 2016, net	-	-	51	6,272
Interest rate, %	-	-	0–3.0	0–5.84
Interest income on loans	-	-	2	200
Impairment of loans	-	-	-	-
Term deposits as of 31 December 2016	-	-	3	1,739
Interest expense on deposits	-	-	-	(46)
Interest rate, %	-	-	0.35–1.25	0.2–6.5
Demand accounts as of 31 December 2016	42	1,963	20	2,343
Bonds issued as of 31 December 2016	-	2,138	-	132
Interest expense on bonds	-	(58)	-	(2)
Interest rate, %	-	1.45	-	1.45
Subordinated loans as of 31 December 2016	-	-	-	-
Interest expense on subordinated loans	-	-	-	-
Interest rate, %	-	-	-	-
Service fee and commission revenue	2	-	-	14
Service fee and commission expenses	-	-	-	-
Other operating revenue	-	31	-	4
Other operating expenses	-	-	(5)	(113)

(All amounts in EUR thousand unless otherwise stated)

Note 33 Related party transactions (cont'd)

The Group, 2016	Shareholders	Key management personnel	Other*
Loans outstanding as of 31 December 2016, net	-	46	4,150
Interest rate, %	-	0–3.0	0–5.84
Interest income on loans	-	1	134
Impairment of loans	-	-	-
Term deposits as of 31 December 2016	-	3	362
Interest expense on deposits	-	-	(17)
Interest rate, %	-	0.25–0.60	0.15–6.5
Demand accounts as of 31 December 2016	80	40	4,183
Bonds issued as of 31 December 2016	-	-	-
Interest expense on bonds	-	-	-
Interest rate, %	-	-	-
Subordinated loans as of 31 December 2016	1,000	-	-
Interest expense on subordinated loans	(2)	-	-
Interest rate, %	2	-	-
Service fee and commission revenue	1	-	13
Service fee and commission expenses	-	-	(1)
Other operating revenue	-	1	4
Other operating expenses	-	(50)	(77)

The Group, 2015	Shareholders	Key management personnel	Other*
Loans outstanding as of 31 December 2015, net	-	73	6,250
Interest rate, %	-	0–4.11	2.17–5.84
Interest income on loans	-	3	199
Impairment of loans	-	-	-
Term deposits as of 31 December 2015	-	3	1,739
Interest expense on deposits	-	-	(46)
Interest rate, %	-	0.43–1.25	0.2–6.5
Demand accounts as of 31 December 2015	42	47	2,317
Bonds issued as of 31 December 2015	-	-	132
Interest expense on bonds	-	-	(2)
Interest rate, %	-	-	1.45
Subordinated loans as of 31 December 2015	-	-	-
Interest expense on subordinated loans	(604)	-	-
Interest rate, %	-	-	-
Service fee and commission revenue	2	-	14
Service fee and commission expenses	-	-	-
Other operating revenue	-	-	4
Other operating expenses	-	(5)	(113)

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

(All amounts in EUR thousand unless otherwise stated)

Note 33 Related party transactions (cont'd)

The Group

Compensation of key management personnel comprised the following:

	2016	2015
Salaries and other short-term benefits	319	188
Social security costs	97	58
Total key management personnel compensation	**416**	**246**

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

Note 34 Risk management

Risk is inherent in the Bank's and the Group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's and the Group's continuing profitability and each individual within the Bank and the Group is accountable for the risk exposures relating to his or her responsibilities.

The Group and the Bank are exposed to credit risk, liquidity risk and market risk, it is also subject to operating risk.

<u>Risk management structure</u>

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Supervisory Board

The Supervisory Board has the responsibility for monitoring the overall risk process within the Bank and the Group.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Audit Committee

Audit Committee periodically reviews efficiency of the Bank's internal control procedures, it coordinates and periodically assesses the work of internal audit, monitors and assesses internal and external auditor's reports.

Risk Department

The Risk Department is responsible for monitoring compliance with risk principles, policies and limits, across the Group and the Bank.

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risk of the Group and the Bank.

The Bank Audit Division

Risk management processes throughout the Group and the Bank are audited annually by the internal audit that examines both the adequacy of the procedures and the Bank's and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Note 34 Risk management (cont'd)

Risk measurement and reporting systems

The Group and the Bank apply credit risk management measures, which could relevantly be divided into two types:
1) Measures that help to avoid decisions to grant unwarrantably risky 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.

Monitoring and controlling of risks are primarily performed based on limits established by the Group and the Bank. These limits reflect the business strategy and market environment of the Group and the Bank as well as the level of risk that the Bank or the Group is willing to accept.

Information compiled from all the business is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Risk Committee and the head of each business division.

The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Supervisory Board receives a comprehensive risk report once a quarter which is designed to provide all necessary information to assess and conclude on the risks of the Group and the Bank.

A daily briefing is given to the Board of Directors on the utilisation of market limits, analysis of proprietary investments and liquidity.

The Group measures credit risk arising from receivables for assets sold with deferred payment by asking to provide additional collateral, by signing real estate deal with restricted use of assets or by postponing ownership of asset sold until the final settlement of the agreed amount.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk

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

Credit risk associated with cash and other assets, which include litas banknotes and coins, is considered by the Bank and the Group as low. Litas banknotes and coins are translated to EUR by the Bank of Lithuania at a fixed rate of 3.4528 termless.

In cases, when cash flows of nonperforming loans are based on expected cash flows to be recovered from sale of collateral, value of the collateral is an important estimate in calculating impairment losses for loans and receivables. Sensitivity analysis of real estate market prices is presented in section *Market risk*.

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

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

The Group			The Bank	
31 December 2016	**31 December 2015**		**31 December 2016**	**31 December 2015**
		Statement of financial position items, other than trading and investment activities		
21,058	1,550	Balances with the Bank of Lithuania	21,058	1,550
11,983	19,034	Due from banks	11,982	19,008
127,875	122,612	Loans to customers	127,854	122,595
3,700	4,714	Receivable with deferred payment	2,669	3,259
4,228	5,271	Loans to bank and financial institutions	4,228	5,271
10,588	11,393	Receivables from leasing	10,588	11,393
179,432	**164,574**		**178,379**	**163,076**
		Off balance sheet items		
477	1,140	Guarantees	477	1,140
9,746	11,218	Loan commitments	9,746	11,714
189,655	**176,932**	**Total balance and off balance sheet items, other than trading and investment activities**	**188,602**	**175,930**
		Trading and investment activities		
		Financial assets at fair value through profit or loss		
30	*41*	*Derivative financial instruments*	*30*	*41*
7,763	*8,676*	*Debt securities*	*7,763*	*8,676*
		Held-to-maturity investments		
33,660	*24,943*	*Debt securities*	*33,660*	*24,943*
41,453	**33,660**	**Total trading and investment activities**	**41,453**	**33,660**
231,108	**210,592**	**Total credit exposure**	**230,055**	**209,590**

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the possible maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Maximum exposure to credit risk without taking into account any collateral and other credit enhancement (cont'd)

	31 December 2016 The Bank	31 December 2016 The Group	31 December 2015 The Bank	31 December 2015 The Group
Contracted amount				
Loan and credit line commitments	7,841	7,841	9,185	8,689
Undrawn overdraft facilities	1,905	1,905	2,529	2,529
Guarantees and letters of credit	477	477	1,140	1,140
Total	**10,223**	**10,223**	**12,854**	**12,358**

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Restricted assets (pledged or otherwise restricted use):

	31 December 2016 The Bank (Group)	31 December 2015 The Bank (Group)
Due from banks	1,200	700
Debt securities	6,633	7,707
Loans issued	1,368	-
Total	**9,201**	**8,407**

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

	The Bank (Group)	
	31 December 2016	31 December 2015
Government bonds	39,871	32,662
Bank and corporate bonds	1,552	957
Derivatives	30	41
Total	**41,453**	**33,660**

Bonds exposure by rating grade	The Bank (Group)	
	31 December 2016	31 December 2015
High grade (AAA-A)	28,260	32,662
Standard grade (B-BBB+)	13,163	957
Not rated	-	-
Total	**41,423**	**33,619**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Risk concentration of the maximum exposure to credit risk

Tables below present the breakdown of trading and investment activities by geographical region:

	The Bank (the Group)							
	31 December 2016				31 December 2015			
Bonds exposure by geography	Government bonds	Bank bonds	Financial institution bonds	Non-financial institution bonds	Government bonds	Bank bonds	Financial institution bonds	Non-financial institution bonds
Lithuania	18,813	-	-	-	32,662	-	-	-
Georgia	-	-	-	-	-	957	-	-
Bulgaria	1,668	-	-	-	-	-	-	-
Iceland	1,087	-	-	-	-	-	-	-
Spain	1,291	-	-	-	-	-	-	-
Croatia	1,114	-	-	-	-	-	-	-
Latvia	5,137	-	-	-	-	-	-	-
Poland	2,163	-	-	-	-	-	-	-
Romania	2,109	-	-	-	-	-	-	-
Slovenia	997	-	-	-	-	-	-	-
Sweden	960	-	-	-	-	-	-	-
Turkey	623	-	-	-	-	-	-	-
Hungary	3,909	-	-	-	-	-	-	-
Germany	-	-	531	192	-	-	-	-
Estonia	-	-	-	829	-	-	-	-
Total	**39,871**	**-**	**531**	**1,021**	**32,662**	**957**	**-**	**-**

The Group and the Bank have no impaired or overdue amounts within trading and investment activities.

For trading and investment activities, the Group and the Bank have assigned "AAA" to "A" (based on Fitch ratings or similar international rating agency equivalent) rating bonds to high grade, "BBB" to "B" rating bonds – to standard grade.

Corporate and bank bonds by sectors

The Bank (the Group)	**31 December 2016**	**31 December 2015**
Finance (Bank)	-	957
Real estate	192	-
General public administration activities	829	-
Other monetary intermediation	531	-
Total	**1,552**	**957**

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 Bank of Lithuania requirements to limit the exposures to a single borrower and large exposures, the Group also sets exposure requirement that the exposure to a single borrower may not exceed 15 percent of the Bank's capital. 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 Note 34.

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.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Risk concentration of the maximum exposure to credit risk (cont'd)

Exposure by geographical area

The geographical concentration risk is not recognised in the Group's business since the principle of focusing on domestic customers is followed. The Bank's maximum credit exposure to one client or counterparty before impairment as of 31 December 2016 was EUR 4,173 thousand (EUR 6,283 thousand as of 31 December 2015), and after application of all credit risk mitigation measures as of 31 December 2016 was EUR 4,167 thousand (EUR 4,660 thousand as of 31 December 2015). The proportion to the Bank's capital was 16.68% (20.01% as of 31 December 2015).

The Bank, 2016	Corporate loans	Individuals loans	Total
Lithuania	173,371	10,155	**183,526**
United States of America	671	-	**671**
Germany	120	26	**146**
Austria	2,632	-	**2,632**
Russia	177	594	**771**
Belarus	6	144	**150**
Poland	12	-	**12**
France	-	202	**202**
United Kingdom	-	192	**192**
Other	116	184	**300**
Total	**177,105**	**11,497**	**188,602**

The Group, 2016	Corporate loans	Individuals loans	Total
Lithuania	174,260	10,319	**184,579**
United States of America	671	-	**671**
Germany	120	26	**146**
Austria	2,632	-	**2,632**
Russia	177	594	**771**
Belarus	6	144	**150**
Poland	12	-	**12**
France	-	202	**202**
United Kingdom	-	192	**192**
Other	116	184	**300**
Total	**177,994**	**11,661**	**189,655**

The Bank , 2015	Corporate loans	Individuals loans	Total
Lithuania	150,321	11,993	**162,314**
United States of America	3,203	-	**3,203**
Germany	4,463	28	**4,491**
Austria	3,291	-	**3,291**
Russia	122	732	**854**
Belarus	13	204	**217**
Poland	14	-	**14**
France	-	215	**215**
United Kingdom	1,265	-	**1,265**
Other	-	66	**66**
Total	**162,692**	**13,238**	**175,930**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Risk concentration of the maximum exposure to credit risk (cont'd)

Exposure by geographical area (cont'd)

The Group, 2015	Corporate loans	Individuals loans	Total
Lithuania	150,963	12,327	**163,290**
United States of America	3,203	-	**3,203**
Germany	4,463	28	**4,491**
Austria	3,291	-	**3,291**
Russia	122	732	**854**
Belarus	13	204	**217**
Poland	14	-	**14**
Latvia	26	-	**26**
France	-	215	**215**
United Kingdom	1,265	-	**1,265**
Other	-	66	**66**
Total	**163,360**	**13,572**	**176,932**

Risk by sector

An industry sector split of the Bank's and the Group's financial assets before taking into account collateral held is as follows:

The Bank, 2016	Corporate loans	Individuals loans	Total
Trading enterprises	23,860	-	**23,860**
Real estate operations	23,900	4,151	**28,051**
Real estate constructions	3,035	-	**3,035**
Transport	8,397	7	**8,404**
Manufacturing	16,597	23	**16,620**
Services	29,482	6,980	**36,462**
Agriculture and food processing	21,395	46	**21,441**
Energy	5,179	98	**5,277**
Financial services	33,662	192	**33,854**
Local government	11,598	-	**11,598**
Total	**177,105**	**11,497**	**188,602**

The Group, 2016	Corporate loans	Individuals loans	Total
Trading enterprises	23,882	-	**23,882**
Real estate operations	24,442	4,151	**28,593**
Real estate constructions	3,035	-	**3,035**
Transport	8,397	7	**8,404**
Manufacturing	16,597	23	**16,620**
Services	29,806	7,144	**36,950**
Agriculture and food processing	21,395	46	**21,441**
Energy	5,179	98	**5,277**
Financial services	33,663	192	**33,855**
Local government	11,598	-	**11,598**
Total	**177,994**	**11,661**	**189,655**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Risk concentration of the maximum exposure to credit risk (cont'd)

Risk by sector (cont'd)

The Bank, 2015	**Corporate loans**	**Individuals loans**	**Total**
Trading enterprises	29,816	78	**29,894**
Real estate operations	17,116	5,696	**22,812**
Real estate constructions	4,423	-	**4,423**
Transport	8,195	10	**8,205**
Manufacturing	16,321	15	**16,336**
Services	34,350	6,882	**41,232**
Agriculture and food processing	16,970	43	**17,013**
Energy	5,913	137	**6,050**
Financial services	25,840	377	**26,217**
Local government	3,748	-	**3,748**
Total	**162,692**	**13,238**	**175,930**

The Group, 2015	**Corporate loans**	**Individuals loans**	**Total**
Trading enterprises	29,816	78	**29,894**
Real estate operations	17,748	5,945	**23,693**
Real estate constructions	4,423	-	**4,423**
Transport	8,195	10	**8,205**
Manufacturing	16,321	15	**16,336**
Services	34,360	6,967	**41,327**
Agriculture and food processing	16,970	43	**17,013**
Energy	5,913	137	**6,050**
Financial services	25,866	377	**26,243**
Local government	3,748	-	**3,748**
Total	**163,360**	**13,572**	**176,932**

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The ability to repay loan is the primary criterion in loan evaluation, though the Group and the Bank always demand collateral. Acceptable collaterals are classified into real estate, movable properties, guarantees, insurance, financial assets and other. Assets accepted as collateral are estimated at their fair value, while estimating present value of the loan taking into account the costs for obtaining and selling the collateral. When real estate is appraised, the Group and the Bank also take into account its liquidity and useful life.

According to the Bank's policy for evaluation of collaterals, different types of collaterals need to be revaluated in different timescale: residential buildings – at least every 5 years, commercial buildings – every 4 years, land – 3-5 years, vehicles – 1 years, other collaterals from 1 to 3 years. In addition to that there is also a requirement that in case of significant price correction in the real estate market or other significant change in economic environment, revaluation of all Bank's collateral should be performed.

The fair value of the rest collateral is appraised using both external and internal valuators.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Risk concentration of the maximum exposure to credit risk (cont'd)

The main types of collateral by fair value of collateral established on the last appraisal date are as follows:

Collateral and other credit enhancements (cont'd)

The Bank (Group), 2016	Corporate loans	Individuals loans	Total
Real estate	181,259	27,680	**208,939**
Securities	1,083	-	**1,083**
Vehicles	22,402	154	**22,556**
Equipment	17,994	22	**18,016**
Cash	11,745	671	**12,416**
Credit insurance	1,001	186	**1,187**
Guarantees received	12,964	12	**12,976**
Other	21,264	217	**21,481**
Total	**269,712**	**28,942**	**298,654**

The Bank (Group), 2015	Corporate loans	Individuals loans	Total
Real estate	164,939	26,796	**191,735**
Securities	1,085	-	**1,085**
Vehicles	19,932	29	**19,961**
Equipment	18,577	215	**18,792**
Cash	10,849	760	**11,609**
Credit insurance	394	157	**551**
Guarantees received	12,697	-	**12,697**
Other	15,983	85	**16,068**
Total	**244,456**	**28,042**	**272,498**

Pledged real estate value is based on the valuation reports of licensed appraisers. New vehicles and equipment collateral value is based on acquisition value according to the acquisition document, used vehicles and equipment – based on the valuation reports of licensed appraisers (revaluation is performed every 3 years for not impaired loans and every 2 years for impaired loans). Guarantees are presented based on contractual terms. Cash is presented as the balance in the account on the reporting day. Securities are presented at their nominal value. Credit insurance value is based on the management's evaluation based on the documents from insurance companies. The value of other collaterals (goods, inventories) is based on the management's evaluation.

Credit quality per class of financial asset

The credit quality of financial assets is managed by the Bank and the Group using an internal credit assessment system as described below.

Impairment and provisioning policies

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

The Group and the Bank carry 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.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Impairment and provisioning policies

When estimating the individual impairment for loans the Bank uses expected cash flow from the customers, which in some cases is different from the contractual cash flow. The gross value of such loans amounts to EUR 4,640 thousand less individual impairment of EUR 1,317 thousand. If the Bank would estimate the cash flows in accordance with loan maturity, the impairment would increase by EUR 156 thousand.

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 recognised as a loss event on the loan evaluation day.

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 90 days;
3) the loan is being restructured;
4) funds granted to the borrower are used not according to the loan purpose, the implementation terms of investment project are violated or collateral value decreases, 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).

Rating of loans

When evaluating loans, the Group and the Bank apply specific valuation criteria and procedures on the clients. The main criteria for evaluation are those related to client's financial position assessment. The financial position of the client is analysed based on constantly renewed financial information, also taking into account variations in certain financial ratios, affecting the position of the client. Based on a set of defined criteria, ratings are assigned to the clients. High grade ("A" rating group) rating is assigned to reliable transactions, i.e. clients' operations are stable, the client complies with provisions of credit agreement, collateral is of good quality. Standard grade ratings ("B" rating group) are assigned to clients with minor breaches in provisions and loans secured with collateral. Substandard grade ratings ("C" rating group) are assigned to clients not past due but with worse financial situation and restructured clients' loans with identified default risk.

The Bank, 2016	**Neither past due nor impaired**					
	High grade	**Standard grade**	**Substandard grade**	**Unrated**	**Past due or individually impaired**	**Total**
Asset classes						
Corporate loans	32,407	86,385	1,535	332	13,223	133,882
Individuals loans	4,509	263	1,015	-	5,670	11,457
Total	**36,916**	**86,648**	**2,550**	**332**	**18,893**	**145,339**

The Group, 2016	**Neither past due nor impaired**					
	High grade	**Standard grade**	**Substandard grade**	**Unrated**	**Past due or individually impaired**	**Total**
Asset classes						
Corporate loans	32,407	86,953	1,854	332	13,223	134,769
Individuals loans	4,509	263	1,180	-	5,670	11,622
Total	**36,916**	**87,216**	**3,034**	**332**	**18,893**	**146,391**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Rating of loans (cont'd)

The Bank, 2015	Neither past due nor impaired					
	High grade	Standard grade	Substandard grade	Unrated	Past due or individually impaired	Total
Asset classes						
Corporate loans	30,641	74,209	3,852	4,912	15,821	**129,435**
Individuals loans	4,019	559	1,210	3	7,292	**13,083**
Total	**34,660**	**74,768**	**5,062**	**4,915**	**23,113**	**142,518**

The Group, 2015	Neither past due nor impaired					
	High grade	Standard grade	Substandard grade	Unrated	Past due or individually impaired	Total
Asset classes						
Corporate loans	30,641	74,209	3,852	6,050	15,821	**130,573**
Individuals loans	4,019	559	1,210	337	7,292	**13,417**
Total	**34,660**	**74,768**	**5,062**	**6,387**	**23,113**	**143,990**

As of 31 December 2016 the Group and the Bank have accepted collateral for the past due or individually impaired loans in the total amount of EUR 29,167 thousand (EUR 35,916 thousand as of 31 December 2015). As of 31 December 2016 the Group's and the Bank's fair value of collateral for impaired loans was EUR 17,709 thousand (EUR 14,023 thousand as of 31 December 2015).

Ageing analysis of past due but not impaired loans per class of financial asset

The Bank (Group), 2016	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Asset classes					
Corporate loans	1,705	313	2,094	24	**4,136**
Collaterals for overdue loans	1,856	531	50	268	**2,705**
Individuals loans	1,605	66	-	42	**1,713**
Collaterals for overdue loans	8,618	55	-	81	**8,754**

The Bank (Group), 2015	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Asset classes					
Corporate loans	3,287	1,239	634	248	**5,408**
Collaterals for overdue loans	6,433	1,814	995	489	**9,731**
Individuals loans	1,525	122	-	-	**1,647**
Collaterals for overdue loans	7,436	321	-	-	**7,757**

As of 31 December 2016 the Bank has EUR 85,926 thousand renegotiated loans due to financial difficulties of the clients (EUR 89,519 thousand as of 31 December 2015).

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Ageing analysis of past due but not impaired loans per class of financial asset (cont'd)

Loans and receivables per period overdue and the value of collaterals pledged to secure them:

The Bank, 2016	**Not overdue**	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and receivables						
Loans and receivables	127,883	3,722	1,053	2,754	9,928	**145,340**
Collaterals	258,845	11,048	1,403	997	14,156	**286,449**
Over (under) collateralised	**130,962**	**7,326**	**350**	**(1,757)**	**4,228**	**141,109**

The Group, 2016	**Not overdue**	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and receivables						
Loans and receivables	128,322	3,722	1,053	2,753	10,541	**146,391**
Collaterals	258,891	11,048	1,403	997	14,447	**286,786**
Over (under) collateralised	**130,569**	**7,326**	**350**	**(1,756)**	**3,906**	**140,395**

The Bank, 2015	**Not overdue**	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and receivables						
Loans and receivables	122,065	7,310	1,821	830	10,492	**142,518**
Collaterals	229,506	15,958	2,670	1,250	12,987	**262,371**
Over (under) collateralised	**107,441**	**8,648**	**849**	**420**	**2,495**	**119,853**

The Group, 2015	**Not overdue**	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and receivables						
Loans and receivables	123,537	7,310	1,821	830	10,492	**143,990**
Collaterals	229,506	15,958	2,670	1,250	12,987	**262,371**
Over (under) collateralised	**105,969**	**8,648**	**849**	**420**	**2,495**	**118,381**

Collective impairment

The collective impairment (in percentage) for loans is calculated annually. The calculations are performed using historical data of 3-year period. As the ratio of collective impairment is recalculated annually, the assumptions made are also revised annually. In 2016, the ratio of 0.15% was established and approved (in year 2015 0.3% ratio was applied).

Sensitivity analysis:

The Bank / the Group		**2016**	**2015**
	Ratio change	**Pre-tax impact on profit**	
Collectively impaired loans and receivables	+0.1 pp	(152)	(123)
	-0.1 pp	152	123

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Liquidity risk

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

The major part of term deposits in the Bank's and the Group's deposit portfolio are placed for 6 to 13 month period, and average monthly fluctuations of this portfolio not exceeding more than 5 percent according to historical data. Several year statistics of the Group and the Bank show that activities of the Group and the Bank ensure stable level of those funds, also most of such funds are extended after maturity; this allows investing them into longer term financial assets.

