INDEPENDENT AUDITOR'S REPORT FINANCIAL STATEMENTS AND ANNUAL REPORT

31 December 2018

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ŠIAULIŲ BANKAS

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Independent auditor's report

To the shareholders of Šiaulių bankas AB

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of Šiaulių Bankas AB ("the Bank") and its subsidiaries ("the Group") as at 31 December 2018, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited
The Bank's and the Group's separate and consolidated financial statements comprise:

- the Group's and the Bank's statements of financial position as at 31 December 2018;
- the Group's and the Bank's statements of income and the Group's and the Bank's statements of comprehensive income for the year then ended;
- the Group's statement of changes in equity and the Bank's statement of changes in equity for the year then ended;
- the Group's and the Bank's statements of cash flows for the year then ended; and
- the notes to the separate and consolidated financial statements, which include significant accounting policies and other explanatory information.

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 financial statements* section of our report.

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

Independence
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 the Law of the Republic of Lithuania on the Audit of Financial Statements that are relevant to our audit of the separate and consolidated financial statements in the Republic of Lithuania. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Law of the Republic of Lithuania on the Audit of Financial Statements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Bank and the Group are in accordance with the applicable law and regulations in the Republic of Lithuania and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014 considering the exemptions of Regulation (EU) No 537/2014 endorsed in the Law of the Republic of Lithuania on the Audit of Financial Statements.

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The non-audit services that we have provided to the Bank and the Group, in the period from 1 January 2018 to 31 December 2018, are disclosed in the Section "the External audit" of the Consolidated Annual Report.

Our audit approach

Overview

- Overall Bank materiality is EUR 2,400 thousand
- Overall Group materiality is EUR 2,400 thousand

- We have audited the separate financial statements of the Bank.
- We also conducted audit work at 2 other reporting units, all of them are in Lithuania.
- Our full scope audit addressed 98% of the Group's revenues and 98% of assets.

- Impairment of loans to customers

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate and consolidated financial statements (together "the financial statements"). In particular, we considered where the management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Bank and Group materiality for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall Bank materiality	EUR 2,400 thousand (2017: EUR 2,300 thousand)
Overall Group materiality	EUR 2,400 thousand (2017: EUR 2,400 thousand)
How we determined it	5% of profit before tax, adjusted for net gain from changes in fair value of subordinated loan. This adjustment impacted both the Bank's and the Group's profit before tax.
Rationale for the materiality benchmark applied	The use of profit before tax is considered appropriate as, in our view, profit is stakeholder's primary measurement benchmark and key performance indicator for management and Supervisory Board. The adjusting item is excluded on the basis that it does not reflect the day-to-day operational performance of the Bank and the Group. We chose the threshold of 5%, which is within the range of acceptable quantitative materiality thresholds for this benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 120 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans to customers (refer to Accounting policies section "IFRS9, Financial instruments" on pages 18-22, to Part 1 "Credit risk" of note "Financial risk management" on pages 36-68, note 7 "Impairment losses" on page 98 and note 13 "Loans to customers" on pages 104-118 for further details) We focused on this area because management has adopted IFRS 9 "Financial instruments" and implemented expected loss (ECL) model for loan impairment provisions, as the result impairment provisions for loans have significantly increased. The estimates regarding impairment allowances are complex and require a significant degree of judgement. The new model introduced new classification of financial assets to 3 stages and new credit risk parameters, including impact of macroeconomic scenarios. The model also uses collateral values and credit ratings of credit exposures, which were also used in prior years for incurred loss model under IAS 39. For all loans expected credit loss is calculated based on the model, expert adjustments are also made for unusual or significant exposures in all stages. IFRS 9 adoption as at 1 January 2018 resulted in Bank's and Group's equity decrease by EUR 7,231 thousand and EUR 9,193 thousand respectively due to increased impairment provisions net of deferred tax. Impairment loss on loans to customers for the year ended 31 December 2018 amounted to EUR 3,434 thousand for the Bank and EUR 3,427 thousand for the Group. Given the significance of judgements and the high complexity related particularly to the calculation of ECL we considered this area as a key audit matter.	We assessed whether the Banks's and the Group's accounting policies in relation to the ECL of loans to customers are in compliance with IFRS 9 by assessing each significant model component: probability of default and loss given default, definitions of default and significant increase in credit risk, use of macroeconomic scenarios and other factors. Our own credit risk experts assisted us in this assessment. We assessed the design and operating effectiveness of the controls over relevant loan data and ECL calculations. These controls included those over the credit file periodic review and rating assessment, collateral value establishing and monitoring. We also tested controls over ECL calculation processes, ie. whether: • stages of credit deterioration are properly established in the system and relevant lifetime or 12 month PDs are assigned to stage 2 and stage 1 exposures respectively, • lifetime and 12-month ECL is accurately calculated based on assigned PD and collateral values, • ECL for stage 3 assets is accurately calculated based on collateral values. We determined that we could rely on these controls for the purposes of our audit. We selected a sample of loans representing different credit ratings, stages, economic sectors and reviewed customer financial information, collateral data and other available information to assess: • If appropriate credit rating is applied to a customer; • Whether the estimated future cash flows from collaterals are supportable. We tested calculation of quarterly probability of default (PD) from loan portfolio and reconciled selected quarterly PD figures to working files where the PDs were adjusted for macroeconomic

scenarios, and 12 month and life-time PDs established. We tested accuracy of data used in loss given default calculation for consumer financing.

We also performed detailed testing over reliability of loan portfolio data, including exposure, credit rating and other inputs used in impairment calculation engine as at 1 January 2018 and 31 December 2018.

We obtained the lists of manual adjustments made in provision calculation engine and tested if changes in selected loans were justified.

We also analytically compared impairment provisions as at 1 January 2018, selected interim period, 31 December 2018 and 31 January 2019 and did not identify unusual or unexplained deviations.

Based on available evidence we found management assumptions and impairment calculation methods to be reasonable.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises a number of subsidiaries that operate in Lithuania (refer to note "General information" on page 17 of the Financial Statements). A full scope audit was performed by PwC Lithuania for the following Group entities covering substantially all of the Group's interest, fee and commission income and about 98% of the Group's assets:

- Šiaulių bankas AB
- SB lizingas UAB
- Bonum Publicum GD UAB.

For other entities of the Group we have carried out audit work on the selected balances and transactions, which were assessed by us as material from the Group audit perspective.

Reporting on other information including the Consolidated Annual Report

Management is responsible for the other information. The other information comprises the Consolidated Annual Report, including the corporate governance report and the social responsibility report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the Consolidated Annual Report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Consolidated Annual Report, we considered whether the Consolidated Annual Report includes the disclosures required by the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings and the Law of the Republic of Lithuania on Financial Reporting by Undertakings implementing Article 19 of Directive 2013/34/EU.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Consolidated Annual Report for the financial year ended 31 December 2018, for which the financial statements are prepared, is consistent with the financial statements; and
- the Consolidated Annual Report has been prepared in accordance with the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings and the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

The Bank and the Group presented the social responsibility report as a part of the Consolidated Annual Report

In addition, in light of the knowledge and understanding of the Bank and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Consolidated Annual Report which we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 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 financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the 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 have communicated 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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

Appointment

We were first appointed as auditors of the Bank and the Group in 1994. Our appointment has been renewed by tenders and shareholders' resolutions in the intermediate years, representing a total period of uninterrupted engagement appointment of 25 years.

The certified auditor on the audit resulting in this independent auditor's report is Rimvydas Jogėla .

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania
6 March 2019

FINANCIAL STATEMENTS

31 December 2018

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(All amounts are in EUR thousand, unless otherwise stated)

THE GROUP'S AND THE BANK'S INCOME STATEMENTS

		Year ended			
		31 December 2018		31 December 2017	
	Notes	Group	Bank	Group	Bank
Interest revenue calculated using the effective interest method	1	64,839	57,798	62,058	54,486
Other similar income	1	6,421	5,943	5,020	3,650
Interest expense and similar charges	1	(8,434)	(8,443)	(9,921)	(9,915)
Net interest income		62,826	55,298	57,157	48,221
Fee and commission income	2	19,518	19,109	15,752	15,294
Fee and commission expense	2	(5,319)	(5,196)	(4,800)	(4,660)
Net fee and commission income		14,199	13,913	10,952	10,634
Net gain from operations with securities	3	962	2,448	2,923	1,556
Net gain from foreign exchange and related derivatives	3	6,931	6,762	4,829	5,514
Net gain (loss) from other derivatives	3, 12	4	4	(2,885)	(2,589)
Net gain (loss) from changes in fair value of subordinated loan	30	9,043	9,043	(12,139)	(12,139)
Net gain from derecognition of financial assets	6	582	582	3,178	3,070
Net gain from disposal of tangible assets	6	2,449	273	2,897	37
Revenue related to other activities of Group companies	5	6,516	-	10,539	-
Other operating income	6	1,375	510	1,366	380
Salaries and related expenses		(21,085)	(17,935)	(20,192)	(16,727)
Depreciation and amortization expenses		(1,982)	(1,672)	(1,863)	(1,510)
Expenses related to other activities of Group companies	5	(3,976)	-	(8,686)	-
Other operating expenses	4	(12,100)	(9,117)	(10,293)	(7,574)
Operating profit before impairment losses		65,744	60,109	37,783	28,873
(Allowance) / reversal of allowance for impairment losses on loans and finance lease receivables	7	(2,941)	(3,129)	2,457	2,018
(Allowance) / reversal of allowance for impairment losses on other assets	7	(4,802)	(1,556)	(483)	25
Allowance for impairment losses on investments in subsidiaries	7, 19	-	(2,234)	-	(1,261)
Dividends from investments in subsidiaries and subsidiaries classified as held for sale	19, 29	-	4,619	-	7,681
Profit before income tax		58,001	57,809	39,757	37,336
Income tax expense	8	(5,363)	(4,744)	(7,630)	(6,446)
Net profit for the year		52,638	53,065	32,127	30,890
Net profit attributable to:					
Owners of the Bank		52,638	53,065	32,127	30,890
Non-controlling interest		-	-	-	-
Basic earnings per share (in EUR per share) attributable to owners of the Bank	9	0.10		0.06	
Diluted earnings per share (in EUR per share) attributable to owners of the Bank	9	0.10		0.06	

Deputy Chief Executive Officer acting as Chief Executive Officer — Donatas Savickas

Chief accountant — Vita Urbonienė

6 March 2019

The accounting policies and notes on pages 17 to 140 constitute an integral part of these financial statements.

(All amounts are in EUR thousand, unless otherwise stated)

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

				Year ended	
		31 December 2018		31 December 2017	
	Notes	Group	Bank	Group	Bank
Net profit for the year		52,638	53,065	32,127	30,890
Other comprehensive income (loss):					
Items that may be subsequently reclassified to profit or loss:					
Financial assets valuation gains (losses) taken to equity	15	(486)	(486)	690	469
Financial assets valuation result transferred to profit or loss	15	(74)	(74)	(388)	(409)
Amortisation of revaluation related to portfolio reclassified to held-to-maturity category	15	N/A	N/A	(45)	(45)
Deferred income tax on gain (loss) from revaluation of financial assets	8, 15	84	84	(38)	(2)
Items that may not be subsequently reclassified to profit or loss:					
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	30	352	352	N/A	N/A
Other comprehensive income (loss), net of deferred tax		(124)	(124)	219	13
Total comprehensive income for the year		52,514	52,941	32,346	30,903
Total comprehensive income attributable to:					
Owners of the Bank		52,514	52,941	32,346	30,903
Non-controlling interest		-	-	-	-
		52,514	52,941	32,346	30,903

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6 March 2019

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(All amounts are in EUR thousand, unless otherwise stated)

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

		31 December 2018		31 December 2017	
	Notes	Group	Bank	Group	Bank
ASSETS					
Cash and cash equivalents	10	89,304	87,732	129,738	126,591
Securities in the trading book	12	60,182	27,896	49,175	18,284
Due from other banks	11	2,090	2,090	2,218	2,218
Derivative financial instruments	12	1,197	1,197	3,031	3,031
Loans to customers	13	1,262,167	1,264,741	1,098,327	1,102,927
Finance lease receivables	14	124,088	123,969	91,139	90,898
Investment securities at fair value	15	21,107	16,507	16,472	11,542
Investment securities at amortized cost	15	638,655	638,655	576,260	576,260
Investments in subsidiaries	16	-	24,659	-	26,895
Intangible assets	17	3,359	1,975	4,535	1,684
Property, plant and equipment	18	8,630	8,018	10,702	10,068
Investment property	26	9,760	2,277	12,230	3,771
Current income tax prepayment		1,477	1,435	16	-
Deferred income tax asset	8	1,251	573	718	218
Inventories	19	16,312	-	18,316	-
Other financial assets	19	13,213	12,708	10,485	9,616
Other non-financial assets	19	8,937	7,306	7,400	5,963
Total assets		2,261,729	2,221,738	2,030,762	1,989,966
LIABILITIES					
Due to other banks and financial institutions	20	69,152	71,320	55,717	57,884
Derivative financial instruments	12	1,048	1,048	1,894	1,894
Due to customers	21	1,845,788	1,846,790	1,648,053	1,648,817
Special and lending funds	22	3,192	3,192	13,336	13,336
Debt securities in issue	23	20,003	20,003	20,003	20,003
Subordinated loan	30	-	-	34,203	34,203
Current income tax liabilities		233	-	3,735	3,440
Deferred income tax liabilities	8	598	-	525	-
Liabilities related to insurance activities	24	27,967	-	27,232	-
Other financial liabilities	25	13,501	9,366	11,876	7,945
Other non-financial liabilities	25	5,509	909	4,212	485
Total liabilities		1,986,991	1,952,628	1,820,786	1,788,007
EQUITY					
Share capital	27	174,211	174,211	131,366	131,366
Share premium	27	3,428	3,428	-	-
Reserve capital	27	756	756	756	756
Statutory reserve	27	10,369	10,195	7,177	7,071
Financial instruments revaluation reserve		(492)	(492)	530	290
Retained earnings		86,466	81,012	70,147	62,476
Non-controlling interest		-	-	-	-
Total equity		274,738	269,110	209,976	201,959
Total liabilities and equity		2,261,729	2,221,738	2,030,762	1,989,966

Deputy Chief Executive Officer acting as Chief Executive Officer — Donatas Savickas

Chief accountant — Vita Urbonienė

6 March 2019

The accounting policies and notes on pages 17 to 140 constitute an integral part of these financial statements.

