

UAB MEDICINOS BANKAS

BANK'S SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Medicinos bankas UAB:

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

Opinion

We have audited the separate financial statements of Medicinos Bankas UAB (hereinafter – „the Bank“) and the consolidated financial statements of Medicinos Bankas UAB and its subsidiaries (hereinafter – „the Group“) (pages from 32 to 119), which comprise the separate statement of financial position of the Bank and the consolidated statement of financial position of the Group as at 31 December 2019, the separate income statement and the consolidated income statement, the separate statement of comprehensive income and the consolidated statement of comprehensive income, the separate statement of changes in equity and the consolidated statement of changes in equity, the separate statement of cash flows and the consolidated statement of cash flows for the year then ended, and the notes to the separate and consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, the unconsolidated financial position of the Bank and the consolidated financial position of the Group as at 31 December 2019, and their respective unconsolidated and consolidated financial performance and their respective unconsolidated and 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 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.

The key audit matter	How the matter was addressed in our audit
<p data-bbox="228 1473 1449 1503">Valuation of loans and receivables (see notes 8 and 26 in separate and consolidated financial statements)</p> <p data-bbox="204 1532 807 1749">The Group's impairment allowances for loans and receivables (hereinafter – loans) are calculated by classifying the Group's loans and receivables according to their homogeneous groups and levels of risk. The Group's loans and receivables are allocated to 3 risk levels, where the 1st risk level being the lowest and the 3rd risk level being the highest.</p> <p data-bbox="204 1778 807 1912">Collective impairment allowances for loans are calculated based on expected losses (probabilities of default), historical information and economic indicators, individual impairment allowances – using individual valuation, based on the level of risk.</p>	<p data-bbox="831 1532 1453 1561">We conducted these audit procedures, among others:</p> <p data-bbox="831 1585 1473 1749">We have identified loan approval process and tested controls and their effectiveness: regarding loan risk monitoring, identification of loss events, timely collateral revaluation, accurate and correct impairment calculation, including client rating estimation and risk level allocation.</p> <p data-bbox="831 1778 1473 1912">We have selected higher risk loans (including individually significant loans, loss-bearing loans, or loans that were assigned risk level 3 for other reasons) for testing risk assessment and impairment allowance calculation.</p>

Individual impairment is mostly related to significant loans or loans with a higher risk level. Calculation of both, collective and individual allowances, is related to estimations and decision making.

In our opinion, these estimates and assumptions made by the Bank and the Group (interest rate, risk group, rating assignment, value of the collateral and its realization period) regarding the expected losses of loan group loans and individual loans for which cash flows for loan repayment are calculated have a significant effect on the value of the Bank's and the Group's receivables and loans. Based on these reasons, we believe that this area is a key audit matter.

We have tested the selected loan sample, arranged discussions with the responsible Bank officers and identified whether the future cash flow of the loan is calculated appropriately and whether the loan is assigned to the appropriate risk level (i.e. whether the assumptions made while calculating the cash flow for loan repayment, discount rate and the value of collateral are reasonable).

We have tested valuations of the collateralized assets which usually comprise the majority of future cash flows for the loans that have indications of impairment and identified whether the methods and assumptions used in valuations were appropriate and logical, whether the market conditions between the date of valuation and the end of 2019 did not change significantly and whether there is a need to update the valuation.

We have reviewed the methodology for collective impairment allowance calculations and tested whether selected sample of loan impairment calculations in accordance with the Bank's and the Group's methodology.

We have evaluated the sufficiency and appropriateness of disclosures related to loans and receivables in the financial statements of the Bank and the Group.

Other Information

The other information comprises the information included in 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, except as specified below.

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 Group's annual management report, including corporate governance 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 Group's annual management report, including corporate governance 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 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 and the Law on Financial Reporting by 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 and fair presentation of the 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 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 30 March 2018 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 confirmed for the period of 2 years under decision of the general shareholders' meeting, and the total uninterrupted period of engagement is 2 years (for the audit of 2018 and 2019).

We confirm that our audit opinion expressed in the Opinion section of our report is consistent with the audit report for the separate and consolidated financial statements 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, except for the services disclosed in the Group annual report or separate and consolidated financial statements, we have provided the following services to the Bank: the audit of the condensed interim financial statements of the Bank and the Group for the period ended 30 September 2019.

The audit engagement partner for this independent auditor's report is Romanas Skrebnevskis.

Auditor Romanas Skrebnevskis
Auditor certificate No. 000471



ROSK Consulting UAB
Audit company certificate No. 001407

Vilnius, Lithuania
9 March 2020

UAB MEDICINOS BANKAS

ANNUAL MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

(All amounts in EUR thousand unless otherwise stated)

ANNUAL MANAGEMENT REPORT

The reporting period covered by the Consolidated Annual Report

Year 2019.

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 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. Granting of consumer credit.

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 2019, the Group earned net profit of EUR 3.85 million, the Bank – EUR 3.99 million. It was mostly influenced by the increase in all bank activity income, which resulted in an income increase by 19.11 percent or EUR 3,17 million. The Group's net interest income increased 22.45 percent or EUR 1.68 million, revenue from net service fee and commission income increased by 18.06 percent or EUR 0.95 million, net foreign exchange gain increased by 10.23 percent or EUR 0.48 million.

The Group's operating expenses increased by 10.01 percent or EUR 1.29 million mainly due to the increase of salaries and depreciation costs. Impairment losses, related with the Group's loans and other financial assets value decrease, decreased by EUR 0.34 million.

At the end of 2019, the Group's assets amounted to EUR 355.33 million, since 2018 the assets increased by EUR 30.57 million or 9.41 percent. The Group's loan and receivables portfolio during the year 2019 increased by 21.21 percent and reached EUR 208.28 million. The proportion between total provisions and loan portfolio of the Group during the year decreased

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(All amounts in EUR thousand unless otherwise stated)

from 1.49 percent at the beginning of the year to 0.57 percent at the end of the year 2019. The decline in the indicator was a result of a transaction in the sale of part of the bad loan portfolio in the amount of EUR 1.3 million (creditor claims amount was EUR 11.7 million).

During the year, deposits in the Bank increased by 7.37 percent to EUR 310.43 million.

At the end of 2019, the shareholders' equity of the Group was EUR 34.37 million, i.e. it increased during the year by EUR 3.85 million or 12.61 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 17.66 percent at the end of the year 2018 to 17.76 percent at the end of the year 2019.

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. The Bank does not use hedging instruments to manage the risks described above.

In 2019, the Bank complied with all the prudential requirements specified by the Bank of Lithuania: liquidity requirements and large exposure requirements and capital or own fund requirements.

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 percent;
- 1.0 percent requirement for countercyclical capital. For positions in Lithuania

Liquidity requirements – Liquidity coverage ratio (LRC). 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 (LCR) not lower than 100%.

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 institution's eligible capital.

Bank's main profitability ratios

Return on equity (ROE) - 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 profitable is an equity investment in the company.

Return on assets (ROA)- 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.

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.

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ANNUAL MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

(All amounts in EUR thousand unless otherwise stated)

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 33 and 34 to the financial statements for the year 2019.

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

For the second year in a row, the Bank is giving its support to Pal. kun. Mykolas Sapočka's hospice in Vilnius, Všį Kaunas hospice house, Všį Tėviškės namai in Alytus and Šv. Pranciškus Oncology Center in Klaipėda.

As at 31 December 2019 the Bank employed 342 employees (369 employees as at 31 December 2018).

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. During the reporting period, 37,735 ordinary shares of UAB MB Turtas sold by UAB Medicinos Bankas in 2019 due to the merger of the Group companies were recognized as acquisition of own shares of UAB TG Invest-1. Prior to the announcement of the reorganization, 76,354 shares owned by MB Turtas UAB were recognized as own shares and were canceled.

5. Information about the Bank's branches and representatives

At the end of 2019, the Bank had 49 client service subdivisions: 6 branches, 43 customer service divisions and subdivisions in different regions of Lithuania.

Bank branches:

Vilnius Branch
Pamėnkalnio St. 40, LT-01114 Vilnius

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

6. Material events after the end of financial year

At 30 January 2020 after 2018 supervisory review by the Bank of Lithuania and evaluation process (SREP) additional own fund requirement was decreased from 2.2 percent till 1.8 percent. In addition, it is recommended to have 1.0 percent capital of the second pillar capital guidelines, that should be included in the capital planning and risk management systems.

7. Company's business planning & forecasting

The Bank has developed a long-term plan for the period from 2019 until 2021.

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 ensure an efficient provision of standard product services and an increase of competitiveness in the provision of services is a continuous development of new technologies and banking innovations.

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 it is intended to increase the Bank's capital basis by transferring all profit earned in 2019–2021 into capital reserves.

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

New wording of Remuneration Policy of UAB Medicinos Bankas, which was approved on 27 December 2019 by the decision of the Supervisory Board (No. N-33/19), applies to the Bank's and the Group's staff. The policy sets out clear principles for remuneration of work, to fairly and transparently reward work and results, to motivate, encourage and enable employees to increase performance, quality, to pursue the Group's goals, to maintain and attract competent employees. Policy principles are designed to meet the long-term interests of the Group, its business strategy, goals, values, and promote sound and effective risk management, avoid conflicts of interest, and ensure the principles of investor and customer protection when providing services.

Components of the remuneration system of the Group employees: fixed part of the remuneration, variable part of remuneration, monetary supplements to fixed remuneration, additional occasional benefits.

The system of fixed remuneration is based on a matrix of job levels, grouping of positions into levels, taking into account the importance of the position to the activities of the Group. The level of responsibility is determined by evaluating the required competence, level of responsibility, independence, creativity, complexity and conditions of work.

The variable part of the remuneration is allocated for the achievement of the set operational targets. The allocated variable part and size are determined by the levels of the job, the period during which the performance can be assessed: quarterly or annual.

Conditions, value and circumstances of Additional occasional payments are described under the internal acts Medicinos bankas UAB.

Variable component could be paid:

- For additional (parallel) job;
- For substitution of temporary free position;
- For temporary bigger work flow.

The amount of additional occasional benefits (benefits, gifts), the terms of appointment and payment are set in the Bank's internal legislation. Decisions regarding the determination of a fixed remuneration for the employee, money supplements to the fixed remuneration, determination and payment of additional occasional benefits shall be taken by the CEO in accordance with the principles set out in this Policy and other requirements of internal legislation.

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 are 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.

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(All amounts in EUR thousand unless otherwise stated)

General quantitative information by business areas:

Year 2019	Fixed remuneration (thous. EUR)*	Variable remuneration (thous. EUR)	Number of recipients
UAB Medicinos Bankas	7,057	706	397
The Bank's senior management (the board)	446	12	4
Employees whose decisions could significantly impact the risk taken	767	154	19
Other employees	5,844	540	374
Employees of the Group companies	290	27	10
Total for the Group	7,347	733	407

* Paid amounts without taxes paid by employer

** The number of recipients includes the number of employees recruited and dismissed

The other remuneration payments (benefits and bonuses) for the Bank's employees subject only to the general principles of the Remuneration Policy. All of designated variable part of the remuneration in 2019 was paid in cash.

Benefit appointment related with the termination of a contract:

Year 2019	Number of recipients	Amount of severance pay (thous. EUR)	Biggest amount for one recipient (thous. EUR)
The Bank	21	148	25
The Group companies	1	15	15

9. Information on the internal management

The Bank's management code is described below. The bodies of the Bank are as follows: the General Meeting of the Shareholders of the Bank, Council of the Bank, Board of the Bank and Chief Executive Officer (hereinafter - CEO). The management bodies of the Bank are as follows: Board of the Bank and Chief Executive Officer.

General Meeting of Shareholders takes place annually, within 3 months after the end of fiscal year. The extraordinary meeting of shareholder may also be convened. The shareholders, having no less than 1/10 of all the votes, as well as the Bank's Board and Supervisory Council have an initiative right of convening the meeting. The Law on Companies of the Republic of Lithuania specifies the cases when a general meeting can be convened by other persons.

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. If the meeting cannot take place due to lack of a quorum (more than 1/2 of the total votes), the re-convened meeting of shareholders with the valid agenda of the previous meeting shall be summoned.

Exclusively the General Shareholders' Meeting:

- amends Charter of the Bank, except in cases, provided in the laws;
- changes domicile of the Bank;
- elects the Bank's Supervisory Council members;
- recalls the Bank's Supervisory Council or its individual members;
- elects and recalls the audit company to audit the annual financial statements, sets the terms of payment for audit services;
- approves the set annual financial statements of the Bank;
- sets class, number, par value and minimum issue price of the shares, issued by the Bank;
- issues of convertible bonds;
- cancels the preference right to purchase shares or convertible bonds of the Bank of a given emission to all of the shareholders;
- converses of the Bank's shares of one class into another, approves the conversion order;
- allocates profit (loss);
- making, use, reduction and cancellation of reserves;
- increases authorized capital;
- reduces of authorized capital, except of the cases, provided in the laws;
- purchase by the Bank of its own shares;
- reorganization or demerge of the Bank and approving terms of such reorganization or demerge;
- restructures of the Bank;
- liquidates of the Bank, cancels of liquidation, except cases, provided in the laws;
- selects and cancels the Bank's liquidator, except cases, provided in the laws.

The General Shareholders' Meeting may also resolve other issues, if according to the laws and the Bylaws of the Bank it is not assigned to the competence of other bodies of the Bank and if it is not a function of the Bank's management bodies in essence.

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The Supervisory Council of the Bank is a collegial body supervising the activities of the Bank. The Supervisory Council is directed by its Chairman. The Supervisory Council consisting of 4 (four) members is elected by the General Meeting of Shareholders for a term of four years. The initiators of the Meeting or the shareholders holding shares that grant at least 1/20 of the Bank's shares, shall have the right of proposing the members of the Supervisory Council. The candidates are proposed before the Meeting or during such Meeting. If the candidates are proposed before the meeting, each shareholder may get acquainted with the information about the candidate collected by the Bank according to the legal acts of the Republic of Lithuania and the internal legislation of the Bank. Each candidate to the Supervisory Council's members irrespective of whether he was proposed before or during the meeting, may be invited to the meeting and shall inform the Meeting about his current capacity and how his activities are related to the Bank or to other legal entities associated with the Bank.

While electing the Supervisory Council's members each shareholder shall have such number of votes which is equal to the product of the numbers of votes granted to him by the shares owned and number of the Supervisory Council's members to be elected. These votes are allocated by the shareholder at his own discretion - for one or several candidates. The candidates who receive the biggest number of votes are elected.

1 (one) independent member is elected to the current tenure of the Supervisory Council. In accordance with the Bank's Charter the number of tenures of the Council member is not limited.

The functions of the Supervisory Council are as follows:

- elect members of the Board and remove them from office. If the Bank operates at a loss, the Council must consider the suitability of the Board members for their positions;
- supervises the activities of the Board and the Head of Administration;
- Adopts the Rules of Procedure of the Supervisory Council of the Bank;
- approves the Bank's business plans;
- ensures that the Bank has effective internal control and internal audit systems;
- establishes the Audit Committee and approve the regulations of the Committee;
- Submits proposals and comments to the Annual General Meeting regarding the Bank's activity strategy, the Bank's annual financial statements, the draft profit (loss) distribution plan and the Bank's annual report, as well as the activities of the Board and the CEO;
- defines the procedure for lending that is only possible with the approval of the Supervisory Board;
- Makes proposals to the Management Board and the CEO to revoke their decisions that are in conflict with laws and other legal acts, the Articles of Bylaw of the Bank or decisions of the General Shareholders Meeting;
- discusses and resolves other issues that are to be considered or resolved by the Supervisory Board in accordance with laws and the Bank's Articles of Association as well as decisions of the General Meeting of Shareholders.

The Management Board is a collegial Bank management body, consisting of 4 (four) members. It manages the Bank, handles its matters and answers under the laws for the execution of the Bank's financial services. Order of the Board's work is set by the Board work regulations. The Board members are elected, recalled and supervised by the Bank's Supervisory Council. The Board of the Bank is elected by the Council for a term of 4 years - the number of tenures is not limited. If individual Board members are elected, they are elected till the end of the active Board's term.

The Bank's Management Board shall consider and approve:

- the annual report of the Bank;
- the structure of the Bank management and positions; posts in which persons are employed only by approve of Management board or by holding competitions;
- regulations of the branches, representatives and other separate subdivisions of the Bank;
- regulations of the Loan Committee and Risk Management Committee of the Bank;
- the Board determines the information to be considered commercial secret of the Bank.

The Board shall elect (assign) and remove from office the Chief Executive Officer and his deputies. The Board sets salary and other terms of labour contract with the Chief Executive Officer, approves his Staff Regulations, induces and imposes sanctions to the Chief Executive Officer.

The Board shall adopt:

- decisions on the Bank becoming the incorporator, member of other legal entities;
- decisions on opening branches, representatives and other separate subdivisions of the Bank as well as on cancellation of their activities;
- decisions on the investment, transfer or lease of long-term assets the balance-sheet whereof amounts to over 1/20 of the Bank's authorized capital (calculating separately for each kind of transaction);
- decisions on the mortgage or hypothec of long-term assets the value whereof amounts to over 1/20 of the Bank's authorized capital (calculating separately for each kind of transaction)
- decisions on offering guarantee or surety for the discharge of obligations of other entities, when the amount of the obligations exceeds 1/20 of the Bank's authorized capital;
- decisions on the acquisition of long-term assets the price whereof exceeds 1/20 of the Bank's authorized capital;
- decisions on issuing of non-convertible bonds;
- Board work regulation;

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- decisions on other matters it has to consider or solve under the Laws or Charter of the Bank.

The Board shall set:

- Terms for the issue of the bonds of the Bank. When the General Shareholders' Meeting adopts a resolution regarding the issuing of convertible bonds, the Board is entitled to set additional terms of issuing and to approve bond subscription agreements, signed by the Chief Executive Officer or his authorized person;

The Board shall execute resolutions passed by the Meeting and Supervisory Council.

The Board shall analyse and evaluate the material submitted by the Chief Executive Officer on:

- implementation of the Bank's activities plan;
- arrangement of the Bank's activity;
- the Bank's financial position;
- results of economic activities, income and expenditure estimates, stock-taking data and other records of valuables.

The Board also analyses, assesses the Bank's draft annual financial statements and draft of the profit (loss) allocation and submit them to the Board and General Meeting of Shareholders. Also, the Board shall solve other matters of the Bank's activities, if they are out of the other managing bodies' competence under the laws and this Charter.

The Board shall convene and hold the General Shareholders' Meetings in due time.

Chief Executive Officer is 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.

Functions of the CEO:

- to arrange everyday activities of the Bank;
- to engage and discharge employees, make work contracts with them and terminate them, induce them and impose sanctions. The CEO is entitled to authorize another Bank employee to perform actions listed therein;
- to represent the Bank in its relations with other persons, in court and arbitrage without special authorization;
- to grant and cancel powers of attorney and procurements;
- to issue orders;
- to perform other actions, necessary to perform his functions, to implement decisions of the Bank's bodies and to ensure Bank's activities.

Chief Executive Officer is responsible for:

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

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

The Chief Executive Officer and the members of the Board and Supervisory Council may participate in the general meetings of shareholders.

3 members of the Supervisory Board were elected at the Bank's Ordinary General Meeting of Shareholders on 30 March 2016. Kęstutis Jovaišas was elected as a member of the Supervisory Board at the Extraordinary General Meeting of Shareholders held on 26 October 2018.

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As of 31 December 2019, the members of the Bank's Supervisory Board are:

Name, Surname	Position in Supervisory Board	Workplace
Irmantas Kamienas	Chairman of Bank's Supervisory Board	MB „Bratus“ director, į.k.303046931, address: Santariškių st.75-26, Vilnius
Laima Petkevičiūtė	Member of Bank's Supervisory Board	UAB „MB valda“ director's advisor, company code.302461718, address: Pamėnkalnio st. 40, Vilnius
Vytenis Rasutis	Member of Bank's Supervisory Board	UAB Medicinos bankas, manager-currency dealer, company code 112027077, address: Pamėnkalnio st. 40, Vilnius
Kęstutis Jovaišas	Member of Bank's Supervisory Board	UAB „Civitta“ partner-general manager, į.k.302477747, address: Gedimino av. 27, Vilnius

The end of the term of the duty of the members of the Bank's Supervisory Board is in 2020.

Members of the Bank's Supervisory Board in 2019 hadn't received wages, bonuses, melons or other payments for participation in the Supervisory Board.

The Bank's Management Board consists of 4 members. The Management Board of the Bank appoints and revokes the Chief Executive Officer and his deputies for the organization of daily banking activities. The Bank's Management Board is responsible for ensuring that the Bank's activities comply with the law in order to implement the Bank's Strategy established by the Bank's Supervisory Board, as well as for the development, periodic review and enforcement of the Bank's core business policies. The Management Board of the Bank is also responsible for the establishment, improvement, monitoring and control of the risks faced by the Bank, and the establishment and improvement of reporting processes, the establishment of permissible risk limits. The Management Board determines how bank capital will be used to cover the risk. The Management Board forms the values of the Bank and the Group and adopts a code of conduct, ensures that the Bank and the Group operate an effective information and communication system.

Members of the Management Board were elected at the Bank's Supervisory Board meeting in 30 March 2016.