From the beginning of 2015, the mandatory requirements of compliance with liquidity coverage ratio came into force according to Regulation (EU) No 575/2013 of the European Parliament and of the Council. The liquidity coverage ratio (LCR) refers to highly liquid assets held by the Bank or the Group in order to meet short-term obligations. The Bank or the Group is required to hold an amount of highly-liquid assets, such as cash treasury bonds and other liquid financial instruments, equal to or greater than net cash outflow over a 30-day period, i.e. liquidity coverage ratio cannot be lower than 100 percent. The liquidity coverage ratio of the Bank was started to be measured from the beginning of 2014, but it wasn't a compulsory requirement. Liquidity coverage ratios of the Bank and the Group are as follows:

The Group			The Bank	
31 December 2016	**31 December 2015**		**31 December 2016**	**31 December 2015**
78,583	53,858	Liquid assets	78,583	53,858
9,462	19,446	Short-term (up to 30 days) obligations	11,671	22,186
831	**277**	**LCR (%)**	**673**	**243**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Liquidity risk (cont'd)

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

The Bank

	31 December 2016							
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Without maturity**	**Total**
Assets:								
Cash and due from banks	50,175	3,253	-	-	-	-	1,200	**54,628**
Investments in debt securities	-	83	5,986	8,634	13,830	12,834	56	**41,423**
Investments in subsidiaries	-	-	-	-	-	-	14,494	**14,494**
Loans to customers	-	3,986	5,904	26,839	42,462	41,142	7,521	**127,854**
Receivables with deferred payment	-	-	-	-	-	2,666	3	**2,669**
Loans to bank and financial institutions	-	273	121	239	692	2,903	-	**4,228**
Receivables from leasing	-	232	423	2,343	3,937	3,493	160	**10,588**
Other assets	-	1,917	-	2	-	-	8,094	**10,013**
Total	**50,175**	**9,744**	**12,434**	**38,057**	**60,921**	**63,038**	**31,528**	**265,897**
Liabilities:								
Due to banks and other credit institutions	1,431	-	-	4	-	3,000	-	**4,435**
Due to customers	75,262	18,192	24,354	90,266	15,571	9,053	4	**232,702**
Debt securities issued	-	-	-	-	-	-	-	**-**
Subordinated loans	-	-	-	-	-	1,000	-	**1,000**
Other liabilities	7	1,120	2	5	5	4	-	**1,143**
Total	**76,700**	**19,312**	**24,356**	**90,275**	**15,576**	**13,057**	**4**	**239,280**
Net position	**(26,525)**	**(9,568)**	**(11,922)**	**(52,218)**	**45,345**	**49,981**	**31,524**	**26,617**
Accumulated gap	***(26,525)***	***(36,093)***	***(48,015)***	***(100,233)***	***(54,888)***	***(4,907)***	***26,617***	***-***
Loan commitments		9,746						**9,746**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Liquidity risk (cont'd)

The Bank

	31 December 2015							
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Without maturity**	**Total**
Assets:								
Cash and due from banks	38,337	5,848	200	500	-	-	-	**44,885**
Investments in debt securities	-	1,810	3,181	4,605	8,909	15,114	-	**33,619**
Investments in subsidiaries	-	-	-	-	-	-	16,105	**16,105**
Loans to customers	-	2,192	4,904	22,719	40,334	42,970	9,476	**122,595**
Receivables with deferred payment	-	7	598	25	-	2,629	-	**3,259**
Loans to bank and financial institutions	-	1,434	12	118	479	3,228	-	**5,271**
Receivables from leasing	-	201	385	1,958	4,426	4,423	-	**11,393**
Other assets	-	3,055	1	2	3	-	7,082	**10,143**
Total	**38,337**	**14,547**	**9,281**	**29,927**	**54,151**	**68,364**	**32,663**	**247,270**
Liabilities:								
Due to banks and other credit institutions	1,306	2,000	1,000	4	-	-	-	**4,310**
Due to customers	66,188	19,983	26,088	86,367	9,597	5,710	12	**213,945**
Debt securities issued	-	2,270	-	-	-	-	-	**2,270**
Subordinated loan								**-**
Other liabilities	84	1,100	2	5	6	10	-	**1,207**
Total	**67,578**	**25,353**	**27,090**	**86,376**	**9,603**	**5,720**	**12**	**221,732**
Net position	**(29,241)**	**(10,806)**	**(17,809)**	**(56,449)**	**44,548**	**62,644**	**32,651**	**25,538**
Accumulated gap	***(29,241)***	***(40,047)***	***(57,856)***	***(114,305)***	***(69,757)***	***(7,113)***	***25,539***	***-***
Loan commitments		11,714						**11,714**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Liquidity risk (cont'd)

	31 December 2016							
The Group	**On demand**	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Without maturity**	**Total**
Assets:								
Cash and due from banks	50,176	3,253	-	-	-	-	1,200	**54,629**
Investments in debt securities	-	83	5,986	8,634	13,830	12,834	56	**41,423**
Loans to customers	-	3,986	5,911	26,842	42,469	41,146	7,521	**127,875**
Receivables with deferred payment	125	-	-	318	264	2,990	3	**3,700**
Loans to bank and financial institutions	-	273	121	239	692	2,903	-	**4,228**
Receivables from leasing	-	232	423	2,343	3,937	3,493	160	**10,588**
Other assets	-	2,067	-	2	-	-	15,556	**17,625**
Total	**50,301**	**9,894**	**12,441**	**38,378**	**61,192**	**63,366**	**24,496**	**260,068**
Liabilities:								
Due to banks and other credit institutions	1,431	-	-	4	-	3,000	-	**4,435**
Due to customers	69,369	18,192	24,354	90,266	15,571	9,053	4	**226,809**
Debt securities issued	-	-	-	-	-	-	-	**-**
Subordinated loans	-	-	-	-	-	1,000	-	**1,000**
Other liabilities	73	1,120	2	5	5	4	-	**1,209**
Total	**70,873**	**19,312**	**24,356**	**90,275**	**15,576**	**13,057**	**4**	**233,453**
Net position	**(20,572)**	**(9,418)**	**(11,915)**	**(51,897)**	**45,616**	**50,309**	**24,492**	**26,615**
Accumulated gap	***(20,572)***	***(29,990)***	***(41,905)***	***(93,802)***	***(48,186)***	***2,123***	***26,615***	**-**
Loan commitments		9,746						**9,746**

	31 December 2015							
The Group	**On demand**	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Without maturity**	**Total**
Assets:								
Cash and due from banks	38,363	5,848	200	500	-	-	-	**44,911**
Investments in debt securities	-	1,810	3,181	4,605	8,909	15,114	-	**33,619**
Loans to customers	-	2,164	5,147	22,483	40,328	43,008	9,482	**122,612**
Receivables with deferred payment	-	35	1,087	261	328	3,003	-	**4,714**
Loans to bank and financial institutions	-	1,434	12	118	479	3,228	-	**5,271**
Receivables from leasing	-	201	385	1,958	4,426	4,423	-	**11,393**
Other assets	-	3,753	1	2	3	-	17,074	**20,833**
Total	**38,363**	**15,245**	**10,013**	**29,927**	**54,473**	**68,776**	**26,556**	**243,353**
Liabilities:								
Due to banks and other credit institutions	1,306	2,000	1,000	4	-	-	-	**4,310**
Due to customers	64,225	19,983	26,088	86,367	9,597	5,710	12	**211,982**
Debt securities issued	-	131	-	-	-	-	-	**131**
Subordinated loan								**-**
Other liabilities	267	1,100	2	5	6	10	-	**1,390**
Total	**65,798**	**23,214**	**27,090**	**86,376**	**9,603**	**5,720**	**12**	**217,813**
Net position	**(27,435)**	**(7,969)**	**(17,077)**	**(56,449)**	**44,870**	**63,056**	**26,544**	**25,540**
Accumulated gap	***(27,435)***	***(35,404)***	***(52,481)***	***(108,930)***	***(64,060)***	***(1,004)***	***25,540***	**-**
Loan commitments		11,218						**11,218**

Overdue loans are disclosed under column "Without maturity" as of 31 December 2016 and 2015.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Liquidity risk (cont'd)

The following tables provide an analysis of financial liabilities based on contractual undiscounted repayment obligations:

The Bank

31 December 2016	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	Total
Liabilities:								
Due to banks and other credit institutions	1,431	-	-	4	-	3,000	-	**4,435**
Due to customers	75,262	18,276	24,471	90,848	16,118	9,649	4	**234,628**
Debt securities issued								**-**
Subordinated loans	-	-	-	-	-	1,000	-	**1,000**
Other liabilities	8	1,120	2	5	5	4	-	**1,144**
Guarantees	477	-	-	-	-	-	-	**477**
Credit commitments	9,746	-	-	-	-	-	-	**9,746**
Total undiscounted financial liabilities	**86,924**	**19,396**	**24,473**	**90,857**	**16,123**	**13,653**	**4**	**251,430**

The Bank

31 December 2015	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	Total
Liabilities:								
Due to banks and other credit institutions	1,306	2,000	1,000	4	-	-	-	**4,310**
Due to customers	66,188	20,129	26,269	86,888	9,932	6,297	4	**215,707**
Debt securities issued	-	2,270	-	-	-	-	-	**2,270**
Subordinated loans								**-**
Other liabilities	70	1,113	2	5	6	10	-	**1,206**
Guarantees	1,140	-	-	-	-	-	-	**1,140**
Credit commitments	11,714	-	-	-	-	-	-	**11,714**
Total undiscounted financial liabilities	**80,418**	**25,512**	**27,271**	**86,897**	**9,938**	**6,307**	**4**	**236,347**

The Group

31 December 2016	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	Total
Liabilities:								
Due to banks and other credit institutions	1,431	-	-	4	-	3,000	-	**4,435**
Due to customers	69,369	18,276	24,471	90,848	16,118	9,649	4	**228,735**
Debt securities issued								**-**
Subordinated loans	-	-	-	-	-	1,000	-	**1,000**
Other liabilities	8	1,186	2	5	5	4	-	**1,210**
Guarantees	477	-	-	-	-	-	-	**477**
Credit commitments	9,746	-	-	-	-	-	-	**9,746**
Total undiscounted financial liabilities	**81,031**	**19,462**	**24,473**	**90,857**	**16,123**	**13,653**	**4**	**245,603**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Liquidity risk (cont'd)

The Group

	31 December 2015							
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Without maturity**	**Total**
Liabilities:								
Due to banks and other credit institutions	1,306	2,000	1,000	4	-	-	-	**4,310**
Due to customers	64,225	20,129	26,269	86,888	9,932	6,297	4	**213,744**
Debt securities issued	-	131	-	-	-	-	-	**131**
Subordinated loans								**-**
Other liabilities	70	1,296	2	5	6	10	-	**1,389**
Guarantees	1,140	-	-	-	-	-	-	**1,140**
Credit commitments	11,218	-	-	-	-	-	-	**11,218**
Total undiscounted financial liabilities	**77,959**	**23,556**	**27,271**	**86,897**	**9,938**	**6,307**	**4**	**231,932**

The Group and the Bank do not expect to pay under any of the guarantees, though they were included in the range on demand assuming worst case scenario. In case of failure of clients to fulfil the obligations where the Group and the Bank have issued guarantees, guarantees would become payable on demand.

Market risk

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

The Bank and the Group by managing loans in foreclosure processes and holding as investment property repossessed assets face real estate market price risk. Real estate market price risk is the risk to incur losses due to low market liquidity that disables to sell assets at the desired time for a desired price or a possibility to sell available assets (investments) is lost.

The Bank

		Effect for profit and loss	
	Changes in presumptions	**31 December 2016**	**31 December 2015**
Land	+ 10%	344	341
Commercial property	+ 10%	414	351
Residential property	+ 10%	379	460
Other assets	+ 10%	116	33
Total		**1,253**	**1,185**
Land	- 10%	(344)	(341)
Commercial property	- 10%	(414)	(351)
Residential property	- 10%	(379)	(460)
Other assets	- 10%	(116)	(33)
Total		**(1,253)**	**(1,185)**

The Group

		Effect for profit and loss	
	Changes in presumptions	**31 December 2016**	**31 December 2015**
Land	+ 10%	729	863
Commercial property	+ 10%	554	618
Residential property	+ 10%	593	640
Other assets	+ 10%	142	63
Total		**2,018**	**2,184**
Land	- 10%	(729)	(863)
Commercial property	- 10%	(554)	(618)
Residential property	- 10%	(593)	(640)
Other assets	- 10%	(142)	(63)
Total		**(2,018)**	**(2,184)**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Interest rate risk

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

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

The Bank (The Group)		Effect on net interest income	
	Interest rate change	31 December 2016	31 December 2015
LTL	+ 1%	-	-
EUR	+ 1%	99	40
USD	+ 1%	41	16
Other	+ 1%	4	50
LTL	- 1%	-	-
EUR	- 1%	(99)	(40)
USD	- 1%	(41)	(16)
Other	- 1%	(4)	(50)

The table below summarises the Group's and the Bank's exposure to interest rate risk as of 31 December 2016 and 2015. The table below includes the Group's and the Bank's assets and liabilities at carrying amounts, classified by the earlier of contractual re-pricing or maturity dates.