(All amounts are in EUR thousand, unless otherwise stated)

THE GROUP'S STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Share premium	Reserve capital	Financial instruments revaluation reserve	Statutory reserve	Retained earnings	Total	Non-controlling interest	Total equity
		Attributable to the owners of the Bank								
1 January 2017		109,472	-	756	311	4,157	64,821	179,517	-	179,517
Transfer to statutory reserve		-	-	-	-	3,020	(3,020)	-	-	-
Payment of dividends	29	-	-	-	-	-	(1,887)	(1,887)	-	(1,887)
Increase in share capital through bonus issue of shares	27	21,894	-	-	-	-	(21,894)	-	-	-
Total comprehensive income:		-	-	-	219	-	32,127	32,346	-	32,346
Net profit		-	-	-	-	-	32,127	32,127	-	32,127
Other comprehensive income		-	-	-	219	-	-	219	-	219
31 December 2017		131,366	-	756	530	7,177	70,147	209,976	-	209,976
Impact of change in accounting principles		-	-	-	(898)	-	(8,194)	(9,092)	-	(9,092)
1 January 2018		131,366	-	756	(368)	7,177	61,953	200,884	-	200,884
Transfer to statutory reserve		-	-	-	-	3,192	(3,192)	-	-	-
Reversal of deferred income tax previously recognized directly in equity		-	-	-	-	-	(1,127)	(1,127)	-	(1,127)
Conversion of subordinated loan to share capital	27	16,572	3,428	-	-	-	4,732	24,732	-	24,732
Payment of dividends	29	-	-	-	-	-	(2,265)	(2,265)	-	(2,265)
Increase in share capital through bonus issue of shares	27	26,273	-	-	-	-	(26,273)	-	-	-
Total comprehensive income:		-	-	-	(124)	-	52,638	52,514	-	52,514
Net profit		-	-	-	-	-	52,638	52,638	-	52,638
Other comprehensive income		-	-	-	(124)	-	-	(124)	-	(124)
31 December 2018		174,211	3,428	756	(492)	10,369	86,466	274,738	-	274,738

THE BANK'S STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Share premium	Reserve capital	Financial instruments revaluation reserve	Statutory reserve	Retained earnings	Total
1 January 2017		109,472	-	756	277	4,157	58,281	172,943
Transfer to statutory reserve		-	-	-	-	2,914	(2,914)	-
Payment of dividends	29	-	-	-	-	-	(1,887)	(1,887)
Increase in share capital through bonus issue of shares	27	21,894	-	-	-	-	(21,894)	-
Total comprehensive income:		-	-	-	13	-	30,890	30,903
Net profit		-	-	-	-	-	30,890	30,890
Other comprehensive income		-	-	-	13	-	-	13
31 December 2017		131,366	-	756	290	7,071	62,476	201,959
Impact of change in accounting principles		-	-	-	(658)	-	(6,472)	(7,130)
1 January 2018		131,366	-	756	(368)	7,071	56,004	194,829
Transfer to statutory reserve		-	-	-	-	3,124	(3,124)	-
Reversal of deferred income tax previously recognized directly in equity		-	-	-	-	-	(1,127)	(1,127)
Conversion of subordinated loan to share capital		16,572	3,428	-	-	-	4,732	24,732
Payment of dividends	29	-	-	-	-	-	(2,265)	(2,265)
Increase in share capital through bonus issue of shares	27	26,273	-	-	-	-	(26,273)	-
Total comprehensive income:		-	-	-	(124)	-	53,065	52,941
Net profit		-	-	-	-	-	53,065	53,065
Other comprehensive income		-	-	-	(124)	-	-	(124)
31 December 2018		174,211	3,428	756	(492)	10,195	81,012	269,110

The accounting policies and notes on pages 17 to 140 constitute an integral part of these financial statements.

(All amounts are in EUR thousand, unless otherwise stated)

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

					Year ended
		31 December 2018		31 December 2017	
	Notes	Group	Bank	Group	Bank
Operating activities					
Interest received on loans and advances		60,002	52,483	55,595	48,309
Interest received on debt securities in the trading book		1,247	894	1,254	901
Interest paid		(8,053)	(8,062)	(9,647)	(9,641)
Fees and commissions received		19,518	19,109	15,752	15,294
Fees and commissions paid		(5,319)	(5,196)	(4,800)	(4,660)
Net cash inflows from trade in securities in the trading book		(11,909)	(11,253)	7,654	7,365
Net inflows from foreign exchange operations		5,637	5,468	9,152	9,837
Net inflows from derecognition of financial assets		582	582	2,026	1,918
Net inflows from disposal of tangible assets		8,373	273	5,962	362
Cash inflows related to other activities of Group companies		7,891	510	11,905	380
Cash outflows related to other activities of Group companies		(3,976)	-	(7,391)	-
Recoveries on loans previously written off		1,582	662	1,245	555
Salaries and related payments to and on behalf of employees		(20,422)	(17,272)	(19,953)	(16,488)
Payments related to operating and other expenses		(12,100)	(9,145)	(10,276)	(7,506)
Income tax paid	*8*	(10,704)	(9,893)	(8,664)	(7,901)
Net cash flow from operating activities before change in operating assets and liabilities		32,349	19,160	49,814	38,725
Change in operating assets and liabilities:					
Decrease in due from other banks		128	128	3,119	3,119
Increase in loans to customers and finance lease receivables		(209,498)	(200,829)	(155,379)	(140,816)
Increase in other assets		(11,580)	(6,069)	(4,694)	(10,698)
Increase (decrease) in due to banks and financial institutions		13,215	13,216	(34,545)	(34,664)
Increase in due to customers		197,499	197,737	153,161	153,534
Decrease in special and lending funds		(10,144)	(10,144)	(14,990)	(14,990)
Increase in other liabilities		2,994	1,213	2,039	313
Change		(17,386)	(4,748)	(51,289)	(44,202)
Net cash flow from (used in) operating activities		14,963	14,412	(1,475)	(5,477)
Investing activities					
Acquisition of property, plant and equipment, investment property and intangible assets		(2,328)	(2,053)	(1,450)	(1,578)
Disposal of property, plant and equipment, investment property and intangible assets		3,555	1,126	8,114	398
Acquisition of debt securities at amortized cost	15	(133,985)	(133,985)	(149,508)	(149,508)
Proceeds from redemption or sale of debt securities at amortized cost	15	70,184	70,184	85,897	85,897
Interest received on debt securities at amortized cost	15	13,900	13,900	13,177	13,177
Dividends received	29	37	4,647	15	7,425
Acquisition of investment securities at fair value		(7,078)	(7,408)	(15,021)	(6,306)
Sale or redemption of investment securities at fair value		2,459	2,459	17,502	12,592
Interest received on investment securities at fair value		251	251	481	465
Inflows from subsidiaries held for sale	19	-	-	-	256
Instalments to cover losses and to strengthen the capital of subsidiaries	16	-	-	-	(1,000)
Net cash flow (used in) from investing activities		(53,005)	(50,879)	(40,793)	(38,182)
Financing activities					
Payment of dividends	29	(2,272)	(2,272)	(1,864)	(1,864)
Issue and interest on debt securities in issue	23	(120)	(120)	20,003	20,003
Net cash flow (used in) from financing activities		(2,392)	(2,392)	18,139	18,139
Net decrease in cash and cash equivalents		(40,434)	(38,859)	(24,129)	(25,520)
Cash and cash equivalents at 1 January		129,738	126,591	153,867	152,111
Cash and cash equivalents at 31 December	10	89,304	87,732	129,738	126,591

The accounting policies and notes on pages 17 to 140 constitute an integral part of these financial statements.

GENERAL INFORMATION

Šiaulių Bankas AB was registered as a public company in the Enterprise Register of the Republic of Lithuania on 4 February 1992. The Bank is licensed by the Bank of Lithuania to perform all banking operations provided for in the Law on Banks of the Republic of Lithuania and the Charter of the Bank. In this document Šiaulių Bankas AB is referred to as the Bank, Šiaulių Bankas AB and its subsidiaries - the Group.

The Head Office of the Bank is located in Šiauliai, Tilžės str. 149, LT-76348. At the end of the reporting period the Bank had 62 customer service outlets (2017: 65 outlets). As at 31 December 2018 the Bank had 714 employees (31 December 2017: 702). As at 31 December 2018 the Group had 815 employees (31 December 2017: 805 employees).

The Bank accepts deposits, issues loans, makes money transfers and documentary settlements, exchanges currencies for its clients, issues and processes debit and credit cards, is engaged in trade finance and is investing and trading in securities, as well as performs other activities set forth in the Law on Banks of the Republic of Lithuania and the Charter of the Bank.

The Bank's shares are listed on the Baltic Main List of the NASDAQ Stock Exchange.

As of 31 December 2018 and 31 December 2017 the Bank owned the following directly controlled subsidiaries:

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

As of 31 December 2018 and 31 December 2017 the Bank owned the following indirectly controlled subsidiaries:

9. Apželdinimas UAB (real estate management activities),
10. Sandworks UAB (real estate management activities),
11. ŽSA 5 UAB (activities of head offices).

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

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

ACCOUNTING POLICIES

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

Basis of preparation

The financial statements of the Group and the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. The financial statements have been prepared under the historical cost convention as modified for the fair value of financial assets and liabilities at fair value through profit or loss and investment securities at fair value through other comprehensive income.

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

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

Amounts shown in these financial statements are presented in the national currency the euro (EUR), which is the Bank's and Group's functional and presentation currency.

Amendments to existing standards and interpretations effective in 2018

IFRS 9, Financial Instruments:

The standard is effective for annual periods beginning on or after 1 January 2018 and replaces IAS 39, Financial Instruments: Recognition and Measurement. Key features of the new standard are:

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

The new standard had a material impact on Groups financial statements as described below.

(All amounts are in EUR thousand, unless otherwise stated)

b) Aggregate impact on equity

The impact of the adoption of IFRS9 on the Group's and the Bank's equity as at 1 January 2018 is summarised in the table below:

	The Group			*The Bank*		
	As reported at 31 December 2017	Adjustments due to adoption of IFRS9	Adjusted opening balance at 1 January 2018	As reported at 31 December 2017	Adjustments due to adoption of IFRS9	Adjusted opening balance at 1 January 2018
Financial instruments revaluation reserve	530	(898)	(368)	290	(658)	(368)
transfer to retained earnings	-	(546)	-	-	(306)	-
transfer from retained earnings	-	(352)	-	-	(352)	-
Retained earnings	70,147	(8,194)	61,953	62,476	(6,472)	56,004
transfer to financial instruments revaluation reserve	-	352	-	-	352	-
transfer from financial instruments revaluation reserve	-	546	-	-	306	-
recognition of additional impairment	-	(9,193)	-	-	(7,231)	-
derecognition of embedded derivatives	-	101	-	-	101	-
Other equity items	139,299	-	139,299	139,193	-	139,193
Total equity	209,976	(9,092)	200,884	201,959	(7,130)	194,829

Total adjustment (net of tax) to the opening balance of the Group's equity at 1 January 2018 is a decrease of EUR 9,092 thousand. The principal components of the estimated adjustment are as follows:

- Part of the financial assets revaluation reserve attributable to revaluation of available-for-sale equities (EUR 546 thousand) transferred to retained earnings (financial instruments revaluation reserve decreased, retained earnings increased);

- Amount of change in the fair value of subordinated loan that is attributable to changes in the credit risk of that liability (EUR 352 thousand) transferred to financial instruments revaluation reserve (retained earnings increased, financial instruments revaluation reserve decreased);

- Retained earnings reduced by EUR 8,194 thousand (net of tax) due to:
    - increase in impairment: decrease of retained earnings by EUR 9,193 thousand;
    - derecognition of embedded derivatives: increase of retained earnings byEUR 101 thousand;
    - transfer of revaluation of available-for-sale equities: increase of retained earnings by EUR 546 thousand;
    - change in fair value of subordinated loan attributable to own credit risk: increase of retained earnings by EUR 352 thousand.

c) Impact on classification and measurement

There were no major changes in the classification of Group's financial assets and liabilities except for the measurement of embedded derivatives, equities and subordinated loan liability.