As of 31 December 2019, the members of the Bank's Management Board are:

Name, Last name	Position
Dalia Klišauskienė	Chairman of the Management Board, CEO
Arnas Žalys	Member of the Management Board, deputy CEO, Head of Financial services
Igor Kovalčiuk	Member of the Management Board, deputy CEO, Head of Legal and compliance services
Marius Arlauskas	Member of the Management Board, deputy CEO, Head of Business management services

The end of the term of the duty of the members of the Bank's Management Board is in 2020. The Chief Executive Officer of the Bank and the members of the Board of the Bank do not hold other senior positions in other legal entities.

Salary average paid to a member of the Management Board in 2019 was 67 thousand. EUR (in 2018 was 56 thousand EUR). No melons were paid to Members of the Management Board of the Bank in 2019. No bonuses, melons or other payments were paid to Members of the Management Board of the Bank in 2018.

Information on the principles for the election of the members of the Board and the amendment of the Bank's Articles of Association

The principles of the election of the members of the Board of the Bank are regulated by the Bylaws of the Bank, the Law on Companies of the Republic of Lithuania and the Law on Banks of the Republic of Lithuania. The diversity policy related to aspects such as age, gender, education, professional experience is applicable as it is regulated by the laws described above and is applied to the election of the CEO, management and supervisory bodies.

The Bank shall not discriminate on grounds of sex, sexual orientation, race, nationality and social status, religion, marital or family status, age, beliefs or attitudes, affiliations to political parties and public organizations in relation to the merits of the

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Employees in the context of the selection of Management Board members. Selection of Management Board members - to form an effective team that would not only be able but also capable to achieve the Bank's goals. For the quality selection of Management Board members, the Bank Group uses modern, innovative tools to search for vacant positions, with the aim of ensuring maximum dissemination of information and maintaining a good image of the Group as an employer.

Main Selection Criteria for Employees: Compliance with the requirements set by the Bank of Lithuania, internal legislation of the Group; subject-specific competence - appropriate education, work experience, subject knowledge, skills, abilities required for future work; personal qualities that determine and operate a particular job successfully.

Amendments to the Articles of Association of the Bank shall be made in accordance with the Law on Companies and the Articles of Association of the Bank. Last time the Bank's Articles of Association were changed in 31 March 2016.

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 are 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.

Information about the members of the Loan Committee 31 December 2019.

	Name, Last name
Chairman	Laura Ivaškevičiūtė
Members:	Lina Babelienė
	Raimundas Keršys
	Julius Ivaška
	Saulius Laučius

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.

Information about the members of the Risk Management Committee 31 December 2019.

	Name, Last name
Chairman	Arnas Žalys
Members:	Aleksejus Tonkich
	Snieguolė Kudrevičienė
	Laura Ivaškevičiūtė
	Julius Ivaška

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.

Information about the members of the Internal Audit Committee 31 December 2019.

	Name, Last name
Chairman	Laima Petkevičiūtė
Members:	Irmantas Kamienas
	Vytenis Rasutis
	Kęstutis Jovaišas

The Board and the Chief Executive Officer are the Bank's management bodies.

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.

11. Information on transactions with related parties

When a bank deals with related parties, the Bank follows market prices, the Bank has not entered into transactions with related parties that are classified as unusual economic activities and (or) have a significant influence on the Company, its finances, assets and liabilities.

12. Information on existing restrictions on voting rights

On 16 January 2019 after the death of the main shareholder of the Bank Saulius Karosas, Konstantinas Karosas acquired all of the Bank's ordinary registered shares (123,850 shares) by inheritance. Due to the universal transfer of rights and obligations to Konstantinas Karosas, the decision of the supervisory authority under Article 24 of the Banking Act not to raise objections to the acquisition of the qualifying share capital and voting rights was not obtained. In view of this and pursuant to the Article 24 of the Bank Act the provision shall be considered as the loss of voting rights in Konstantinas Karosas share of the Bank's authorized capital and voting rights at the General Meeting of Shareholders. Restricted shares represent 89.91 percent of the total number of voting shares.

9 March 2020

Acting Chairman of the Board and Chief Executive Officer



Dalia Klišauskienė

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Corporate Governance Reporting Form (appendix to the annual management report for 2019)

1. Reference to the applicable corporate governance code and the place of its publication, and (or) reference to the all necessary published information regarding management practices of the entity

UAB Medicinos bankas acting in compliance with Article 12 (3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of AB Nasdaq Vilnius, hereby discloses how it complies with the Corporate Governance Code for the Companies listed on Nasdaq Vilnius as well as its specific provisions or recommendations. In case of non-compliance with this Code or some of its provisions or recommendations, the specific provisions or recommendations that are not complied with must be indicated and the reasons for such non-compliance must be specified. In addition, other explanatory information indicated in this form must be provided. The Bank follows the Nasdaq Vilnius Corporate Governance Report form approved on 15 January 2019 which is prepared in accordance with the Governance Code for Listed Companies.

2. In case of derogation from the provisions of the applicable corporate governance code and (or) when the provisions are not complied with, such provisions and the reasons thereof shall be indicated

Information on compliance with and / or non-compliance with the Corporate Governance Code is provided in a structured table (No.2).

2. Structured table:

PRINCIPLES/ RECOMMENDATIONS	YES/NO/ NOT APPLICABLE	COMMENTARY
Principle 1: General meeting of shareholders, equitable treatment of shareholders, and shareholders' rights The corporate governance framework should ensure the equitable treatment of all shareholders. The corporate governance framework should protect the rights of shareholders.		
1.1 All shareholders should be provided with access to the information and/or documents established in the legal acts on equal terms. All shareholders should be furnished with equal opportunity to participate in the decision-making process where significant corporate matters are discussed.	Yes	
1.2. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all of their holders.	Yes	
1.3. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	
1.4. Exclusive transactions that are particularly important to the company, such as transfer of all or almost all assets of the company which in principle would mean the transfer of the company, should be subject to approval of the general meeting of shareholders.	Yes	
1.5. Procedures for convening and conducting a general meeting of shareholders should provide shareholders with equal opportunities to participate in the general meeting of shareholders and should not prejudice the rights and interests of shareholders. The chosen venue, date and time of the general meeting of shareholders should not prevent active participation of shareholders at the general meeting. In the notice of the general meeting of shareholders being convened, the company should specify the last day on which the proposed draft decisions should be submitted at the latest.	Yes/No	Bank acts in accordance with the requirements of Law on Companies act Article 25 Part 4.
1.6 With a view to ensure the right of shareholders living abroad to access the information, it is recommended, where possible, that documents prepared for the general meeting of shareholders in	Yes	

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<p>advance should be announced publicly not only in Lithuanian language but also in English and/or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders after the signing thereof and/or adopted decisions should be made available publicly not only in Lithuanian language but also in English and/or other foreign languages. It is recommended that this information should be placed on the website of the company. Such documents may be published to the extent that their public disclosure is not detrimental to the company or the company's commercial secrets are not revealed.</p>		
<p>1.7. Shareholders who are entitled to vote should be furnished with the opportunity to vote at the general meeting of shareholders both in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.</p>	Yes	
<p>1.8. With a view to increasing the shareholders' opportunities to participate effectively at general meetings of shareholders, it is recommended that companies should apply modern technologies on a wider scale and thus provide shareholders with the conditions to participate and vote in general meetings of shareholders via electronic means of communication. In such cases the security of transmitted information must be ensured and it must be possible to identify the participating and voting person.</p>	No	Bank has 3 shareholders, therefore all remote voting issues are solved by voting in advance via post service.
<p>1.9. It is recommended that the notice on the draft decisions of the general meeting of shareholders being convened should specify new candidatures of members of the collegial body, their proposed remuneration and the proposed audit company if these issues are included into the agenda of the general meeting of shareholders. Where it is proposed to elect a new member of the collegial body, it is recommended that the information about his/her educational background, work experience and other managerial positions held (or proposed) should be provided.</p>	Yes/No	<p>Information on the candidates to the Supervisory Council is provided before the shareholders' meeting if the members are suggested in advance. During the meeting the members to the Supervisory Council introduce information on them required by laws and answer the shareholders' questions before voting. Eligibility of the member to be elected to the Supervisory Council is assessed by the Bank of Lithuania.</p> <p>The Bank's annual and interim reports include the updated information on the collegial bodies' members' education, professional experience and current position.</p>
<p>1.10. Members of the company's collegial management body, heads of the administration or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders should take part in the general meeting of shareholders. Proposed candidates to member of the collegial body should also participate in the general meeting of shareholders in case the election of new members is included into the agenda of the general meeting of shareholders.</p>	Yes	Bank acts in accordance with the requirements of Law on Companies act Article 21 Part 2.
<p>Principle 2: Supervisory board</p> <p>2.1 Functions and liability of the supervisory board</p> <p>The supervisory board of the company should ensure representation of the interests of the company and its shareholders, accountability of this body to the shareholders and objective monitoring of the company's operations and its management bodies as well as constantly provide recommendations to the management bodies of the company.</p>		

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The supervisory board should ensure the integrity and transparency of the company's financial accounting and control system.		
2.1.1. Members of the supervisory board should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders and represent their interests, having regard to the interests of employees and public welfare.	Yes	
2.1.2 Where decisions of the supervisory board may have a different effect on the interests of the company's shareholders, the supervisory board should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed about the company's strategy, risk management and control, and resolution of conflicts of interest.	Yes	
2.1.3. The supervisory board should be impartial in passing decisions that are significant for the company's operations and strategy. Members of the supervisory board should act and pass decisions without an external influence from the persons who elected them.	Yes	
2.1.4 Members of the supervisory board should clearly voice their objections in case they believe that a decision of the supervisory board is against the interests of the company. Independent members of the supervisory board should: a) maintain independence of their analysis and decision-making; b) not seek or accept any unjustified privileges that might compromise their independence.	Yes	
2.1.5 The supervisory board should oversee that the company's tax planning strategies are designed and implemented in accordance with the legal acts in order to avoid faulty practice that is not related to the long-term interests of the company and its shareholders, which may give rise to reputational, legal or other risks.	Yes	
2.1.6. The company should ensure that the supervisory board is provided with sufficient resources (including financial ones) to discharge their duties, including the right to obtain all the necessary information or to seek independent professional advice from external legal, accounting or other experts on matters pertaining to the competence of the supervisory board and its committees.	Yes	
2.2 Formation of the supervisory board		
The procedure of the formation of the supervisory board should ensure proper resolution of conflicts of interest and effective and fair corporate governance.		
2.2.1. The members of the supervisory board elected by the general meeting of shareholders should collectively ensure the diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance between the qualifications of the members of the supervisory board, it should be ensured that members of the supervisory board, as a whole, should have diverse knowledge, opinions and experience to duly perform their tasks.	Yes	

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<p>2.2.2. Members of the supervisory board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience.</p>	<p>Yes</p>	
<p>2.2.3. Chair of the supervisory board should be a person whose current or past positions constituted no obstacle to carry out impartial activities. A former manager or management board member of the company should not be immediately appointed as chair of the supervisory board either. Where the company decides to depart from these recommendations, it should provide information on the measures taken to ensure impartiality of the supervision.</p>	<p>Yes</p>	
<p>2.2.4. Each member should devote sufficient time and attention to perform his duties as a member of the supervisory board. Each member of the supervisory board should undertake to limit his other professional obligations (particularly the managing positions in other companies) so that they would not interfere with the proper performance of the duties of a member of the supervisory board. Should a member of the supervisory board attend less than a half of the meetings of the supervisory board throughout the financial year of the company, the shareholders of the company should be notified thereof.</p>	<p>Yes</p>	
<p>2.2.5. When it is proposed to appoint a member of the supervisory board, it should be announced which members of the supervisory board are deemed to be independent. The supervisory board may decide that, despite the fact that a particular member meets all the criteria of independence, he/she cannot be considered independent due to special personal or company-related circumstances.</p>	<p>Yes</p>	<p>Information on the candidates to the Supervisory Council is provided before the shareholders' meeting if the members are suggested in advance. During the meeting the members to the Supervisory Council introduce information on them required by laws and answer the shareholders' questions before voting. Eligibility of the member to be elected to the Supervisory Council is assessed by the Bank of Lithuania. The Bank's annual and interim reports include the updated information on the collegial bodies' members' education, professional experience and current position.</p>
<p>2.2.6. The amount of remuneration to members of the supervisory board for their activity and participation in meetings of the supervisory board should be approved by the general meeting of shareholders.</p>	<p>Yes</p>	
<p>2.2.7. Every year the supervisory board should carry out an assessment of its activities. It should include evaluation of the structure of the supervisory board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the supervisory board, and evaluation whether the supervisory board has achieved its objectives. The supervisory</p>	<p>Yes</p>	

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<p>board should, at least once a year, make public respective information about its internal structure and working procedures.</p>		
<p>Principle 3: Management Board</p> <p>3.1 Functions and liability of the management board</p> <p>The management board should ensure the implementation of the company's strategy and good corporate governance with due regard to the interests of its shareholders, employees and other interest groups.</p>		
<p>3.1.1 The management board should ensure the implementation of the company's strategy approved by the supervisory board if the latter has been formed at the company. In such cases where the supervisory board is not formed, the management board is also responsible for the approval of the company's strategy.</p>	<p>Yes</p>	
<p>3.1.2. As a collegial management body of the company, the management board performs the functions assigned to it by the Law and in the articles of association of the company, and in such cases where the supervisory board is not formed in the company, it performs inter alia the supervisory functions established in the Law. By performing the functions assigned to it, the management board should take into account the needs of the company's shareholders, employees and other interest groups by respectively striving to achieve sustainable business development.</p>	<p>Yes</p>	
<p>3.1.3. The management board should ensure compliance with the laws and the internal policy of the company applicable to the company or a group of companies to which this company belongs. It should also establish the respective risk management and control measures aimed at ensuring regular and direct liability of managers.</p>	<p>Yes</p>	
<p>3.1.4 Moreover, the management board should ensure that the measures included into the OECD Good Practice Guidance on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards.</p>	<p>Yes/No</p>	<p>Internal Control procedures on Ethics and Compliance during year 2020 will be adopted to comply with OECD requirements</p>
<p>3.1.5 When appointing the manager of the company, the management board should take into account the appropriate balance between the candidate's qualifications, experience and competence.</p>	<p>Yes</p>	
<p>3.2. Formation of the management board</p>		
<p>3.2.1 The members of the management board elected by the supervisory board or, if the supervisory board is not formed, by the general meeting of shareholders should collectively ensure the required diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance in terms of the current qualifications possessed by the members of the management board, it should be ensured that the members of the management board would have, as a whole, diverse knowledge, opinions and experience to duly perform their tasks.</p>	<p>Yes</p>	

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<p>3.2.2 Names and surnames of the candidates to become members of the management board, information on their educational background, qualifications, professional experience, current positions, other important professional obligations and potential conflicts of interest should be disclosed without violating the requirements of the legal acts regulating the handling of personal data at the meeting of the supervisory board in which the management board or individual members of the management board are elected. In the event that the supervisory board is not formed, the information specified in this paragraph should be submitted to the general meeting of shareholders. The management board should, on yearly basis, collect data provided in this paragraph on its members and disclose it in the company's annual report.</p>	<p>Yes</p>	
<p>3.2.3 All new members of the management board should be familiarized with their duties and the structure and operations of the company.</p>	<p>Yes</p>	
<p>3.2.4 Members of the management board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience and sufficiently frequent reconfirmation of their status.</p>	<p>Yes</p>	
<p>3.2.5 Chair of the management board should be a person whose current or past positions constitute no obstacle to carry out impartial activity. Where the supervisory board is not formed, the former manager of the company should not be immediately appointed as chair of the management board. When a company decides to depart from these recommendations, it should furnish information on the measures it has taken to ensure the impartiality of supervision.</p>	<p>Yes</p>	
<p>3.2.6 Each member should devote sufficient time and attention to perform his duties as a member of the management board. Should a member of the management board attend less than a half of the meetings of the management board throughout the financial year of the company, the supervisory board of the company or, if the supervisory board is not formed at the company, the general meeting of shareholders should be notified thereof.</p>	<p>Yes</p>	
<p>3.2.7 In the event that the management board is elected in the cases established by the Law where the supervisory board is not formed at the company, and some of its members will be independent, it should be announced which members of the management board are deemed as independent. The management board may decide that, despite the fact that a particular member meets all the criteria of independence established by the Law, he/she cannot be considered independent due to special personal or company-related circumstances.</p>	<p>Not Applicable</p>	
<p>3.2.8 The general meeting of shareholders of the company should approve the amount of remuneration to the members of the management board for their activity and participation in the meetings of the management board.</p>	<p>No</p>	<p>Supervisory board approves the amount of remuneration to the members of the management board for their activity and participation in the meetings of the management board.</p>
<p>3.2.9. The members of the management board should act in good faith, with care and responsibility for the benefit and the interests of the company and its shareholders with due regard to other stakeholders. When adopting decisions, they should not act in their personal interest; they should be subject to no-compete agreements and they should not use the business information or opportunities related to the company's operations in violation of the company's interests.</p>	<p>Yes</p>	
<p>3.2.10. Every year the management board should carry out an assessment of its activities. It should include evaluation of the structure of the management board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the management board, and evaluation whether the management board has achieved its objectives. The management board should, at least once a year, make public</p>	<p>Yes/No</p>	<p>Board's annual activities assessment report, according to Lithuanian law legislation should be provided to the Bank of Lithuania and other parties.</p>

<p>respective information about its internal structure and working procedures in observance of the legal acts regulating the processing of personal data.</p>		
<p>Principle 4: Rules of procedure of the supervisory board and the management board of the company</p> <p>The rules of procedure of the supervisory board, if it is formed at the company, and of the management board should ensure efficient operation and decision-making of these bodies and promote active cooperation between the company’s management bodies.</p>		
<p>4.1. The management board and the supervisory board, if the latter is formed at the company, should act in close cooperation in order to attain benefit for the company and its shareholders. Good corporate governance requires an open discussion between the management board and the supervisory board. The management board should regularly and, where necessary, immediately inform the supervisory board about any matters significant for the company that are related to planning, business development, risk management and control, and compliance with the obligations at the company. The management board should inform the supervisory board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this.</p>	<p>Yes</p>	
<p>4.2. It is recommended that meetings of the company’s collegial bodies should be held at the respective intervals, according to the pre-approved schedule. Each company is free to decide how often meetings of the collegial bodies should be convened but it is recommended that these meetings should be convened at such intervals that uninterrupted resolution of essential corporate governance issues would be ensured. Meetings of the company’s collegial bodies should be convened at least once per quarter.</p>	<p>Yes</p>	
<p>4.3. Members of a collegial body should be notified of the meeting being convened in advance so that they would have sufficient time for proper preparation for the issues to be considered at the meeting and a fruitful discussion could be held and appropriate decisions could be adopted. Along with the notice of the meeting being convened all materials relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body present at the meeting agree with such change or supplement to the agenda, or certain issues that are important to the company require immediate resolution.</p>	<p>Yes</p>	
<p>4.4. In order to coordinate the activities of the company’s collegial bodies and ensure effective decision-making process, the chairs of the company’s collegial supervision and management bodies should mutually agree on the dates and agendas of the meetings and close cooperate in resolving other matters related to corporate governance. Meetings of the company’s supervisory board should be open to members of the management board, particularly in such cases where issues concerning the removal of the management board members, their responsibility or remuneration are discussed.</p>	<p>Yes</p>	
<p>Principle 5: Nomination, remuneration and audit committees</p> <p>5.1 Purpose and formation of committees</p> <p>The committees formed at the company should increase the work efficiency of the supervisory board or, where the supervisory board is not formed, of the management board which performs the supervisory functions by ensuring that decisions are based on due consideration and help organise its work in such a way that the decisions it takes would be free of material conflicts of interest.</p>		

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(All amounts in EUR thousand unless otherwise stated)

<p>Committees should exercise independent judgment and integrity when performing their functions and provide the collegial body with recommendations concerning the decisions of the collegial body. However, the final decision should be adopted by the collegial body.</p>		
5.1.1. Taking due account of the company-related circumstances and the chosen corporate governance structure, the supervisory board of the company or, in cases where the supervisory board is not formed, the management board which performs the supervisory functions, establishes committees. It is recommended that the collegial body should form the nomination, remuneration and audit committees	Yes/No	In accordance with the requirements of Law on Banks Article 36 Part 1, UAB Medicinos bankas is not treated as bank that is significant in terms of its size, internal organisation and the nature, scope and the complexity of its activities, therefore it is not obligatory to create nomination and remuneration committees.
5.1.2. Companies may decide to set up less than three committees. In such case companies should explain in detail why they have chosen the alternative approach, and how the chosen approach corresponds with the objectives set for the three different committees.	Not Applicable	
5.1.3. In the cases established by the legal acts the functions assigned to the committees formed at companies may be performed by the collegial body itself. In such case the provisions of this Code pertaining to the committees (particularly those related to their role, operation and transparency) should apply, where relevant, to the collegial body as a whole.	Yes	
5.1.4. Committees established by the collegial body should normally be composed of at least three members. Subject to the requirements of the legal acts, committees could be comprised only of two members as well. Members of each committee should be selected on the basis of their competences by giving priority to independent members of the collegial body. The chair of the management board should not serve as the chair of committees.	Yes	
5.1.5. The authority of each committee formed should be determined by the collegial body itself. Committees should perform their duties according to the authority delegated to them and regularly inform the collegial body about their activities and performance on a regular basis. The authority of each committee defining its role and specifying its rights and duties should be made public at least once a year (as part of the information disclosed by the company on its governance structure and practice on an annual basis). In compliance with the legal acts regulating the processing of personal data, companies should also include in their annual reports the statements of the existing committees on their composition, the number of meetings and attendance over the year as well as the main directions of their activities and performance.	Yes/No	The authority delegated to the Committee as well as its reporting are set in the Committees' provisions approved by the Supervisory Council. Information regarding the functions and composition of the Committees are declared in the Bank's annual report. However, information regarding the number of committee meetings and participation of the committee members is not declared there.
5.1.6. With a view to ensure the independence and impartiality of the committees, the members of the collegial body who are not members of the committees should normally have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or request that certain employees of the company or experts would participate in the meeting. Chair of each committee should have the possibility to maintain direct communication with the shareholders. Cases where such practice is to be applied should be specified in the rules regulating the activities of the committee.	Yes/No	
<p>5.2 Nomination committee</p>		
5.2.1. The key functions of the nomination committee should be the following: 1) to select candidates to fill vacancies in the membership of supervisory and management bodies and the administration and recommend the collegial body to approve them. The nomination committee should evaluate the balance of skills, knowledge and experience in the management body, prepare a description of the	Not Applicable	