	31 December 2016						
The Bank	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets:							
Cash and due from banks	3,290	78	-	-	-	-	**3,368**
Loans and receivables	14,432	33,329	46,690	30,049	4683	6,145	**135,328**
Investments in debt securities	82	5,986	1,954	6,680	13,822	12,833	**41,357**
Other assets	80	20	31	61	90	-	**282**
Sensitive assets to interest rate fluctuation	**17,884**	**39,413**	**48,675**	**36,790**	**18,595**	**18,978**	**180,335**
Non-sensitive assets to interest rate fluctuation							**85,562**
Liabilities:							
Due to banks and other credit institutions	-	-	-	4	-	-	**4**
Due to customers	16,406	24,102	37,170	52,810	15,217	5,048	**150,753**
Debt securities issued	-	-	-	-	-	-	**-**
Other liabilities	3,931	-	-	-	-	1,096	**5,027**
Sensitive liabilities to interest rate fluctuation	**20,337**	**24,102**	**37,170**	**52,814**	**15,217**	**6,144**	**155,784**
Non-sensitive liabilities and equity to interest rate fluctuation							**110,113**
Total interest sensitivity gap	**(2,453)**	**15,311**	**11,505**	**(16,024)**	**3,378**	**12,834**	**-**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Interest rate risk (cont'd)

The Bank	31 December 2015						
	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets:							
Cash and due from banks	5,583	200	-	500	-	-	**6,283**
Loans and receivables	13,027	27,766	42,560	37,334	3,072	6,920	**130,679**
Investments in debt securities	1,738	2,892	1,448	2,977	8,909	15,114	**33,078**
Other assets	9	1	1	1	3	-	**15**
Sensitive assets to interest rate fluctuation	**20,357**	**30,859**	**44,009**	**40,812**	**11,984**	**22,034**	**170,055**
Non-sensitive assets to interest rate fluctuation							**77,215**
Liabilities:							
Due to banks and other credit institutions	-	-	-	4	-	-	**4**
Due to customers	17,555	24,473	36,717	49,396	9,382	2,537	**140,060**
Debt securities issued	2,210	-	-	-	-	-	**2,210**
Other liabilities	3,016	-	-	-	-	-	**3,016**
Sensitive liabilities to interest rate fluctuation	**22,781**	**24,473**	**36,717**	**49,400**	**9,382**	**2,537**	**145,290**
Non-sensitive liabilities and equity to interest rate fluctuation							**101,980**
Total interest sensitivity gap	**(2,424)**	**6,386**	**7,292**	**(8,588)**	**2,602**	**19,497**	**-**

The Group	31 December 2016						
	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets:							
Cash and due from banks	3,290	78	-	-	-	-	**3,368**
Loans and receivables	14,432	33,336	46,797	30,264	4954	6,473	**136,256**
Investments in debt securities	82	5,986	1,954	6,680	13,822	12,833	**41,357**
Other assets	80	20	31	61	90	-	**282**
Sensitive assets to interest rate fluctuation	**17,884**	**39,420**	**48,782**	**37,005**	**18,866**	**19,306**	**181,263**
Non-sensitive assets to interest rate fluctuation							**78,805**
Liabilities:							
Due to banks and other credit institutions	-	-	-	4	-	-	**4**
Due to customers	16,406	24,102	37,170	52,810	15,217	5,048	**150,753**
Debt securities issued	-	-	-	-	-	-	**-**
Other liabilities	3,931	-	-	-	-	1,096	**5,027**
Sensitive liabilities to interest rate fluctuation	**20,337**	**24,102**	**37,170**	**52,814**	**15,217**	**6,144**	**155,784**
Non-sensitive liabilities and equity to interest rate fluctuation							**104,503**
Total interest sensitivity gap	**(2,453)**	**15,318**	**11,612**	**(15,809)**	**3,649**	**13,162**	**-**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Interest rate risk (cont'd)

The Group	**31 December 2015** **Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets:							
Cash and due from banks	5,583	200	-	500	-	-	**6,283**
Loans and receivables	13,055	28,257	42,718	37,415	3,407	7,299	**132,151**
Investments in debt securities	1,738	2,892	1,448	2,977	8,909	15,114	**33,078**
Other assets	9	1	1	1	3	-	**15**
Sensitive assets to interest rate fluctuation	**20,385**	**31,350**	**44,167**	**40,893**	**12,319**	**22,413**	**171,527**
Non-sensitive assets to interest rate fluctuation							**71,826**
Liabilities:							
Due to banks and other credit institutions	-	-	-	4	-	-	**4**
Due to customers	17,555	24,473	36,717	49,396	9,382	2,537	**140,060**
Debt securities issued	130	-	-	-	-	-	**130**
Other liabilities	3,016	-	-	-	-	-	**3,016**
Sensitive liabilities to interest rate fluctuation	**20,701**	**24,473**	**36,717**	**49,400**	**9,382**	**2,537**	**143,210**
Non-sensitive liabilities and equity to interest rate fluctuation							**100,143**
Total interest sensitivity gap	**(316)**	**6,877**	**7,450**	**(8,507)**	**2,937**	**19,876**	**-**

The Bank and the Group is exposed to the price risk, which arises from investments measured as fair value though profit and loss (FVTPL). The management of the Group monitors the proportions of debt securities in its investment portfolio based on market indices. The Bank estimates the impact of the change in market yields on the value of the securities designated at fair value portfolio.

The table below shows the impact of the change in value of securities designated at fair value if the yield increases/decreases by one percentage point on pre-tax income and equity:

The Bank / the Group	**Yield change**	**2016** **Pre-tax impact on profit**	**2015**
Securities designated at FVTPL	+1%	(93)	(516)
	-1%	95	297

Effect of changes in yields is lower as of 31 December 2016 because of the decrease of duration of securities compared to the same period a year ago from 6 years as of 31 December 2015 to 1.25 year as of 31 December 2016. The bank intends to maintain the same structure of securities portfolio with the purpose of interest rate risk management.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Currency risk

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

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

The Bank	**Statement of financial position**		**Off Balance sheet**			
31 December 2016	Assets	Equity and liabilities	Contingent claims	Contingent liabilities	Open position	Position as % of capital
EUR	234,590	244,081	9,104	-	(387)	(1.55)%
USD	19,485	19,441	-	-	44	0.18%
Other currencies	11,822	2,375	-	9,096	351	1.40%
Total assets	**265,897**	**265,897**	**9,104**	**9,096**		
Long positions						420
Short positions						(25)
Eligible capital						24,986
Open foreign currency position 2016*						**1.68%**

The Bank	**Statement of financial position**		**Off Balance sheet**			
31 December 2015	Assets	Equity and liabilities	Contingent claims	Contingent liabilities	Open position	Position as % of capital
EUR	217,494	222,656	9,057	4,567	(672)	(2.88)
USD	17,747	22,105	4,576	-	218	0.94
Other currencies	12,029	2,509	-	9,043	477	2.05
Total assets	**247,270**	**247,270**	**13,633**	**13,610**		
Long positions						695
Short positions						-
Eligible capital						23,294
Open foreign currency position 2015*						**2.98%**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Currency risk (cont'd)

The Group	**Statement of financial position**		**Off Balance sheet**			
31 December 2016	Assets	Equity and liabilities	Contingent claims	Contingent liabilities	Open position	Position as % of capital
EUR	228,761	238,252	9,104	-	(387)	(1.55)%
USD	19,485	19,441	-	-	44	0.18%
Other currencies	11,822	2,375	-	9,096	351	1.40%
Total assets	**260,068**	**260,068**	**9,104**	**9,096**		
Long positions						420
Short positions						(25)
Eligible capital						24,984
Open foreign currency position 2016						**1.68%**

The Group	**Statement of financial position**		**Off Balance sheet**			
31 December 2015	Assets	Equity and liabilities	Contingent claims	Contingent liabilities	Open position	Position as % of capital
EUR	213,577	218,739	9,057	4,567	(672)	(2.88)
USD	17,747	22,105	4,576	-	218	0.93
Other currencies	12,029	2,509	-	9,043	477	2.04
Total assets	**243,353**	**243,353**	**13,633**	**13,610**		
Long positions						695
Short positions						-
Eligible capital						23,326
Open foreign currency position 2015*						**2.97%**

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

	2016	**2015**
Increase in FX rates by 10%	40	70
Decrease in FX rates by 10%	(40)	(70)

Anti-money laundering risk management

UAB Medicinos Bankas is implementing money laundering and terrorist financing prevention policy according to the legislation of the Republic of Lithuania and international legislation.

The Bank's money laundering and terrorist financing prevention policy's aims, its implementation procedures and instruments are regulated in the special Bank's documents.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Anti-money laundering risk management (cont'd)

Main procedures of money laundering and terrorist financing prevention:
- Know Your Customer procedures;
- customer identification;
- monitoring of the financial transactions performed by customers;
- identification of suspicious transactions and termination hereof (special systems introduced at the Bank enable to efficiently implement the procedure);
- keeping of information about transactions performed by customers and register handling;
- providing timely information to the Bank staff and training;
- internal control.

The Bank is following strict ethical and moral norms and is working with those clients whose funds and assets are reasonable and whose legitimacy is not doubtful.

Note 35 Capital

The Group's and the Bank's capital management procedures are based on the regulatory capital requirements contained in the Capital Requirements Directive (CRD) and in the Capital Requirements Regulation (CRR), which took effect on 1 January 2015. The CRD consists of three pillars two of which were represented in the financial statements:

Pillar one contains a set of rules for the mathematical calculation of capital requirements for credit, market and operational risks. These rules are set by Regulation (EU) No. 575/2013 of the European Parliament and of the Council and require banks to maintain a common equity Tier 1 capital ratio of 4.5% and a total capital adequacy ratio of 8% of risk-weighted assets. On 30 June 2015 a new requirement for Tier 1 equity items came into effect. According to these requirements, there is a need to accumulate additional reserve, which is equal to 2.5 percentage from generally evaluated risk amount. The risk weighted asset is determined based on a standard method when different risk weight is attributed to different categories of asset based on its type and risk involved, taking into account collateral and warranties, which hedge the risk. Off-balance sheet positions are evaluated in a similar way. Operating risk capital adequacy requirement is determined based on the base indicator method.

CRD IV and CRR requirements for the Bank's capital adequacy ratios for the year end in percentage

Capital components	2016	2017	2018
General capital adequacy ratio	8.00	8.00	8.00
General capital adequacy ratio plus Pillar II	11.40	11.40	11.40
General capital adequacy ratio plus Pillar II and Capital conservation buffer	13.90	13.90	13.90

Pillar two describes the supervisory review process and requires companies to carry out an internal capital adequacy assessment process (ICAAP).

The Bank's internal capital adequacy monitoring process is reviewed at least once a year and the most critical risks to the Bank are determined. The Bank assesses that credit, market, liquidity, concentration and operating risks are the most important to the Bank's activities. Also, during the review process all of the above mentioned risks are divided into sub-categories. All structural units of the Bank are involved in self-assessment to exposure of such risks. Based on the identified significant risks, an additional capital adequacy requirement (in addition to the Pillar one ratio) is determined. An additional required capital is determined on a periodical basis based on stress testing and internal capital adequacy assessment.

Based on self-assessment results the Bank's management determined that credit risk is the most significant to the Bank. Concentration risk is assessed as a part of credit risk. Operating risk was assessed as moderate in the Bank. The following subcategories of operating risk are analysed in the Bank: IT risk and the Bank's employees' mistake risk. Liquidity risk is managed centrally; however, due to the fact that the Bank does not have a strong parent company (financial institution), this risk is assessed as medium. Market risk includes foreign exchange, debt securities price risks. Other risks are considered as not material. There are internal regulations in the Bank which determine risk management process integrity. The risks taken by the Bank are controlled by limit system that is implemented in the Bank. In addition to the limit system, additional measures such as risk source monitoring and informing Bank's management are applied.

In addition to assessment of various risks and calculation of required additional capital stress testing for credit, liquidity, market, interest rate, foreign exchange and operational risks is performed. The purpose of such test is to determine whether the Bank's capital is sufficient to cover potential losses due to possible deterioration of the financial position of the Bank. Stress testing is performed once a year in order to comply with the regulations set by the Bank of Lithuania.

(All amounts in EUR thousand unless otherwise stated)

Note 35 Capital (cont'd)

The primary objectives of the Group's and the Bank's capital management are to ensure that the Group and the Bank comply with externally imposed capital requirements and that the Group and the Bank maintain healthy capital ratios in order to support their business and to maximise the shareholders' value. Taking into consideration Regulation (EU) No. 575/2013 of the European Parliament and of the Council and capital adequacy requirements, the Bank's total capital adequacy ratio should not be less than 13.90 percent. As of 31 December 2016 and 2015, the Group's and the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

Capital adequacy ratio calculation summary, according to the requirements of the Bank of Lithuania is presented in the table below:

The Bank	**2016**		**2015**	
Capital adequacy calculation	**Nominal**	**Weighted**	**Nominal**	**Weighted**
Tier 1 equity items	23,986	23,986	23,294	23,294
Tier 2 equity items	1,000	1,000	-	-
Recalculated capital	**24,986**	**24,986**	**23,294**	**23,294**
	Position value	**RWA**	**Position value**	**RWA**
Capital adequacy for credit risk	**266,166**	**123,063**	**249,700**	**131,893**
Risk assets				
0% risk assets	77,291	-	49,067	-
20% risk assets	20,566	4,113	20,991	4,198
35% risk assets	5,197	1,511	7,483	2,587
50% risk assets	28,636	12,483	26,854	13,427
75% risk assets	36,954	17,976	34,982	16,471
100% risk assets	90,059	76,515	100,706	81,047
150% risk assets	7,463	10,465	9,617	14,163
Trading book requirement	**7,763**	**1,513**	**22,282**	**3,288**
For debt securities		1,513		2,613
For equity securities				-
For foreign exchanges risk				675
Operating risk requirement		**27,138**		**29,613**
Total risk exposure amount for credit valuation adjustment		13		113
Total risk exposure		**151,727**		**164,907**
Capital adequacy ratio, %		**16.47**		**14.13**

(All amounts in EUR thousand unless otherwise stated)

Note 35 Capital (cont'd)

The Group	**2016**		**2015**	
Capital adequacy calculation	**Nominal**	**RWA**	**Nominal**	**RWA**
Tier 1 equity items	23,984	23,984	23,326	23,326
Tier 2 equity items	1,000	1,000	-	-
Recalculated capital	**24,984**	**24,984**	**23,326**	**23,326**
	Position value	**RWA**	**Position value**	**RWA**
Capital adequacy for credit risk	**260,339**	**117,578**	**245,313**	**127,781**
Risk assets				
0% risk assets	77,291	-	49,067	-
20% risk assets	20,567	4,113	21,017	4,203
35% risk assets	5,197	1,511	7,483	2,587
50% risk assets	28,636	12,483	26,854	13,427
75% risk assets	36,954	17,976	35,512	16,900
100% risk assets	83,545	70,000	95,763	76,501
150% risk assets	8,149	11,494	9,617	14,163
Trading book requirement	**7,763**	**1,513**	**22,282**	**3,288**
For debt securities		1,513		2,613
For equity securities				-
For foreign exchanges risk				675
Operational risk requirement		**27,563**		**33,163**
Total risk exposure amount for credit valuation adjustment		13		113
Total risk exposure		**146,666**		**164,345**
Capital adequacy ratio, %		**17.03**		**14.19**

Calculated capital consists of Tier 1 capital, which comprises share capital, retained earnings, reserve capital, legal reserve and revaluation reserves.