Embedded derivatives related to interest rate floor in variable rate loan contracts (see Note 12): as the loans that contain such conditions pass the SPPI test and are held in line with the business model, main purpose of which is to collect cash flows from the financial instrument, the Group has to apply the classification requirements on the whole instrument and therefore embedded derivatives related to interest rate floor in variable rate loan contracts are no longer recognised separately on the balance sheet. The derecognition results in decrease of value of derivatives and retained earnings by EUR 2,284 thousand for the Group and the Bank.This impact is offset by change in accrued interest as when initially recognized, value of loan was reduced by value of embedded derivative, and later the difference was included in the effective interest rate and amortized through interest income. Change in accrued interest results in an increase in loans and retained earnings by EUR 2,385 thousand. Therefore the total effect of derecognition of embedded derivatives results in increase in retained earnings by EUR 101 thousand.

Equities available for sale (see Note 15): under IFRS9, the Group chose to measure changes in fair value of these instruments through profit or loss. This results in EUR 546 thousand transfer from other comprehensive income to retained earnings.

Subordinated loan (see Note 30): subordinated loan is a financial liability at fair value through profit or loss, designated as such upon initial recognition. Under IFRS9, the amount of change in the fair value of subordinated loan that is attributable to changes in the credit risk of that liability has to be accounted for in other comprehensive income. This resulted in EUR 352 thousand transfer from retained earnings to other comprehensive income on IFRS adoption.

(All amounts are in EUR thousand, unless otherwise stated)

For most financial instruments not mentioned above, no changes in the measurement principles have occurred. Some instruments were reclassified to other category with no change in measurement principles. A table below provides reconciliation of such categories of financial assets:

IAS 39 category	*IFRS9 category*
Financial assets measured at fair value through other comprehensive income:	*Financial assets measured at fair value through other comprehensive income:*
Investment securities available-for-sale (debt securities)	*Debt securities measured at fair value through other comprehensive income*
Financial assets measured at amortized cost:	*Financial assets measured at amortized cost:*
Investment securities held-to-maturity	*Investment securities at amortized cost*

d) Impact on impairment

The Group designed and implemented an ECL measurement model, which covers four main groups of financial assets: loan and finance lease portfolio; debt securities; due from banks; other financial assets. Model for loan and finance lease portfolio ECL measurement is based on Group's historical credit loss experience adjusted by factors to reflect the differences between the economic conditions of the period of which historical data was used, and economic developments expected over the next 12 months or estimated life of instruments. The Group performed ECL calculations for segments of customers that share similar risk characteristics (segments of corporate customers were defined using economic sector, individual customers were split between consumer financing and other). Model for other financial assets uses simplified assumptions from the loan and finance lease portfolio model. Models for debt securities and due from banks rely on external ratings and probability of default and recovery rate data of Moody's Investors Service. ECL measurement models are described in more detail in the section 1.3. Impairment and provisioning policies of the financial risk management disclosure.

Total impact on impairment is summarised in the table below:

	Group	*Bank*
Increase in impairment of loans and finance leases	9,695	7,757
Increase in impairment of other balance sheet items	625	601
Increase in impairment, before taxes	10,320	8,358
Change in deferred tax assets, attributable to increase in impairment	(1,127)	(1,127)
Increase in impairment, after taxes	9,193	7,231

e) Impact on disclosures
The Group chose the option of not restating the comparative information for prior periods. Differences in the carrying amounts of financial assets resulting from adoption of IFRS9 were recognised in retained earnings and reserves as at 1 January 2018. These financial statements include extensive new disclosures, in particular about credit risk and expected credit losses. See financial risk management section for the ECL model and risk management dislosure, and Note 13 for the disclosure of loans and advances.

f) Impact on prudential requirements
Adoption of IFRS9 did not result in breaches of any prudential requirements. The Bank decided to use the option of transitional arrangements that allow institutions to include in their Common Equity Tier 1 capital a portion of the increased expected credit loss provisions for a transitional period of 5 years. Had the Bank opted not to use transitional arrangements, it would anyway have been compliant with all prudential requirements.

(All amounts are in EUR thousand, unless otherwise stated)

g) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

Financial assets at fair value:

	Group			Bank		
	IAS 39 carrying amount 31 December 2017	Reclassification on IFRS9 adoption	IFRS 9 carrying amount 1 January 2018	IAS 39 carrying amount 31 December 2017	Reclassification on IFRS9 adoption	IFRS 9 carrying amount 1 January 2018
Financial assets mandatorily measured at fair value through profit or loss:						
Trading securities	29,632	-	29,632	18,284	-	18,284
trading debt securities: government bonds	*11,920*	-	*11,920*	*5,905*	-	*5,905*
trading debt securities: corporate bonds	*17,183*	-	*17,183*	*11,850*	-	*11,850*
trading equities	*529*	-	*529*	*529*	-	*529*
Other trading book securities (reclassified from Securities at fair value through profit or loss,designated as such upon initial ecognition)	*N/A*	*19,543*	*19,543*	*N/A*	-	-
other trading book debt securities: government bonds	*N/A*	*1,486*	*1,486*	*N/A*	-	-
other trading book debt securities: corporate bonds	*N/A*	-	-	*N/A*	-	-
other trading book equities	*N/A*	*18,057*	*18,057*	*N/A*	-	-
Investment securities at fair value	*N/A*	*5,150*	*5,150*	*N/A*	*628*	*628*
non-trading equities (reclassified from available-for-sale equities)	*N/A*	*5,150*	*5,150*	*N/A*	*628*	*628*
Securities at fair value through profit or loss,designated as such upon initial recognition (reclassified to Other trading book securities)	19,543	(19,543)	N/A	-	-	N/A
government bonds	*1,486*	*(1,486)*	*N/A*	-	-	*N/A*
corporate bonds	-	-	*N/A*	-	-	*N/A*
equities	*18,057*	*(18,057)*	*N/A*	-	-	*N/A*
Derivative financial instruments	3,031	(2,284)	747	3,031	(2,284)	747
Derivatives related to interest rate floor in variable rate loan contracts (derecognized)	*2,284*	*(2,284)*	-	*2,284*	*(2,284)*	-
Other derivatives	*747*	-	*747*	*747*	-	*747*
Financial assets measured at fair value through other comprehensive income:						
Debt securities at fair value through other comprehensive income	N/A	11,322	11,322	N/A	10,914	10,914
government bonds -	*N/A*	-	-	*N/A*	-	-
corporate bonds -	*N/A*	*11,322*	*11,322*	*N/A*	*10,914*	*10,914*
Investment securities available-for-sale	16,472	(16,472)	N/A	11,542	(11,542)	N/A
government bonds (reclassified to Debt securities at fair value through other comprehensive income)	-	-	*N/A*	-	-	*N/A*
corporate bonds (reclassified to Debt securities at fair value through other comprehensive income)	*11,322*	*(11,322)*	*N/A*	*10,914*	*(10,914)*	*N/A*
equities (reclassified to Non-trading equities)	*5,150*	*(5,150)*	*N/A*	*628*	*(628)*	*N/A*

(All amounts are in EUR thousand, unless otherwise stated)

ACCOUNTING POLICIES (continued)

Financial assets at amortized cost:

	Group					Bank				
	IAS 39 carrying amount 31 December 2017	Reclassification amount	Change in accrued income on IFRS9 adoption	Change in impairment on IFRS9 adoption	IFRS 9 carrying amount 1 January 2018	IAS 39 carrying amount 31 December 2017	Reclassification amount	Change in accrued income on IFRS9 adoption	Change in impairment on IFRS9 adoption	IFRS 9 carrying amount 1 January 2018
Cash and cash equivalents	129,738	-	-	(22)	129,716	126,591	-	-	(22)	126,569
Due from other banks	2,218	-	-	-	2,218	2,218	-	-	-	2,218
Loans to customers	1,098,327	-	2,350	(8,131)	1,092,545	1,102,927	-	2,350	(6,213)	1,099,062
Loans to financial institutions	18	-	-	-	18	39,756	-	-	-	39,756
Loans to individuals:	194,100	-	712	(3,058)	191,754	138,114	-	712	(1,141)	137,685
Consumer loans	*73,544*	*-*	*-*	*(2,659)*	*70,885*	*17,558*	*-*	*-*	*(762)*	*16,796*
Mortgages	*42,153*	*-*	*543*	*(285)*	*42,411*	*42,153*	*-*	*543*	*(285)*	*42,411*
Multiapartment rennovation loans	*60,659*	*-*	*-*	*(93)*	*60,566*	*60,659*	*-*	*-*	*(93)*	*60,566*
Other	*17,744*	*-*	*169*	*(21)*	*17,892*	*17,744*	*-*	*169*	*(1)*	*17,912*
Loans to business customers:	904,209	-	1,638	(5,073)	900,774	925,057	-	1,638	(5,073)	921,622
Large corporates	*89,087*	*-*	*26*	*(236)*	*88,875*	*89,087*	*-*	*26*	*(236)*	*88,875*
SME	*699,679*	*-*	*1,489*	*(4,463)*	*696,705*	*720,527*	*-*	*1,489*	*(4,463)*	*717,553*
Central and local authorities, administrative bodies and other	*115,443*	*-*	*123*	*(374)*	*115,192*	*115,443*	*-*	*123*	*(374)*	*115,192*
Finance lease receivables	91,139	-	35	(1,566)	89,608	90,898	-	35	(1,544)	89,389
Investment securities held to maturity (reclassified to investment securities at amortized cost)	576,260	(576,260)	-	-	N/A	576,260	(576,260)	-	-	N/A
Investment securities at amortized cost (reclassified from investment securities held to maturity)	N/A	576,260	-	(283)	575,977	N/A	576,260	-	(283)	575,977
Other financial assets	10,485	-	-	(307)	10,178	9,616	-	-	(288)	9,328

Other standards and amendments:

IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018) - the new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The new standard did not have a material impact on Bank's and Group's financial statements as the accounting principles for the absolute majority of Group's revenues remain the same under the new IFRS 15 regulations.

Amendments to IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018) - the amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard. The amendments did not have a material impact on Group's financial statements.

Classification and Measurement of Share-based Payment Transactions -Amendments to IFRS 2 (effective for annual periods beginning on or after 1 January 2018) - the amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety. Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. The amendments did not have any impact on Group's financial statements.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply overlay approach). The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches. (1) The amended standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued ('overlay approach'). In addition, the amended standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard - IAS 39. The amendments to IFRS 4 supplement existing options in the standard that can already be used to address the temporary volatility. The Group's entity engaged in life insurance activities uses the second approach – i.e. an exemption from applying IFRS 9 until 2021. These amendments do not have an impact on Group's financial statements as consolidation adjustments to implement the IFRS 9 accounting treatment within the whole Group are made where necessary.

Annual Improvements to IFRSs 2014–2016 Cycle (effective for annual periods beginning on or after 1 January 2018 (changes to IFRS 1 and IAS 28)) - IFRS 1 was amended to delete some of the short-term exemptions from IFRSs after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that venture capital organisations or similar entities have an investment-by- investment choice for measuring investees at fair value. Additionally, the amendment clarifies that if an investor that is not an investment entity has an associate or joint venture that is an investment entity, the investor can choose on an investment-by-investment basis to retain or reverse the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments did not have any impact on Group's financial statements.

Transfers of Investment Property - Amendments to IAS 40 (effective for annual periods beginning on or after 1 January 2018) - the amendment clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence; a change in intention, in isolation, is not enough to support a transfer. The amendments did not have a material impact on Group's financial statements.

IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018) - the interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The interpretation clarifies that the date of transaction, i.e. the date when the exchange rate is determined, is the date on which the entity initially recognises the non-monetary asset or liability from advance consideration. However, the entity needs to apply judgement in determining whether the prepayment is monetary or non-monetary asset or liability based on guidance in IAS 21, IAS 32 and the Conceptual Framework. The interpretation did not have a material impact on Group's financial statements.

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

IFRIC 23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019) - IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the amendments on its financial statements.

Prepayment Features with Negative Compensation - Amendments to IFRS 9 (effective for annual periods beginning on or after 1 January 2019) - the amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019) - the new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group has assessed the estimated impact that the initial application of IFRS 16 will have on its financial statements. The actual impact of adopting IFRS 16 at 1 January 2019 may change because the Group has not finalised the testing and assessment of controls over its new IT systems and the new accounting policies are subject to change until the Group presents its first full financial statements that include the date of initial application. Based on this assessment, the standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of EUR 3,055 thousand, see note 28. Of these commitments, approximately EUR 2 thousand relate to short-term or low value leases which will both be recognised on a straight-line basis as expense in profit or loss. For the remaining lease commitments the group expects to recognise right-of-use assets of approximately EUR 3,611 thousand on 1 January 2019, lease liabilities of EUR 3,521 thousand (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018) and deferred tax assets of EUR 14 thousand. Overall net assets will increase by approximately EUR 103 thousand. The Group expects that net profit after tax will not change significantly.

IFRS 16 will require new disclosures. The Group is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data. The Group chose the option to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Differences in the carrying amounts of assets and liabilities resulting from adoption of IFRS 16 will be recognised in retained earnings as at 1 January 2019.