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<p>functions and capabilities required to assume a particular position and assess the time commitment expected;</p> <p>2) assess, on a regular basis, the structure, size and composition of the supervisory and management bodies as well as the skills, knowledge and activity of its members, and provide the collegial body with recommendations on how the required changes should be sought;</p> <p>3) devote the attention necessary to ensure succession planning.</p>		
<p>5.2.2. When dealing with issues related to members of the collegial body who have employment relationships with the company and the heads of the administration, the manager of the company should be consulted by granting him/her the right to submit proposals to the Nomination Committee.</p>	Not Applicable	
<p>5.3 Remuneration committee</p>		
<p>The main functions of the remuneration committee should be as follows:</p> <p>1) submit to the collegial body proposals on the remuneration policy applied to members of the supervisory and management bodies and the heads of the administration for approval. Such policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as conditions which would allow the company to recover the amounts or suspend the payments by specifying the circumstances under which it would be expedient to do so;</p> <p>2) submit to the collegial body proposals regarding individual remuneration for members of the collegial bodies and the heads of the administration in order to ensure that they would be consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned;</p> <p>3) review, on a regular basis, the remuneration policy and its implementation.</p>	Not Applicable	
<p>5.4 Audit committee</p>		
<p>5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee</p>	Yes	
<p>5.4.2. All members of the committee should be provided with detailed information on specific issues of the company's accounting system, finances and operations. The heads of the company's administration should inform the audit committee about the methods of accounting for significant and unusual transactions where the accounting may be subject to different approaches.</p>	Yes	
<p>5.4.3. The audit committee should decide whether the participation of the chair of the management board, the manager of the company, the chief finance officer (or senior employees responsible for finance and accounting), the internal and external auditors in its meetings is required (and, if required, when). The committee should be entitled, when needed, to meet the relevant persons without members of the management bodies present.</p>	Yes	
<p>5.4.4. The audit committee should be informed about the internal auditor's work program and should be furnished with internal audit reports or periodic summaries. The audit committee should also be informed about the work program of external auditors and should receive from the audit firm a report describing all relationships between the independent audit firm and the company and its group.</p>	Yes	

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5.4.5. The audit committee should examine whether the company complies with the applicable provisions regulating the possibility of lodging a complaint or reporting anonymously his/her suspicions of potential violations committed at the company and should also ensure that there is a procedure in place for proportionate and independent investigation of such issues and appropriate follow-up actions.	Yes	
5.4.6. The audit committee should submit to the supervisory board or, where the supervisory board is not formed, to the management board its activity report at least once in every six months, at the time that annual and half-yearly reports are approved.	Yes/No	The audit committee submits annual activity reports and this complies with annual the Bank's reporting cycle.
<p>Principle 6: Prevention and disclosure of conflicts of interest</p> <p>The corporate governance framework should encourage members of the company's supervisory and management bodies to avoid conflicts of interest and ensure a transparent and effective mechanism of disclosure of conflicts of interest related to members of the supervisory and management bodies</p> <p>The corporate governance framework should recognize the rights of the stakeholders as established by law and promote active cooperation between the company and its stakeholders in creating the company's well-being, jobs and financial stability. In the context of this principle, the term "stakeholders" includes investors, employees, creditors, suppliers, customers, the local community and others with interests in a particular company.</p>		
Any member of the company's supervisory and management body should avoid a situation where his/her personal interests are or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory or management body should, within a reasonable period of time, notify other members of the same body or the body of the company which elected him/her or the company's shareholders of such situation of a conflict of interest, indicate the nature of interests and, where possible, their value.	Yes	
<p>Principle 7: Remuneration policy of the company</p> <p>The remuneration policy and the procedure for review and disclosure of such policy established at the company should prevent potential conflicts of interest and abuse in determining remuneration of members of the collegial bodies and heads of the administration, in addition it should ensure the publicity and transparency of the company's remuneration policy and its long-term strategy.</p>		
7.1. The company should approve and post the remuneration policy on the website of the company; such policy should be reviewed on a regular basis and be consistent with the company's long-term strategy.	Yes	
7.2. The remuneration policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as the conditions specifying the cases where the company can recover the disbursed amounts or suspend the payments.	Yes	
7.3. With a view to avoid potential conflicts of interest, the remuneration policy should provide that members of the collegial bodies which perform the supervisory functions should not receive remuneration based on the company's performance.	Yes/No	Banks remuneration policy relates with sustainable banks financial results, i.e. in case there is variable remuneration bigger than 4000 euros, this remuneration would be divided into parts and would be paid during 3 years period with link to banks financial results in the future.

<p>7.4. The remuneration policy should provide sufficient information on the policy regarding termination payments. Termination payments should not exceed a fixed amount or a fixed number of annual wages and in general should not be higher than the non-variable component of remuneration for two years or the equivalent thereof. Termination payments should not be paid if the contract is terminated due to inadequate performance.</p>	<p>Yes</p>	
<p>7.5. In the event that the financial incentive scheme is applied at the company, the remuneration policy should contain sufficient information about the retention of shares after the award thereof. Where remuneration is based on the award of shares, shares should not be vested at least for three years after the award thereof. After vesting, members of the collegial bodies and heads of the administration should retain a certain number of shares until the end of their term in office, subject to the need to compensate for any costs related to the acquisition of shares.</p>	<p>Not Applicable</p>	
<p>7.6. The company should publish information about the implementation of the remuneration policy on its website, with a key focus on the remuneration policy in respect of the collegial bodies and managers in the next and, where relevant, subsequent financial years. It should also contain a review of how the remuneration policy was implemented during the previous financial year. The information of such nature should not include any details having a commercial value. Particular attention should be paid on the major changes in the company's remuneration policy, compared to the previous financial year.</p>	<p>Yes/No</p>	<p>The report of the Remuneration policy is prepared according to the requirements set by the resolution of the Board of the Bank of Lithuania. Information regarding implementation of the Remuneration policy is provided in the annual report and interim reports in the scope set by the valid requirements.</p>
<p>7.7. It is recommended that the remuneration policy or any major change of the policy should be included on the agenda of the general meeting of shareholders. The schemes under which members and employees of a collegial body receive remuneration in shares or share options should be approved by the general meeting of shareholders.</p>	<p>Yes/No</p>	<p>Supervisory board approves the Banks remuneration policy.</p>
<p>Principle 8: Role of stakeholders in corporate governance</p> <p>The corporate governance framework should recognize the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.</p>		
<p>8.1. The corporate governance framework should ensure that the rights and lawful interests of stakeholders are protected.</p>	<p>Yes</p>	
<p>8.2. The corporate governance framework should create conditions for stakeholders to participate in corporate governance in the manner prescribed by law. Examples of participation by stakeholders in corporate governance include the participation of employees or their representatives in the adoption of decisions that are important for the company, consultations with employees or their representatives on corporate governance and other important matters, participation of employees in the company's authorized capital, involvement of creditors in corporate governance in the cases of the company's insolvency, etc.</p>	<p>Yes</p>	
<p>8.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p>	<p>Yes</p>	
<p>8.4. Stakeholders should be provided with the possibility of reporting confidentially any illegal or unethical practices to the collegial body performing the supervisory function.</p>	<p>Yes/No</p>	<p>Reports regarding illegal or unethical practices are provided to management board.</p>

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(All amounts in EUR thousand unless otherwise stated)

Principle 9: Disclosure of information		
The corporate governance framework should ensure the timely and accurate disclosure of all material corporate issues, including the financial situation, operations and governance of the company.		
9.1. In accordance with the company's procedure on confidential information and commercial secrets and the legal acts regulating the processing of personal data, the information publicly disclosed by the company should include but not be limited to the following:		
9.1.1. operating and financial results of the company;	Yes	
9.1.2. objectives and non-financial information of the company;	Yes	
9.1.3. persons holding a stake in the company or controlling it directly and/or indirectly and/or together with related persons as well as the structure of the group of companies and their relationships by specifying the final beneficiary;	Yes	
9.1.4. members of the company's supervisory and management bodies who are deemed independent, the manager of the company, the shares or votes held by them at the company, participation in corporate governance of other companies, their competence and remuneration;	Yes/No	The Bank of Lithuania is informed according to the requirements of Lithuanian laws.
9.1.5 reports from existing committees on their composition, number of meetings and attendance at meetings in the previous year, as well as on their main activities and performance;	Yes/No	Reports of the existing committees is provided to management or supervisory boards
9.1.6. potential key risk factors, the company's risk management and supervision policy;	Yes	
9.1.7. the company's transactions with related parties;	Yes	More information in Note 31
9.1.8. main issues related to employees and other stakeholders (for instance, human resource policy, participation of employees in corporate governance, award of the company's shares or share options as incentives, relationships with creditors, suppliers, local community, etc.);	Yes	
9.1.9. structure and strategy of corporate governance;	Yes	
9.1.10 initiatives and measures of social responsibility policy and anti-corruption fight, significant current or planned investment projects. This list is deemed minimum and companies are encouraged not to restrict themselves to the disclosure of information included into this list. This principle of the Code does not exempt companies from their obligation to disclose information as provided for in the applicable legal acts.	Yes	
9.2. When disclosing the information specified in paragraph 9.1.1 of recommendation 9.1, it is recommended that the company which is a parent company in respect of other companies should disclose information about the consolidated results of the whole group of companies.	Yes	
9.3. When disclosing the information specified in paragraph 9.1.4 of recommendation 9.1, it is recommended that the information on the professional experience and qualifications of members of the company's supervisory and management bodies and the manager of the company as well as potential conflicts of interest which could affect their decisions should be provided. It is further recommended that the remuneration or other income of members of the company's supervisory and management bodies and the manager of the company should be disclosed, as provided for in greater detail in Principle 7.	Yes	

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9.4. Information should be disclosed in such manner that no shareholders or investors are discriminated in terms of the method of receipt and scope of information. Information should be disclosed to all parties concerned at the same time.	Yes	
Principle 10: Selection of the company's audit firm The company's audit firm selection mechanism should ensure the independence of the report and opinion of the audit firm.		
10.1. With a view to obtain an objective opinion on the company's financial condition and financial results, the company's annual financial statements and the financial information provided in its annual report should be audited by an independent audit firm.	Yes	
10.2. It is recommended that the audit firm would be proposed to the general meeting of shareholders by the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company.	Yes	
10.3 In the event that the audit firm has received remuneration from the company for the non-audit services provided, the company should disclose this publicly. This information should also be available to the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company when considering which audit firm should be proposed to the general meeting of shareholders.	Yes	

3. Information regarding the level of risk and risk management – management of risks related to the financial reporting, risk mitigation measures, and internal control systems implemented at the entity shall be described

The Bank provided information on the extent of risk in 2019 separate and consolidated financial statements Note 33 and 34. Information on risk management and risk mitigation measures can be found in the risk sections of the Management's annual report. Information on the internal control system implemented in the Bank is provided in 2019 Annual Management Report section 10.

4. Information regarding significant directly or indirectly managed holdings

Information described in 2019 separate and consolidated financial statements Note's 1 "Background" section on page 40.

5. Information regarding transactions with related parties, according to the Law on Companies Article 37² (by specifying the counterparty (legal form, name, code, register of the legal entity in which the person is stored, premises (address); name, surname, address of the natural person and the value of the transaction)

During 2019, the Bank did not have any related party transactions that met the criteria in Article 37²

6. Information regarding the shareholders who have special rights of control and the description of such rights

Information described in 2019 separate and consolidated financial statements Note's 1 "Background" section on page 40.

7. Information regarding all current restrictions on voting rights (such as the restrictions on voting rights of persons having a certain percentage or number of the votes, the deadlines by which voting rights may be exercised or systems, according to which the property rights granted by the securities are to be separated from the holder of those securities)

Information described in 2019 separate and consolidated financial statements Note's 1 "Background" section on page 40.

8. Information regarding the rules governing the appointment and dismissal of board members, as well as the amendment of the company's articles of association

More details in the Management's annual report paragraph 9 "Management of the Bank" section.

9. Information regarding the powers of the board members

More details in the Management's annual report paragraph 9 "Management of the Bank" section.

10. Information regarding the competence of the general meeting of shareholders, the rights of shareholders and implementation thereof, if such information is not established in the applicable legislation

More details in the Management's annual report paragraph 9 "Management of the Bank" section.

11 Information regarding the composition of the management, supervisory bodies, and the committees thereof, as well as the fields of activity of the aforesaid bodies and the manager of the company

More details in the Management's annual report paragraph 9 "Management of the Bank" section.

12. Description of diversity policy applicable in appointing the manager of the company, management, and supervisory bodies, related to the aspects such as age, gender, education, professional experience; objectives of such policy, methods of implementation thereof, and results of the reference period. if the diversity policy is not applied, the reasons thereof shall be indicated

More details in the Management's annual report paragraph 9 "Management of the Bank" section.

13. Informacija apie visus akcininkų tarpusavio susitarimus (jų esmė, sąlygos)

The Bank has no information about agreements between shareholders.

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(All amounts in EUR thousand unless otherwise stated)

EVALUATION OF INTERNAL CONTROL

Depending on the risk appetite acceptable to the Bank, risk management principles are developed and implemented throughout the Group. Risk management principles are governed by the Bank's Group Risk Management Policy.

The Group's remuneration policy is an integral part of the Bank's risk management system. The remuneration policy is coordinated with the Bank's business strategy, assumed by the risk level, the Bank's goals, values and long-term vision.

The Bank's internal control system is an integral and continuous part of its daily activities. All employees of the Bank are responsible at the appropriate level for the functioning of the Bank's internal control processes, and each employee participates in the internal control system and can influence it.

Internal control aims to ensure the legality, economy, efficiency, effectiveness and transparency of the Bank's operations, implementation of strategic and other business plans, asset protection, reliability and completeness of information and reporting, compliance with contractual and other obligations to third parties and management of all risk factors related thereto.

The Compliance Officer and other compliance Officers are appointed to the Compliance function in the Bank, who perform their functions independently. For the Compliance in the Bank, i.e. that all the Bank's employees performance comply with the Bank's laws and regulations are also responsible all employees of the Bank, who are involved in the internal control system during performance of their functions.

The Bank's internal control system, risk management and compliance assessment are performed by the Bank's Internal Audit Division. This unit shall inform the Bank's Internal Audit Committee and the Bank's Management Board of any deficiencies or violations noted.

9 March 2020

Acting Chairman of the Board and Chief Executive Officer



Dalia Klišauskienė

UAB MEDICINOS BANKAS

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

**SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019**

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<u>The Group</u>		<u>Assets</u>	<u>Notes</u>	<u>The Bank</u>	
<u>31 December 2019</u>	<u>31 December 2018</u>			<u>31 December 2019</u>	<u>31 December 2018</u>
		Cash and due from central bank			
29,650	27,304	<i>Cash</i>		29,650	27,304
45,534	30,070	<i>Placements with the central bank</i>	5	45,534	30,070
75,184	57,374			75,184	57,374
		Placements with banks and other credit institutions	6	11,164	13,239
		Financial assets at fair value through profit or loss			
10	41	<i>Derivative financial instruments</i>	14	10	41
10	41			10	41
50,004	70,746	Debt securities	7	50,004	70,746
		Loans and receivables			
192,409	159,017	<i>Loans to customers</i>	8	188,010	156,986
15,875	12,809	<i>Finance lease receivable</i>	8	15,875	12,809
208,284	171,826			203,885	169,795
-	-	Investments in subsidiaries	12	6,687	7,521
1,423	3,018	Investment property	11	283	1,050
6,726	5,548	Property and equipment	9	6,703	5,545
364	314	Intangible assets	10	341	267
		Tax assets			
19	6	<i>Current taxes</i>		19	6
1,400	1,925	<i>Deferred taxes</i>	28	1,400	1,925
1,419	1,931			1,419	1,931
737	685	Other assets	13	691	621
355,334	324,763	Total assets		356,371	328,130

(continued on the next page)

The accompanying notes on pages 40 to 119 are an integral part of these financial statements.

UAB MEDICINOS BANKAS

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

**SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019**

(All amounts in EUR thousand unless otherwise stated)

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

<u>The Group</u>				<u>The Bank</u>	
<u>31 December 2019</u>	<u>31 December 2018</u>	Liabilities	Notes	<u>31 December 2019</u>	<u>31 December 2018</u>
3,036	228	Due to banks and other credit institutions	15	3,036	228
59	5	Derivative financial instruments		59	5
310,431	289,126	Due to customers	16	311,398	290,733
1,000	1,000	Subordinated loans	17	1,000	1,000
2,184	2,167	Debt securities issued	17	2,184	2,167
35	30	Impairment		66	30
234	-	Tax liabilities		234	-
-	-	<i>Current tax</i>		-	-
234	-	<i>Deferred tax</i>		234	-
3,982	1,682	Other liabilities	18	3,804	3,368
320,961	294,238	Total liabilities		321,781	297,531
		Equity			
19,948	19,948	Share capital		19,948	19,948
3,779	2,064	Retained earnings		3,996	2,138
330	335	Revaluation reserve of property and equipment		330	335
10,316	8,178	Other reserves	19	10,316	8,178
34,373	30,525	Total shareholders' equity		34,590	30,599
355,334	324,763	Total liabilities and shareholders' equity		356,371	328,130

The accompanying notes on pages 40 to 119 are an integral part of these financial statements. The financial statements were authorised for issue on 9 March 2020. These financial statements were signed 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

UAB MEDICINOS BANKAS

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

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019**

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED INCOME STATEMENTS

<u>The Group</u>				<u>The Bank</u>	
<u>2019</u>	<u>2018</u>		<u>Notes</u>	<u>2019</u>	<u>2018</u>
10,972	9,243	Interest income	21	10,391	9,113
(1,787)	(1,742)	Interest expenses	21	(1,787)	(1,742)
9,185	7,501	Net interest income		8,604	7,371
6,683	5,674	Service fee and commission income	22	6,919	5,675
(496)	(435)	Service fee and commission expenses	22	(430)	(411)
6,187	5,239	Net service fee and commission income		6,489	5,264
-	-	Net result on equity securities trading		(740)	-
5,141	4,664	Net foreign on equity exchange gain	23	5,141	4,664
(241)	33	Net result from operations with derivatives	14	(241)	33
-	-	Impairment of investments into subsidiaries		109	(1,119)
(606)	(993)	Net result on operations on investment property	24	(289)	(275)
121	169	Other income	25	214	126
19,787	16,613	Total operating income		19,287	16,064
(974)	(1,313)	Impairment of loans and other financial assets	26	(878)	(1,308)
18,813	15,300	Operating income after impairment		18,409	14,756
(8,663)	(7,866)	Salaries and benefits	27	(8,301)	(7,566)
(1,132)	(486)	Depreciation		(1,126)	(484)
(137)	(161)	Amortisation		(109)	(146)
(4,287)	(4,412)	Other operating expenses	27	(4,136)	(4,136)
(14,219)	(12,925)	Total operating expenses		(13,672)	(12,332)
4,594	2,375	Operating profit		4,737	2,424
(746)	11	Income tax expense	28	(746)	11
3,848	2,386	Profit for the year		3,991	2,435
3,848	2,386	Attributable to equity holders of the Bank		3,991	2,435

The accompanying notes on pages 40 to 119 are an integral part of these financial statements. The financial statements were authorised for issue on 9 March 2020. These financial statements were signed on behalf of the Bank by:

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SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019**

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**The Bank**

	<u>2019</u>	<u>2018</u>
Items that will never be reclassified to profit or loss		
Change in PPE revaluation	5	5
Transfer of depreciation for PPE net of tax	(5)	(4)
Other	-	-
	<u>-</u>	<u>-</u>
Items that are or may be reclassified to profit or loss	<u>-</u>	<u>1</u>
Net amount transferred to profit or loss (available-for-sale financial assets)	-	-
Related tax	-	-
	<u>-</u>	<u>-</u>
Other comprehensive income (expenses), net of tax	<u>-</u>	<u>1</u>
Profit for the year	3,991	2,435
Total comprehensive income	<u><u>3,991</u></u>	<u><u>2,436</u></u>
Attributable to:		
Equity holders of the Bank	3,991	2,436

The Group

	<u>2019</u>	<u>2018</u>
Items that will never be reclassified to profit or loss		
Change in PPE revaluation	5	4
Transfer of depreciation for PPE net of tax	(5)	(4)
Other	-	-
	<u>-</u>	<u>-</u>
Items that are or may be reclassified to profit or loss	<u>-</u>	<u>-</u>
Related tax	-	-
	<u>-</u>	<u>-</u>
Other comprehensive income (expenses), net of tax	<u>-</u>	<u>-</u>
Profit for the year	3,848	2,386
Total comprehensive income	<u><u>3,848</u></u>	<u><u>2,386</u></u>
Attributable to:		
Equity holders of the Bank	3,848	2,386

The accompanying notes on pages 40 to 119 are an integral part of these financial statements. The financial statements were authorised for issue on 9 March 2020. These financial statements were signed on behalf of the Bank by:

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UAB MEDICINOS BANKAS

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**SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019**

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**The Bank**

	Note	Share capital	Retained earnings (restated)	Revaluation reserve of property and equipment	Other reserves	Total
At 31 December 2017		19,948	852	339	6,326	27,465
Impact of change in accounting principles		-	(302)	-	-	(302)
At 1 January 2018		19,948	550	339	6,326	27,163
Profit or loss		-	2,435	-	-	2,435
Other comprehensive income (expenses)		-	5	(4)	-	1
Transactions with owners of the Bank						
Transfer to reserves		-	(852)	-	1,852	1,000
At 31 December 2018		19,948	2,138	335	8,178	30,599
Profit or loss		-	3,991	-	-	3,991
Other comprehensive income (expenses)		-	5	(5)	-	-
Transactions with owners of the Bank						
Transfer to reserves	19	-	(2,138)	-	2,138	-
At 31 December 2019		19,948	3,996	330	10,316	34,590

(continued on the next page)

The accompanying notes on pages 40 to 119 are an integral part of these financial statements.