Note 36 Events after the reporting date

There were no material subsequent events that would require adjustment of or disclosure in those financial statements of the Group and the Bank.

ANNEX II (Consolidated Interim Information)

UAB MEDICINOS BANKAS

UNAUDITED BANKS'S SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 March, 2018

(All amounts in EUR thousand unless otherwise stated)

BALANCE SHEET

The Group		Assets	The Bank	
31.03.2018	31.12.2017		31.03.2018	31.12.2017
		Cash and due from central bank		
23,259	*24,478*	*Cash*	*23,259*	*24,478*
66,113	*29,042*	*Placements with the central bank*	*66,113*	*29,042*
89,372	**53,520**		**89,372**	**53,520**
		Financial assets held for trading		
29	*7*	*Financial derivatives*	*29*	*7*
29	**7**		**29**	**7**
		Financial assets at amortised cost		
44,692	*39,860*	*Debt securities*	*44,692*	*39,860*
11,831	*11,539*	*Placements with banks*	*11,813*	*11,496*
155,863	*151,839*	*Loans*	*155,472*	*151,615*
11,664	*11,839*	*Finance lease receivable*	*11,664*	*11,839*
224,050	**215,077**		**223,641**	**214,810**
-	**-**	**Investments in subsidiaries**	**6,933**	**6,439**
5,990	**6,213**	**Investment properties**	**1,383**	**1,370**
5,343	**5,343**	**Property and equipment**	**5,339**	**5,338**
240	**264**	**Intangible assets**	**213**	**243**
		Tax assets		
10	*15*	*Current taxes*	*10*	*15*
1,897	*1,897*	*Deferred taxes*	*1,897*	*1,897*
1,907	**1,912**		**1,907**	**1,912**
2,451	**2,849**	**Other assets**	**2,355**	**2,529**
329,382	**285,185**	**Total assets**	**331,172**	**286,168**

(Continued on the next page)

(All amounts in EUR thousand unless otherwise stated)

BALANCE SHEET (CONT'D)

The Group		Liabilities and shareholders' equity	The Bank	
31.03.2018	31.12.2017		31.03.2018	31.12.2017
		Liabilities		
4	**31**	**Due to derivative financial instruments**	**4**	**31**
		Financial liabilities measured at amortised cost		
3,400	*3,600*	*Due to banks and other credit institutions*	*3,400*	*3,600*
288,766	*251,855*	*Due to customers*	*290,682*	*252,920*
-	-	*Paid in but not registered capital*	-	-
1,000	*1,000*	*Subordinated loans*	*1,000*	*1,000*
293,166	**256,455**		**295,082**	**257,520**
		Tax liabilities		
-	-	*Current taxes*	-	-
-	-	*Deferred taxes*	-	-
-	-		-	-
8,779	**1,258**	**Other liabilities**	**8,570**	**1,152**
30	-	**Provisions**	**30**	-
301,979	**257,744**	**Total liabilities**	**303,686**	**258,703**
		Shareholders' equity		
19,948	**19,948**	**Issued capital**	**19,948**	**19,948**
7,178	**6,326**	**Reserve capital and legal reserve**	**7,178**	**6,326**
(62)	**828**	**Retained earnings**	**21**	**852**
339	**339**	**Revaluation reserve of property and equipment**	**339**	**339**
27,403	**27,441**	**Total shareholders' equity**	**27,486**	**27,465**
329,382	**285,185**	**Total liabilities and shareholders' equity**	**331,172**	**286,168**

Acting Chairman of the Board and Chief Executive Officer — D. Klišauskienė

Director of Accounting and Reporting Department, Chief Accountant — A. Tonkich

(All amounts in EUR thousand unless otherwise stated)

INCOME STATEMENT

The Group			The Bank	
31.03.2018	31.03.2017		31.03.2018	31.03.2017
2,226	1,811	Interest revenue	2,206	1,802
(429)	(452)	Interest expenses	(429)	(452)
1,797	**1,359**	**Net interest income**	**1,777**	**1,350**
1,080	842	Service fee and commission revenue	1,080	842
(112)	(94)	Service fee and commission expenses	(103)	(94)
968	**748**	**Net service fee and commission income**	**977**	**748**
-	-	Dividend revenue	-	-
-	-	Net income on equity securities trading	-	-
-	7	Net income on securities trading	-	7
951	813	Net foreign exchange gain	951	813
(65)	(13)	Net result of derivative financial instruments transactions	(65)	(13)
-	-	Impairment of investments into subsidiaries	(207)	-
(168)	(12)	Net result on operations on investment property	(22)	(6)
19	8	Other income	15	10
3,502	**2,910**	**Total operating income**	**3,426**	**2,909**
(254)	(22)	Impairment of loans and other financial assets ("+" reversal of impairment)	(255)	(22)
-	-	Provision expenses	-	-
3,248	**2,888**	**Operating income after impairment and provision expenses**	**3,171**	**2,887**
(1,828)	(1,576)	Salaries and benefits	(1,740)	(1,545)
(116)	(85)	Depreciation	(116)	(85)
(47)	(45)	Amortisation	(44)	(45)
(980)	(957)	Other operating expenses	(934)	(812)
(2,971)	**(2,663)**	**Total operating expenses**	**(2,834)**	**(2,487)**
277	**225**	**Profit (loss)**	**337**	**400**
(13)	**(7)**	**Income tax expense**	**(13)**	**(7)**
264	**218**	**Operating profit (loss)**	**324**	**393**
		Basic and diluted earnings per share (in EUR)		

Acting Chairman of the Board and Chief Executive Officer ________ D. Klišauskienė ________

Director of Accounting and Reporting Department, Chief Accountant ________ A. Tonkich ________

Financial Assets Quality and Other Information

Financial assets	Provisions (EUR thousands)	Provisions to financial assets ratio (%)
Loans to customers	6,156	3.81
Finance lease receivable	66	0.56
Debt securities	27	0.06
Placements with banks	6	0.05
Other financial assets	32	1.32
Total:	**6,287**	**2.71**

Compliance with the Regulatory Requirements

Ratio	Actual proportion
Own funds requirements:	
- common equity Tier 1 capital ratio (%)	16.14
- Tier 1 capital adequacy ratio (%)	16.14
- total capital ratio (%)	16.81
Liquidity requirements - the value of the liquidity coverage ratio (LCR) (%)	468.94
Maximum exposure to a single borrower (the highest position) (%)	19.08

Measures of Effect Applied to the Bank

During the first quarter 2018 any measures of effect were not applied to the Medicinos Bankas.

Main Profitability Showings	
Return on assets (%)	0.40
Return on equity (%)	4.46

ANNEX III (Articles of Association)

/Translation from the Lithuanian language/

/REGISTERED IN THE REGISTER OF LEGAL ENTITIES; 31 March 2016; registration No. 112027077/

ARTICLES OF ASSOCIATION

Of Private Limited Liability Company
Medicinos Bankas

Articles of Association approved by
General Meeting of Shareholders of
Medicinos Bankas, UAB, of
30 March 2016

Section 1. GENERAL PROVISIONS

1.1. Private Limited Liability Company Medicinos Bankas (hereinafter referred to as the "Bank") is a credit institution collecting deposits and other repayable funds from unprofessional market participants, issuing loans as well as providing other financial services and taking on the relevant risks and assuming the appropriate responsibility. The Bank was established for an indefinite period of time.
1.2. The name of the Bank: Private Limited Liability Company Medicinos Bankas. Short version of the Bank's name: Medicinos Bankas, UAB.
1.3. The Bank has its own seal with the Bank's name written on it: Private Limited Liability Company Medicinos Bankas.
1.4. Legal form of the Bank: private limited liability company. The Bank is a private legal entity with limited civil liability. The Bank shall be liable for its obligations with the assets owned by it or managed by the Bank on the basis of the right of trust. The Bank shall not assume liability for obligations of its shareholders and the shareholders will only be obliged to pay the Bank for all the subscribed shares the issue price, unless the applicable laws provide otherwise.
1.5. Objectives of the Bank: to generate profits by providing financial services specified herein to its customers.
1.6. The Bank, employees of the Bank and any other persons aware of information that is a secret of the Bank may not disclose such information for an indefinite period of time, except in cases provided for in the applicable laws.
1.7. The Bank shall present documents and information about financial services provided by the Bank as well as other activities of the Bank to other entities only in accordance with the procedure and in cases provided for in the applicable laws.
1.8. In its activities, the Bank shall be guided by the Constitution, Civil Code, Law on Banks of the Republic of Lithuania, legal acts adopted by the supervisory authority and these Articles of Association. In its activities, the Bank shall also follow the Law on Financial Institutions and the Law on Companies and other legislation, unless the Law on Banks provides otherwise. The Bank shall operate independently and follow investment restrictions as well as norms limiting operating risks of the Bank, values and calculation methods of which are prescribed by the applicable laws and other applicable legislation. The Bank shall organize and perform its activities on the basis of decisions of governing bodies of the Bank.
1.9. Financial year of the Bank is the calendar year.
1.10. The Bank may provide support in accordance with the applicable laws and other legislation.
1.11. In cases, where these Articles of Association conflict with the peremptory norms of the applicable laws or where they fail to regulate certain issues, provisions of the laws shall apply.
1.12. Terms used in these Articles of Association:
1.12.1. Articles of Association: these Articles of Association of the Bank;
1.12.2. Meeting: General Meeting of Shareholders of the Bank;
1.12.3. Supervisory Board: Supervisory Board of the Bank;
1.12.4. Board: Board of Directors of the Bank;
1.12.5. Head of Administration: Head of Administration of the Bank.
1.13. The Articles of Association may be amended in accordance with the procedure provided for in the applicable laws.
1.14. Term "Statutes of Medicinos Bankas, UAB" used in internal documentation of the Bank shall mean term "Articles of Association of Medicinos Bankas, UAB".
1.15. Register that collects and stores data of the Bank: Register of Legal Entities.

Section II. FINANCIAL SERVICES OFFERED BY THE BANK

2.1. Financial services offered by the Bank are:
2.1.1. accepting deposits and other repayable funds;
2.1.2. lending (including mortgage loans);

2.1.3. issuing and administering travellers' cheques, bills of exchange and other payment instruments;
2.1.4. payment services;
2.1.5. financial lease (leasing);
2.1.6. financial surety and guarantees;
2.1.7. entering into transactions at the Bank's expense or at the expense of a customer for money market instruments (cheques, bills of exchange, deposit certificates, etc.), foreign currency, futures and options, determining currency exchange rates and interest rates, publicly traded securities;
2.1.8. investment services;
2.1.9. financial intermediation (agency activities);
2.1.10. money management;
2.1.11. providing information and consulting on credit- and payment-related issues;
2.1.12. renting safe deposit boxes;
2.1.13. currency exchange (cash);
2.1.14. storing and administering monetary funds;
2.1.15. consulting companies on the structure of capital, production strategies and the relevant issues, as well as consulting and services associated with reorganization, restructuring and acquisition of companies;
2.1.16. providing services related to issuance of securities;
2.1.17. issuing and managing electronic money;
2.1.18. reckoning in payments between credit institutions (clearing);
2.1.19. managing investment funds, closed-ended investment companies, pension funds or variable capital investment companies;
2.1.20. storing, accounting and managing financial instruments at the expense of customers, including asset storage and other relevant services, such as management of money or financial securities.
2.2. Licensed financial services listed herein may be provided by the Bank, if it holds a licence issued in accordance with the applicable laws and other legislation. The licence shall be stored in the Bank's office.
2.3. The Bank shall provide financial services and engage in other activities necessary to provide financial services, helping to provide financial services or otherwise directly connected to the provision of financial services.