ACCOUNTING POLICIES (continued)

Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU) - The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in the investee. The amendments are not expected to have a material impact on Group's financial statements.

Annual Improvements to IFRSs 2015-2017 cycle (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU) - the narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, eg in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The amendments are not expected to have a material impact on Group's financial statements.

Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU) - the amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan—an amendment, curtailment or settlement—takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The amendments are not expected to have a material impact on Group's financial statements.

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU) - the revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Group is currently assessing the impact of the amendments on its financial statements.

Definition of a business – Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU) - the amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The Group is currently assessing the impact of the amendments on its financial statements.

Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU) - the amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 17, Insurance Contracts (effective for annual periods beginning on or after 1 January 2021; not yet adopted by the EU) - IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare the financial performance of similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group is currently assessing the impact of the amendments on its financial statements.

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

Consolidation of subsidiaries

Subsidiaries are all entities (including structured entitie) over which the Group has control. The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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

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

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

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

Foreign currency translation

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

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

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

Off-setting financial instruments

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

Recognition of income and expenses

Interest income and expense are recognised in the statement of comprehensive income on debt instruments at amortized cost or at fair value through other comprehensive income on an accrual basis using the effective interest method based on the actual purchase price. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options). The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

For financial assets interest income is calculated by applying the effective interest rate to the gross carrying amount, except for financial assets that are credit-impaired (Stage 3), for which interest income is calculated by applying the effective interest rate to the net carrying amount (i.e. gross carrying amount reduced by the allowance for impairment), and purchased or originated credit-impaired (POCI) assets, for which the credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.

Fees and commissions are recognised over time on a straight line basis as the services are provided, when the customer simultaneously receives and consumes the benefits provided by the Group. Income includes fees for account administration, administration of loans of third parties. Fee and commission is recognised at a point in time when the Group satisfies its performance obligation upon execution of the specified transaction. Such income includes fees for settlement services, cash operations, documentary collection, collection of utility and similar payments, services related to securities and other.

Revenue from other activities of the Group comprise sale of apartments or other developed real estate projects. This revenue is recognized at a point of time upon transfer of completed property to client.

Dividend income

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

Taxation

a) *Income tax*

In accordance with the Lithuanian Law on Corporate Profit Tax, taxable profit for 2018 and 2017 period is subject to income tax at a rate of 15%. Expenses related to taxation charges and included in these financial statements are based on calculations made by the management in accordance with the Lithuanian regulatory legislation on taxes.

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

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

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

b) *Other taxes*

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

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with the Bank of Lithuania, treasury bills and other eligible bills, amounts due from banks and financial institutions and short-term government securities.

Financial assets

Financial assets are classified into 3 categories:
- financial assets at fair value through profit and loss (the Group and the Bank have debt and equity securities which are included to trading book, and equity secutities which are included to investment securities potfolio),
- financial assets at fair value through other comprehensive income (the Group and the Bank have only debt securities of this category, these are included to Investment securities portfolio) and
- financial assets at amortized cost.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. The classification is based on the cash flow characteristics of the asset and the Group's business model for managing the asset.

Financial assets at fair value through profit or loss

Trading book (trading sub-portfolio) includes debt securities which were acquired either for generating a profit from short-term fluctuations in price or dealer's margin.

Trading book (other assets sub-portolio) includes debt and equity assets of the subsidiary involved in life insurance activities. These assets are managed on behalf of customers and were designated at fair value through profit or loss in order to significantly reduce the accounting mismatch between these securities and unit-linked provisions.

Investment portfolio includes non-trading (investment) equities that were acquired for generating a profit in longer term fluctuations or in line with other purposes with the Group (e.g. to have participation in entities that provide services to the group, or other).

Securities at fair value through profit or loss are initially recognised at fair value, which is based on transaction price and are subsequently measured at fair value based on quoted bid prices or derived from a discounted cash flow model if market price is unreliable measure. All related realised and unrealised gains and losses are included in net trading income. Interest earned is reported as interest income. Dividends received are included in dividend income. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

All purchases and sales of securities at fair value through profit or loss that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at settlement date, which is the date when payment is made for assets purchased or sold. All other purchases and sales are recognised as derivative forward transactions until settlement.

Financial assets at fair value through other comprehensive income

Debt securities that are held for collection of contractual cash flows and for selling them, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at fair value through profit or loss, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for recognition of impairment gains or losses, interest income and foreign exchange gains or losses on the financial instrument's amortised cost which are recognized in profit or loss. When the debt asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in Net gain (loss) in operations from securities. Interest income from these financial assets is included in Interest income using the effective interest rate method.

The Group did not designate any equities at fair value through other comprehensive income.

Financial assets at amortized cost

Financial assets at amortized cost are non-derivative financial assets that pass the "Solely payments of principal and interest" (SPPI) test other than: (a) those that the bank classifies as fair value through profit or loss due to intention for short-term sale or reduction of accounting mismatch; (b) those that the bank upon initial recognition designates at fair value through other comprehensive income; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the asset and recognised in the statement of comprehensive income as 'Allowance for impairment losses'.

Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instrument assets carried at amortized cost and fair value through other comprehensive income and with exposure arising from loan commitments and financial guarantee contracts. The Group recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic condition. Section 1.3 of the Financial risk management disclosure provides more details on the ECL measurement.

Impairment of non-financial assets

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

Reverse repurchase transactions

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

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

Intangible assets

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

Property, plant and equipment

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

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

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

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

Leases

a) Group company is the lessee

Operating leases

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

b) Group company is the lessor

Operating leases

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

Finance leases

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

Inventories

Inventories of the Group consist mainly of apartments held for sale and property for development. They are stated at the lower of cost and net realizable value. Net realizable value for apartments held for sale are calculated as based on market value of apartments less costs to sell. Net realizable value of property for development are calculated as discounted cash inflows to be received from developed property less discounted cash outflows related to the development and selling of a property.

Financial liabilities

The Group's financial liabilities consist of those designated at fair value and those carried at amortised cost. Financial liabilities are derecognised when extinguished.

Financial liabilities at fair value through profit or loss

The group designated certain debt securities upon initial recognition as at fair value through profit or loss (fair value option); this designation cannot be changed subsequently. According to IAS 39, the fair value option is applied, as the debt securities consists of debt host and embedded derivatives that must otherwise be separated. The Group has designated as a financial liability at fair value through profit or loss its subordinated debt with embedded option. This financial liability is presented in the *Subordinated debt* line in the Statement of Financial Position. Classification of this liability did not change under IFRS9 requirements.

Other liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers, debt securities in issue, liabilities to special and lending funds as well as other various financial liabilities. Initially they are recognised at fair value, and subsequently stated at amortised cost, with any difference between net proceeds and the redemption value recognised in the Income statement over their period using the effective interest method.

Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be reliably estimated.

Technical provisions

Technical provisions are computed in accordance with Lithuanian insurance supervisory authority (Bank of Lithuania) requirements and are based on assumptions and estimates, the adequacy of which is evaluated based on observations of historical and current data and the use of projection methods that consider developing trends in experience and that adjust for changes in circumstances.

a) Unearned premiums reserve

Unearned premiums reserve represents the part of premiums written which relates to the period of risk subsequent to the accounting period. Unearned premiums reserve is calculated for every contract separately by proportionate distribution of the written premium throughout the risk period. The part of unearned premiums reserve attributable to the reinsurers is calculated by the same method.

b) Outstanding claims reserve

Outstanding claims reserve represents amounts payable for claims outstanding. Provision covers all anticipatory payments for claims reported but not settled, claims incurred but not reported, claims reported, settled but not paid, including amounts required for claims settlement according to all above mentioned claims as of the financial statement date.

Base for calculation of provision for claims reported but not settled is an individual evaluation of every reported claim, according to the information available at the moment of calculation of this technical provision.

The part of provision for claims incurred, not reported is calculated using "Chain-ladder", Bornhuetter – Ferguson or Loss-ratio methods for insurance products separately.

The part of outstanding claims reserve attributable to the reinsurers is calculated under reinsurance contracts.

c) Life insurance mathematical provision

Life insurance mathematical provision is calculated individually for every policy applying an actuarial conservative perspective assessment. Life insurance mathematical provision is a difference of the actuarially discounted value of the future policy benefits less the discounted value of the future premium payments.

The method of assessment can be described as prospective net premium method. For the calculations Zillmer adjustment method is applied. Thus deferred acquisition costs reduce life insurance mathematical technical reserve.

When computing the life insurance mathematical technical provision mortality tables of general population of Lithuania for the years 1993 – 1996, that were modified in year 2007 according the situation of the population of Lithuania are applied. Guaranteed interest rate is applied according to agreements but no more than 3.5%.

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

d) Technical provision for unit-linked life insurance policies

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

(All amounts are in EUR thousand, unless otherwise stated)

Insurance contracts

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

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

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

Benefits are recorded as expenses when they are incurred.

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

The liabilities are recalculated at each balance sheet date using the assumptions established at inception of the contract.

b) Long-term insurance contracts without fixed terms – unit-linked

These contracts insure human life events (for example death or survival) over a long duration. The company does not unbundle deposit component separately from insurance component as:

- deposit element is not clearly identifiable from the terms of the contract;
- contracts of this kind are a single product, regulated as insurance business by insurance supervisory authority and should be treated in a similar way for financial reporting;
- the information about gross premium inflows is considered to be important as an aid to economic decisions.

Gross insurance premiums are recognized as revenue when they are received from the policyholder and the respective liability is recognized. Technical provision for unit-linked life insurance policies and mathematical provision for these insurance contracts is calculated is described in accounting policies above.

A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract to units of an internal investment fund set up by the company with the consideration received from the contract holders. This embedded derivative meets the definition of an insurance contract and is not therefore accounted for separately from the host insurance contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

c) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off deferred acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

As mentioned above, long-term insurance contracts with fixed terms are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margin for adverse deviation) are used for the subsequent measurement of these liabilities.

Any deferred acquisition costs written off as a result of this test cannot subsequently be reinstated.

For the years ended 31 December 2018 and 2017 the liability adequacy test and the changes were as follows:

	Technical provisions	Deferred acquisition cost	Best estimate of future cash flows	Adequacy of technical provisions
At 31 December 2017	27,232	584	21,606	5,042
Change for the period	735	(36)	1,061	(290)
At 31 December 2018	27,967	548	22,667	4,752

Dividends

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

Employee benefits

a) *Social security contributions*

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

b) *Termination benefits*

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

Segment information

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

The Group has four main business segments:

- Traditional banking operations and lending – includes traditional retail and corporate banking operations such as issuing loans and providing banking services to the customers and finance, operating lease and consumer financing services provided to customers of the Group (includes financial information of the Bank allocated to this segment and financial information of Šiaulių Banko Lizingas UAB and SB Lizingas UAB);
- Treasury – includes banking treasury operations such as managing securities and liquidity portfolio, currency exchange etc. (includes financial information of the Bank allocated to this segment);
- Non-core banking activities - includes other banking operations not included in traditional lending and treasury segments such as lending to subsidiaries (except for lending to leasing and consumer financing subsidiaries), revenues/expenses related to investment in subsidiaries (dividends, impairment of investment in subsidiaries), engagement in one-off projects, managing problem loans (includes financial information of the Bank allocated to this segment);
- Other activities – includes other activities performed by Group companies not included in previous segments – i.e. real estate operations, life insurance, investment management (includes financial information of the subsiaries not mentioned above).

As the Group's segment operations, except for real estate development are all financial with a majority of revenues deriving from interest and the Group Executive Board relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments is presented on a net basis. Also all other main items of the statement of comprehensive income are analysed by the management of the Group on segment basis therefore they are presented in the segment reporting.

Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the Group Executive Board is measured in a manner consistent with that in the consolidated statement of comprehensive income. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments.

The Group's management reporting is based on a measure of profit before taxes comprising net interest income, net fee and commission income, loan impairment charges, operating expenses, amortization and depreciation expenses and other net income.

Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

Fair value of assets and liabilities

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the amount of loss allowance and the premium received on initial recognition less income recognized in accordance with principles of IFRS 15.

Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the entities in the consolidated group, are classified as investment properties. Investment properties comprise buildings for commercial activities and land plots for undetermined future use.

Some properties may be partially occupied by the Group, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Group can be sold separately, the Group accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40. When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. The Group considers the owner-occupied portion as insignificant when the property is more than 95% held to earn rental income or capital appreciation. In order to determine the percentage of the portions, the Group uses the size of the property measured in square meters.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured at cost less less accumulated depreciation. Depreciation is provided on a straight-line basis to write off proportionally the cost of each asset over its estimated useful life . All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

In addition, impairment properties are tested for impairment. These valuations are performed annually by external or internal appraisers.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets (for example, for exchange-traded options), including recent market transactions, and valuation techniques (for example for non-traded options), including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Under IAS 39 (i.e. before 1 January 2018 when IFRS 9 was adopted) certain derivatives embedded in other financial instruments, such as interest rate floor in a loan granted, were treated as separate derivatives when their economic characteristics and risks were not closely related to those of the host contract and the host contract was not carried at fair value through profit or loss. These embedded derivatives were separately accounted for at fair value, with changes in fair value recognised in the profit or loss. Such derivatives are no longer recognized under IFRS 9 (see Note 12).