UAB MEDICINOS BANKAS

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

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019**

(All amounts in EUR thousand unless otherwise stated)

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

	Note	Share capital	Retained earnings (restated)	Revaluation reserve of property and equipment	Other reserves	Total
At 31 December 2017		19,948	828	339	6,326	27,441
Impact of change in accounting principles		-	(302)	-	-	(302)
At 1 January 2018		19,948	526	339	6,326	27,139
Profit or loss		-	2,386	-	-	2,386
Other comprehensive income (expenses)		-	4	(4)	-	-
Transactions with owners of the Bank		-	(852)	-	1,852	1,000
Transfer to reserves						
At 31 December 2018		19,948	2,064	335	8,178	30,525
Profit or loss		-	3,848	-	-	3,848
Other comprehensive income (expenses)		-	5	(5)	-	-
Transactions with owners of the Bank		-	-	-	-	-
Transfer to reserves	19	-	2,138	-	2,138	-
At 31 December 2019		19,948	3,779	330	10,316	34,373

The accompanying notes on pages 40 to 119 are an integral part of these financial statements. The financial statements were authorised for issue on 9 March 2020. These financial statements were signed on behalf of the Bank by:

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UAB MEDICINOS BANKAS

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**SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019**

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED CASH FLOW STATEMENTS

<u>The Group</u>			<u>The Bank</u>	
<u>2019</u>	<u>2018</u>	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities				
3,848	2,386		3,991	2,435
Non-cash Revenue and Cost Recovery:				
1,269	647	9,10	1,235	630
(119)	(129)		(131)	42
974	1,283	26	878	1,278
-	-	12	(109)	1,119
621	1,131	11,24	304	242
85	(60)	14	85	(60)
19	58		10	38
746	(11)	28	746	(11)
(54)	(225)		(70)	(225)
7,389	5,080		6,939	5,488
Changes in operating assets and liabilities:				
59	(337)		59	(337)
-	66		-	66
(33,745)	(9,447)		(31,691)	(7,952)
(3,661)	(970)		(3,590)	(970)
(192)	(3,372)		(192)	(3,372)
23,250	34,776		22,610	35,318
1,329	2,535		(495)	2,311
(5,571)	28,331		(6,360)	30,552
-	-		-	-
-	(6)		-	(6)
(5,571)	28,325		(6,360)	30,546
Investing activities				
(1,032)	(1,038)	9,10	(1,004)	(997)
(12)	(2)	11	-	(2)
1,173	3,263		1,001	1,423
-	-		(2,335)	(2,201)
-	-		2,752	-
-	-		526	-
-	-		-	1,781
(600)	-		(600)	-
43,494	22,526		43,494	22,526
(22,752)	(53,412)		(22,752)	(53,412)
20,271	(28,663)		21,082	(30,882)

(continued on the next page)

The accompanying notes on pages 40 to 119 are an integral part of these financial statements.

UAB MEDICINOS BANKAS

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SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019**

(All amounts in EUR thousand unless otherwise stated)

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

<u>Group</u>				<u>Bank</u>	
<u>2019</u>	<u>2018</u>		<u>Notes</u>	<u>2019</u>	<u>2018</u>
		Financing activities			
-	1,000	Shareholder contributions to increase reserves	19	-	1,000
17	2,167	Bonds issued		17	2,167
-	-	Bonds (redeemed)		-	-
3,000	-	Loans received according to Eurosystem Open market operations		3,000	-
7,143	9,217	Loans received		7,143	9,217
(9,269)	(6,640)	Loans (repaid)		(9,269)	(6,640)
891	5,744	Net cash flows from (to) financing activities		891	5,744
181	(82)	Effect of exchange rate changes on cash and cash equivalents	23	181	(82)
15,772	5,324	Net increase (decrease) in cash and cash equivalents		15,794	5,326
68,374	63,050	Cash and cash equivalents at 1 January		68,333	63,007
84,146	68,374	Cash and cash equivalents at 31 December	29	84,127	68,333
		Additional information to operating cash flows			
11,954	9,742	Interest received		11,388	9,769
(1,425)	(1,485)	Interest (paid)		(1,425)	(1,485)

The accompanying notes on pages 40 to 119 are an integral part of these financial statements. The financial statements were authorised for issue on 9 March 2020. These financial statements were signed on behalf of the Bank by:

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Director of Accounting and Reporting
Department, Chief Accountant

A. Tonkich

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SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019

(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 consolidated financial statements of the Group include the financial statements of the Bank and its fully owned subsidiaries UAB TG Invest-1 (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). UAB TG Invest-1 was acquired on 17 May 2013, UAB Saugus kreditas – until 17 October 2017.

At November of 2019 the process of reorganization of subsidiaries by merger was completed. The companies UAB “MB Turtas”, UAB “MB Valda”, UAB “MB investicija” are merged with UAB TG Invest-1.

As at 31 December 2019 the Bank employed 342 employees (369 employees as at 31 December 2018). As at 31 December 2019 the Group employed 352 employees (384 employees as at 31 December 2018).

As at 31 December 2019 the shareholders of the Bank were as follows:

	Ordinary shares held	Per cent of ownership
Mr. Konstantinas Karosas	123,850	89,91
Western Petroleum Ltd.	13,600	9,87
Mr. Vytenis Rasutis	300	0,22
Total	137,750	100,00

As at 31 December 2018 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
Mr. Vytenis Rasutis	300	0,22
Total	137,750	100,00

Konstantinas Karosas has acquired 89.91% of the Bank's shares by inheritance. Till the decision of the supervisory authority, Konstantinas Karosas may not exercise the voting rights attaching to the shares at the Bank's general meeting.

The issued share capital consists of 137,750 ordinary shares with the par value of EUR 144.81 each. As at 31 December 2019 and 2018, 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.

UAB MEDICINOS BANKAS

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

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019

(All amounts in EUR thousand unless otherwise stated)

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

Application of new and revised International Financial Reporting Standards (IFRSs)

Standards and Interpretations effective in the current period

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union (further – EU) are effective for the current period:

- IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019):

As of 1 January 2019 the Bank and the Group adopted IFRS 16 and recognized the right-of-use assets as part of property, plant and equipment. The Group chose the option to apply the simplified transition method and did not restate comparative amounts for the year prior to first adoption.

Under IFRS 16 contract is a lease or includes lease if it grants the right to manage the use of the identified asset for a period of time in exchange for consideration. The new model requires the tenant to recognize the right of use assets and lease obligations for such contracts. The right of use the property is depreciated and the obligation accrues interest. As a result, most rental transactions will incur an advance cost, even if the tenant pays constant annual rents.

The new standard establishes a limited exceptions for lease transactions that includes:

- Lease transactions where the lease period does not exceed 12 months and the transaction does not provide for the possibility to purchase; and
- Lease transactions with small-ticket leases.

The lessor's accounting for the new standard has remained largely unchanged and the separation between operating and financial leases has been maintained.

The major impact on the Bank's and the Group's financial statements has accounting for rent of premises. The Bank and the Group as at 1 January 2019 has accounted for the following impact in relation to the implementation of IFRS 16: Right of use assets – 1,911 thousand EUR, lease liabilities - 1,911 thousand EUR. There was no significant impact on profit or loss, however the presentation in profit or loss has been changed: instead of rent expenses, there is depreciation of right of use assets and the related lease interests.

- Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective for financial years beginning on or after 1 January 2019),
- IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 - Long-Term Interest in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- IAS 19 changes: Plan Amendment, Curtailment or Settlement is now reflected in the Endorsement Status Report (effective for annual periods beginning on or after 1 January 2019),
- The endorsement by the European Commission of Annual Improvements to IFRS Standards 2015-2017 Cycle is now reflected in the Endorsement Status Report Ventures (effective for annual periods beginning on or after 1 January 2019);

The application of these standards, amendments and interpretations, except for IFRS 16 Leases, will not have a significant effect on the Bank's and the Group's financial statements.

Standards and Interpretations issued by IASB, approved by EU but not yet effective

The Bank and the Group did not yet apply these IFRS that are already issued on the date of signing these financial statements but are not yet effective:

- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020)
- Amendments to IFRS 9, IAS 39 and IFRS 7 is now reflected in the Endorsement Status Report (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IAS 1 and IAS 8 is now reflected in the Endorsement Status Report (effective for annual periods beginning on or after 1 January 2020);

According to the Bank and the Group, the application of these standards, amendments and interpretations will not have a significant effect on the Bank's and the Group's financial statements at the time of its first adoption.

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SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019

(All amounts in EUR thousand unless otherwise stated)

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

Standards and Interpretations issued by IASB but not yet endorsed by EU

FRSs currently endorsed by EU are not significantly different from the standards, endorsed by IASB, except the standards, amendments and interpretations that were not endorsed by EU (the effective dates are applicable to IFRS to full extent). These standards, amendments and interpretations are listed below:

- Amendments to IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 January 2020);
- IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after 1 January 2021);

According to the Bank and the Group, the application of these standards, amendments and interpretations will not have a significant effect on the Bank's and the Group's financial statements at the time of its first adoption.

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.

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SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019

(All amounts in EUR thousand unless otherwise stated)

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

Segment information

Operating segments are reported in accordance with the information analysed by the Management Board of the Group, which is responsible for allocating resources to the reportable segments and assesses its performance.

The Group has three main business segments:

Traditional banking operations and lending – includes traditional banking operations such as issuing loans and providing banking services to the customers and finance lease provided to micro, small and medium enterprises, households;

Treasury – includes banking treasury operations such as managing securities and liquidity portfolio, currency exchange etc.

Other activities – includes other banking operations not included in traditional banking operations and treasury segments such as income (expenses) related to investment in subsidiaries, operations with investment property and other subsidiaries operating income (expenses);

The activities of the Group's segments, with the exception of consumer loans, are property management and development, and the major of the Group's expenses (income) are from investment properties.

Transactions with other business segments is done with market price.

The key indicator for reporting to the management of the Bank is the pre-tax profit (loss), which consists of net interest income, net commission income, loan impairment changes, net result on operations on investment property, operating expenses, amortization and depreciation costs, and other net income

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SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019

(All amounts in EUR thousand unless otherwise stated)

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.

Under IFRS 9 Financial Assets - cash and cash equivalents, contractual rights to receive cash or another financial asset, contractual rights to exchange financial instruments with another party on terms that are potentially favourable, equity instruments of other entities, and contracts that will or may be settled themselves with company equity instruments.

Financial assets are classified:

- Financial assets that are subsequently measured at amortized cost;
- Financial assets that are measured at fair value in subsequent periods by recognizing a change in fair value through comprehensive income;
- Financial assets at fair value through profit or loss recognized in subsequent periods;

Financial assets are measured at amortized cost if both conditions are met:

- Financial assets are held according to the business model - designed to hold financial assets to collect contractual cash flows;
- Due to contractual terms of the financial asset, cash flows that occur only on the principal amount and on the principal amount outstanding may arise on specified dates.

Financial assets are measured at fair value, the change of which is recognized in other comprehensive income if both of the following conditions are met:

- financial assets are held according to a business model whose purpose is to achieve the contractual cash flows and to sell the financial assets;
- Due to contractual terms of the financial asset, cash flows that occur only on the principal amount and on the principal amount outstanding may arise on specified dates.

Financial assets at fair value through profit or loss include those financial assets that are not classified as financial assets at amortized cost and as financial assets at fair value through profit or loss, for which changes are recognized in other comprehensive income. At initial recognition, a financial asset may be irrevocably classified as a financial asset measured at fair value through profit or loss, if such assignment eliminates or diminishes the inconsistency of the measurement and recognition of financial instruments (accounting inconsistencies). These financial assets cannot subsequently be transferred to another group of financial assets.

The category of financial assets is determined at the time of acquisition of these assets.

Recognition of financial assets

All ordinary acquisitions and disposals of financial assets for which a period specified in the regulatory authority or market agreements exists for the transfer of securities to the buyer are accounted for at settlement, i.e. when the asset is delivered to the Group or when the Group presents it to the buyer. On the trade date, an off-balance sheet liability is recognized for the purchase or sale of a financial asset that is derecognised at the time of settlement.

Loans granted are accounted for at amortized cost: the cost of the principal (calculated on the basis of direct transaction costs) less principal repayments, amortization of accrued difference between cost and redemption amount and loan impairment losses are recognized at initial recognition.

Business model evaluation. The objective of the Group's business model is to collect held-to-collect cash flows, where cash flows are only payments of principal and interest on principal. There are no financial instruments in the Group that aim to receive cash flows from the sale of instruments. No other business models are used.

Solely payments of principal and interest (SPPI). All loans and receivables are measured using the SPPI test. The estimated or principal amount is the fair value of the financial asset at initial recognition and meets the SPPI criteria. Is the interest earned a reward for the time value of money for credit risk associated with a non-covered principal amount. The credit risk element is assessed. Does the time value element for transactions with fixed interest rate fulfil the criteria. Variable interest rates are measured by the change in the time value of the monetary item and determine whether the change does not result in a significant difference between the contractual cash flows and the cash flows that would arise if the time value element did not change. In the case of insignificant deviations, it should be noted that loans and receivables meet the requirements of the SPPI.

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SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019

(All amounts in EUR thousand unless otherwise stated)

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

Financial assets measured at amortized cost with the Bank and its subsidiaries:

Cash and due from central bank;

Placements with banks and other credit institutions;

Debt securities;

Loans and receivables;

Other assets.

Cash and cash at the central bank consist of balances of cash and other payment instruments, balances of funds in correspondent bank accounts of the Bank of Lithuania, reserve assets.

Cash is cash on hand with a book value equal to their fair value.

The fair value of funds in a central bank is equal to the carrying amount.

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted on the market. This category of financial assets also includes bank-acquired (discounted) bills and the purchase of debt liabilities (factoring).

Other assets and other prepayments are cash paid for goods or services not yet provided.

The Bank accounts prepayments and advances at the cost of cash or cash.

Impairment of loans

The Impairment Model (Expected Credit Loss Calculation Model) will be applied to financial assets at amortized cost or fair value, excluding equity investments. Depending on the credit risk change since the initial recognition, financial instruments are classified into 3 risk levels. For off-balance sheet items, expected credit losses are calculated in the same way as losses for the respective balance sheet exposures according to the risk level of the respective balance sheet position.

Lending positions, irrespective of whether special provisions are set for a homogeneous group or individually, are regrouped in order to respond consistently to credit risk factors as macroeconomic conditions change. After the breakdown of lending positions, the amounts of special provisions are recalculated accordingly.

Lending positions, after assessing their credit risk from initial recognition, are classified into one of three risk levels:

Risk level 1 includes those exposures that have not significantly increased credit risk, i.e. no credit risk indicator or loss event has been recorded after the initial loan recognition.

Risk level 2 includes exposures with a credit risk indicator or significant credit risk increase.

Risk level 3 includes non-performing loans and other exposures that are expected to be defaulted (loss event).

Special provisions for a borrowing position shall be calculated collectively or individually in accordance with the following provisions:

Lending exposures assigned to risk level 1 (low credit risk) are collectively assessed and special provisions are valued at the amount of 12 months' ECL (expected credit loss) duration.

For risk level 2 (significant increase in credit risk), assigned credit exposures are valued collectively, except for customers with a bank lending position of more than EUR 500,000 or overdue payments from 60 to 90 calendar days. Lending positions are valued individually. For collectively assessed lending exposures, the amount of special provisions is calculated on the basis of an unlimited duration of ECL.

Lending positions assigned to level 3 (credit default) are assessed individually.

Other asset groups include lending positions that do not meet the criteria for other homogeneous groups.

Lending positions with the Central Bank are not assessed because they assume that their credit risk is very low and does not significantly increase from initial recognition.

Collectively rated lending exposures are assessed by the ECL using a model developed by the Bank that calculates internal risk parameters for each homogeneous group according to the applicable scenario. The Procedure for Recognition of Impairment of Financial Instruments is described in the Expected Credit Risk Loss Assessment Rules.

The carrying amount of the loans is reduced through the use of an allowance account and the amount of the impairment loss is included in the income statement. For all financial instruments, after initial recognition, the borrowing position is reviewed, and at least once a year a comprehensive assessment of the change in the client's risk profile is performed to determine the materiality of the credit risk. Each month, an assessment is made of indicators that reduce (increase) the credit risk of the borrowing position, by which the previously recognized impairment loss is reversed or increased by adjusting the allowance account. Impairment losses relate to the original application of IFRS 9 and are accounted for directly through equity.

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

Lending positions, irrespective of whether special provisions are set for a homogeneous group or individually, are regrouped in order to respond consistently to credit risk factors as macroeconomic conditions change. After the breakdown of lending positions, the amounts of special provisions are recalculated accordingly.

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.

Write-offs

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.

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).

Repurchase agreements

Securities sold under repurchase (repo) agreements are accounted for as trading or investment securities, depending on the classification of these papers at the time of acquisition. The liability related to this repurchase agreement is included in the amounts due to banks (other customers) or bank (other client) deposits.

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 14.

In 2019 and in 2018, 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.

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

Financial assets and financial liabilities (cont'd)

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.

Derecognition of financial assets and liabilities

Financial liabilities

Financial liabilities - contractual obligations to transfer cash, other financial assets or financial instruments under potentially unfavourable conditions and contracts that will or may be settled by the Bank's own equity instruments. Financial liabilities are classified into:

- Financial liabilities at amortized cost;
- Valuable at fair value through profit or loss.

Financial liabilities are classified as financial liabilities at amortized cost, except for:

- measured at fair value through profit or loss and derivative financial instruments;
- financial liabilities that arise when the transfer of financial assets does not meet the criteria for derecognition or if a follow-up approach is applied;
- financial guarantee contracts;
- commitments to grant a loan with a lower than market interest rate;
- contingent consideration recognized in a business combination.

Financial liabilities measured at fair value through profit or loss include those financial liabilities that are not classified as financial liabilities at amortized cost in the category of financial liabilities. Financial liabilities at initial recognition may be irrevocably attributable to fair value through profit or loss, provided that:

- The group of financial liabilities or financial assets and financial liabilities is managed and its results are measured at fair value based on a documented risk management or investment strategy;
- Such an assignment eliminates or reduces the inconsistencies between the measurement and recognition of financial instruments (accounting discrepancies).

These financial liabilities cannot subsequently be transferred to another group of financial liabilities.

The Group has not classified any financial liabilities at fair value through profit or loss.

Financial liabilities measured at amortized cost with the Bank and its subsidiaries:

- Due to banks and other credit institutions;
- Due to customers;
- Subordinated loans;
- Other liabilities.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

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.

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):

	<u>31 December 2019</u>	<u>31 December 2018</u>
USD	1.1189	1.1454

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.

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

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.

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

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

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 valuers. 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.

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
Devices and accessories	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.

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

Measurement of fair values (cont'd)

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.

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 8 – Loans and receivables

Note 9 – Property and equipment

Note 11 – Investment property

Note 30 – 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.

Lease

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

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

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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.

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.

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

Income tax (cont'd)

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.

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 recourse 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.

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

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, measured at amortized cost 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 8 and Note 33.

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 valuers at least every 3 years. For further information see Note 11.

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 valuers.

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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 9.

Impairment losses on debt securities

Collectively rated lending exposures are assessed by the ECL using a model developed by the Bank that calculates internal risk parameters for each homogeneous group according to the applicable scenario. The Procedure for Recognition of Impairment of Financial Instruments is described in the Expected Credit Risk Loss Assessment Rules. Debt securities are disclosed in Note 7.

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 8.

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 12).

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 28).

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 33 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.