Section III. CAPITAL OF THE BANK

3.1. Capital of the Bank is comprised of equity capital and borrowed capital.
3.2. Equity capital of the Bank is comprised of:
3.2.1. authorised capital (reduced by the value of acquired own shares);
3.2.2. reserve capital (reserve);
3.2.3. capital reserve (difference of issue prices);
3.2.4. profit or loss brought forward;
3.2.5. revaluation reserve of tangible fixed assets;
3.2.6. revaluation reserve of financial assets;
3.2.7. mandatory reserve or reserve capital;
3.2.8. special-purpose reserve to cover losses;
3.2.9. limited distributed profits;
3.2.10. profit or loss brought forward for the current year.
3.3. Borrowed capital of the Bank is comprised of funds acquired by the Bank on the basis of the right of ownership as a result of lending-borrowing relationships through the issue of long-term debt securities (bonds) or entry into loan agreements, if repayment period of the funds received is at least 2 years and

debt securities (bonds) as well as loans received have all characteristics of a subordinated loan.
3.4. The amount of components of equity capital of the Bank specified in paragraphs 3.2.1–3.2.4 above may not be less than the minimum amount specified in the Law on Banks.
3.5. Authorised capital of the Bank is the sum of nominal value of all registered shares. Authorised capital of the Bank is EUR 19,947,577.50 (nineteen million nine hundred and forty seven thousand five hundred and seventy seven euros and fifty cents). Authorised capital of the Bank is divided into 137,750 (one hundred and thirty seven thousand seven hundred and fifty) ordinary registered shares. Nominal value per share is EUR 144.81 (one hundred and forty four euros and eighty one cents).
3.6. Shares of the Bank are non-material recorded as entries in personal securities accounts of the shareholders.
3.7. Limited distributed profit shall be comprised of profit of the previous financial year and shall be used to purchase own shares on behalf of the Bank.
3.8. Special-purpose reserve to cover losses shall be comprised of additional contributions of the shareholders. The Meeting may decide to use the reserve to cover the Bank's losses.

Section IV. SHAREHOLDERS OF THE BANK, THEIR RIGHTS AND OBLIGATIONS

4.1. A shareholder of the Bank is a person who acquired at least one share of the Bank in accordance with the procedure provided for in the applicable laws and other legal acts. All shares of the Bank grant the same rights. One share gives one vote.
4.2. Shareholders of the Bank shall have the following property rights:
4.2.1. to receive their share of the Bank's profit (dividends);
4.2.2. to receive their share of the Bank's assets in case of liquidation;
4.2.3. to receive shares for free, if the authorised capital is increased using the Bank's funds, except in cases provided for in the laws;
4.2.4. to receive funds from the Bank, if the authorised capital of the Bank is reduced to pay out the Bank's funds to the shareholders;
4.2.5. in cases, where shareholder is a natural person, to bequeath all or part of their shares to one or several persons;
4.2.6. to sell or otherwise transfer all or part of their shares to other persons in accordance with the procedure and terms prescribed by the applicable laws;
4.2.7. pre-emption right in acquiring shares issued or bonds converted by the Bank, except in cases, where the Meeting decides to withdraw the pre-emption right of all shareholders;
4.2.8. to lend to the Bank in the manner prescribed by law; however, when borrowing from its shareholders, the Bank may not pledge its assets to the shareholders. When the Bank borrows from a shareholder, the interest may not be higher than the average interest rate offered by commercial banks of the locality where the lender has their place of residence or business, which was in effect on the day of conclusion of the loan agreement. In such a case the Bank and shareholders shall be prohibited from negotiating a higher interest rate;
4.2.9. other rights provided for in the laws.
4.3. Shareholders of the Bank shall have the following non-property rights:
4.3.1. to attend Meetings;
4.3.2. to present to the Bank questions regarding the agenda of the Meetings in advance;
4.3.3. to vote at the Meetings according to voting rights granted by the shares;
4.3.4. to receive information about the Bank specified in the Law on Companies;

4.3.5. to file a claim with the court for reparation of damage caused to the Bank and resulting from nonfeasance or malfeasance by the Head of Administration, members of the Board and the Supervisory Board of their obligations prescribed by the applicable laws and the Articles of Association as well as in other cases provided for in the laws;
4.3.6. to authorize a natural person or legal entity to represent them in dealings with the Bank and other persons;
4.3.7. other non-property rights provided for in the laws.
4.4. At the shareholder's written request the Bank shall within 7 days from the receipt of the request grant him access to information and/or submit to him copies of the following documents: the Articles of Association, sets of annual financial accounts, annual reports of the Bank, auditor's opinion and audit reports, minutes of the Meetings or other documents whereby the decisions of the Meeting are executed, the Supervisory Board's recommendations and responses to the Meeting, the register of shareholders, the lists of Supervisory Board and Board members, also other company documents that must be publicly accessible under law as well as minutes of the Supervisory Board and Board meetings or other documents whereby the decisions of the above-mentioned bodies have been executed, unless the said documents contain a commercial/industrial secret, confidential information of the Bank. A shareholder or a group of shareholders who hold or control more than 1/2 of shares or more shall have the right of access to all documents of the Bank upon giving the Bank a written pledge in the form prescribed by the Bank not to disclose the commercial/industrial secret, confidential information. The Bank may refuse to grant the shareholder access to information and/or submit to him copies of the documents, if it is impossible to determine the identity of the shareholder asking for the documents. At the shareholders' request the Bank must execute in writing its refusal to grant access and/or submit the documents, copies thereof. The Bank's documents, their copies or other information shall be furnished to the shareholders upon payment of a fee in the amount of costs of furnishing such documents and other information.
4.5. A share shall not be divided into parts. If one share belongs to several owners, all owners of the share shall be considered to be one shareholder. In this case, the shareholder shall be represented by one of the owners under a written proxy executed by all owners and notarised. The owners of the share shall be jointly and severally liable for the shareholder's obligations.
4.6. Shares are subscribed to, paid up and transferred in accordance with the procedure prescribed by the applicable laws.

Section V. BODIES OF THE BANK

5.1. Bodies of the Bank are: the Meeting, the Supervisory Board, the Board and Head of Administration. Governing bodies of the Bank are: the Board and Head of Administration.
5.2. Governing bodies of the Bank shall act only for the benefit of the Bank and its shareholders, comply with the laws and other legal acts and the Articles of Association.

Section VI. GENERAL MEETING OF SHAREHOLDERS

6.1. The Meeting may be attended by the shareholders of the Bank or persons authorised by them. Members of the Supervisory Board and the Board and the Head of Administration, the auditor who prepared the auditor's opinion and audit report may attend and speak at the Meeting. Other persons who are not entitled to attend the Meeting under the laws may attend the Meeting with the consent of the Meeting.
6.2. The Meeting shall have the exclusive right to:
6.2.1. amend the Articles of Association, unless otherwise provided for by the applicable laws;
6.2.2. change the office address of the Bank;
6.2.3. elect the Supervisory Board or its members;
6.2.4. remove the Supervisory Board or its members;
6.2.5. select and remove the firm of auditors for the audit of annual financial accounts, set terms and conditions for the payment for audit services;
6.2.6. approve the set of annual financial accounts;

6.2.7. determine the class, number, nominal value and the minimum issue price of the shares issued by the Bank and other terms of issue of the Bank's shares;
6.2.8. take a decision:
6.2.8.1. to issue convertible bonds;
6.2.8.2. to withdraw for all the shareholders the right of pre-emption in acquiring the shares or convertible bonds of a specific issue of the Bank;
6.2.8.3. regarding conversion of shares of one class into shares of another class, approve share conversion procedure;
6.2.8.4. regarding distribution of profit/losses;
6.2.8.5. on the formation, use, reduction and liquidation of reserves;
6.2.8.6. to increase the authorised capital;
6.2.8.7. to reduce the authorised capital, except where otherwise provided for by the applicable laws;
6.2.8.8. for the Bank to purchase own shares;
6.2.8.9. on the reorganisation or division of the Bank and approve the terms of reorganisation or division;
6.2.8.10. to restructure the Bank;
6.2.8.11. to liquidate the Bank, cancel the liquidation of the Bank, except where otherwise provided by the applicable laws;
6.2.9. elect and remove the liquidator of the Bank, except where otherwise provided by the laws.
6.3. The Meeting may also decide on other matters, unless these have been assigned under the Articles of Association and the laws within the scope of powers of other bodies of the Bank and provided that according to their essence these are not the functions of the governing bodies of the Bank. The Meeting may not charge other governing bodies to address the issues assigned within the scope of its powers.
6.4. The Meeting may take decisions and shall be deemed valid if attended by shareholders who hold shares carrying not less than 1/2 of all votes. In cases provided for by the applicable laws, shareholders may not vote at the Meeting. At the beginning of the Meeting, the chairperson of the Meeting shall announce whether the quorum is present. After the presence of a quorum has been established, the quorum shall be deemed to remain continuously throughout the Meeting. If a quorum is not present, a repeat Meeting must be convened in accordance with the laws, which shall be authorised to take decisions only on the issues on the agenda of the Meeting that has not been held. The quorum requirements shall not apply to the repeat Meeting.
6.5. If in the cases specified by the applicable laws a shareholder is not entitled to vote when taking decisions on separate issues, the results of the voting on these separate issues shall be determined according to the number of votes of shareholders present at the Meeting who are entitled to vote on deciding the issue.
6.6. The shareholders present at the Meeting shall be registered in the shareholder registration list. The shareholder registration list shall indicate the number of votes granted to each shareholder by the shares held by him. Registration of the shareholders shall be organized by the Head of Administration, and the shareholder registration list shall be signed by Chairperson and Secretary of the Meeting. Where no Secretary of the Meeting is elected, the list shall be signed by the Chairperson of the Meeting. Where all shareholders present at the Meeting voted in writing, the list shall be signed by the Head of Administration.
6.7. A person attending the Meeting and entitled to vote shall produce a document which is a proof of their personal identity. A person who is not a shareholder shall in addition produce a document certifying their right to vote at the Meeting. The requirement to produce the identity document shall not apply if the voting is held in writing, by filling in the general ballot paper, and by electronic means of communication. At the same Meeting, a proxy may represent more than one shareholder and vote differently following the instructions of each shareholder who authorized him.
6.8. A decision of the Meeting shall be considered taken if more votes of the shareholders have been cast in favour than against it, unless the laws or the Articles of Association of the company prescribe a larger majority. If a shareholder has been registered in the shareholder registration list and their votes were included in the calculation of the quorum, but the shareholder did not participate in the voting, it shall be deemed that the shareholder did not vote.
6.9. Decisions of the Meeting on issues referred to in paragraphs 6.2.1, 6.2.7, 6.2.8.1, 6.2.8.3–6.2.8.7, 6.2.8.9–6.2.8.11 shall be taken by a majority of votes, which may not be less than 2/3 of all votes held by the shareholders attending the Meeting. Decisions of the Meeting on the issue referred to in paragraph 6.2.8.2