Strategy in using financial instruments

The Bank's and the Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers and borrows from other financial institutions at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

Strategic decisions related to financing and investing activities of the Bank and the Group is made by the Board of the Bank. Operating financing and investment decisions are made on division level. Divisions of the Group are presented in Segment information. Decisions on risk management are made by the Risk Management Committee of the Bank. Risk Management Policy is approved and monitored by the Board of the Bank.

The Bank and the Group also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-balance sheet loans and advances but the Group also enters into guarantees and other commitments such as letters of credit and other guarantees.

The Group analyses, evaluates, accepts and manages the risk or combination of risks it is exposed to. Risk management at the Group aims at ensuring a sufficient return on equity following the conservative risk management policy. While implementing an advanced risk management policy the Group focuses not only on minimising potential risk but also on improving pricing and achieving efficient capital allocation.

The Risk Management Policy approved by the Council of the Bank as well as by the procedures to manage different types of risks prepared on its basis ensures the integrity of the risk management process in the Group.

The purpose of risk management policy is to define the risks as well as their management principles in the Group's activities. Due to the fact that various risks experienced by the Group are interdependent their management is centralized. Organization and coordination of the experienced risk management system is one of the main goals of the Bank's Risk Management Committee.

The Group reviews its risk management procedures and systems to reflect changes in markets, products and emerging best practice on regular basis, at least annually.

The Group performs self assessment each year. This process analyses types of risks that could potentially arise from banking activities and have material impact to the Group. The most important types of risk the Group is exposed to are credit risk, market risk, liquidity risk, concentration risk, operational risk, IT risk, model risk and compliance risk. Market risk includes currency risk, interest rate and securities price risk. Other types of risk are considered immaterial by the Group and, therefore, are not assessed.

In order to avoid a conflict of interest the Bank's subdivisions that implement risk management functions are separated from those subdivisions the direct activities of which are connected with the up rise of various types of banking risks.

1. Credit risk

Credit risk is defined as the risk for the Group to incur losses due to the Group's customers' failure to fulfil their financial obligations towards the Group. Credit exposures arise principally in lending activities and it is the most significant risk in the Group's banking activities.

There is also credit risk in investment activities that arise from debt securities and in the Group's asset portfolio as well as in the off-balance sheet financial instruments, such as loan commitments, guarantees and letters of credit.

The Bank regularly reviews its credit risk management policies which include lending policies, credit risk limit control, other credit risk mitigation measures as well as the internal control and internal audit of credit risk management.

The Bank's Board has approved the credit risk management policies and procedures which lay down the principles for credit risk management, establish an acceptable level of credit risk and credit risk's structure and determine credit risk mitigation measures and their interaction. This ensures a uniform understanding of the principles for taking on exposure to credit risk and allows achieving consistency with the nature and complexity of the Bank's lending policy and the requirements of the Bank of Lithuania.

The Bank takes risks only in the fields, which are well known to it and where it has long-term experience, trying to avoid excessive risk in transactions that can have negative influence to the big portion of shareholders' equity but seeks the sufficient profitability which, in terms of increasing competition, would ensure the stable Bank's position in the market and would increase the Bank's value. In assessing exposure to credit risk, the Bank adheres to the principle of prudence.

The Bank's lending policy is focused on small and medium-size business clients, seeking to provide them with the better funding terms and long-term support, at the same time paying attention to Bank's potential to grow.

FINANCIAL RISK MANAGEMENT (continued)

Large entities are defined as entities employing more than 250 employees. Small and medium size entities are defined as entities employing less than 250 employees and the balance sheet total does not exceed EUR 43 million or annual turnover does not exceed EUR 50 million.

New types of activities or products are launched only after the assessment of the arising risk. All lending products and processes at the Bank are regulated and documented pursuant to the requirements of risk assessment and internal control policy. Special procedures are established with respect to each lending product.

The aim of the Bank's credit risk management policy is to ensure that the conflict between interests of staff or structural units is avoided. With respect to provision of credits to clients, the principle stating that profit should not be earned at the expense of excessive credit risk is observed.

The Bank's credit risk management policy is based on the best practice in risk management of other banks. Therefore, the Bank's employees continuously enhance their knowledge of credit risk management systems of Lithuanian and foreign banks and the results of their application.

1.1. Credit risk measurement

(a) Loans and receivables

The Bank applies credit risk management measures, which could be divided into two types:
1) Measures that help to avoid decisions to grant unsecured loans;
2) Measures ensuring the effective monitoring system of the Bank's asset quality.

Measures that help to avoid decisions to grant unwarrantably risky credits include:
1) Multi-stage decision-making and its approval system;
2) Risk allocation among structural levels – limit establishment;
3) Security measures for credit repayment (collateral).

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

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

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

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

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

(b) Debt securities

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

(c) Credit-related commitments

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

1.2. Risk limit control and mitigation policies

(a) Concentrations

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

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

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

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

Some other specific control and mitigation measures are outlined below.

b) Collateral

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

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

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

While calculating a decrease in value for the loan the repayment of which is secured by the collateral, a cash flow from the security measure is also taken into consideration when determining the LGD factor. If several loans are insured with the same security measure (collateral), such security measure (collateral) is allocated according to rank of the pledge.

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

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

1.3. Impairment and provisioning policies

a) ECL model used by the Group

Upon assessing impairment losses on loans, due to banks, debt securities at amortized cost and at fair value through other comprehensive income and other assets the Group follows the requirements expected credit loss (ECL) model prescribed in IFRS 9 Financial Instruments. The Group and the Bank carries out valuation of assets on a monthly basis, based on valuation policies approved by the Board of the Bank.

The ECL is measured by the formula:

$$PD \times LGD \times EAD = ECL$$

Where:
PD – probability of default. It represents the likelihood of a borrower on defaulting on its financial obligation;
LGD – loss given default. It represents the extent of loss the Group is likely to incur in case the borrower defaults;
EAD – exposure at default. It represents expected exposure at the time of the default.

The financial assets are grouped into 3 stages:

1) Stage 1 financial assets – no significant increase in credit risk is observed since initial recognition. The Group uses low credit risk exemption and assigns all of the exposures with external investment grade credit rating or internal exposures with Standard credit rating to Stage 1. 12 month PDs apply to Stage 1 exposures;

2) Stage 2 financial assets – significant increase in credit risk is observed since initial recognition. The Group uses multiple criteria to assess whether the credit risk has increased. Main criteria include: credit rating decrease (external credit rating decrease by >=3 notches; internal credit rating decrease by 1 notch), payment delays (>30 days past due financial assets are classified to Stage 2 unless there is observable evidence indicating otherwise), other observable criteria (restructuring, forbearance, other qualititative factors showing increased credit risk). Lifetime PDs apply to Stage 2 exposures;

3) Stage 3 financial assets – credit-impaired financial assets. Main criteria for inclusion the asset in Stage 3 include: bankruptcy of the customer; termination of the contract; payment delay >90 days; non-performing exposure status by regulatory rules (i.e. the exposure is unlikely to be repaid in full without collateral realisation (irrespective of any past-due amount or of the number of days past-due)); other observable criteria. For Stage 3 exposures, the PD ratio is always equal to 1.

In case observable evidence is available, Group's employees responsible for impairment calculations can rank certain exposures to better or worse stage.

The exposure ceases to be Stage 3 when it no longer meets the criteria for the consecutive period of 3 months. It should be noted that some of the regulatory non-performing exposure criteria have their own exit periods, therefore the period for an exposure to be classified out of Stage 3 may actually be longer.

The Group calculates its own PDs for loans to customers, finance lease receivables and other assets and uses PDs published by the rating agencies for debt securities and due to banks.

PDs for loans to customers and finance lease receivables are calculated using the historical data of Group's own lending portfolio. For this purpose, the Group uses migration matrices for the exposures grouped by the economic sector. The Group uses PDs published by rating agencies for debt securities and due from banks. For other financial assets, a simplified model derived from Group's lending data is used.

For loans to customers and finance lease receivables, LGDs are estimated by the Group using the value of collateral available for each exposure individually and discounting by certain ratios over certain period of time. Ratios and recovery periods depend on the type of collateral and are derived from Group's own recovery experience. For consumer financing exposures, the LGDs are estimated on a exposure group level using the ultimate recovery rate historical data. For debt securities and due from banks, LGDs from rating agencies are used.

For lending portfolio, Stage 1 EAD represents the expected exposure value over 12 month period; Stage 2 EAD represents the current exposure value and assumptions on the expected use of the off-balance sheet credit commitments. Stage 3 EAD is estimated as the total balance and off-balance sheet exposure. For debt securities, due from banks and other assets, gross exposure value is used as EAD estimate.

Group's PD estimates incorporate forward-looking information. The Group transfers its historical ("through the cycle") data to economic-situation specific ("point-in-time") data by using models based on the expected economic development scenarios. The economic variables and their associated impact on the PD vary by financial instrument. The impact of economic variables on PD has been determined by performing statistical regression analysis. Expert judgement is also applied in the process.

To include the impact of economic variables, the Group uses 4 economic scenarios (base case, optimistic, pessimistic, stressed) and derives a single scenario based on the probabilities assigned to these scenarios. These probabilities are calibrated expert judgement of Group's employees, but it is aimed that the GDP growth estimate (i.e. the parameter that is prevalent in the most observed correlations) in the derivative scenario would align to the forecasts published by the institutions that publish economic forecasts (i.e. Bank of Lithuania, Ministry of Finance of Lithuania, etc.).

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

The most significant assumptions used for the ECL estimates as at 31 December 2018 are presented in the tables below:

	GDP growth	Change in agricultural production	Unemployment	Inflation	Change in manufacturing output	Change in housing prices	Change in retail trade turnover	Change in freight	Change in corporate revenue	Change in salaries
At 31 December 2018:										
Base scenario	3.70%	-0.20%	5.90%	0.46% - 1.01%	3.30%	7.40%	7.40%	7.93%	18.28%	3.10%
Pessimistic scenario	-3.53%	-5.98%	17.40%	-0.28% - +0.96%	0.80%	-15.18%	-7.94%	-3.34%	-0.98%	0.63%
Optimistic scenario	5.88%	9.10%	4.97%	0.10% - 1.18%	10.85%	9.60%	15.58%	12.24%	19.55%	4.80%
Stressed scenario	-15.30%	-15.10%	18.20%	-0.90% - 3.00%	-6.20%	-31.10%	-26.58%	-13.15%	-19.40%	-3.90%

Scenario probabilities and weighted average GDP growth:

	2019		2020		2021		2022		2023	
At 31 December 2018:	*GDP*	*Probability*	*GDP*	*Probability*	*GDP*	*Probability*	*GDP*	*Probability*	*GDP*	*Probability*
Base scenario	3.70%	73%	3.70%	69%	3.70%	68%	3.70%	65%	3.70%	63%
Pessimistic scenario	-3.53%	14%	-3.53%	15%	-3.53%	16%	-3.53%	17%	-3.53%	18%
Optimistic scenario	5.88%	12%	5.88%	14%	5.88%	14%	5.88%	15%	5.88%	15%
Stressed scenario	-15.30%	1%	-15.30%	2%	-15.30%	2%	-15.30%	3%	-15.30%	4%
Weighted average GDP growth	2.8%		2.5%		2.5%		2.2%		2.0%	

The most significant assumptions used for the ECL estimate as at 1 January 2018 are presented in the tables below:

	GDP growth	Change in agricultural production	Unemployment	Inflation	Change in manufacturing output	Change in housing prices	Change in retail trade turnover	Change in freight	Change in corporate revenue	Change in salaries
At 1 January 2018:										
Base scenario	4.10%	-2.00%	7.00%	0.60%	6.90%	10.20%	7.40%	13.99%	17.97%	2.20%
Pessimistic scenario	-3.53%	-5.98%	17.40%	-0.08%	0.80%	-15.18%	-7.94%	-3.34%	-0.98%	0.63%
Optimistic scenario	5.88%	9.10%	6.13%	0.95%	10.85%	5.88%	15.58%	19.47%	19.55%	3.20%
Stressed scenario	-15.30%	-15.10%	18.20%	-0.90%	-6.20%	-31.10%	-26.58%	-13.15%	-19.40%	-3.90%

Scenario probabilities and weighted average GDP growth:

	2019		2020		2021		2022		2023	
At 1 January 2018:	*GDP*	*Probability*	*GDP*	*Probability*	*GDP*	*Probability*	*GDP*	*Probability*	*GDP*	*Probability*
Base scenario	4.10%	70%	4.10%	66%	4.10%	65%	4.10%	63%	4.10%	62%
Pessimistic scenario	-3.53%	16%	-3.53%	21%	-3.53%	21%	-3.53%	23%	-3.53%	23%
Optimistic scenario	5.88%	13%	5.88%	12%	5.88%	12%	5.88%	11%	5.88%	11%
Stressed scenario	-15.30%	1%	-15.30%	1%	-15.30%	2%	-15.30%	3%	-15.30%	4%
Weighted average GDP growth	2.9%		2.5%		2.3%		2.0%		1.8%	

The assumptions underlying ECL calculations are subject to frequent (at least annual) review, the models used in ECL calculation are backtested against the actual performance data. In case of need, changes are made to the models. In 2018, Stage 3 definition was expanded in order to align accounting and supervisory treatments of problem loans: additional scenarios were added to the Stage 3 definition in order to ensure that loans, which are considered as unlikely to be repaid in full without collateral realisation (irrespective of any past-due amount or of the number of days past-due) would be treated as Stage 3 loans (previously, such loans could be classified either in Stage 2 or Stage 3).

b) Impairment loss sensitivity

The most significant assumptions affected the estimated ECL allowance are GDP, given the significant impact on the borrowers performance; real estate price level, given the significant impact on the collateral values and consumer financing portfolio recovery rates, given the significant impact on the ultimate recoveries of the unsecured borrowings. The table below provides an sensitivity analysis of the above factors.