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Note 5 Placements with the central bank

The Group			The Bank	
31 December 2019	31 December 2018		31 December 2019	31 December 2018
2,221	2,280	Compulsory reserve with the central bank	2,221	2,280
43,313	27,790	Correspondent account with the central bank	43,313	27,790
45,534	30,070	Placements with the central bank	45,534	30,070

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 2019	31 December 2017		31 December 2019	31 December 2017
8,236	12,099	Current accounts with correspondent banks	8,217	12,058
2,947	1,181	Term deposits	2,947	1,181
11,183	13,280	Placements with banks and other credit institutions	11,164	13,239

The movement of provisions for banks and other credit institutions is disclosed in Note 8.

As at 2019 December 31 the Group and the Bank did not have any pledged term deposits. As at 31 December 2018, the Group and the Bank have pledged term deposits with the carrying amount of EUR 1,181 thousand for the possibility to perform FX transactions.

Note 7 Debt securities

Debt securities investments are as follows:

	The Bank (Group)	
	31 December 2019	31 December 2018
Government bonds of the Republic of Lithuania	37,069	43,888
Non-financial company bonds	260	1,148
Financial company bonds	893	1,314
Government bonds of the Republic of Iceland	1,525	1,566
Government bonds of the Kingdom of Spain	-	1,002
Government bonds of the Republic of Croatia	660	-
Government bonds of the Republic of Latvia	6,036	4,575
Government bonds of the Republic of Poland	1,555	3,005
Government bonds of the Republic of Romania	2,006	3,089
Government bonds of the Republic of Slovenia	-	4,172
Government bonds of the Kingdom of Sweden	-	2,619
Government bonds of the Republic of Finland	-	2,689
Government bonds of the Republic of Hungary	-	1,679
Total	50,004	70,746

The provisions for debt securities is disclosed in Note 8.

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Note 7 Debt securities (continued)

As at 31 December 2019, the Group and the Bank had measured at amortized cost debt securities held as collateral amounting to EUR 7,163 thousand (EUR 6,291 thousand as at 31 December 2018) to secure the repurchase agreement under targeted longer-term refinancing operations provided by ECB.

Coupon rates and maturities of measured at amortized cost investments are as follows:

	2019		2018	
	%	Maturity	%	Maturity
Government bonds of the Republic of Lithuania	0 – 7.375	2020 – 2024	0 – 5.5	2019 – 2024
Non-financial company bonds	4.5	2020	4-6	2019 – 2020
Financial company bonds	1.375	2020	1.875	2019
Government bonds of the Republic of Iceland	2.5	2020	2.5	2020
Government bonds of the Kingdom of Spain	-	-	0.25	2019
Government bonds of the Republic of Croatia	6.625	2020	-	-
Government bonds of the Republic of Latvia	0.5 – 2.75	2020	0.5 – 0.625	2019 – 2020
Government bonds of the Republic of Poland	0.875 – 4	2021	0.875 – 6.375	2019 – 2021
Government bonds of the Republic of Romania	2.75 – 4.625	2020 – 2025	2.75 – 4.875	2019 – 2025
Government bonds of the Republic of Slovenia	-	-	4.125	2019
Government bonds of the Kingdom of Sweden	-	-	1.125	2019
Government bonds of the Republic of Finland	-	-	1	2019
Government bonds of the Republic of Hungary	-	-	4 – 6	2019

Note 8 Loans and receivables

Loans to customers and receivables comprise:

	The Bank	
	31 December 2019	31 December 2018
Loans to customers, including short-term bills of exchange	187,356	156,946
Overdrafts	837	1,814
Factoring	763	589
Leasing	16,002	12,992
	204,958	172,341
Less: impairment	(1,073)	(2,546)
Loans and receivables, net	203,885	169,795
	The Group	
	31 December 2019	31 December 2018
Loans to customers, including short-term bills of exchange	191,866	158,803
Overdrafts	837	1,814
Factoring	763	589
Leasing	16,002	12,992
	209,468	174,425
Less: impairment	(1,184)	(2,599)
Loans and receivables, net	208,284	171,826

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Note 8 Loans and receivables (cont'd)

In the table "Loans and receivables", the line "impairment" does not include provisions for funds in banks and debt securities (the Bank and the Group amounted for 50 thousand. As at 31 December 2018 amounted for 55 thousand.

As at 31 December 2019, 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 43,492 thousand or 15.65% of the Group's net loan portfolios and 15,62 % of the Bank net loan portfolios (EUR 37,632 thousand or 21.90 % in 2018). As at 31 December 2019, the total impairment of these loans issued to 10 major clients in the Bank and in the Group amounted to EUR 123 thousand (EUR 77 thousand as at 31 December 2018).

The movements in impairment of loans and receivables during 2019 were as follows:

	The Bank					
	31 December 2018	Increase in provisions due to acquisition	Decrease in provision due to derecognition	Changes in provisions (net amount)	Decrease in provisions due to write-downs	31 December 2019
Level I	(440)	(233)	58	67	-	(548)
Debt securities	(42)	(15)	27	(9)	-	(39)
Government institutions	(41)	(14)	26	(9)	-	(38)
Other financial institutions	(1)	(1)	1	-	-	(1)
Non-financial companies	-	-	-	-	-	-
Loans and other advance payments	(398)	(218)	31	76	-	(509)
Government institutions	(12)	-	2	-	-	(10)
Credit institutions	(14)	(3)	3	3	-	(11)
Other financial institutions	(2)	(25)	2	(4)	-	(29)
Non-financial companies	(230)	(152)	20	27	-	(335)
Households	(140)	(38)	4	50	-	(124)
Level II	(78)	(1)	1	17	-	(61)
Loans and other advance payments	(78)	(1)	1	17	-	(61)
Non-financial companies	(50)	(1)	1	30	-	(20)
Households	(28)	-	-	(13)	-	(41)
Level III	(2,083)	(73)	3	(717)	2,356	(514)
Loans and other advance payments	(2,083)	(73)	3	(717)	2,356	(514)
Non-financial companies	(1,615)	(73)	3	(734)	2,201	(218)
Households	(468)	-	-	17	155	(296)
Total amount of provisions for debt instruments	(2,601)	(307)	62	(633)	2,356	(1,123)

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Note 8 Loans and receivables (cont'd)

	The Group					31 December 2019
	31 December 2018	Increase in provisions due to acquisition	Decrease in provision due to derecognition	Changes in provisions (net amount)	Decrease in provisions due to write-downs	
Level I	(457)	(294)	58	73	-	(620)
Debt securities	(42)	(15)	27	(9)	-	(39)
Government institutions	(41)	(14)	26	(9)	-	(38)
Other financial institutions	(1)	(1)	1	-	-	(1)
Non-financial companies	-	-	-	-	-	-
Loans and other advance payments	(415)	(279)	31	82	-	(581)
Government institutions	(12)	-	2	-	-	(10)
Credit institutions	(14)	(3)	3	3	-	(11)
Other financial institutions	(2)	-	2	(4)	-	(4)
Non-financial companies	(230)	(152)	20	28	-	(334)
Households	(157)	(124)	4	55	-	(222)
Level II	(79)	(4)	1	16	-	(66)
Loans and other advance payments	(79)	(4)	1	16	-	(66)
Non-financial companies	(50)	(1)	1	30	-	(20)
Households	(29)	(3)	-	(14)	-	(46)
Level III	(2,118)	(92)	18	(783)	2,427	(548)
Loans and other advance payments	(2,118)	(92)	18	(783)	2,427	(548)
Non-financial companies	(1,615)	(73)	3	(736)	2,202	(219)
Households	(503)	(19)	15	(47)	225	(329)
Total amount of provisions for debt instruments	(2,654)	(390)	77	(694)	2,427	(1,234)

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Note 8 Loans and receivables (cont'd)

The movements in impairment of loans and receivables during 2018 were as follows:

	The Bank					
	1 January 2018	Changes due to change in valuation methodology influence of IFRS 9	Increase in provisions due to acquisition	Changes in provisions (net amount)	Decrease in provisions due to write-downs	31 December 2018
Level I	(227)	(196)	(170)	153	-	(440)
Debt securities	-	(24)	(32)	14	-	(42)
Government institutions	-	(23)	(31)	13	-	(41)
Other financial institutions	-	-	(1)	-	-	(1)
Non-financial companies	-	(1)	-	1	-	-
Loans and other advance payments	(227)	(172)	(138)	139	-	(398)
Government institutions	(5)	(6)	-	(1)	-	(12)
Credit institutions	-	(20)	(2)	8	-	(14)
Other financial institutions	(2)	(1)	-	1	-	(2)
Non-financial companies	(139)	(93)	(107)	109	-	(230)
Households	(81)	(52)	(29)	22	-	(140)
Level II	(9)	(25)	(3)	(41)	-	(78)
Loans and other advance payments	(9)	(25)	(3)	(41)	-	(78)
Non-financial companies	(7)	(21)	(1)	(21)	-	(50)
Households	(2)	(4)	(2)	(20)	-	(28)
Level III	(5,470)	(55)	-	(1,377)	4,819	(2,083)
Loans and other advance payments	(5,470)	(55)	-	(1,377)	4,819	(2,083)
Non-financial companies	(3,473)	1	-	(742)	2,599	(1,615)
Households	(1,997)	(56)	-	(635)	2,220	(468)
Total amount of provisions for debt instruments	(5,706)	(276)	(173)	(1,265)	4,819	(2,601)

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Note 8 Loans and receivables (cont'd)

	The Group					
	1 January 2018	Changes due to change in valuation methodology influence of IFRS 9	Increase in provisions due to acquisition	Changes in provisions (net amount)	Decrease in provisions due to write-downs	31 December 2018
Level I	(228)	(196)	(187)	154	-	(457)
Debt securities	-	(24)	(32)	14	-	(42)
Government institutions	-	(23)	(31)	13	-	(41)
Other financial institutions	-	-	(1)	-	-	(1)
Non-financial companies	-	(1)	-	1	-	-
Loans and other advance payments	(228)	(172)	(155)	140	-	(415)
Government institutions	(5)	(6)	-	(1)	-	(12)
Credit institutions	-	(20)	(2)	8	-	(14)
Other financial institutions	(2)	(1)	-	1	-	(2)
Non-financial companies	(139)	(93)	(107)	109	-	(230)
Households	(82)	(52)	(46)	23	-	(157)
Level II	(11)	(25)	(4)	(39)	-	(79)
Loans and other advance payments	(11)	(25)	(4)	(39)	-	(79)
Non-financial companies	(7)	(21)	(1)	(21)	-	(50)
Households	(4)	(4)	(3)	(18)	-	(29)
Level III	(5,514)	(55)	(4)	(1,364)	4,819	(2,118)
Loans and other advance payments	(5,514)	(55)	(4)	(1,364)	4,819	(2,118)
Non-financial companies	(3,473)	1	-	(742)	2,599	(1,615)
Households	(2,041)	(56)	(4)	(622)	2,220	(503)
Total amount of provisions for debt instruments	(5,753)	(276)	(195)	(1,249)	4,819	(2,654)

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 2019, the outstanding amount of loans written-off in the Bank amounted to EUR 0.9 million (EUR 9.9 million as at 31 December 2018). Also, during 2019, the income received from the written-off loans amounted to EUR 70 thousand (amounted to EUR 115 thousand during 2018), EUR 1.2 million (Group EUR 1.3 million) have been received for sold written-off loan portfolio which amounted to EUR 9.99 million (Group EUR 11.7 million).

During 2018 for the sale of right of claim the Bank (Group) received EUR 5.90 million (creditor claims amount to EUR 10.1 million).

The impairment calculation policy is disclosed in the Note 2.

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Note 9 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 2018	4,723	1,064	2,418	8,205
Additions (reconstruction)	2,253	304	176	2,733
Disposals and write-offs	(452)	(73)	(208)	(733)
Balance as at 31 December 2019	6,524	1,295	2,386	10,205
Accumulated depreciation and impairment losses				
Balance as at 31 December 2018	536	311	1,813	2,660
Depreciation for the year	664	204	258	1,126
Disposals and write-offs	(22)	(63)	(199)	(284)
Balance as at 31 December 2019	1,178	452	1,872	3,502
Net book value				
As at 31 December 2018	4,187	753	605	5,545
As at 31 December 2019	5,346	843	514	6,703

The Group

	Land, buildings and other real estate	Vehicles	Office equipment and other	Total
Acquisition cost or revalued amounts				
Balance as at 31 December 2018	4,723	1,064	2,423	8,210
Additions (reconstruction)	2,253	328	178	2,759
Disposals and write-offs	(452)	(73)	(208)	(733)
Balance as at 31 December 2019	6,524	1,319	2,393	10,236
Accumulated depreciation and impairment losses				
Balance as at 31 December 2018	536	311	1,815	2,662
Depreciation for the year	664	207	261	1,132
Disposals and write-offs	(22)	(63)	(199)	(284)
Balance as at 31 December 2019	570	455	1,877	3,510
Net book value				
As at 31 December 2018	4,187	753	608	5,548
As at 31 December 2019	5,346	864	516	6,726

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Note 9 Property and equipment (cont'd)**The Bank**

	Land, buildings and other real estate	Vehicles	Office equipment and other	Total
Acquisition cost or revalued amounts				
Balance as at 31 December 2017	4,762	745	2,313	7,820
Additions (reconstruction)	15	493	319	827
Disposals and write-offs	(54)	(174)	(214)	(442)
Balance as at 31 December 2018	4,723	1,064	2,418	8,205
Accumulated depreciation and impairment losses				
Balance as at 31 December 2017	479	259	1,744	2,482
Depreciation for the year	57	150	277	484
Disposals and write-offs	-	(98)	(208)	(306)
Balance as at 31 December 2018	536	311	1,813	2,660
Net book value				
As at 31 December 2017	4,283	486	569	5,338
As at 31 December 2018	4,187	753	605	5,545

The Group

	Land, buildings and other real estate	Vehicles	Office equipment and other	Total
Acquisition cost or revalued amounts				
Balance as at 31 December 2017	4,762	745	2,318	7 825
Additions (reconstruction)	15	493	319	827
Disposals and write-offs	(54)	(174)	(214)	(442)
Balance as at 31 December 2018	4,723	1,064	2,423	8 210
Accumulated depreciation and impairment losses				
Balance as at 31 December 2017	479	259	1,744	2,482
Depreciation for the year	57	150	279	486
Disposals and write-offs	-	(98)	(208)	(306)
Balance as at 31 December 2018	536	311	1,815	2,662
Net book value				
As at 31 December 2017	4,283	486	574	5,343
As at 31 December 2018	4,187	753	608	5,548

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Note 9 Property and equipment (cont'd)

As at 31 December 2019 and 2018, the Bank and the Group did not have property and equipment purchased under finance lease agreements.

As at 31 December 2019 and 2018, 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 2019 would be EUR 3,579 thousand (EUR 3,629 thousand as at 31 December 2018).

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 (without depreciation) 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.

Non-current material assets for Bank as at 2019 December 31 amounted to 6,703 thousand EUR including usage rights assets worth 1,261 thousand EUR (As of 31 December 2018 5,545 thousand EUR, right-of-use assets – 0 EUR).

As of 2019 January 1st The Group adopted IFRS 16 and recognized the right-of-use assets as part of property, plant and equipment. The Group chose the option to apply the simplified transition method and did not restate comparative amounts for the year prior to first adoption.

The value of the right to use the asset is determined based on the discounted lease payments (liabilities) over the lease term planned by management. The depreciation period for these assets corresponds to the lease term for the asset.

Group 2019 Recognized as of January 1, 2019 the value of usage rights assets worth 1,911 thousand EUR. Short-term or low-value leases are recognized on a straight-line basis over the income statement.

Righth-of-use assets type – buildings. In 2019 righth-of-use assets depreciation – EUR 608 thousand.

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Note 10 Intangible assets

The movements in intangible assets were as follows:

	<u>The Bank</u>	<u>The Group</u>
	<u>Software</u>	<u>Software</u>
Acquisition cost		
Balance as at 31 December 2018	2,169	2,241
Additions	183	187
Disposals and write-offs	(1)	(1)
	2,351	2,427
Balance as at 31 December 2019		
Accumulated amortisation		
Balance as at 31 December 2018	1,902	1,927
Charges for the year	109	137
Disposals and write-offs	(1)	(1)
	2,010	2,063
Balance as at 31 December 2019		
Net book value		
As at 31 December 2018	267	314
As at 31 December 2019	341	364

	<u>The Bank</u>	<u>The Group</u>
	<u>Software</u>	<u>Software</u>
Acquisition cost		
Balance as at 31 December 2017	2,002	2,033
Additions	170	211
Disposals and write-offs	(3)	(3)
	2,169	2,241
Balance as at 31 December 2018		
Accumulated amortisation		
Balance as at 31 December 2017	1,759	1,769
Charges for the year	146	161
Disposals and write-offs	(3)	(3)
	1,902	1,927
Balance as at 31 December 2018		
Net book value		
As at 31 December 2017	243	264
As at 31 December 2018	267	314

As at 31 December 2019 and 2018, the Bank and the Group did not have any intangible assets acquired under finance lease agreements.

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Note 11 Investment property

	<u>The Bank</u> <u>2019</u>	<u>The Bank</u> <u>2018</u>
Balance at the beginning of year	1,050	1,370
Additions	532	1,382
Disposals	(995)	(1,460)
Changes in fair value	(304)	(242)
Balance at the end of year	283	1,050

	<u>The Group</u> <u>2019</u>	<u>The Group</u> <u>2018</u>
Balance at the beginning of year	3,018	6,213
Additions	603	1,407
Disposals	(1,577)	(3,471)
Changes in fair value	(621)	(1,131)
Balance at the end of year	1,423	3,018

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 219 thousand in the cash flow statement of the Bank and by EUR 629 thousand in the cash flow statement of the Group (during 2018 – EUR 77 thousand in the cash flow statement of the Bank, EUR 418 thousand – in the cash flow statement of the Group).

The fair value of investment properties owned by subsidiaries as at December 31:

	<u>2019</u>	<u>2018</u>
UAB MB Turtas	-	98
UAB MB Valda	-	251
UAB MB Investicija	-	229
UAB TG Invest-1	1,140	1,390
Total	1,140	1,968

Investment property consists of repossessed assets for defaulted loans. The fair value of investment properties has been determined using valuation reports prepared by external valuers. In addition, the management of the Bank decided to use adjustment coefficients varying from 0.40 to 0.80 (0.39 to 0.74 during 2018), depending on the type of investment property, taking into consideration the liquidity of the asset, VAT risks, costs and other factors:

<u>Type of investment property</u>	<u>2019</u>			<u>2018</u>		
	<u>Fair value as to valuation reports</u>	<u>Adjustment coefficient</u>	<u>Adjusted fair value</u>	<u>Fair value as to valuation reports</u>	<u>Adjustment coefficient</u>	<u>Adjusted fair value</u>
Buildings	808		404	1,759		1,221
Land plots	1,701		996	2,624		1,776
Other	32		23	20		21
Total	2,541	0.56	1,423	4,403	0.69	3,018

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Note 11 Investment property (cont'd)

During 2019 the Group engaged independent valuation specialists to reevaluate 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 valuers. Repeated valuations of property at net values for each relevant year were the following:

- EUR 168 thousand or 11.78% in 2019;
- EUR 39 thousand or 2,75% of the investment property in 2018;
- EUR 1,056 thousand or 74.18% in 2017;
- EUR 160 thousand or 11.3% in 2016;

The Group recognised EUR 621 thousand fair value decrease of investment property in 2019 (EUR 1,131 thousand in 2018).

The price range of land plots, buildings and equipment used in determining the fair value according to their purpose were as follows:

2019 The Bank

	Land plots	Price range per are, in EUR thousand
Agricultural		0.07
Other		0.50
	Buildings	Price range per sq. m., in EUR thousand
Commercial		0.06–0.13
Residential		1.28
	Other	Price range per sq. m., in EUR thousand
Other assets		23.44

2019 The Group

	Land plots	Price range per are, in EUR thousand
Agricultural		0.04–0.55
Residential		0.02–0.47
Other		0.01–16.20
	Buildings	Price range per sq. m., in EUR thousand
Commercial		0.06–0.22
Residential		1.28
	Other	Price range per sq. m., in EUR thousand
Other assets		23.44

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Note 11 Investment property (cont'd)

2018 The Bank

	Land plots	Price range per are, in EUR thousand
Agricultural		0.02–0.08
Residential		7.35
Other		0.61
	Buildings	Price range per sq. m., in EUR thousand
Commercial		0.12–1.10
Residential		0.45–9.32
	Other	Price range per sq. m., in EUR thousand
Other assets		2.17 – 18.56

2018 The Group

	Land plots	Price range per are, in EUR thousand
Agricultural		0.02–0.67
Residential		0.01–7.35
Other		0.01 –16.20
	Buildings	Price range per sq. m., in EUR thousand
Commercial		0.12–1.10
Residential		0.17–9.32
	Other	Price range per sq. m., in EUR thousand
Other assets		2.17 – 18.56

Investment properties are based on the fair value, which is determined based on valuation performed by independent valuers 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 valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Group's investment property portfolio every 3 years. As at 31 December 2019, the Group had investment property in the amount of EUR 160 thousand that was revalued more than 3 years ago. As at 31 December 2018, the Group had investment property in the amount of EUR 88 thousand that was revalued more than 4 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.

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Note 11 Investment property (cont'd)

The fair value measurement for investment property of EUR 1,423 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 243 thousand	Of EUR 45 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar buildings.
	Of EUR 2 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 196 thousand	Income method (discounted cash flow method).
Residential properties of EUR 161 thousand	Of EUR 161 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar buildings.
Other properties of EUR 23 thousand	Of EUR 23 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar buildings.
Agricultural land plots of EUR 72 thousand	Of EUR 72 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar land plots.
Residential land plots of EUR 529 thousand	Of EUR 529 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar land plots.
Other land plots of EUR 395 thousand	Of EUR 395 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar land plots.