shall be taken by a majority of votes, which may not be less than 3/4 of all votes held by the shareholders attending the Meeting with the right to vote on the relevant issue.
6.10. Voting at the General Meeting shall be decided on a show of hands. If at least one shareholder requests secret voting on an issue and shareholders attending the Meeting with at least 1/10 of votes support the request, secret voting shall be mandatory to all shareholders. Shareholders may vote in writing by filling in the ballot papers. The filled-in general ballot paper may be sent to the Bank by electronic means of communication, provided that security of the transmitted information is ensured and the shareholder can be identified. If the shareholder exercises their right to take a written vote, upon being presented for scrutiny the agenda of the Meeting and draft decisions, he shall fill in and submit to the Bank a general ballot paper notifying the Meeting whether he is "for" or "against" each decision. The shareholders who took a written vote in advance shall be considered as being present at the Meeting and their votes shall be included in the quorum of the Meeting and the results of voting. The general ballots papers of the Meetings which have not taken place shall be valid at repeat Meetings. A shareholder shall not be entitled to vote at the Meeting for the decision in respect of which he has expressed their will in advance in writing.
6.11. The right of initiative to convene the Meeting shall be vested in the Supervisory Board, the Board and the shareholders who have at least 1/10 of all votes.
6.12. The Meeting shall be convened on the decision of the Board. The Meeting shall be convened on the decision of the Head of Administration in cases, where the number of the Board members is not more than half of their number specified in the Articles of Association or the Board fails to convene the Meeting in the cases and within the time limits laid down in the Articles of Association.
6.13. The Meeting may be convened on the decision of the shareholders whose shares carry more than 1/2 of the votes, if the Board or, in the cases referred to in paragraph 6.12 of the Articles of Association, the Head of Administration fails to take the decision to convene the Meeting within 10 days from the receipt of the request of persons initiating the Meeting.
6.14. Meetings shall be general and extraordinary.
6.15. A General Meeting must be held every year at least within three months from the end of the financial year.
6.16. Extraordinary General Meeting must be convened if:
6.16.1. the number of the Supervisory Board members has declined to 2/3 of their number indicated in the Articles of Association or less than their minimum number prescribed by the laws;
6.16.2. equity capital of the Bank falls below 1/2 of the authorised capital specified in the Articles of Association and the issue has not been discussed at the General Meeting;
6.16.3. the audit firm terminates the contract with the Bank or is for any other reasons unable to audit the Bank's annual financial accounts;
6.16.4. this is requested by the shareholders having the right of initiative to convene the Meeting, the Supervisory Board or the Board;
6.16.5. this is requested by the supervisory authority;
6.16.6. it is necessary to deal with other issues falling within the powers of the Meeting;
6.16.7. it is required under the laws.
6.17. The body of the Bank, persons or the authority who adopted the decision to convene the Meeting shall provide the Bank with information and documents necessary to draw up a notice of the Meeting. The Head of Administration shall be required to deliver the notice of the Meeting to each shareholder against signature or to send it by registered mail no later than 21 days before the date of the Meeting. Notice of the Meeting, the agenda of which includes issues related to the application of measures of improvement of financial stability, shall be announced no later than 10 days before the date of the Meeting. Registered mail shall be sent to the address last specified by the shareholder. In case of repeat Meeting, the shareholders shall be informed as set out above no later than 5 days before the date of such Meeting. At the beginning of the Meeting, the Head of Administration shall be required to inform the shareholders about documents supporting the fact that the shareholders had been informed of the convening of the Meeting.

These documents must be attached to the minutes of the Meeting.
6.18. Notices of the Meeting shall include information provided for in the laws.
6.19. The Meeting may be convened in derogation of the time limits set in paragraph 6.17 of the Articles of Association upon written consent of all the shareholders who hold shares conferring voting rights.
6.20. The Meeting shall not be entitled to take decisions on the issues that are not on the agenda except when the Meeting is attended by all shareholders who own shares conferring voting rights and no shareholder voted in writing. Only the agenda of the Meeting which was not held shall be valid at the repeat Meeting.
6.21. If the agenda of the Meeting presented in the notice of the Meeting has been supplemented, the shareholders shall be informed of the additions to the agenda the same way they were informed of the convening of the Meeting no later than 10 days before the Meeting. The announced draft agenda of the Meeting, the agenda of which includes issues related to the application of measures of improvement of financial stability, may not be amended.
6.22. Prior to discussing and voting on the issues included in the agenda, the Meeting shall deal with procedural matters, i.e. elect the Chairperson, Secretary of the Meeting, person responsible for the functions of the Inspector of the Meeting prescribed by the laws, and other matters. The Head of Administration shall act as the Chairperson of the Meeting until the Meeting elects the Chairperson of the Meeting. The election of the Secretary may be dispensed with if the Meeting is attended by less than 3 shareholders. The Chairperson and the Secretary shall not be elected if all the shareholders attending the Meeting took a written vote.
6.23. The Meeting, results of voting, decisions and other important circumstances of the Meeting shall be registered in the minutes.
6.24. The minutes of the Meeting shall be signed by the Chairperson and Secretary of the Meeting and may also be signed by the persons authorised by the Meeting. Where the Secretary of the Meeting is not elected, the minutes shall be signed by the Chairperson of the Meeting. In case all shareholders attending the Meeting voted in writing, the Head of Administration shall draw up and sign the minutes recording the votes cast. The minutes shall be drawn up and signed not later than within 7 days after the date of the Meeting.
6.25. The following documents shall be attached to the minutes: the list of registration of the shareholders who attended the Meeting; the proxies and other documents certifying the persons' voting right; the general ballot papers of the shareholders who voted in advance in writing; documentary evidence of voting by electronic means of communication; documentary proof that the shareholders have been notified of the Meeting; comments on the minutes of the Meeting and conclusion on the comments given by the persons who signed the minutes.

Section VII. SUPERVISORY BOARD

7.1. The Supervisory Board is a collegial body supervising the activities of the Bank. The Supervisory Board is managed by its Chairperson. The Supervisory Board comprised of 4 members shall be elected by the Meeting. During the election of the Supervisory Board members, each shareholder shall have the number of votes equal to the number of votes carried by the shares he owns multiplied by the number of members of the Supervisory Board being elected. The shareholder shall distribute the votes at their discretion, giving them for one or several candidates. The candidates who receive the greatest number of votes shall be elected. If the number of candidates who received an equal number of votes is greater than the number of vacancies on the Supervisory Board, a repeat voting shall be held in which each shareholder may vote only for one of the candidates who received an equal number of votes. The Supervisory Board shall be elected for a period of 4 years.
7.2. Only a natural person with full capacity may be a member of the Supervisory Board. New members may be elected to take up vacant positions in the Supervisory Board at the Meeting in accordance with the general procedure for a period ending upon the expiry of the term of office of the current Supervisory Board.
7.3. Prohibited from serving on the Supervisory Board shall be:
7.3.1. Head of Administration of the Bank;

7.3.2. member of the Board of the Bank;
7.3.3. a person who under the legal acts may not serve in this office.
7.4. Members of the Supervisory Board may be re-elected for subsequent term of office. There is no limitation on the number of terms of offices a member of the Supervisory Board may serve. A member of the Supervisory Board may resign from office prior to the expiry of their term of office by giving a written notice thereof to the Bank at least 14 days in advance. Bonuses may be paid to members of the Supervisory Board for their work on the Supervisory Board according to the procedure laid down in the laws. Members of the Supervisory Board may not assign their duties to other persons.
7.5. The Supervisory Board or its members shall commence in office upon the completion of the Meeting which elected the Supervisory Board or its members, and shall continue in office for the period laid down in paragraph 7.1 of the Articles of Association or until a new Supervisory Board is elected and assumes the office but for not longer than the General Meeting during the final year of its term of office.
7.6. The first meeting of the Supervisory Board shall be convened and its agenda shall be proposed by a member of the Supervisory Board appointed by the Meeting. Other meetings shall be convened by the Chairperson of the Supervisory Board. Meetings of the Supervisory Board may also be convened by a decision taken by at least 1/3 of the Supervisory Board members. Meetings of the Supervisory Board shall be convened in accordance with the procedure laid down in the Rules of Procedure of the Supervisory Board.
7.7. The Supervisory Board shall elect the Chairperson of the Supervisory Board from among its members.
7.8. The Supervisory Board shall act in accordance with the Rules of Procedure approved by it. Members of the Supervisory Board shall have equal rights.
7.9. The Supervisory Board shall be entitled to take decisions and its meeting shall be considered to have been held if attended by more than a half of the members of the Supervisory Board. The members of the Supervisory Board who voted in advance shall also be considered to have attended the meeting. Members of the Supervisory Board may issue a power of attorney in a simple written form to a member of the Supervisory Board of the Bank who shall represent them during voting at the meeting of the Supervisory Board.
7.10. The decision of the Supervisory Board shall be taken if the number of votes cast for it is greater than the number of votes cast against. The decision to remove a member of the Supervisory Board from office may be taken if at least 2/3 of the Supervisory Board members present at the meeting vote for it. If a member of the Supervisory Board is unable to attend the meeting, they may express their will by taking a written vote "for" or "against" the decision put for vote, provided that he has familiarised himself with the draft decision. Votes may also be cast by electronic means of communication, provided that security of the transmitted information is ensured and the person who cast the vote can be identified. Decisions of the Supervisory Board may also be taken by voting by a written poll, if no members of the Supervisory Board take objection. During voting each member shall have one vote. In the event of a tie, the Chairperson of the Supervisory Board shall have the casting vote. If there is no Chairperson or they do not participate in the taking of the decision, the latter shall not be deemed taken in the event of a tie.
7.11. Minutes shall be kept of all meetings of the Supervisory Board. The minutes of a meeting of the Supervisory Board shall be delivered to all members of the Supervisory Board, including those who did not attend the meeting, no later than within 5 days; where this is not possible, the minutes shall be delivered as soon as possible. Each member of the Supervisory Board shall be required to confirm in writing that they have read the minutes of the meeting of the Supervisory Board and, where they do not agree with the decisions taken, to immediately express their objection in writing to the Supervisory Board.
7.12. The Supervisory Board shall:
7.12.1. elect the members of the Board and remove them from office. If the Bank is operating at a loss, the Supervisory Board must consider the suitability of the Board members for their office;
7.12.2. supervise the activities of the Board and the Head of Administration;
7.12.3. adopt the Rules of Procedure of the Supervisory Board;
7.12.4. approve operational plans of the Bank;
7.12.5. ensure that the Bank has effective internal control and internal audit systems;
7.12.6. establish the Internal Audit Committee of the Bank and approve its Regulations;
7.12.7. submit its comments and proposals to the Meeting on the operating strategy, set of annual financial accounts, draft of profit or loss distribution and the annual report of the Bank as well as the activities of the Board and the Head of Administration;
7.12.8. establish the procedure of lending, which may be carried out only with the consent of the Supervisory Board;
7.12.9. submit its proposals to the Board and the Head of Administration to revoke their decisions which are not in conformity with the laws and other legal acts, Articles of Association or the decisions of the Meeting;

7.12.10. address other issues assigned within its powers by the laws and Articles of Association of the company as well as by the decisions of the Meeting and the Supervisory Board.
7.13. Each member of the Supervisory Board shall be required to take every possible measure to make sure that the Supervisory Board addresses issues assigned within its powers and that its decisions comply with the statutory requirements. A member of the Supervisory Board who fails to perform this duty or other duties prescribed by legal acts or who improperly performs these duties shall assume the same liability as that assumed by members of the governing bodies of the Bank under the laws, Articles of Association, agreements signed with the Bank.
7.14. The Supervisory Board shall not be entitled to assign or delegate its functions prescribed by the laws and the Articles of Association to other bodies of the Bank.
7.15. The Supervisory Board shall be entitled to ask the Board and the Head of Administration at any time to immediately submit the documents, information and other details related to the activities of the Bank.

Section VIII. BOARD

8.1. The Board is a collegial governing body of the Bank comprised of 4 members. The Board shall govern the Bank, handle its affairs, represent it and assume liability for the provision of financial services of the Bank under the laws.
8.2. The procedure of work of the Board shall be laid down in the Rules of Procedure of the Board.
8.3. The Board shall be elected by the Supervisory Board for a term of 4 years. If individual members of the Board are elected, they shall only serve until the expiry of the term of office of the current Board.
8.4. Only a natural person with full capacity may be elected to serve on the Board. There is no limitation on the number of terms of offices a member of the Board may serve. The following persons may not serve as members of the Board: members of the Supervisory Board of the Bank and persons who under the legal acts may not serve in this office.
8.5. The Board shall elect its Chairperson from among its members. Bonuses may be paid to members of the Board for their work on the Board according to the procedure laid down in the laws.
8.6. Members of the Board may not assign their duties to other persons.
8.7. A member of the Board may resign from office prior to the expiry of their term of office by giving a written notice thereof to the Board at least 14 days in advance.
8.8. Meetings of the Board shall be convened by the Chairperson of the Board. Every member of the Board shall have the right of initiative to convene a Board meeting. Meetings are convened and held in accordance with the Rules of Procedure of the Board.
8.9. The Board may adopt decisions and its meeting shall be deemed to have taken place when the meeting is attended by at least 3 members of the Board. A Board member may express their will by taking a written vote "for" or "against" the decision put for vote, provided that he has familiarised himself with the draft decision. Votes may also be cast by electronic means of communication, provided that security of the transmitted information is ensured and the person who cast the vote can be identified. The members of the Board who voted in advance shall also be deemed to be present at the meeting. The decision of the Board shall be adopted if more votes for it are received than the votes against it. Decisions of the Board may also be taken by voting by a written poll, if no members of the Board take objection. During voting each member shall have one vote. In the event of a tie, the Chairperson of the Board shall have the casting vote. If there is no Chairperson or they do not participate in the taking of the decision, the latter shall not be deemed taken in the event of a tie. A member of the Board shall not be entitled to vote when the meeting of the Board discusses the issue related to their work on the Board or the issue of their responsibility. Members of the Board may issue a power of attorney in a simple written form to a member of the Board of the Bank who shall represent them during voting at the meeting of the Board of the Bank.
8.10. The Board shall draw up and consider operational plans of the Bank and present them for approval to the Supervisory Board.
8.11. The Board shall consider and approve:
8.11.1. the management structure of the Bank and the positions of the employees of the Bank as well as the positions to which employees are recruited with the consent of the Board and positions to which employees are recruited by holding competitions;
8.11.2. regulations of branches, representative offices and individual divisions of the Bank.