	2018	
	Group	Bank
Scenario 1: GDP growth increases by 0.5 p.p.	ECL decreases by EUR 384 thousand	ECL decreases by EUR 369 thousand
Scenario 2: GDP growth decreases by 0.5 p.p.	ECL increases by EUR 611 thousand	ECL increases by EUR 597 thousand
Scenario 3: real estate prices increase by 5%	ECL decreases by EUR 1,592 thousand	ECL decreases by EUR 1,592 thousand
Scenario 4: real estate prices decrease by 5%	ECL increases by EUR 1,718 thousand	ECL increases by EUR 1,718 thousand
Scenario 5: consumer financing portfolio recoveries increase by 5 p.p.	ECL decreases by EUR 397 thousand	ECL decreases by EUR 100 thousand
Scenario 6: consumer financing portfolio recoveries decrease by 5 p.p.	ECL increases by EUR 401 thousand	ECL increases by EUR 105 thousand

(All amounts are in EUR thousand, unless otherwise stated)

c) write-off policy

Loans and receivables are written-off from the balance sheet when the total loan balance or a part of it is considered as uncollectible under the most optimistic scenario. 100% impairment provision against the carrying amount of the exposure must be recognized before an uncollectible exposure (or part of it that is considered to be uncollectible) can be written-off. Written-off exposures are accounted for as off-balance sheet claims ("accumulated write-offs") until the legal right to claim the amounts from the borrower expires. The accumulated write-offs, including any amount constituting legal claims to the borrowers even if those amounts were never recognized on the balance sheet (the most common example of such cases is the difference between gross value and acquisition value of credit-impaired loans acquired by the Group) amounted to: 31 December 2018 – the Group EUR 96,665 thousand; the Bank EUR 92,234 thousand; 31 December 2017 – the Group EUR 100,979 thousand; the Bank EUR 91,573 thousand.

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

		2018		*2017*
	Group	Bank	Group	Bank
Cash equivalents:	40,924	40,735	90,894	87,922
Balances in bank correspondent accounts	28,925	28,736	73,167	70,195
Placements with Central Bank	11,999	11,999	17,727	17,727
Loans and advances to banks	2,090	2,090	2,218	2,218
Loans and advances to customers:	1,262,167	1,264,741	1,098,327	1,102,927
Loans and advances to financial institutions	693	50,255	18	39,756
Loans to individuals (Retail):	243,078	178,632	194,100	138,114
Consumer loans	*91,524*	*27,078*	*73,544*	*17,558*
Mortgages	*50,203*	*50,203*	*42,153*	*42,153*
Multiapartment rennovation loans	*81,806*	*81,806*	*60,659*	*60,659*
Other (reverse repurchase agreements, other loans backed by securities, other)	*19,545*	*19,545*	*17,744*	*17,744*
Loans to business customers:	1,018,396	1,035,854	904,209	925,057
Large corporates	*84,976*	*84,976*	*89,087*	*89,087*
SME	*835,513*	*852,971*	*699,679*	*720,527*
Central and local authorities, administrative bodies and other	*97,907*	*97,907*	*115,443*	*115,443*
Finance lease receivables	124,088	123,969	91,139	90,898
Individuals	20,792	20,754	15,993	15,889
Business customers	103,296	103,215	75,146	75,009
Securities in the trading book:	42,384	27,332	30,589	17,755
Debt securities in the trading book	42,384	27,332	30,589	17,755
Derivative financial instruments	1,197	1,197	3,031	3,031
Investment securities at fair value	16,379	15,984	11,322	10,914
Debt securities available-for-sale	N/A	N/A	11,322	10,914
Debt securities at fair value through other comprehensive income	16,379	15,984	N/A	N/A
Investment securities at amortized cost	638,655	638,655	576,260	576,260
Debt securities held to maturity	N/A	N/A	576,260	576,260
Debt securities at amortized cost	638,655	638,655	N/A	N/A
Other financial assets	13,213	12,708	10,485	9,616
Credit risk exposures relating to off–balance sheet items are as follows:				
Financial guarantees	39,655	39,720	33,787	33,814
Letters of credit	760	760	262	262
Loan commitments and other credit related liabilities	265,407	285,618	173,233	188,725
At 31 December	2,446,919	2,453,509	2,121,547	2,124,342

The table above represents a worst case scenario of credit risk exposure at 31 December 2018 and 2017, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures presented above are net carrying amount as reported in the balance sheet.

(All amounts are in EUR thousand, unless otherwise stated)

1.5. Loans to customers

Loans to customers are summarised as follows:

	2018		2017	
	Group	Bank	Group	Bank
Gross loans to customers	1,304,933	1,301,592	1,131,562	1,132,480
Allowance for loan impairment	(42,766)	(36,851)	(33,235)	(29,553)
Net loans to customers	**1,262,167**	**1,264,741**	**1,098,327**	**1,102,927**

During the year ended 31 December 2018, the Group's gross loans and advances increased by 15%. The Group's total impairment provision for loans and advances amounts to EUR 42,766 thousand (2017: EUR 33,235 thousand) and it accounts for 3.28% of the respective portfolio (2017: 2.94%).

a) Credit grades

The Group and the Bank examines the potential borrower's financial performance before issuing a loan and monitors any development in financial performance during the whole loan service period. The Group and the Bank evaluates the borrower's financial performance at least annually. Consumer loans to individuals are assessed based on application scorings when decision is made. After they are granted they are monitored based on their past due status.

Standard loan is a loan when the borrower's financial performance is either very good or good. Watch loan is a loan when the borrower's financial performance is satisfactory. Substandard loan is a loan when the borrower's financial performance is poor or bad. Problem loan is a loan when the payment is overdue for over 90 days, or the borrower is bankrupt, or the contract is terminated. Stage 3 may contain not only problem loans because certain staging scenarios require so (for example, a performing contract is assigned to Stage 3 if other contracts with the borrower have problems, or a certain period of time is required to pass before transfering a contract to a better stage).

Group loans to customers

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	683,395	27,885	1,510	712,790	628,022
Watch	360,876	87,750	17,419	466,045	401,587
Substandard	42,292	25,210	11,084	78,586	49,305
Problem	8	72	47,432	47,512	52,648
Gross	1,086,571	140,917	77,445	1,304,933	1,131,562
Less: allowance for impairment	(5,839)	(4,462)	(32,465)	(42,766)	(33,235)
Net	1,080,732	136,455	44,980	1,262,167	1,098,327

Bank loans to customers

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	721,464	27,439	1,395	750,298	614,307
Watch	354,622	91,301	17,232	463,155	423,430
Substandard	9,652	22,802	9,853	42,307	49,305
Problem	1	124	45,707	45,832	45,438
Gross	1,085,739	141,666	74,187	1,301,592	1,132,480
Less: allowance for impairment	(3,399)	(2,948)	(30,504)	(36,851)	(29,553)
Net	1,082,340	138,718	43,683	1,264,741	1,102,927

Group loans to indiduals (retail)

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	178,164	1,794	341	180,299	176,348
Watch	18,821	3,211	2,468	24,500	7,653
Substandard	33,830	5,370	997	40,197	4,919
Problem	8	37	7,375	7,420	10,672
Gross	230,823	10,412	11,181	252,416	199,592
Less: allowance for impairment	(3,728)	(2,060)	(3,550)	(9,338)	(5,492)
Net	227,095	8,352	7,631	243,078	194,100

Bank loans to indiduals (retail)

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	163,532	1,347	246	165,125	123,891
Watch	2,180	2,458	2,281	6,919	7,652
Substandard	1,190	2,963	177	4,330	4,919
Problem	1	2	5,650	5,653	3,441
Gross	166,903	6,770	8,354	182,027	139,903
Less: allowance for impairment	(1,288)	(498)	(1,609)	(3,395)	(1,789)
Net	165,615	6,272	6,745	178,632	138,114

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Group loans to indiduals (retail): Consumer loans

	Stage 1	Stage 2	Stage 3	2018 Total	2017 Total
Standard	42,425	741	174	43,340	69,824
Watch	16,682	761	187	17,630	53
Substandard	32,642	2,415	825	35,882	6
Problem	7	35	2,025	2,067	7,538
Gross	91,756	3,952	3,211	98,919	77,421
Less: allowance for impairment	(3,451)	(1,712)	(2,232)	(7,395)	(3,877)
Net	88,305	2,240	979	91,524	73,544

Bank loans to indiduals (retail): Consumer loans

	Stage 1	Stage 2	Stage 3	2018 Total	2017 Total
Standard	27,793	294	79	28,166	17,367
Watch	41	8	-	49	52
Substandard	2	8	5	15	6
Problem	-	-	300	300	307
Gross	27,836	310	384	28,530	17,732
Less: allowance for impairment	(1,011)	(150)	(291)	(1,452)	(174)
Net	26,825	160	93	27,078	17,558

Group loans to indiduals (retail): Mortgages

	Stage 1	Stage 2	Stage 3	2018 Total	2017 Total
Standard	42,727	530	40	43,297	33,864
Watch	1,462	1,573	22	3,057	3,805
Substandard	801	2,077	51	2,929	3,495
Problem	-	-	1,801	1,801	2,030
Gross	44,990	4,180	1,914	51,084	43,194
Less: allowance for impairment	(58)	(271)	(552)	(881)	(1,041)
Net	44,932	3,909	1,362	50,203	42,153

Bank loans to indiduals (retail): Mortgages

	Stage 1	Stage 2	Stage 3	2018 Total	2017 Total
Standard	42,727	530	40	43,297	33,864
Watch	1,462	1,573	22	3,057	3,805
Substandard	801	2,077	51	2,929	3,495
Problem	-	-	1,801	1,801	2,030
Gross	44,990	4,180	1,914	51,084	43,194
Less: allowance for impairment	(58)	(271)	(552)	(881)	(1,041)
Net	44,932	3,909	1,362	50,203	42,153

Group loans to indiduals (retail): Multiapartment rennovation loans

	Stage 1	Stage 2	Stage 3	2018 Total	2017 Total
Standard	81,983	-	-	81,983	60,704
Watch	-	-	-	-	-
Substandard	-	-	-	-	-
Problem	-	-	-	-	-
Gross	81,983	-	-	81,983	60,704
Less: allowance for impairment	(177)	-	-	(177)	(45)
Net	81,806	-	-	81,806	60,659

Bank loans to indiduals (retail): Multiapartment rennovation loans

	Stage 1	Stage 2	Stage 3	2018 Total	2017 Total
Standard	81,983	-	-	81,983	60,704
Watch	-	-	-	-	-
Substandard	-	-	-	-	-
Problem	-	-	-	-	-
Gross	81,983	-	-	81,983	60,704
Less: allowance for impairment	(177)	-	-	(177)	(45)
Net	81,806	-	-	81,806	60,659

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Group loans to indiduals (retail): Other

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	11,029	523	127	11,679	11,956
Watch	677	877	2,259	3,813	3,795
Substandard	387	878	121	1,386	1,418
Problem	1	2	3,549	3,552	1,104
Gross	12,094	2,280	6,056	20,430	18,273
Less: allowance for impairment	(42)	(77)	(766)	(885)	(529)
Net	12,052	2,203	5,290	19,545	17,744

Bank loans to indiduals (retail): Other

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	11,029	523	127	11,679	11,956
Watch	677	877	2,259	3,813	3,795
Substandard	387	878	121	1,386	1,418
Problem	1	2	3,549	3,552	1,104
Gross	12,094	2,280	6,056	20,430	18,273
Less: allowance for impairment	(42)	(77)	(766)	(885)	(529)
Net	12,052	2,203	5,290	19,545	17,744

Group loans to financial institutions

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	28	681	-	709	18
Watch	-	-	-	-	-
Substandard	-	-	-	-	-
Problem	-	-	-	-	-
Gross	28	681	-	709	18
Less: allowance for impairment	-	(16)	-	(16)	-
Net	28	665	-	693	18

Bank loans to financial institutions

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	49,590	681	-	50,271	39,756
Watch	-	-	-	-	-
Substandard	-	-	-	-	-
Problem	-	-	-	-	-
Gross	49,590	681	-	50,271	39,756
Less: allowance for impairment	-	(16)	-	(16)	-
Net	49,590	665	-	50,255	39,756

Group loans to business customers

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	505,203	25,410	1,169	531,782	451,656
Watch	342,055	84,539	14,951	441,545	393,934
Substandard	8,462	19,840	10,087	38,389	44,386
Problem	-	35	40,057	40,092	41,976
Gross	855,720	129,824	66,264	1,051,808	931,952
Less: allowance for impairment	(2,111)	(2,386)	(28,915)	(33,412)	(27,743)
Net	853,609	127,438	37,349	1,018,396	904,209