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Note 12 Investment in subsidiaries

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

In 2019, the operating result of subsidiaries was a loss of EUR 5,931 thousand (loss of EUR 1,168 thousand in 2018), which was mainly affected by the loss of EUR 5,384 thousand from the revaluation of securities and of EUR 317 thousand (EUR 718 thousand in 2018) from the sale and the revaluation of the repossessed assets.

In 2019 executed and in 2019 November finished, the process of reorganization of subsidiaries by merger was completed. The companies UAB "MB Turtas", UAB "MB Valda", UAB "MB investicija" are merged with UAB TG Invest-1. One of the stages of the reorganization is the sale of shares of UAB MB Turtas, UAB MB Valda, UAB MB Investicija (the shares selling result is loss of 740 thous. EUR).

	The Bank	
	2019	2018
Balance at the beginning of the year	7,521	6,439
Additions	2,335	2,201
Disposal (nominal value)	(2,752)	-
Liquidation of SIA „Nida capital“	(526)	-
Additional impairment of investment in subsidiaries	109	(1,119)
	(834)	1,082
Balance at the end of the year	6,687	7,521

Balance as at 31 December 2019	Ownership	Direct	Nominal	Impairment	Carrying
	(%)	ownership	amount		value
		(%)			
UAB TG Invest-1	100	100	3,033	(916)	2,117
UAB Saugus Kreditas	100	100	4,601	(31)	4,570
Total			7,634	(947)	6,687
Balance as at 31 December 2018	Ownership	Direct	Nominal	Impairment	Carrying
	(%)	ownership	amount		value
		(%)			
UAB MB Turtas	100	22.46	753	(489)	264
UAB MB Valda	100	32.52	1,150	(314)	836
UAB MB Investicija	100	47.94	1,481	(469)	1,012
UAB TG Invest-1	100	73.22	3,587	(938)	2,649
SIA Nida Capital	100	100	850	(324)	526
UAB Saugus Kreditas	100	100	2,265	(31)	2,234
Total			10,086	(2,565)	7,521

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 11).

Adjustments are recorded when estimation of the fair value of investment in subsidiaries indicates impairment of the Bank's investment.

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Note 13 Other assets

Other assets comprise:

The Group			The Bank	
31 December 2019	31 December 2018		31 December 2019	31 December 2018
310	308	Prepayments	306	291
14	46	Receivables from customers	4	11
31	145	Receivable value added tax	30	145
352	120	Deferred expenses	348	120
65	66	Other	38	54
<u>772</u>	<u>685</u>		<u>726</u>	<u>621</u>
(35)	-	Less: impairment for losses from receivables	(35)	-
<u>737</u>	<u>685</u>	Other assets	<u>691</u>	<u>621</u>

Note 14 Derivative financial instruments**The Bank and the Group****31 December 2019**

	Notional amount Purchase	Fair value Assets	Fair value Liabilities
Foreign exchange forwards (EUR)	8,369	10	40
Foreign exchange swaps (EUR)	1,902	-	19
Foreign exchange swaps (NOK)	508	-	-
		<u>10</u>	<u>59</u>

The Bank and the Group**31 December 2018**

	Notional amount Purchase	Fair value Assets	Fair value Liabilities
Foreign exchange forwards (EUR)	7,836	22	2
Foreign exchange swaps (EUR)	2,468	19	1
Foreign exchange swaps (NOK)	311	-	1
Foreign exchange forwards (USD)	297	-	1
		<u>41</u>	<u>5</u>

As at 31 December 2019, the Group and the Bank didn't have pledged term deposits (as at 31 December 2018 the Group and the Bank have pledged term deposits with the carrying amount of EUR 1,181 thousand) for the foreign exchange forward agreements.

Bank uses FX forwards and FX swaps as hedge instruments, without applying the hedge account technique.

	The Bank (The Group)	
	2019	2018
Realised result from swaps	(12)	(20)
Realised result from foreign exchange forwards	(180)	18
Unrealised result from swaps	(19)	16
Unrealised result from foreign exchange forwards	(30)	19
Net gain (loss) from operations with derivative financial instruments	<u>(241)</u>	<u>33</u>

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Note 15 Due to banks and other credit institutions

	The Bank (The Group)	
	31 December 2019	31 December 2018
Deposits CB (ECB Open market operations)	3,000	-
Current accounts and overnight deposits	36	228
Amounts due to banks and other credit institutions	3,036	228

2019 December 31 the Bank has loans transactions with the Bank of Lithuania worth 3,000 thousand EUR. Eurosystem monetary policy operations maturing in 2019. The end of this agreement is at 30 January 2020.

Securities amounting to EUR 7,163 thousand (31 December 2018: EUR 6,291 thousand) and loans receivable amounting to EUR 1,361 thousand (31 December 2018: EUR 1,364 thousand) were held to secure the loan from targeted longer-term refinancing operations (Note 7 and Note 8).

As at 31 December 2019, interest rates on amounts due to banks and other credit institutions were 0% (0% at 31 December 2018).

Note 16 Due to customers

Amounts due to customers comprise:

The Group			The Bank	
31 December 2019	31 December 2018		31 December 2019	31 December 2018
169,615	167,271	Term deposits	169,615	167,271
130,841	109,754	Current accounts	131,808	111,361
9,975	12,101	Loans from funds	9,975	12,101
310,431	289,126	Amounts due to customers	311,398	290,733
25,936	18,475	Out of which held as security against guarantees and loans	25,936	18,475

As at 31 December 2019, amounts due to ten largest customers of the Bank amounted to EUR 27,803 thousand or 8.96% of the Bank's deposit holders (EUR 22,137 thousand or 7.61% in 2018).

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Note 16 Due to customers (cont'd)

Amounts due to customers include accounts with the following types of customers:

	The Bank			
	31 December 2019		31 December 2018	
	Current accounts	Term deposits	Current accounts	Term deposits
Deposits				
Government departments and state-owned enterprises	4,572	669	3,405	663
Other financial institutions	1,882	3,499	2,397	2,289
Non financial institutions	74,500	6,029	63,426	5,496
Households	50,854	159,418	42,133	158,823
Amounts due to customers	131,808	169,615	111,361	167,271

	Loans			
	Short-term	Long-term	Short-term	Long-term
	Lending funds			
UAB „Investicijų ir verslo garantijos“	-	9,975	-	12,101
	-	9,975	-	12,101
Amounts due to customers	131,808	179,590	111,361	179,372

	The Group			
	31 December 2019		31 December 2018	
	Current accounts	Term deposits	Current accounts	Term deposits
Deposits				
Government departments and state-owned enterprises	4,572	669	3,405	663
Other financial institutions	1,882	3,499	2,163	2,289
Non financial institutions	73,533	6,029	62,053	5,496
Households	50,854	159,418	42,133	158,823
Amounts due to customers	130,841	169,615	109,754	167,271

	Loans			
	Short-term	Long-term	Short-term	Long-term
	Lending funds			
UAB „Investicijų ir verslo garantijos“	-	9,975	-	12,101
	-	9,975	-	12,101
Amounts due to customers	130,841	179,590	109,754	179,372

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Note 17 Subordinated loans and debt securities (the Bank)

Subordinated loans

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

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

Debt securities issued

In July 2018 bank have issued subordinated debt securities emission. As of 31 December 2019 net value of issued debt securities is EUR 2,184 thousand. From 1 August 2018 debt securities of UAB Medicinos bankas are listed in Nasdaq stock exchange – ISIN code LT0000432114 (ticker: OPMB070025A).

UAB Medicinos bankas debt securities issue value – 2,210,000 EUR. Nominal value – 1,000 EUR. Coupon – 7%, coupon payment twice a year. Maturity date – 24 July 2025.

Note 18 Other liabilities

Other liabilities comprise:

The Group			The Bank	
31 December 2019	31 December 2018		31 December 2019	31 December 2018
1,264	829	Accrued payments to employees	1,206	809
68	59	Prepayments (advance payments)	2	1,796
1,408	121	Accrued expenses	1,408	121
414	-	AML suspended funds	414	-
218	-	Receipts from sale of loan portfolio (claims)	218	-
97	77	Deferred income	97	77
-	215	Commitments to the State Social Fund Board Payable to the Latvian and Estonian Road Transport Administration	-	215
17	19	Debt to customers	17	19
297	115	Other	263	94
199	247		179	237
3,982	1,682	Other liabilities	3,804	3,368

Note 19 Shareholders' equity

As at 31 December 2019 and 31 December 2018, 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 Bank (Group)	
	31 December 2019	31 December 2018
Special reserve to cover possible losses	2,528	2,528
Legal reserve	291	184
Reserve capital	7,497	5,466
Total other reserves	10,316	8,178

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Note 19 Shareholders' equity (cont'd)

Nature and purpose of reserves

Legal reserve

The Bank's legal reserve amounted to EUR 291 thousand as at 31 December 2019 (EUR 184 thousand as at 31 December 2018). 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 7,497 thousand as at 31 December 2019 (EUR 5,466 thousand as at 31 December 2018) is created from additional shareholders' contributions of EUR 1,000 and the 2017 retained earnings 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.

Note 20 Contractual commitments and contingencies

The contractual commitments and contingencies comprise the following:

The Group			The Bank	
31 December 2019	31 December 2018		31 December 2019	31 December 2018
		Credit related commitments and guarantees		
10,813	8,902	Credit related commitments	15,863	8,902
2,092	2,026	Guarantees	2,092	2,026
12,905	10,928		17,955	10,928
(35)	(30)	Less: Provisions for credit liabilities and guarantees	(66)	(30)
12,870	10,898		17,889	10,898
(7,069)	(6 993)	Less: cash held as security against letters of credit and guarantees	(7,069)	(6 993)
5,801	3,905	Total credit related commitments and guarantees	10,820	3,905
		Operating lease commitments		
691	596	Not later than 1 year	676	581
701	854	Later than 1 year but not later than 5 years	701	854
16	20	Later than 5 years	16	20
1,408	1,470	Total operating lease commitments	1,393	1,455

In 2019 the Bank's operating lease expenses (rent of premises) amounted to EUR 749 thousand, the Group's EUR 768 thousand (In 2018 Bank's EUR 760 thousand, Group's EUR 779 thousand).

Contingent tax liabilities

The tax authorities have not carried out a full-scope tax audit of the Bank for the period from 2011 to 2019. 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.

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Note 20 Contractual commitments and contingencies (cont'd)

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.

Note 21 Net interest income

The Group			The Bank	
2019	2018		2019	2018
9,300	7,341	On loans to customers	8,728	7,213
167	545	On impaired loans to customers	159	545
756	562	Leasing	756	562
136	180	Delinquency	135	178
496	539	On debt securities	496	539
117	76	On placements with the banks and other credit institutions	117	76
10,972	9,243	Interest revenue	10,391	9,113
(1,129)	(1,196)	On obligations to customers, including letters of credit	(1,129)	(1,196)
(277)	(264)	Deposit insurance	(277)	(264)
(20)	(20)	On subordinated loans	(20)	(20)
(172)	(75)	For Debt securities	(172)	(75)
(9)	(20)	Loan portfolio guarantee insurance	(9)	(20)
(63)	-	Lease of property	(63)	-
(117)	(167)	On obligations to banks and other credit institutions	(117)	(167)
(1,787)	(1,742)	Interest expenses	(1,787)	(1,742)
9,185	7,501	Net interest income	8,604	7,371

In 2019 the Bank received EUR 147 thousand (the Group received EUR 148 thousand) delinquency income (in 2018 the Bank received EUR 187 thousand, the Group EUR 189 thousand). 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 22 Net service fee and commission income

Net fee and commission income comprise:

The Group			The Bank	
2019	2018		2019	2018
2,531	2,141	Payment services	2,531	2,141
389	456	Commission income from currency exchange	389	456
772	502	Administration of bank accounts	772	502
1,619	1,271	Collection of payments	1,619	1,271
596	383	Brokerage income	596	383
616	536	Cash operations	616	536
160	385	Other	396	386
6,683	5,674	Service fee and commission income	6,919	5,675
(69)	(72)	Rent fee according to agreements	(69)	(72)
(272)	(256)	Cash operations	(272)	(256)
(155)	(107)	Other	(89)	(83)
(496)	(435)	Service fee and commission expense	(430)	(411)
6,187	5,239	Net service fee and commission income	6,489	5,264

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Note 23 Net foreign exchange gain

	The Bank (The Group)	
	2019	2018
Gain on dealing in foreign currencies	4,960	4,746
Revaluation of items in statement of financial position, net	181	(82)
Net foreign exchange gain	5,141	4,664

Note 24 Net result on operations with investment property

The Group			The Bank	
2019	2018		2019	2018
15	138	Realised gain (loss)	15	(33)
(621)	(1,131)	Changes in fair value	(304)	(242)
(606)	(993)	Net result on operations on investment property	(289)	(275)

For more details on changes in the fair value for investment property see Note 11.

Note 25 Other income (expenses)

The Group			The Bank	
2019	2018		2019	2018
74	13	Income from real estate disposal	74	13
-	12	Income from disposal of claim right	-	-
14	28	Rental revenue	14	18
-	-	Intergroup income	101	11
-	10	Fines received	-	10
33	106	Other income (expenses)	25	74
121	169	Total other income (expenses)	214	126

Note 26 Impairment of loans and other financial assets

The Group			The Bank	
2019	2018		2019	2018
(1,009)	(1,428)	Impairment loss on loans and receivables	(913)	(1,423)
(35)	-	Impairment loss on leasing	(35)	-
70	115	Recovery of loans previously written-off	70	115
(974)	(1,313)	Total impairment of loans and other financial assets	(878)	(1,308)

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Note 26 Impairment of loans and other financial assets (cont'd)

Impairment loss on loans and receivables for the year 2019 and 2018 by main factors is as follows:

The Group			The Bank	
2019	2018		2019	2018
(519)	(1,273)	Due to changes of collateral value	(519)	(1,273)
35	207	Due to changes of cash flow	35	195
(50)	(135)	Due to postponement of collateral realization (time effect)	(50)	(135)
(282)	(92)	Loss of expected cash flow	(186)	(92)
(82)	(24)	Administrative expenses	(82)	(24)
(146)	(80)	Impairment for general loan portfolio credit risk	(146)	(62)
70	115	Cash flow (recovery) from written-off loans	70	115
-	(31)	Other factors	-	(32)
(974)	(1,313)	Total impairment loss on loans and receivables	(878)	(1,308)

Impairment expenses for the year 2019 and 2018 by industry sectors are as follows:

The Group			The Bank	
2019	2018		2019	2018
(78)	(403)	Real estate operations	(78)	(403)
(58)	(185)	Individuals	38	(180)
(66)	(9)	Manufacturing	(66)	(9)
(45)	(15)	Real estate constructions	(45)	(15)
(104)	(443)	Services	(104)	(443)
(305)	(273)	Trading enterprises	(305)	(273)
(1)	(2)	Agriculture and food processing	(1)	(2)
(235)	33	Transport	(235)	33
-	(1)	Energy	-	(1)
(87)	(14)	Financial services	(87)	(14)
5	(1)	Local government	5	(1)
(974)	(1,313)	Total impairment of loans and other financial assets	(878)	(1,308)

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Note 27 Operating expenses

Salaries and benefits and other operating expenses are as follows:

The Group			The Bank	
2019	2018		2019	2018
		Salaries and benefits		
(8,642)	(6,048)	Salaries and bonuses	(8,282)	(5,820)
(21)	(1,818)	Social security costs	(19)	(1,746)
(8,663)	(7,866)	Total salaries and benefits	(8,301)	(7,566)

The Group			The Bank	
2019	2018		2019	2018
		Other operating expenses		
(361)	(862)	Lease and cost of maintaining premises	(342)	(843)
(798)	(605)	Office supplies	(798)	(605)
(351)	(354)	Expenses for service providers for the bank	(351)	(354)
(788)	(547)	Taxes other than income tax	(761)	(503)
(233)	(250)	Communication	(231)	(250)
3	-	Debt recovery costs	3	-
(347)	(427)	Transportation expenses	(345)	(427)
(56)	(96)	Expenses related with investment property	(17)	(28)
(103)	(98)	Security	(103)	(98)
(305)	(227)	Marketing and advertising	(297)	(219)
(54)	(40)	Legal and consultancy	(29)	(40)
(55)	(27)	Personnel training	(55)	(26)
(60)	(46)	Representation	(59)	(46)
(67)	(63)	Building repair costs	(67)	(63)
(75)	(72)	Team building expenses	(75)	(72)
(14)	(10)	Charity and support costs	(14)	(10)
(52)	(9)	Business travel and related	(51)	(9)
(38)	(37)	Disposable items	(38)	(37)
(27)	(30)	Stationary supplies	(27)	(30)
(146)	(113)	Insurance expenses	(141)	(113)
(25)	(23)	Participation fees	(25)	(23)
(159)	(193)	Accounting and brokerage services	(159)	(193)
(176)	(283)	Other	(154)	(147)
(4,287)	(4,412)	Total other operating expenses	(4,136)	(4,136)

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Note 28 Income tax

The Group's and the Bank's income tax is specified below:

The Group			The Bank	
2019	2018		2019	2018
(220)	(16)	Current income tax expenses	(220)	(16)
(526)	27	Change in deferred income tax	(526)	27
(746)	11	Total income tax income (expenses)	(746)	11
Components of deferred income tax				
Deferred income tax assets:				
1,671	2,186	Tax loss carried forward	1,312	1,925
106	19	Accruals	106	19
101	78	Collective impairment for loans	101	78
1,878	2,283	Deferred income tax assets	1,519	2,022
(355)	(261)	Less: not recognised part of deferred tax asset	4	-
1,523	2,022	Deferred income tax assets	1,523	2,022
Deferred income tax liabilities:				
(58)	(60)	Revaluation of property and equipment	(58)	(60)
(65)	(37)	Other	(65)	(37)
(123)	(97)	Deferred income tax liabilities	(123)	(97)
1,400	1,925	Deferred income tax, net	1,400	1,925
Deferred tax income (expense) recognised:				
1	1	In the statement of OCI	1	1
(526)	27	In the income statement	(526)	27

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 320 thousand at the Bank and EUR 3,453 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.

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Note 28 Income tax (cont'd)**Amounts recognised in other comprehensive income****The Bank (Group)**

	2019			2018		
	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
Revaluation of property and equipment	-	-	-	-	-	-
Available-for-sale investment securities	-	-	-	-	-	-
Total	-	-	-	-	-	-

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				The Bank			
2019		2018		2019		2018	
	4,834		2,375		4,737		2,424
15%	725	15%	356	15%	711	15%	364
(16)%	(811)	(10)%	(227)	(6)%	(277)	(4)%	(92)
21%	1,013	16%	383	9%	418	14%	343
-	-	-	-	-	-	-	-
(14)%	(666)	(25)%	(600)	(12)%	(596)	(17)%	(419)
-	-	-	-	(1)%	(36)	(8)%	(180)
(1)%	(41)	(4)%	(104)	-	-	-	-
-	-	-	-	-	-	-	-
(5)%	(220)	(0)%	(16)	(5)%	(220)	(0)%	(16)

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Note 28 Income tax (cont'd)**Movement in deferred tax balances****The Bank (Group)**

	Balance at 31 December 2019					
	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Net	Deferred tax assets	Deferred tax liabilities
Property and equipment	(59)	-	1	(58)	-	(58)
Available-for-sale securities	-	-	-	-	-	-
Tax loss carry-forwards	1,925	(613)	-	1,312	1,312	-
Other tax assets	97	114	-	211	211	-
Other tax liabilities	(38)	(27)	-	(65)	-	(65)
Total	1,925	(526)	1	1,400	1,523	(123)

	Balance at 31 December 2018					
	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Net	Deferred tax assets	Deferred tax liabilities
Property and equipment	(60)	-	1	(59)	-	(59)
Available-for-sale securities	-	-	-	-	-	-
Tax loss carry-forwards	1,996	(71)	-	1,925	1,925	-
Other tax assets	54	43	-	97	97	-
Other tax liabilities	(93)	55	-	(38)	-	(38)
Total	1,897	27	1	1,925	2,022	(97)

Note 29 Cash and cash equivalents

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

The Group			The Bank	
31 December 2019	31 December 2018		31 December 2019	31 December 2018
29,650	27,304	Cash on hand	29,650	27,304
43,313	27,790	Current accounts with the Bank of Lithuania	43,313	27,790
8,236	12,099	Current accounts with other credit institutions	8,217	12,058
2,947	1,181	Term deposits with credit institutions up to 90 days	2,947	1,181
84,146	68,374	Cash and cash equivalents	84,127	68,333

Note 30 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.

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Note 30 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.