8.11.3. regulations and composition of the Loan Committee and the Risk Management Committee of the Bank;
8.11.4. rules specifying information deemed trade secret and confidential information of the Bank;
8.11.5. procedure for write-off of loans and other debentures.
8.12. The Board shall elect (appoint) and remove from office the Head of Administration and their deputy. The Board shall fix salary of the Head of Administration and set other terms of the employment contract, approve their job description, provide incentives for them and impose penalties.
8.13. The Board shall take the following decisions:
8.13.1. decisions for the Bank to become an incorporator or a member of other legal entities;
8.13.2. decisions to open branches, representative offices and other individual divisions of the Bank, and to terminate their operation;
8.13.3. decisions to invest, transfer or lease the fixed assets the book value whereof exceeds 1/20 of the authorised capital of the Bank (calculated individually for every type of transaction);
8.13.4. decisions to pledge or mortgage the fixed assets the book value whereof exceeds 1/20 of the authorised capital of the Bank (calculated for the total amount of transactions);
8.13.5. decisions to offer surety or guarantee for the discharge of obligations of other persons the amount whereof exceeds 1/20 of the authorised capital of the Bank;
8.13.6. decisions to acquire the fixed assets the price whereof exceeds 1/20 of the authorised capital of the Bank;
8.13.7. decisions to issue non-convertible bonds;
8.13.8. Rules of Procedure of the Board;
8.13.9. other decisions within the powers of the Board as prescribed by the laws and the Articles of Association.
8.14. The Board shall establish the procedure of issue of bonds of the Bank. When the Meeting decides on the issue of convertible bonds, the Board may establish additional terms of issue thereof and approve bond subscription agreements, which may be signed by the Head of Administration or a person authorised by them.
8.15. The Board shall execute decisions taken by the Meeting and the Supervisory Board.
8.16. The Board shall analyse and assess materials presented by the Head of Administration regarding:
8.16.1. implementation of the operational plans of the Bank;
8.16.2. organisation of activities of the Bank;
8.16.3. financial situation of the Bank;
8.16.4. results of economic activities, revenue and cost estimates, inventory data and other data pertaining to the accounting of changes of the assets.
8.17. The Board shall analyse and assess a set of annual financial accounts and draft of profit or loss distribution of the Bank, and shall present them to the Supervisory Board and the Meeting along with the annual report of the Bank.
8.18. The Board shall also address other matters related to the activities of the Bank, if these are not within the powers of other bodies of the Bank under the laws or the Articles of Association.
8.19. It shall be the duty of the Board to convene and organise the Meetings in due time, comply with the requirements of the Law on the Prevention of Money Laundering, as well as perform other functions assigned within the powers of the Board.
8.20. The Board must submit to the Supervisory Board the documents related to the activities of the Bank requested by it.
8.21. Minutes shall be taken of all meetings of the Board in accordance with the procedure prescribed by the laws. The minutes of a meeting of the Board shall be delivered to all members of the Board, including those who did not attend the meeting, no later than within 5 days; where this is not possible, the minutes shall be delivered as soon as possible. Each member of the Board shall be required to confirm in writing that they have read the minutes of the meeting of the Board and, where they do not agree with the decisions taken, to immediately express their objection in writing to the Board.
8.22. The Board shall continue in office for the period laid down in the Articles of Association or until a new Board is elected and assumes the office but for not longer than the General Meeting during the final year of its term of office. The Supervisory Board may remove from office the entire Board or its individual members before the expiry of their term of office.

8.23. The Chairperson of the Board shall govern the activities of the Board, convene meetings of the Board and perform other functions provided for in the Rules of Procedure of the Board.
8.24. The Chairperson of the Board shall also act as the Head of Administration. Members of the Board may hold other positions in the Bank under employment contracts signed with them.
8.25. Each member of the Board shall be required to take every possible measure to make sure that the Board addresses issues assigned within its powers and that its decisions comply with the statutory requirements. A member of the Board who fails to perform this duty or other duties prescribed by legal acts or who improperly performs these duties shall assume liability under the laws, Articles of Association, agreements signed with the Bank.

Section IX. HEAD OF ADMINISTRATION

9.1. The Head of Administration is a single-person governing body of the company. The Head of Administration shall have at least one deputy.
9.2. The Head of Administration and their deputy must be natural persons. A person may not be the Head of Administration or their deputy if under the laws or other legal acts they are not entitled to hold the position.
9.3. The employment contract shall be concluded with the Head of Administration and their deputy. The contract with the Head of Administration shall be signed on behalf of the Bank by a member authorised by the Board. The contract with the Deputy Head of Administration shall be signed on behalf of the Bank by the Head of Administration. If the Board adopts the decision to remove the Head of Administration or their deputy from office, their employment contracts shall be terminated.
9.4. The Head of Administration shall:
9.4.1. organise daily activities of the Bank;
9.4.2. hire and dismiss employees of the Bank, conclude and terminate employment contracts with them, provide incentives and impose penalties. The Head of Administration may authorise another employee of the Bank to carry out functions specified herein;
9.4.3. without a separate authorisation, represent the Bank in dealings with other persons, in courts and arbitration tribunals;
9.4.4. issue and withdraw powers of attorney for representation of the Bank;
9.4.5. passes orders;
9.4.6. carry out other activities necessary to perform their functions, execute the decisions of the bodies of the Bank and ensure operation of the Bank.
9.5. The Head of Administration shall be responsible for:
9.5.1. the organisation of activities and the implementation of objectives of the Bank;
9.5.2. the drawing up of a set of annual financial accounts and the drafting of the annual report of the Bank;
9.5.3. the conclusion of the contract with the firm of auditors;
9.5.4. the submission of information and documents to the Meeting, the Supervisory Board and the Board in cases laid down in the laws or at their request;
9.5.5. the submission of documents and particulars of the Bank to the manager of the Register of Legal Entities;
9.5.6. the publication of information referred to in the laws and other legal acts in the daily indicated in the Articles of Association;
9.5.7. the submission of information to shareholders;
9.5.8. the drawing up of the list of shareholders of the Bank and its submission to the Register of Legal Entities;
9.5.9. the fulfilment of other duties laid down in the laws and legal acts as well as in the Articles of Association and the job description of the Head of Administration.
9.6. The Head of Administration shall act on behalf of the Bank and shall be entitled to enter into transactions at their own discretion in all areas of activity of the Bank, except in cases specified in the laws, Articles of Association or procedures of the Bank, where entry into certain transactions requires a decision or consent of other bodies of the Bank. In cases, where entry into such transactions requires a decision or consent of the relevant body of the Bank, the Head of Administration may enter into such transactions only

after obtaining the decision or consent of such body.
9.7. Transactions specified in paragraphs 8.13.3–8.13.6. of the Articles of Association may be entered into by the Head of Administration and their deputy, acting together and sharing the same opinion, provided that the Board has taken a decision to enter into such transactions.
9.8. In cases, where the Head of Administration is absent due to a business trip, vacation or sickness, their functions shall be performed by a deputy appointed by the appropriate order.
9.9. Should the Head of Administration and/or their deputy fail to perform their duties under the legal acts or Articles of Association or should they perform such duties improperly, they shall assume liability under the laws, Articles of Association, agreements signed with the Bank. Liability of other employees of the Bank for damages caused to the Bank through their fault is specified in the laws of the Republic of Lithuania.

Section X. PROCEDURE OF TAKING DECISIONS REGARDING OPENING OF BRANCHES, REPRESENTATIVE OFFICES AND OTHER INDIVIDUAL DIVISIONS OF THE BANK, AND TERMINATION OF ACTIVITIES THEREOF, AND THE APPOINTMENT AND REMOVAL FROM OFFICE OF MANAGERS OF BRANCHES AND REPRESENTATIVE OFFICES OF THE BANK

10.1. The Bank (holding the relevant permits in cases provided for in the laws) may open its branches and representative offices in the Republic of Lithuania and abroad in accordance with the procedure prescribed by the laws.
10.2. The Bank may also open other individual divisions, i.e. service divisions for the customers of the Bank or its branches, acting on behalf of the Bank in accordance with the approved regulations in localities other than that of the office of the Bank or its branch, and workplaces as well as to install automated service points.
10.3. Decisions regarding opening, merging and termination of activities of branches and other individual divisions of the Bank as well as representative offices of the Bank shall be taken by the Board. Regulations of branches, representative offices and other individual divisions of the Bank shall be approved by the Board. Operations completed by branches, representative offices and other individual divisions of the Bank shall be included in the balance sheet of the Bank.
10.4. The Board shall elect (appoint) and remove from office managers of branches and representative offices of the Bank.
10.5. Branches, representative offices and other individual divisions of the Bank may have their own seals and/or stamps.

Section XI. COMMITTEES OF THE BANK

11.1. The Bank shall have permanent non-structural units, i.e. the Loan Committee, the Internal Audit Committee and the Risk Management Committee. Procedures for establishment and work, and the competence of the Loan, the Internal Audit and the Risk Management Committees is defined in the legal acts of the supervisory authority, the Articles of Association, regulations of the committees and other documents passed by the bodies of the Bank.
11.2. The Loan Committee shall consider loan application documents, decide on the issuance of loans and amendment of terms thereof, assess loan risks, submit proposals regarding the issuance of loans, interest rates, improvement of loan administration procedures, and perform other functions prescribed by the regulations approved by the Board. The Loan Committee shall be established and its activities shall be controlled by the Board.
11.3. The Risk Management Committee shall identify, assess, monitor and control all types of risk encountered by the Bank and the financial group of the Bank, and control the acceptable risk parameters as well as perform other integrated functions provided for in its regulations while controlling the interest rate, capital and liquidity. The Risk Management Committee shall be established and its activities shall be controlled by the Board.
11.4. The Internal Audit Committee shall hold periodic discussions regarding the effectiveness of the internal control system of the Bank, coordinate and periodically assess the work of the internal audit, discuss the results of the internal and external audits, and perform other functions prescribed by the legal acts of the supervisory authority and the regulations of the Internal Audit Committee.

The Internal Audit Committee shall be established, its regulations shall be approved and its activities shall be controlled by the Supervisory Board guided by the laws and the legal acts of the supervisory authority.
11.5. Members of the committees may receive any information and documents related to the Bank's activities from the management of the Bank and all structural as well as non-structural units and employees of the Bank.

Section XII. INTERNAL CONTROL OF ACTIVITIES OF THE BANK

12.1. Requirements of the internal control of activities of the Bank are defined in the laws and the legal acts of the supervisory authority. The internal control of activities of the Bank shall be ensured by a reliable and properly functioning internal control system as well as an independent and properly functioning Audit Division of the Bank. The Audit Division shall be managed by the Head of the Audit Division. Only a natural person may act as the Head of the Audit Division.
12.2. The Audit Division of the Bank shall be an internal audit division of the Bank developing assessment methods for the internal control system, examining and assessing whether the internal control system of the Bank is appropriate and effective, and how individual internal control procedures are applied, checking whether the risk taken on is within the limits specified by the Bank, and how requirements of the legal acts and the supervisory authority are complied with, how the operating strategy of the Bank and policies of the Bank are being implemented, how procedures of the Bank are being complied with, and performing other functions prescribed by its regulations. Procedures for establishment and work of the Audit Division as well as its regulations shall be approved by the Internal Audit Committee.

Section XIII. PROCEDURE FOR PUBLISHING THE NOTICES OF THE BANK

13.1. The Notices of the Bank shall be published and disseminated by the Head of Administration in accordance with the documents and information presented to them. Notices which must be published in the press in accordance with the statutory requirements shall be published in the daily *Lietuvos rytas.* Notices regarding the Meetings shall be served to shareholders against signature or sent by registered mail. The notices shall be published in accordance with the procedure provided for therein, unless the laws or other legal acts prescribe different procedure.
13.2. In cases provided for in the laws or the Articles of Association, the notices may be delivered by other means of communication (eg. in writing, by fax, e-mail).

Section XIV. FINAL PROVISIONS

14.1. The Articles of Association shall enter into force from the registration thereof in the Register of Legal Entities in accordance with the procedure prescribed by laws and other legal acts.
14.2. Amendments to the Articles of Association shall be valid if registered in the Register of Legal Entities in accordance with the procedure prescribed by laws and other legal acts.

A person authorised by the General Meeting of Shareholders
Deputy Head of Administration for Legal Affairs and Security,
Director of the Legal Department /*Signature*/ Igor Kovalčuk

The Articles of Association were signed on *30 03 2016*
(Date)

Bound together, numbered and sealed
fourteen (14) pages

/Seal: REPUBLIC OF LITHUANIA; COAT OF ARMS; NOTARY PUBLIC JURGITA ŠUKIENĖ/

/Signature/

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