Bank loans to business customers

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	508,342	25,411	1,149	534,902	450,660
Watch	352,442	88,843	14,951	456,236	415,778
Substandard	8,462	19,839	9,676	37,977	44,386
Problem	-	122	40,057	40,179	41,997
Gross	869,246	134,215	65,833	1,069,294	952,821
Less: allowance for impairment	(2,111)	(2,434)	(28,895)	(33,440)	(27,764)
Net	867,135	131,781	36,938	1,035,854	925,057

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Group loans to business customers: Large corporates

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	76,552	-	101	76,653	75,314
Watch	2,185	1,184	-	3,369	13,697
Substandard	4,200	1,007	-	5,207	-
Problem	-	-	-	-	161
Gross	82,937	2,191	101	85,229	89,172
Less: allowance for impairment	(192)	(61)	-	(253)	(85)
Net	82,745	2,130	101	84,976	89,087

Bank loans to business customers: Large corporates

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	76,552	-	101	76,653	75,314
Watch	2,185	1,184	-	3,369	13,697
Substandard	4,200	1,007	-	5,207	-
Problem	-	-	-	-	161
Gross	82,937	2,191	101	85,229	89,172
Less: allowance for impairment	(192)	(61)	-	(253)	(85)
Net	82,745	2,130	101	84,976	89,087

Group loans to business customers: SME

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	371,053	25,409	1,068	397,530	309,584
Watch	302,021	82,664	14,951	399,636	334,019
Substandard	2,974	18,653	8,552	30,179	42,798
Problem	-	35	40,048	40,083	40,146
Gross	676,048	126,761	64,619	867,428	726,547
Less: allowance for impairment	(1,491)	(2,226)	(28,198)	(31,915)	(26,868)
Net	674,557	124,535	36,421	835,513	699,679

Bank loans to business customers: SME

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	374,192	25,410	1,048	400,650	308,588
Watch	312,408	86,968	14,951	414,327	355,863
Substandard	2,974	18,652	8,141	29,767	42,798
Problem	-	122	40,048	40,170	40,167
Gross	689,574	131,152	64,188	884,914	747,416
Less: allowance for impairment	(1,491)	(2,274)	(28,178)	(31,943)	(26,889)
Net	688,083	128,878	36,010	852,971	720,527

Group loans to business customers: Central and local authorities and other

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	57,598	1	-	57,599	66,758
Watch	37,849	691	-	38,540	46,218
Substandard	1,288	180	1,535	3,003	1,588
Problem	-	-	9	9	1,669
Gross	96,735	872	1,544	99,151	116,233
Less: allowance for impairment	(428)	(99)	(717)	(1,244)	(790)
Net	96,307	773	827	97,907	115,443

Bank loans to business customers: Central and local authorities and other

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	57,598	1	-	57,599	66,758
Watch	37,849	691	-	38,540	46,218
Substandard	1,288	180	1,535	3,003	1,588
Problem	-	-	9	9	1,669
Gross	96,735	872	1,544	99,151	116,233
Less: allowance for impairment	(428)	(99)	(717)	(1,244)	(790)
Net	96,307	773	827	97,907	115,443

For analysis of debt securities according to the credit quality see Notes 12 and 15.

(All amounts are in EUR thousand, unless otherwise stated)

b) Payment delays

The tables below provide an analysis of loans and advances to customers by payment delays. The Group considers a loan to be past due when the following criteria are met: for loans to individuals – overdue amount is higher than the lower of EUR 100 or 1% of total exposure; for loans to business customers – overdue amount is higher than the lower of EUR 500 or 1% of total exposure.

Group loans to customers

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Not past due	1,031,498	120,316	22,238	1,174,052	1,000,177
Past due up to 30 days	54,605	14,537	5,292	74,434	76,350
Past due 31-90 days	467	6,062	2,734	9,263	11,755
Past due more than 90 days	1	2	47,181	47,184	43,280
Gross	1,086,571	140,917	77,445	1,304,933	1,131,562
Less: allowance for impairment	(5,839)	(4,462)	(32,465)	(42,766)	(33,235)
Net	1,080,732	136,455	44,980	1,262,167	1,098,327

Bank loans to customers

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Not past due	1,038,874	124,708	21,568	1,185,150	1,014,507
Past due up to 30 days	46,715	14,536	5,098	66,349	69,445
Past due 31-90 days	149	2,420	2,055	4,624	8,175
Past due more than 90 days	1	2	45,466	45,469	40,353
Gross	1,085,739	141,666	74,187	1,301,592	1,132,480
Less: allowance for impairment	(3,399)	(2,948)	(30,504)	(36,851)	(29,553)
Net	1,082,340	138,718	43,683	1,264,741	1,102,927

Group loans to indiduals (retail)

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Not past due	206,651	5,147	2,709	214,507	176,010
Past due up to 30 days	23,808	688	413	24,909	13,061
Past due 31-90 days	363	4,575	822	5,760	4,926
Past due more than 90 days	1	2	7,237	7,240	5,595
Gross	230,823	10,412	11,181	252,416	199,592
Less: allowance for impairment	(3,728)	(2,060)	(3,550)	(9,338)	(5,492)
Net	227,095	8,352	7,631	243,078	194,100

Bank loans to indiduals (retail)

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Not past due	150,939	5,147	2,470	158,556	129,300
Past due up to 30 days	15,918	688	219	16,825	6,156
Past due 31-90 days	45	933	143	1,121	1,347
Past due more than 90 days	1	2	5,522	5,525	3,100
Gross	166,903	6,770	8,354	182,027	139,903
Less: allowance for impairment	(1,288)	(498)	(1,609)	(3,395)	(1,789)
Net	165,615	6,272	6,745	178,632	138,114

Group loans to financial institutions

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Not past due	28	681	-	709	18
Past due up to 30 days	-	-	-	-	-
Past due 31-90 days	-	-	-	-	-
Past due more than 90 days	-	-	-	-	-
Gross	28	681	-	709	18
Less: allowance for impairment	-	(16)	-	(16)	-
Net	28	665	-	693	18

Bank loans to financial institutions

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Not past due	49,590	681	-	50,271	39,756
Past due up to 30 days	-	-	-	-	-
Past due 31-90 days	-	-	-	-	-
Past due more than 90 days	-	-	-	-	-
Gross	49,590	681	-	50,271	39,756
Less: allowance for impairment	-	(16)	-	(16)	-
Net	49,590	665	-	50,255	39,756

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

				Group loans to business customers	
				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Not past due	824,819	114,488	19,529	958,836	824,149
Past due up to 30 days	30,797	13,849	4,879	49,525	63,289
Past due 31-90 days	104	1,487	1,912	3,503	6,829
Past due more than 90 days	-	-	39,944	39,944	37,685
Gross	855,720	129,824	66,264	1,051,808	931,952
Less: allowance for impairment	(2,111)	(2,386)	(28,915)	(33,412)	(27,743)
Net	853,609	127,438	37,349	1,018,396	904,209

				Bank loans to business customers	
				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Not past due	838,345	118,880	19,098	976,323	845,451
Past due up to 30 days	30,797	13,848	4,879	49,524	63,289
Past due 31-90 days	104	1,487	1,912	3,503	6,828
Past due more than 90 days	-	-	39,944	39,944	37,253
Gross	869,246	134,215	65,833	1,069,294	952,821
Less: allowance for impairment	(2,111)	(2,434)	(28,895)	(33,440)	(27,764)
Net	867,135	131,781	36,938	1,035,854	925,057

c) Stage 3 loans and advances to customers

The breakdown of the gross amount of Stage 3 loans and advances by class, along with the fair value of related collateral held by the Group and the Bank as security is as follows:

31 December 2018

				Group				Bank
	Gross value	Allowance for impairment	Net value	Fair value of collateral	Gross value	Allowance for impairment	Net value	Fair value of collateral
Loans and advances to financial institutions	-	-	-	-	-	-	-	-
Loans to individuals (Retail):	11,181	(3,550)	7,631	7,684	8,354	(1,609)	6,745	7,684
Consumer loans	*3,211*	*(2,232)*	*979*	*10*	*384*	*(291)*	*93*	*10*
Mortgages	*1,914*	*(552)*	*1,362*	*1,797*	*1,914*	*(552)*	*1,362*	*1,797*
Multiapartment rennovation loans	-	-	-	-	-	-	-	-
Other	*6,056*	*(766)*	*5,290*	*5,877*	*6,056*	*(766)*	*5,290*	*5,877*
Loans to business customers:	66,264	(28,915)	37,349	54,383	65,833	(28,895)	36,938	54,383
Large corporates	*101*	*-*	*101*	*101*	*101*	*-*	*101*	*101*
SME	*64,619*	*(28,198)*	*36,421*	*52,864*	*64,188*	*(28,178)*	*36,010*	*52,864*
Central and local authorities, administrative bodies and other	*1,544*	*(717)*	*827*	*1,418*	*1,544*	*(717)*	*827*	*1,418*
Total loans to customers	77,445	(32,465)	44,980	62,067	74,187	(30,504)	43,683	62,067

Impairment loss by class of financial assets for loans is disclosed in Note 13.

d) Information about loan collateral

The method for collateral valuation is selected by the Group and the Bank based on specifics of collateral and existing market conditions on the day of valuation. Based on collateral characteristics and the purpose of its valuation the following valuation methods are used: comparable sales price method or income capitalisation method. Fair values of the collateral are updated regularly in line with the Bank's procedures.

If loan is secured by several different types of collateral, priority in their recognition is based on their liquidity. Cash deposits are treated as having the highest liquidity followed by guarantees, residential real estate and then other real estate. Securities and other assets are treated as having the lowest liquidity.

Unsecured loans also include loans secured by other types of collateral (e.g. future inflow of funds into the borrowers' Bank accounts (controlled by the Bank), third party warrantees, bills of exchange, etc.). The total amount of loans to individuals and business customers secured by the above security measure, but disclosed as unsecured as at 31 December 2018 amounted to EUR 66 million (2017: EUR 61 million). Totally unsecured loans comprise only consumer loans and loans issued by the Bank to its subsidiaries.

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

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

31 December 2018

Group loans to individuals (retail)

	Consumer loans	Mortgages	Multiapartment rennovation loans	Other	Total
Unsecured loans	100,433	6,074	81,983	8,108	196,598
Loans collateralised by:	**2**	**47,654**	**-**	**15,448**	**63,104**
residential real estate -	-	45,433	-	6,307	51,740
other real estate -	-	1,598	-	8,117	9,715
securities -	-	19	-	1	20
guarantees -	2	604	-	1,022	1,628
cash deposits -	-	-	-	-	-
other assets -	-	-	-	1	1
Total	100,435	53,728	81,983	23,556	259,702

Group loans to business customers

	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Unsecured loans	53,013	5,696	645	104,419	163,853
Loans collateralised by:	**794,117**	**82,340**	**1**	**4,921**	**881,379**
residential real estate -	61,403	79	-	395	61,877
other real estate -	575,430	68,605	1	4,267	648,303
securities -	948	434	-	73	1,455
guarantees -	117,351	1,391	-	172	118,914
cash deposits -	2,965	-	-	-	2,965
other assets -	36,020	11,831	-	14	47,865
Total	847,130	88,036	646	109,340	1,045,232

Bank loans to individuals (retail)

	Consumer loans	Mortgages	Multiapartment rennovation loans	Other	Total
Unsecured loans	34,091	6,074	81,983	4,063	126,211
Loans collateralised by:	**2**	**47,654**	**-**	**15,448**	**63,104**
residential real estate -	-	45,433	-	6,307	51,740
other real estate -	-	1,598	-	8,117	9,715
securities -	-	19	-	1	20
guarantees -	2	604	-	1,022	1,628
cash deposits -	-	-	-	-	-
other assets -	-	-	-	1	1
Total	34,093	53,728	81,983	19,511	189,315

Bank loans to business customers

	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Unsecured loans	65,789	5,696	50,207	104,499	226,191
Loans collateralised by:	**798,827**	**82,340**	**1**	**4,921**	**886,089**
residential real estate -	61,403	79	-	395	61,877
other real estate -	580,140	68,605	1	4,267	653,013
securities -	948	434	-	73	1,455
guarantees -	117,351	1,391	-	172	118,914
cash deposits -	2,965	-	-	-	2,965
other assets -	36,020	11,831	-	14	47,865
Total	864,616	88,036	50,208	109,420	1,112,280

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Group loans to individuals (retail)

	Consumer loans	Mortgages	Multiapartment rennovation loans	Other	Total
Unsecured loans	77,410	1,545	60,659	3,504	143,118
Loans collateralised by:	**10**	**41,649**	**-**	**14,791**	**56,450**
residential real estate -	1	39,064	-	6,130	45,195
other real estate -	-	1,878	-	7,352	9,230
securities -	-	23	-	1	24
guarantees -	9	684	-	1,154	1,847
cash deposits -	-	-	-	149	149
other assets -	-	-	-	5	5
Total	77,420	43,194	60,659	18,295	199,568

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Group loans to business customers