Debt securities. 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	2019		2018	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and due from central bank	75,184	75,184	57,374	57,374
Placements with banks and other credit institutions	11,164	11,164	13,239	13,239
Debt securities	50,004	50,691	70,746	71,512
Loans and receivables	203,885	208,152	169,795	173,082
Other assets	41	41	55	55
Total financial assets	340,278	345,232	311,209	315,262
Financial liabilities				
Due to banks and other credit institutions	3,036	3,036	228	228
Due to customers, including letters of credit	311,398	316,385	290,734	292,342
Debt securities issued	2,184	2,266	2,167	3,176
Subordinated loans	1,000	1,000	1,000	1,000
Other liabilities	3,804	3,804	3,367	3,367
Total financial liabilities	321,422	326,491	297,496	300,113
The Group				
Financial assets				
Cash and due from central bank	75,184	75,184	57,374	57,374
Placements with banks and other credit institutions	11,183	11,183	13,280	13,280
Debt securities	50,004	50,691	70,746	71,512
Loans and receivables	208,284	210,498	171,826	175,113
Other assets	41	41	55	55
Total financial assets	344,696	347,597	313,281	317,334
Financial liabilities				
Due to banks and other credit institutions	3,036	3,036	228	228
Due to customers, including letters of credit	310,431	315,418	289,126	290,735
Debt securities issued	2,184	2,266	2,167	3,176
Subordinated loans	1,000	1,000	1,000	1,000
Other liabilities	3,982	3,982	1,682	1,682
Total financial liabilities	320,633	325,702	294,203	296,821

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Note 30 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 2019 and 2018, 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 2019 and 2018.

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 2019	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	10		10
Financial liabilities				
Derivative financial instruments	-	59	-	59
As at 31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	41	-	41
Financial liabilities				
Derivative financial instruments	-	5	-	5

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Note 30 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.

The Bank

31 December 2019	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Cash and due from banks	75,184	11,164	-	86,348
Debt securities	-	50,004	-	50,004
Loans to customers	-	186,825	1,185	188,010
Receivables from leasing	-	14,464	1,411	15,875
Other assets	-	41	-	41
Total financial assets	75,184	262,498	2,596	340,278
Liabilities				
Due to banks and other credit institutions	-	3,036	-	3,036
Due to customers	-	311,398	-	311,398
Debt securities issued	-	2,184	-	2,184
Subordinated loan	-	1,000	-	1,000
Other liabilities	-	3,804	-	3,804
Total financial liabilities	-	321,422	-	321,422

The Bank

31 December 2018	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Cash and due from banks	57,374	13,239	-	70,613
Debt securities	-	70,746	-	70,746
Loans to customers	-	154,524	2,462	156,986
Receivables from leasing	-	10,956	1,853	12,809
Other assets	-	55	-	55
Total financial assets	57,374	249,520	4,315	311,209
Liabilities				
Due to banks and other credit institutions	-	228	-	228
Due to customers	-	290,733	-	290,733
Debt securities issued	-	2,167	-	2,167
Subordinated loans	-	1,000	-	1,000
Other liabilities	-	3,368	-	3,368
Total financial liabilities	-	297,496	-	297,496

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Note 30 Fair values of financial instruments (cont'd)**Financial instruments not measured at fair value****The Group**

31 December 2019	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Cash and due from banks	75,184	11,183	-	86,367
Debt securities	-	50,004	-	50,004
Loans to customers	-	191,139	1,270	192,409
Receivables from leasing	-	14,464	1,411	15,875
Other assets	-	41	-	41
Total financial assets	75,184	266,831	2,681	344,696
Liabilities				
Due to banks and other credit institutions	-	3,036	-	3,036
Due to customers	-	310,431	-	310,431
Debt securities issued	-	2,184	-	2,184
Subordinated loan	-	1,000	-	1,000
Other liabilities	-	3,982	-	3,982
Total financial liabilities	-	320,633	-	320,633

The Group

31 December 2018	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Cash and due from banks	57,374	13,280	-	70,654
Debt securities	-	70,746	-	70,746
Loans to customers	-	156,513	2,504	159,017
Receivables from leasing	-	10,956	1,853	12,809
Other assets	-	55	-	55
Total financial assets	57,374	251,550	4,357	313,281
Liabilities				
Due to banks and other credit institutions	-	228	-	228
Due to customers	-	289,126	-	289,126
Debt securities issued	-	2,167	-	2,167
Subordinated loans	-	1,000	-	1,000
Other liabilities	-	1,682	-	1,682
Total financial liabilities	-	294,203	-	294,203

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
Measured at amortized cost 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

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Note 31 Related party transactions

Transactions between the Group and the Bank and their related parties, respectively, were performed 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 2019

	Shareholders	Subsidiaries	Key management personnel	Other*
Loans outstanding as at 31 December 2019, net	34	3,935	-	3,962
Interest rate,%	6.58	4.2	-	2.0-4.5
Interest income on loans	2	47	-	108
Impairment of loans	-	(25)	-	(12)
Term deposits as at 31 December 2019	21	-	13	1,956
Interest expense on deposits	(1)	-	-	(3)
Interest rate,%	6.5	-	0.05-0.3	0-0.45
Demand accounts as at 31 December 2019	65	967	97	2,427
Bonds issued as at 31 December 2019	100	-	-	-
Interest expense on bonds	(7)	-	-	-
Interest rate,%	7	-	-	-
Subordinated loans as at 31 December 2019	1,000	-	-	-
Interest expense on subordinated loans	(20)	-	-	-
Interest rate,%	2	-	-	-
Service fee and commission revenue	1	242	-	13
Service fee and commission expenses	-	-	-	(3)
Other operating income	-	17	-	-
Other operating expenses	-	-	-	(42)

The Bank 2018

	Shareholders	Subsidiaries	Key management personnel	Other*
Loans outstanding as at 31 December 2018, net	37	-	-	4,372
Interest rate,%	6.58	-	-	2.0-4.5
Interest income on loans	1	1	1	120
Impairment of loans	-	-	-	(14)
Term deposits as at 31 December 2018	-	-	3	247
Interest expense on deposits	-	-	-	(2)
Interest rate,%	-	-	0.3	0.05-6.5
Demand accounts as at 31 December 2018	99	1,607	88	3,006
Bonds issued as at 31 December 2018	100	-	-	-
Interest expense on bonds	(3)	-	-	-
Interest rate,%	7	-	-	-
Subordinated loans as at 31 December 2018	1,000	-	-	-
Interest expense on subordinated loans	(20)	-	-	-
Interest rate,%	2	-	-	-
Service fee and commission revenue	1	2	-	17
Service fee and commission expenses	-	-	-	(3)
Other operating income	-	11	-	-
Other operating expenses	-	-	-	(59)

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Note 31 Related party transactions (cont'd)**The Group 2019**

	Shareholders	Key management personnel	Other*
Loans outstanding as at 31 December 2019, net	3	-	3,962
Interest rate,%	6.58	-	2.0-4.5
Interest income on loans	1	-	108
Impairment of loans	-	-	(12)
Term deposits as at 31 December 2019	21	13	1,956
Interest expense on deposits	(1)	-	(3)
Interest rate,%	6.5	0.05-0.3	0-0.45
Demand accounts as at 31 December 2019	65	97	2,427
Bonds issued as at 31 December 2019	100	-	-
Interest expense on bonds	(7)	-	-
Interest rate,%	7	-	-
Subordinated loans as at 31 December 2019	1,000	-	-
Interest expense on subordinated loans	(20)	-	-
Interest rate,%	2	-	-
Service fee and commission revenue	1	-	13
Service fee and commission expenses	-	-	(3)
Other operating income	-	-	-
Other operating expenses	-	-	(42)

The Group 2018

	Shareholders	Key management personnel	Other*
Loans outstanding as at 31 December 2018, net	37	-	4,372
Interest rate,%	6.58	-	2.0-4.5
Interest income on loans	1	1	120
Impairment of loans	-	-	(14)
Term deposits as at 31 December 2018	-	3	247
Interest expense on deposits	-	-	(2)
Interest rate,%	-	0.3	0.05-6.5
Demand accounts as at 31 December 2018	99	88	3,006
Bonds issued as at 31 December 2018	100	-	-
Interest expense on bonds	(3)	-	-
Interest rate,%	7	-	-
Subordinated loans as at 31 December 2018	1,000	-	-
Interest expense on subordinated loans	(20)	-	-
Interest rate,%	2	-	-
Service fee and commission revenue	1	-	17
Service fee and commission expenses	-	-	(3)
Other operating income	-	-	-
Other operating expenses	-	-	(59)

* 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.

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Note 31 Related party transactions (cont'd)**The Group**

Compensation of key management personnel comprised the following:

	<u>2019</u>	<u>2018</u>
Salaries and other short-term benefits	510	338
Social security costs	9	106
Total key management personnel compensation	<u>519</u>	<u>444</u>

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

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Note 32 Segment information

A summary of major indicators for the main business segments of the Group included in the Statement of financial position as at 31 December 2019 and in the Statement of comprehensive income for the nine month period then ended is presented in the table below:

	31 December 2019				
	Traditional banking operations and lending	Treasury	Other activities	Eliminations	Total
Internal	47	-	-	(47)	-
External	10 354	612	6	-	10 972
Interest income	10 401	612	6	(47)	10 972
Internal	(47)	-	-	47	-
External	(1,498)	(289)	-	-	(1,787)
Interest expenses	(1,545)	(289)	-	47	(1,787)
Internal	-	-	-	-	-
External	8,856	323	-	-	9,179
Net interest income	8,856	323	-	-	9,179
Internal	-	-	-	-	-
External	6,394	-	(4)	(195)	6,195
Net fee and commission income	6,394	-	(4)	(195)	6,195
Internal	-	-	-	-	-
External	15,250	323	(4)	(195)	15,374
Net interest, fee and commissions income	15,250	323	(4)	(195)	15,374
Internal	-	-	(1,182)	1,182	-
External	(10,253)	(216)	(2,481)	-	(12,950)
Operating expenses	(10,253)	(216)	(3,663)	1,182	(12,950)
Amortisation charges	(137)	-	-	-	(137)
Depreciation charges	(1,132)	-	-	-	(1,132)
Internal	-	-	-	-	-
External	(974)	-	-	-	(974)
Impairment expenses	(974)	-	-	-	(974)
Internal	-	-	-	-	-
External	4,395	505	(485)	-	4,415
Net other income	4,395	505	(485)	-	4,415
Profit (loss) before tax	7,149	612	(4,154)	987	4,594
Income tax	(746)	-	-	-	(746)
Profit (loss) per segment after tax	6,403	612	(4,154)	987	3,848
Non-controlling interest	-	-	-	-	-
Profit (loss) for the year attributable to the owners of the Bank	6,403	612	(4,154)	987	3,848
Total segment assets	251,520	113,411	2,211	(11,808)	355,334
Total segment liabilities	317,670	8,200	73	(4,982)	320,961
Net segment assets (shareholders equity)	(66,150)	105,211	2,138	(6,826)	34,373

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Note 32 Segment information (cont'd)

A summary of major indicators for the main business segments of the Group included in the Statement of financial position as at 31 December 2018 and in the Statement of comprehensive income for the nine month period then ended is presented in the table below:

	31 December 2018				
	Traditional banking operations and lending	Treasury	Other activities	Eliminations	Total
Internal	2	-	-	(2)	-
External	8,673	561	9	-	9,243
Interest income	8,675	561	9	(2)	9,243
Internal	(2)	-	-	2	-
External	(1,479)	(263)	-	-	(1,742)
Interest expenses	(1,481)	(263)	-	2	(1,742)
Internal	-	-	-	-	-
External	7,194	298	9	-	7,501
Net interest income	7,194	298	9	-	7,501
Internal	-	-	-	-	-
External	5,241	-	(2)	-	5,239
Net fee and commission income	5,241	-	(2)	-	5,239
Internal	-	-	-	-	-
External	12,435	298	7	-	12,740
Net interest, fee and commissions income	12,435	298	7	-	12,740
Internal	-	-	(1,130)	1,130	-
External	(11,576)	(277)	(425)	-	(12,278)
Operating expenses	(11,576)	(277)	(1,555)	1,130	(12,278)
Amortisation charges	(161)	-	-	-	(161)
Depreciation charges	(486)	-	-	-	(486)
Internal	-	-	-	-	-
External	(1,257)	(56)	-	-	(1,313)
Impairment expenses	(1,257)	(56)	-	-	(1,313)
Internal	-	-	-	-	-
External	4,299	398	(824)	-	3,873
Net other income	4,299	398	(824)	-	3,873
Profit (loss) before tax	3,254	363	(2,372)	1,130	2,375
Income tax	11	-	-	-	11
Profit (loss) per segment after tax	3,265	363	(2,372)	1,130	2,386
Non-controlling interest	-	-	-	-	-
Profit (loss) for the year attributable to the owners of the Bank	3,265	363	(2,372)	1,130	2,386
Total segment assets	215,095	115,162	13,080	(18,574)	324,763
Total segment liabilities	289,856	7,709	76	(3,403)	294,238
Net segment assets (shareholders equity)	(74,761)	107,453	13,004	(15,171)	30,525

Distribution of the Group's assets and revenue according to geographical segments.

All the Group's non-current assets other than financial instruments are located in Lithuania. No material revenue is earned by the Group in foreign countries.

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Note 33 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.

Risk management structure

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.

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Note 33 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.

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Note 33 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			The Bank	
31 December 2019	31 December 2018		31 December 2019	31 December 2018
		Statement of financial position items, other than trading and investment activities		
45,534	30,070	Balances with the Bank of Lithuania	45,534	30,070
11,183	13,280	Due from banks	11,164	13,239
192,409	159,017	Loans to customers	188,010	156,986
15,875	12,809	Receivables from leasing	15,875	12,809
265,001	215,176		260,583	213,104
		Off balance sheet items		
2,088	2,022	Guarantees	2,088	2,022
10,782	8,876	Loan commitments	15,801	8,876
277,871	226,074	Total balance and off balance sheet items, other than trading and investment activities	278,472	224,002
		Trading and investment activities		
		Financial assets at fair value through profit or loss		
10	41	<i>Derivative financial instruments</i>	10	41
-	-	Financial assets measured at amortized cost	-	-
50,004	70,746	<i>Debt securities</i>	50,004	70,746
50,014	70,787	Total trading and investment activities	50,014	70,787
41	55	Other financial assets	41	55
327,926	296,916	Total credit exposure	328,527	294,844

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.

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Note 33 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)

	The Bank	
	31 December 2019	31 December 2018
Contracted amount		
Loan and credit line commitments	13,365	6,767
Undrawn overdraft facilities	2,436	2,109
Guarantees and letters of credit	2,088	2,022
Total	17,889	10,898

	The Group	
	31 December 2019	31 December 2018
Contracted amount		
Loan and credit line commitments	8,346	6,767
Undrawn overdraft facilities	2,436	2,109
Guarantees and letters of credit	2,088	2,022
Total	12,870	10,898

The aggregate amount of contractual commitments signed above does not necessarily reflect future cash flow requirements as these liabilities may expire or be terminated before any payout occurs.

Restricted assets (pledged or otherwise restricted use):

	The Bank (Group)	
	31 December 2019	31 December 2018)
Due from banks	-	1,181
Debt securities	7,163	6,291
Loans issued	14,452	1,364
Total	21,615	8,836

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

	The Bank (Group)	
	31 December 2019	31 December 2018
Government bonds	48,851	68,284
Regional government bonds	-	878
Multilateral Development Banks Bonds	893	1,314
Corporate bonds	260	270
Derivatives	10	41
Total	50,014	70,787

	The Bank (Group)	
	31 December 2019	31 December 2018
Bonds exposure by rating grade		
High grade (AAA-A)	47,078	65,709
Standard grade (B-BBB+)	2,926	5,037
Not rated	-	-
Total	50,004	70,746

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Note 33 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:

Bonds exposure by geography	The Bank (The Group)							
	31 December 2019				31 December 2018			
	Government bonds	Bank bonds	Financial institution bonds	Non- financial institution bonds	Government bonds	Bank bonds	Financial institution bonds	Non- financial institution bonds
Lithuania	37,069	-	-	-	43,887	-	-	-
Iceland	1,525	-	-	-	1,567	-	-	-
Spain	-	-	-	-	1,002	-	-	-
Croatia	660	-	-	-	-	-	-	-
Latvia	6,036	-	-	-	4,575	-	-	-
Poland	1,555	-	-	-	3,005	-	-	-
Romania	2,006	-	-	-	3,089	-	-	-
Slovenia	-	-	-	-	4,172	-	-	-
Sweden	-	-	-	-	2,619	-	-	-
Hungary	-	-	-	-	1,679	-	-	-
Germany	-	-	-	-	-	-	-	878
Estonia	-	-	-	260	-	-	-	270
Finland	-	-	-	-	2,689	-	-	-
Belgium	-	-	-	-	-	-	-	-
Luxembourg	-	893	-	-	-	1,314	-	-
Total	48,851	893	-	260	68,284	1,314	-	1,148

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 2019	31 December 2018
Finance (Bank)		893	1,314
Energy		260	270
General public administration activities		-	878
Total		1,153	2,462

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 15 percent 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 33, Credit risk.

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Note 33 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 2019 was EUR 6,986 thousand (EUR 5,841 thousand as at 31 December 2018), and after application of all credit risk mitigation measures as at 31 December 2019 was EUR 6,986 thousand (EUR 5,832 thousand as at 31 December 2018). The proportion to the Bank's capital was 20.95% (22.75% as at 31 December 2018).

The Bank, 2019	Corporate loans	Individuals loans	Total
Lithuania	245,122	22,890	268,012
United States of America	13	-	13
Germany	-	21	21
Austria	5,273	-	5,273
Russia	3,901	231	4,132
Belarus	-	65	65
Poland	17	-	17
France	-	154	154
United Kingdom	-	231	231
Croatia	-	-	-
Other	290	264	554
	254,616	23,856	278,472

The Group, 2019	Corporate loans	Individuals loans	Total
Lithuania	244,521	22,890	267,411
United States of America	13	-	13
Germany	-	21	21
Austria	5,273	-	5,273
Russia	3,901	231	4,132
Belarus	-	65	65
Poland	17	-	17
France	-	154	154
United Kingdom	-	231	231
Croatia	-	-	-
Other	290	264	554
Total	254,015	23,856	277,871

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Note 33 Risk management (cont'd)Credit risk (cont'd)Risk concentration of the maximum exposure to credit risk (cont'd)

The Bank, 2018	Corporate loans	Individuals loans	Total
Lithuania	195,354	22,846	218,200
United States of America	5	-	5
Germany	-	23	23
Austria	2,476	-	2,476
Russia	1,470	305	1,775
Belarus	-	91	91
Poland	26	-	26
France	-	176	176
United Kingdom	14	244	258
Croatia	450	-	450
Other	177	345	522
	199,972	24,030	224 002
The Group, 2018	Corporate loans	Individuals loans	Total
Lithuania	195,579	24,651	220,230
United States of America	5	-	5
Germany	-	24	24
Austria	2,476	-	2,476
Russia	1,470	305	1,775
Belarus	-	91	91
Poland	26	-	26
France	-	176	176
United Kingdom	14	244	258
Croatia	450	-	450
Other	219	344	563
Total	200,239	25,835	226,074

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Note 33 Risk management (cont'd)

Credit risk (cont'd)

Risk concentration of the maximum exposure to credit risk (cont'd)

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 Group			The Bank	
31 December 2019	31 December 2018		31 December 2019	31 December 2018
245,855	200,239	Corporate loans	254,618	199,972
18,165	21,688	Trading enterprises	18,165	21,688
45,388	21,974	Real estate operations	45,388	21,974
6,321	5,391	Real estate constructions	6,321	5,391
14,413	13,334	Transport	14,413	13,334
11,742	9,127	Manufacturing	11,742	9,127
50,581	42,167	Services	50,409	41,941
32,031	30,118	Agriculture and food processing	32,031	30,118
3,230	4,651	Energy	3,230	4,651
62,397	49,237	Financial services	71,332	49,196
1,587	2,552	Local government	1,587	2,552
32,016	25,835	Individuals loans	23,854	24,030
277,871	226,074	Total	278,472	224,002

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 valuers.

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Note 33 Risk management (cont'd)

Credit risk (cont'd)

Risk concentration of the maximum exposure to credit risk (cont'd)

Collateral and other credit enhancements (cont'd)

The main types of collateral by fair value of collateral established on the last appraisal date are as follows:

	The Bank (The Group) 2019			The Bank (The Group) 2018		
	Corporate	Individuals	Totals	Corporate	Individuals	Totals
Real estate	488,205	72,642	560,847	333,613	76,995	410,608
Securities	19,156	-	19,156	4,850	-	4,850
Vehicles	47,201	565	47,766	41,510	653	42,163
Equipment	16,344	-	16,344	19,262	-	19,262
Cash	2,415	23	2,438	2,455	30	2,485
Credit insurance	1,788	550	2,338	1,118	651	1,769
Guarantees received	12,239	-	12,239	14,038	3	14,041
Other	38,376	4	38,380	92,392	4	92,396
Total	625,724	73,784	699,508	509,238	78,336	587,574

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.

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.

Credit quality by financial asset classes

The credit quality of a financial asset in the Bank or the Group is managed using an internal credit risk assessment system as described below.

Risk management

When assessing financial instruments, the Group and the Bank apply specific criteria and procedures for the assessment of debtors. Due to the change in credit risk since initial recognition loans are divided into three stages:

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

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Note 33 Risk management (cont'd)Credit risk (cont'd)Credit risk assessment of financial instruments, other than trading activities and off balance items

The Bank	Not overdue	1 to 59 days	60 to 89 days	More than 90 days	Total
31 December 2019					
Stage 1					
Loans and receivables	185,032	1,588	-	-	186,620
Placements with LB and other banks	56,698	-	-	-	56,698
Debt securities	50,004	-	-	-	50,004
Other financial assets	41	-	-	-	41
Total	291,775	1,588	-	-	293,363
Stage 2					
Loans and receivables	6,989	1,540	1,374	-	9,903
Placements with LB and other banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	6,989	1,540	1,374	-	9,903
Stage 3					
Loans and receivables	3,087	1,116	1,088	2,071	7,362
Placements with LB and other banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	3,087	1,116	1,088	2,071	7,362
Total	301,851	4,244	2,462	2,071	310,628

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Note 33 Risk management (cont'd)Credit risk (cont'd)

The Bank	Not overdue	1 to 59 days	60 to 89 days	More than 90 days	Total
1 December 2018					
Stage 1					
Loans and receivables	150,689	2,623	-	-	153,312
Placements with LB and other banks	43,309	-	-	-	43,309
Debt securities	70,746	-	-	-	70,746
Other financial assets	55	-	-	-	55
Total	264,799	2,623	-	-	267,422
Stage 2					
Loans and receivables	9,664	409	354	-	10,427
Placements with LB and other banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	9,664	409	354	-	10,427
Stage 3					
Loans and receivables	1,306	1,849	388	2,513	6,056
Placements with LB and other banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	1,306	1,849	388	2,513	6,056
Total	275,769	4,881	742	2,513	283,905

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Note 33 Risk management (cont'd)Credit risk (cont'd)

The Group	Not overdue	1 to 59 days	60 to 89 days	More than 90 days	Total
31 December 2019					
Stage 1					
Loans and receivables	188,846	1,779	-	-	190,625
Placements with LB and other banks	56,717	-	-	-	56,717
Debt securities	50,004	-	-	-	50,004
Other financial assets	41	-	-	-	41
Total	295,608	1,779	-	-	297,387
Stage 2					
Loans and receivables	7,022	1,645	1,374	-	10,041
Placements with LB and other banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	7,022	1,645	1,374	-	10,041
Stage 3					
Loans and receivables	3,088	1,318	1,127	2,085	7,618
Placements with LB and other banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	3,088	1,318	1,127	2,085	7,618
Total	305,718	4,742	2,501	2,085	315,046

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Note 33 Risk management (cont'd)Credit risk (cont'd)**The Group**

31 December 2018	Not overdue	1 to 59 days	60 to 89 days	More than 90 days	Total
Stage 1					
Loans and receivables	152,364	2,903	-	-	155,267
Placements with LB and other banks	43,350	-	-	-	43,350
Debt securities	70,746	-	-	-	70,746
Other financial assets	55	-	-	-	55
Total	266,515	2,903	-	-	269,418
Stage 2					
Loans and receivables	9,672	432	357	-	10,461
Placements with LB and other banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	9,672	432	357	-	10,461
Stage 3					
Loans and receivables	1,306	1,852	394	2,546	6,098
Placements with LB and other banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total	1,306	1,852	394	2,546	6,098
Total	277,493	5,187	751	2,546	285,977

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Note 33 Risk management (cont'd)

Breakdown of impairment for financial instruments by stages:

	31 December 2019					31 December 2018				
	Collective impairment	Individual impairment	Credit commitments	Guarantees	Total	Collective impairment	Individual impairment	Credit commitments	Guarantees	Total
The Bank										
Stage 1	548	-	62	4	614	441	-	26	4	471
Loans and receivables	498	-	62	4	564	385	-	26	4	415
Placements with LB and other banks	11	-	-	-	11	13	-	-	-	13
Debt securities	39	-	-	-	39	43	-	-	-	43
Other financial assets	-	-	-	-	-	-	-	-	-	-
Stage 2	61	-	-	-	61	78	-	-	-	78
Loans and receivables	61	-	-	-	61	78	-	-	-	78
Stage 3	-	550	-	-	550	-	2,083	-	-	2,083
Loans and receivables	-	515	-	-	515	-	2,083	-	-	2,083
Other financial assets	-	35	-	-	35	-	-	-	-	-
Total	609	550	62	4	1,225	519	2,083	26	4	2,632
The Group										
Stage 1	620	-	30	4	654	459	-	26	4	489
Loans and receivables	570	-	30	4	604	403	-	26	4	433
Placements with LB and other banks	11	-	-	-	11	13	-	-	-	13
Debt securities	39	-	-	-	39	43	-	-	-	43
Other financial assets	-	-	-	-	-	-	-	-	-	-
Stage 2	66	-	-	-	66	79	-	-	-	79
Loans and receivables	66	-	-	-	66	79	-	-	-	79
Stage 3	-	583	-	-	583	-	2,118	-	-	2,118
Loans and receivables	-	548	-	-	548	-	2,118	-	-	2,118
Other financial assets	-	35	-	-	35	-	-	-	-	-
Total	686	583	30	4	1,303	538	2,118	26	4	2,686

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Note 33 Risk management (cont'd)Change of impairment during reporting period

The Group					The Bank					
Collective impairment	Individual impairment	Credit commitments	Guarantees	Total		Collective impairment	Individual impairment	Credit commitments	Guarantees	Total
					31 December 2019					
161	-	4	-	165	Stage 1	107	-	35	-	142
167	-	4	-	171	Loans and receivables	113	-	35	-	148
(2)	-	-	-	(2)	Placements with LB and other banks	(2)	-	-	-	(2)
(4)	-	-	-	(4)	Debt securities	(4)	-	-	-	(4)
-	-	-	-	-	Other financial assets	-	-	-	-	-
(13)	-	-	-	(13)	Stage 2	(17)	-	-	-	(17)
(13)	-	-	-	(13)	Loans and receivables	(17)	-	-	-	(17)
-	(1,535)	-	-	(1,535)	Stage 3	-	(1,534)	-	-	(1,534)
-	(1,570)	-	-	(1,570)	Loans and receivables	-	(1,569)	-	-	(1,569)
-	35	-	-	35	Other financial assets	-	35	-	-	35
148	(1,535)	4	-	(1,383)	Total	90	(1,534)	35	-	(1,409)
-	2,427	-	-	2,427	Write-offs	-	2,356	-	-	2,356
-	-	-	-	(70)	Income on loans written off in earlier periods	-	-	-	-	(70)
-	-	-	-	974	Total change of impairment	-	-	-	-	877

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Note 33 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. Liquidity coverage ratios of the Bank and the Group are as follows:

The Group			The Bank	
31 December 2019	31 December 2018		31 December 2019	31 December 2018
123,647	128,502	Liquid assets	123,647	128,502
22,294	13,564	Short-term (up to 30 days) obligations	24,502	13,791
555	947	LCR (%)	505	932

Liquid assets of the Bank or the Group consist of cash, balances in central bank (eliminating required reserves requirements) and highly liquid debt securities (at current market value).

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Note 33 Risk management (cont'd)Liquidity risk (cont'd)

Overdue loans in 2019 December 31 and 2018 December 31 is revealed in the column 'Without maturity'.

The following tables provide an analysis of financial liabilities based on contractual undiscounted repayment obligations:

The Bank

	31 December 2019							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	
Liabilities:								
Due to banks and other credit institutions	36	3,000	-	-	-	-	-	3,036
Due to customers	131,808	15,947	22,128	77,606	39,445	27,272	3	314,209
Debt securities issued	-	-	-	-	-	1,000	-	1,000
Subordinated loans	-	-	-	-	-	2,520	-	2,520
Other liabilities	525	3,531	4	15	12	12	64	4,163
Guarantees	2,088	-	-	-	-	-	-	2,088
Credit commitments	15,801	-	-	-	-	-	-	15,801
Total undiscounted financial liabilities	150,258	22,478	22,132	77,621	39,457	30,804	67	342,817

The Bank

	31 December 2018							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	
Liabilities:								
Due to banks and other credit institutions	228	-	-	-	-	-	-	228
Due to customers	111,362	13,555	18,283	79,153	45,998	25,636	3	293,990
Debt securities issued	-	-	-	-	-	1,000	-	1,000
Subordinated loans	-	-	-	-	-	3,229	-	3,229
Other liabilities	201	3,135	5	10	8	9	-	3,368
Guarantees	2,026	-	-	-	-	-	-	2,026
Credit commitments	8,902	-	-	-	-	-	-	8,902
Total undiscounted financial liabilities	122,719	16,690	18,288	79,163	46,006	29,874	3	312,743

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Note 33 Risk management (cont'd)Liquidity risk (cont'd)**The Group**

	31 December 2019							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	
Liabilities:								
Due to banks and other credit institutions	36	3,000	-	-	-	-	-	3,036
Due to customers	130,841	15,947	22,128	77,606	39,445	27,272	3	313,242
Debt securities issued	-	-	-	-	-	1,000	-	1,000
Subordinated loans	-	-	-	-	-	2,520	-	2,520
Other liabilities	525	3,709	4	15	12	12	33	4,310
Guarantees	2,088	-	-	-	-	-	-	2,088
Credit commitments	10,782	-	-	-	-	-	-	10,782
Total undiscounted financial liabilities	144,272	22,656	22,132	77,621	39,457	30,804	36	336,978

The Group

	31 December 2018							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	
Liabilities:								
Due to banks and other credit institutions	228	-	-	-	-	-	-	228
Due to customers	109,755	13,555	18,283	79,153	45,998	25,636	3	292,383
Debt securities issued	-	-	-	-	-	1,000	-	1,000
Subordinated loans	-	-	-	-	-	3,229	-	3,229
Other liabilities	201	1,449	5	10	8	9	-	1,682
Guarantees	2,026	-	-	-	-	-	-	2,026
Credit commitments	8,902	-	-	-	-	-	-	8,902
Total undiscounted financial liabilities	121,112	15,004	18,288	79,163	46,006	29,874	3	309,450

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.

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Note 33 Risk management (cont'd)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

	Changes in presumptions	Effect for profit and loss	
		31 December 2019	31 December 2018
Land	+ 10%	48	50
Commercial property	+ 10%	184	328
Residential property	+ 10%	75	121
Other assets	+ 10%	74	58
Total		381	557
Land	- 10%	(48)	(50)
Commercial property	- 10%	(184)	(328)
Residential property	- 10%	(75)	(121)
Other assets	- 10%	(74)	(58)
Total		(381)	(557)

The Group

	Changes in presumptions	Effect for profit and loss	
		31 December 2019	31 December 2018
Land	+ 10%	143	209
Commercial property	+ 10%	203	357
Residential property	+ 10%	75	130
Other assets	+ 10%	74	58
Total		495	754
Land	- 10%	(143)	(209)
Commercial property	- 10%	(203)	(357)
Residential property	- 10%	(75)	(130)
Other assets	- 10%	(74)	(58)
Total		(495)	(754)

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Note 33 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	Interest rate change	Effect on net interest income	
		31 December 2019	31 December 2018
EUR	+ 1 proc.	1,086	890
USD	+ 1 proc.	62	64
Other	+ 1 proc.	(2)	(4)
EUR	- 1 proc.	(1,086)	(890)
USD	- 1 proc.	(62)	(64)
Other	- 1 proc.	2	4
The Group			
	Interest rate change	Effect on net interest income	
		31 December 2019	31 December 2018
EUR	+ 1 proc.	1,096	896
USD	+ 1 proc.	62	64
Other	+ 1 proc.	(2)	(4)
EUR	- 1 proc.	(1,096)	(896)
USD	- 1 proc.	(62)	(64)
Other	- 1 proc.	2	4

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Note 33 Risk management (cont'd)Interest rate risk (cont'd)

The table below summarises the Group's and the Bank's exposure to interest rate risk as at 31 December 2019 and 2018. 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.

The Bank	31 December 2019						Total
	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	
Assets:							
Cash and due from banks	2,946	-	-	-	-	-	2,946
Loans and receivables	37,840	61,376	96,476	6,068	4,750	4,133	210,643
Investments in debt securities	4,467	10,386	14,538	8,370	8,575	3,263	49,599
Other assets	203	-	-	-	-	-	203
Sensitive assets to interest rate fluctuation	45,456	71,762	111,014	14,438	13,325	7,396	263,391
Non-sensitive assets to interest rate fluctuation							92,980
Liabilities:							
Due to banks and other credit institutions	-	-	-	-	-	-	-
Due to customers	15,739	21,933	24,284	52,583	38,183	15,671	168,393
Debt securities issued	-	-	-	-	-	2,184	2,184
Other liabilities	-	-	-	183	-	10,816	10,999
Sensitive liabilities to interest rate fluctuation	15,739	21,933	24,284	52,766	38,183	28,671	181,576
Non-sensitive liabilities and equity to interest rate fluctuation							174,795
Total interest sensitivity gap	29,717	49,829	86,730	(38,328)	(24,858)	(21,275)	-
	31 December 2018						
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	-	-	-	-	-	-	-
Loans and receivables	34,538	50,457	67,920	13,403	4,913	4,593	175,824
Investments in debt securities	2,250	21,818	8,052	10,776	21,955	5,333	70,184
Other assets	189	-	-	-	-	-	189
Sensitive assets to interest rate fluctuation	36,977	72,275	75,972	24,179	26,868	9,926	246,197
Non-sensitive assets to interest rate fluctuation							81,933
Liabilities:							
Due to banks and other credit institutions	-	-	-	-	-	-	-
Due to customers	12,084	16,681	24,716	53,325	43,830	13,101	163,737
Debt securities issued	-	-	-	-	-	2,210	2,210
Other liabilities	-	-	-	-	626	12,473	13,099
Sensitive liabilities to interest rate fluctuation	12,084	16,681	24,716	53,325	44,456	27,784	179,046
Non-sensitive liabilities and equity to interest rate fluctuation							149,084
Total interest sensitivity gap	24,893	55,594	51,256	(29,146)	(17,588)	(17,858)	-

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Note 33 Risk management (cont'd)Interest rate risk (cont'd)

The Group	31 December 2019						Total
	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	
Assets:							
Cash and due from banks	2 946	-	-	-	-	-	2 946
Loans and receivables	38 010	61 695	96 935	6 940	3 728	7 689	214 997
Investments in debt securities	4 467	10 386	14 538	8 370	8 575	3 263	49 599
Other assets	203	-	-	-	-	-	203
Sensitive assets to interest rate fluctuation	45 626	72 081	111 473	15 310	12 303	10 952	267 745
Non-sensitive assets to interest rate fluctuation							87 589
Liabilities:							
Due to banks and other credit institutions	-	-	-	-	-	-	-
Due to customers	15 739	21 933	24 284	52 583	38 183	15 671	168 393
Debt securities issued	-	-	-	-	-	2 184	2 184
Other liabilities	-	-	-	183	-	10 816	10 999
Sensitive liabilities to interest rate fluctuation	15 739	21 933	24 284	52 766	38 183	28 671	181 576
Non-sensitive liabilities and equity to interest rate fluctuation							173 758
Total interest sensitivity gap	29 887	50 148	87 189	(37 456)	(25 880)	(17 719)	-

The Group	31 December 2018						Total
	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	
Assets:							
Cash and due from banks	-	-	-	-	-	-	-
Loans and receivables	34,592	50,561	68,330	14,229	5,501	4,642	177,855
Investments in debt securities	2,250	21,818	8,052	10,776	21,955	5,333	70,184
Other assets	189	-	-	-	-	-	189
Sensitive assets to interest rate fluctuation	37,031	72,379	76,382	25,005	27,456	9,975	248,228
Non-sensitive assets to interest rate fluctuation							76,535
Liabilities:							
Due to banks and other credit institutions	-	-	-	-	-	-	-
Due to customers	12,084	16,681	24,716	53,325	43,830	13,101	163,737
Debt securities issued	-	-	-	-	-	2,210	2,210
Other liabilities	-	-	-	-	626	12,473	13,099
Sensitive liabilities to interest rate fluctuation	12,084	16,681	24,716	53,325	44,456	27,784	179,046
Non-sensitive liabilities and equity to interest rate fluctuation							145,717
Total interest sensitivity gap	24,947	55,698	51,666	(28,320)	(17,000)	(17,809)	-

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.

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Note 33 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		Open position	Position as % of capital
	Assets	Equity and liabilities	Contingent claims	Contingent liabilities		
31 December 2019						
EUR	324,043	334,210	10,458	506	(215)	(0.65%)
USD	19,616	19,707	-	2	(93)	(0.28%)
Other currencies	12,712	2,454	508	10,512	254	0.76%
Total assets	356,371	356,371	10,966	11,020		
Long positions						469
Short positions						(309)
Eligible capital						33,331
Open foreign currency position 2019						1.41 %

The Bank	Statement of financial position		Off Balance sheet		Open position	Position as % of capital
	Assets	Equity and liabilities	Contingent claims	Contingent liabilities		
31 December 2018						
EUR	290,889	300,864	10,304	312	17	0.06 %
USD	23,611	24,029	297	-	(121)	(0.47) %
Other currencies	13,630	3,237	311	10,565	140	0.55 %
Total assets	328,130	328,130	10,912	10,877		
Long positions						534
Short positions						(515)
Eligible capital						25,639
Open foreign currency position 2018						2.08 %

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Note 33 Risk management (cont'd)Currency risk (cont'd)

The Group	Statement of financial position		Off Balance sheet		Open position	Position as % of capital
	Assets	Equity and liabilities	Contingent claims	Contingent liabilities		
31 December 2019						
EUR	323,005	333,173	10,458	506	(216)	(0.65%)
USD	19,616	19,707	-	2	(93)	(0.28%)
Other currencies	12,713	2,454	508	10,512	255	0.77%
Total assets	355,334	355,334	10,966	11,020		
Long positions						469
Short positions						(309)
Eligible capital						33,076
Open foreign currency position 2019						1.42 %

The Group	Statement of financial position		Off Balance sheet		Open position	Position as % of capital
	Assets	Equity and liabilities	Contingent claims	Contingent liabilities		
31 December 2018						
EUR	287,522	297,497	10,304	312	17	0.06 %
USD	23,611	24,029	297	-	(121)	(0.47) %
Other currencies	13,630	3,237	311	10,565	140	0.54 %
Total assets	324,763	324,763	10,912	10,877		
Long positions						534
Short positions						(515)
Eligible capital						25,773
Open foreign currency position 2018						2.07%

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

	2019	2018
Increase in FX rates by 10%	16	2
Decrease in FX rates by 10%	(16)	(2)

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Note 33 Risk management (cont'd)

Anti-money laundering risk management

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.

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 34 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. From 2018 December came into effect countercyclical buffer for Lithuanian positions which is equal to 1.0 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. 2.2 % the additional capital requirement amount is determined from 30 September 2018.

CRD IV and CRR requirements for the Bank's capital adequacy ratios for the year end in percentage

Capital components	2019	2018	2017
General capital adequacy ratio	8.00	8.00	8.00
General capital adequacy ratio plus Pillar II	10.20	10.20	11.40
General capital adequacy ratio plus Pillar II and Capital conservation buffer	13.70	13.20	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.

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Note 34 Capital (cont'd)

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.

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 13.70 percent. With permission of the Bank of Lithuania Supervision Authority, the Bank into Common Equity Tier 1 capital in 31 December 2019 added financial profit for the period of 9 months (EUR 2,193 million). As at 31 December 2019, 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:

	2019		2018	
	Group	Bank	Group	Bank
Capital adequacy ratio	17.76	17.63	17.66	17.14

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Note 35 Quality of financial assets, profitability ratios and other information

Financial asset quality ratios as at 31 December 2019 are provided in the table below:

The Group			The Bank	
Provisions (EUR) thousands	Provisions to financial assets ratio (%)		Provisions (EUR) thousands	Provisions to financial assets ratio (%)
1,057	0.55	Loans to customers	946	0.50
127	0.79	Finance lease receivable	127	0.79
39	0.08	Debt securities	39	0.08
11	0.10	Placements with banks	11	0.10
35	4.56	Other assets	35	4.82
1,269	0.47	Total:	1,158	0.43

Financial assets quality ratios as at 31 December 2018:

The Group			The Bank	
Provisions (EUR) thousands	Provisions to financial assets ratio (%)		Provisions (EUR) thousands	Provisions to financial assets ratio (%)
2,416	1.50	Loans to customers	2,363	1.48
183	1.41	Finance lease receivable	183	1.41
42	0.06	Debt securities	42	0.06
13	0.10	Placements with banks	13	0.10
-	-	Other assets	-	-
2,654	1.03	Total:	2,601	1.01

Main profitability rates (in %) of the bank and the Group are provided in the table below:

The Group			The Bank	
31 December 2019	31 December 2018		31 December 2019	31 December 2018
1.11	0.66	Return on assets (ROA)	1.15	0.66
9.67	6.92	Return on equity (ROE)	10.03	7.03

Note 36 Events after the reporting date

At 30 January 2020 after 2018 supervisory review by the Bank of Lithuania and evaluation process (SREP) additional own fund requirement were decreased from 2.2 percent till 1.8 percent. In addition, it's recommended to have 1.0 percent capital of the second pillar capital guidelines, that should be included in the capital planning and risk management systems.

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CONFIRMATION OF RESPONSIBLE PERSONS

We, UAB Medicinos Bankas Chairman of the Board and Chief Executive Officer Dalia Klišauskienė and Director of Accounting and Reporting Department, Chief Accountant Aleksejus Tonkich, confirm that the financial statements for four quarters of 2019 have been prepared in accordance with the applicable accounting standard, represents reality and fairly shows the assets, liabilities, financial position, results of operations and cash flows of UAB Medicinos Bankas and the consolidated entities.

9 March 2020

Acting Chairman of the Board and
Chief Executive Officer

D. Klišauskienė



Director of Accounting and Reporting
Department, Chief Accountant

A. Tonkich