	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Unsecured loans	50,517	4,230	15	104,299	159,061
Loans collateralised by:	**676,010**	**84,941**	**3**	**11,979**	**772,933**
residential real estate -	29,260	79	-	436	29,775
other real estate -	527,563	72,712	3	11,268	611,546
securities -	126	654	-	81	861
guarantees -	84,947	307	-	194	85,448
cash deposits -	2,992	-	-	-	2,992
other assets -	31,122	11,189	-	-	42,311
Total	**726,527**	**89,171**	**18**	**116,278**	**931,994**

Bank loans to individuals (retail)

	Consumer loans	Mortgages	Multiapartment rennovation loans	Other	Total
Unsecured loans	17,720	1,545	60,659	3,483	83,407
Loans collateralised by:	**10**	**41,649**	**-**	**14,791**	**56,450**
residential real estate -	1	39,064	-	6,130	45,195
other real estate -	-	1,878	-	7,352	9,230
securities -	-	23	-	1	24
guarantees -	9	684	-	1,154	1,847
cash deposits -	-	-	-	149	149
other assets -	-	-	-	5	5
Total	**17,730**	**43,194**	**60,659**	**18,274**	**139,857**

Bank loans to business customers

	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Unsecured loans	71,389	4,230	39,753	104,299	219,671
Loans collateralised by:	**676,029**	**84,941**	**3**	**11,979**	**772,952**
residential real estate -	29,260	79	-	436	29,775
other real estate -	527,582	72,712	3	11,268	611,565
securities -	126	654	-	81	861
guarantees -	84,947	307	-	194	85,448
cash deposits -	2,992	-	-	-	2,992
other assets -	31,122	11,189	-	-	42,311
Total	**747,418**	**89,171**	**39,756**	**116,278**	**992,623**

Following tables shows the distribution of LTV (loan to collateral value) ratios for the Group's loan portfolio:

Group loans to customers – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	339,918	58,039	18,143	416,100	397,503
50% to 60%	121,424	15,286	3,420	140,130	126,180
60% to 70%	125,459	18,479	13,580	157,518	116,868
70% to 80%	60,438	10,240	4,275	74,953	58,471
80% to 90%	32,300	3,301	6,669	42,270	29,763
90% to 100%	31,186	3,155	2,601	36,942	40,735
higher than 100%	73,761	9,581	22,657	105,999	93,282
no collateral	302,085	22,836	6,100	331,021	268,760
Total gross loans	1,086,571	140,917	77,445	1,304,933	1,131,562

Bank loans to customers – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	338,827	58,039	18,143	415,009	395,549
50% to 60%	121,425	15,285	3,420	140,130	126,180
60% to 70%	125,458	18,479	13,580	157,517	116,868
70% to 80%	60,438	10,240	3,864	74,542	58,060
80% to 90%	37,010	3,301	6,669	46,980	29,763
90% to 100%	31,186	3,155	2,601	36,942	45,932
higher than 100%	73,761	9,581	22,657	105,999	93,282
no collateral	297,634	23,586	3,253	324,473	266,846
Total gross loans	1,085,739	141,666	74,187	1,301,592	1,132,480

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Group loans to individuals (Retail) – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	19,050	1,890	2,548	23,488	24,704
50% to 60%	10,441	1,017	412	11,870	9,759
60% to 70%	12,758	981	2,815	16,554	11,388
70% to 80%	6,545	1,179	1,169	8,893	6,627
80% to 90%	2,493	143	211	2,847	2,592
90% to 100%	477	115	97	689	803
higher than 100%	1,657	839	648	3,144	4,466
no collateral	177,402	4,248	3,281	184,931	139,253
Total gross loans	230,823	10,412	11,181	252,416	199,592

Bank loans to individuals (Retail) – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	19,050	1,890	2,548	23,488	24,704
50% to 60%	10,441	1,017	412	11,870	9,759
60% to 70%	12,758	981	2,815	16,554	11,388
70% to 80%	6,545	1,179	1,169	8,893	6,627
80% to 90%	2,493	143	211	2,847	2,592
90% to 100%	477	115	97	689	803
higher than 100%	1,657	839	648	3,144	4,466
no collateral	113,482	606	454	114,542	79,564
Total gross loans	166,903	6,770	8,354	182,027	139,903

Group loans to individuals (Retail): Consumer loans – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	1	-	2	3	13
50% to 60%	-	-	-	-	-
60% to 70%	-	-	-	-	-
70% to 80%	-	-	-	-	-
80% to 90%	-	-	-	-	-
90% to 100%	-	-	-	-	-
higher than 100%	-	-	-	-	-
no collateral	91,755	3,952	3,209	98,916	77,408
Total gross loans	91,756	3,952	3,211	98,919	77,421

Bank loans to individuals (Retail): Consumer loans – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	1	-	2	3	13
50% to 60%	-	-	-	-	-
60% to 70%	-	-	-	-	-
70% to 80%	-	-	-	-	-
80% to 90%	-	-	-	-	-
90% to 100%	-	-	-	-	-
higher than 100%	-	-	-	-	-
no collateral	27,835	310	382	28,527	17,719
Total gross loans	27,836	310	384	28,530	17,732

Group loans to individuals (Retail): Mortgages – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	13,305	1,449	157	14,911	13,536
50% to 60%	8,937	556	178	9,671	7,972
60% to 70%	10,499	453	162	11,114	9,436
70% to 80%	6,177	1,111	935	8,223	6,188
80% to 90%	2,268	134	170	2,572	2,102
90% to 100%	349	105	34	488	357
higher than 100%	1,383	347	233	1,963	2,775
no collateral	2,072	25	45	2,142	828
Total gross loans	44,990	4,180	1,914	51,084	43,194

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Bank loans to individuals (Retail): Mortgages – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	13,305	1,449	157	14,911	13,536
50% to 60%	8,937	556	178	9,671	7,972
60% to 70%	10,499	453	162	11,114	9,436
70% to 80%	6,177	1,111	935	8,223	6,188
80% to 90%	2,268	134	170	2,572	2,102
90% to 100%	349	105	34	488	357
higher than 100%	1,383	347	233	1,963	2,775
no collateral	2,072	25	45	2,142	828
Total gross loans	44,990	4,180	1,914	51,084	43,194

Group loans to individuals (Retail): Multiapartment rennovation loans – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	-	-	-	-	-
50% to 60%	-	-	-	-	-
60% to 70%	-	-	-	-	-
70% to 80%	-	-	-	-	-
80% to 90%	-	-	-	-	-
90% to 100%	-	-	-	-	-
higher than 100%	-	-	-	-	-
no collateral	81,983	-	-	81,983	60,704
Total gross loans	81,983	-	-	81,983	60,704

Bank loans to individuals (Retail): Multiapartment rennovation loans – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	-	-	-	-	-
50% to 60%	-	-	-	-	-
60% to 70%	-	-	-	-	-
70% to 80%	-	-	-	-	-
80% to 90%	-	-	-	-	-
90% to 100%	-	-	-	-	-
higher than 100%	-	-	-	-	-
no collateral	81,983	-	-	81,983	60,704
Total gross loans	81,983	-	-	81,983	60,704

Group loans to individuals (Retail): Other – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	5,744	441	2,389	8,574	11,155
50% to 60%	1,504	461	234	2,199	1,787
60% to 70%	2,259	528	2,653	5,440	1,952
70% to 80%	368	68	234	670	439
80% to 90%	225	9	41	275	490
90% to 100%	128	10	63	201	446
higher than 100%	274	492	415	1,181	1,691
no collateral	1,592	271	27	1,890	313
Total gross loans	12,094	2,280	6,056	20,430	18,273

Bank loans to individuals (Retail): Other – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	5,744	441	2,389	8,574	11,155
50% to 60%	1,504	461	234	2,199	1,787
60% to 70%	2,259	528	2,653	5,440	1,952
70% to 80%	368	68	234	670	439
80% to 90%	225	9	41	275	490
90% to 100%	128	10	63	201	446
higher than 100%	274	492	415	1,181	1,691
no collateral	1,592	271	27	1,890	313
Total gross loans	12,094	2,280	6,056	20,430	18,273

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Group loans to financial institutions – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	1	-	-	1	2
50% to 60%	-	-	-	-	-
60% to 70%	-	-	-	-	-
70% to 80%	-	-	-	-	-
80% to 90%	-	-	-	-	-
90% to 100%	-	-	-	-	-
higher than 100%	-	-	-	-	-
no collateral	27	681	-	708	16
Total gross loans	28	681	-	709	18

Bank loans to financial institutions – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	1	-	-	1	2
50% to 60%	-	-	-	-	-
60% to 70%	-	-	-	-	-
70% to 80%	-	-	-	-	-
80% to 90%	-	-	-	-	-
90% to 100%	-	-	-	-	-
higher than 100%	-	-	-	-	-
no collateral	49,589	681	-	50,270	39,754
Total gross loans	49,590	681	-	50,271	39,756

Group loans to business customers – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	320,867	56,149	15,595	392,611	372,797
50% to 60%	110,983	14,269	3,008	128,260	116,421
60% to 70%	112,701	17,498	10,765	140,964	105,480
70% to 80%	53,893	9,061	3,106	66,060	51,844
80% to 90%	29,807	3,158	6,458	39,423	27,171
90% to 100%	30,709	3,040	2,504	36,253	39,932
higher than 100%	72,104	8,742	22,009	102,855	88,816
no collateral	124,656	17,907	2,819	145,382	129,491
Total gross loans	855,720	129,824	66,264	1,051,808	931,952

Bank loans to business customers – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	319,776	56,149	15,595	391,520	370,843
50% to 60%	110,984	14,268	3,008	128,260	116,421
60% to 70%	112,700	17,498	10,765	140,963	105,480
70% to 80%	53,893	9,061	2,695	65,649	51,433
80% to 90%	34,517	3,158	6,458	44,133	27,171
90% to 100%	30,709	3,040	2,504	36,253	45,129
higher than 100%	72,104	8,742	22,009	102,855	88,816
no collateral	134,563	22,299	2,799	159,661	147,528
Total gross loans	869,246	134,215	65,833	1,069,294	952,821

Group loans to business customers: Large corporates – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	32,612	928	101	33,641	23,565
50% to 60%	8,349	730	-	9,079	620
60% to 70%	13,107	417	-	13,524	26,085
70% to 80%	-	-	-	-	13,314
80% to 90%	13,794	-	-	13,794	5,006
90% to 100%	-	-	-	-	7,364
higher than 100%	11,931	116	-	12,047	10,047
no collateral	3,144	-	-	3,144	3,171
Total gross loans	82,937	2,191	101	85,229	89,172

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Bank loans to business customers: Large corporates – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	32,612	928	101	33,641	23,565
50% to 60%	8,349	730	-	9,079	620
60% to 70%	13,107	417	-	13,524	26,085
70% to 80%	-	-	-	-	13,314
80% to 90%	13,794	-	-	13,794	5,006
90% to 100%	-	-	-	-	7,364
higher than 100%	11,931	116	-	12,047	10,047
no collateral	3,144	-	-	3,144	3,171
Total gross loans	82,937	2,191	101	85,229	89,172

Group loans to business customers: SME – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	286,809	54,982	15,494	357,285	346,275
50% to 60%	102,586	13,539	3,008	119,133	110,022
60% to 70%	98,820	16,979	10,765	126,564	79,259
70% to 80%	53,879	9,061	3,106	66,046	35,452
80% to 90%	16,013	3,158	5,040	24,211	22,165
90% to 100%	30,709	3,040	2,504	36,253	32,568
higher than 100%	59,082	8,528	22,009	89,619	78,364
no collateral	28,150	17,474	2,693	48,317	22,442
Total gross loans	676,048	126,761	64,619	867,428	726,547

Bank loans to business customers: SME – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	285,718	54,982	15,494	356,194	344,321
50% to 60%	102,587	13,538	3,008	119,133	110,022
60% to 70%	98,819	16,979	10,765	126,563	79,259
70% to 80%	53,879	9,061	2,695	65,635	35,041
80% to 90%	20,723	3,158	5,040	28,921	22,165
90% to 100%	30,709	3,040	2,504	36,253	37,765
higher than 100%	59,082	8,528	22,009	89,619	78,364
no collateral	38,057	21,866	2,673	62,596	40,479
Total gross loans	689,574	131,152	64,188	884,914	747,416

Group loans to business customers: Central and local authorities, administrative bodies and other – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	1,446	239	-	1,685	2,957
50% to 60%	48	-	-	48	5,779
60% to 70%	774	102	-	876	136
70% to 80%	14	-	-	14	3,078
80% to 90%	-	-	1,418	1,418	-
90% to 100%	-	-	-	-	-
higher than 100%	1,091	98	-	1,189	405
no collateral	93,362	433	126	93,921	103,878
Total gross loans	96,735	872	1,544	99,151	116,233

Bank loans to business customers: Central and local authorities, administrative bodies and other – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	1,446	239	-	1,685	2,957
50% to 60%	48	-	-	48	5,779
60% to 70%	774	102	-	876	136
70% to 80%	14	-	-	14	3,078
80% to 90%	-	-	1,418	1,418	-
90% to 100%	-	-	-	-	-
higher than 100%	1,091	98	-	1,189	405
no collateral	93,362	433	126	93,921	103,878
Total gross loans	96,735	872	1,544	99,151	116,233

(All amounts are in EUR thousand, unless otherwise stated)

e) Loans to customers against which no impairment loss allowance is recognized

Loans to customers contain loans against which no loss impairment loss allowance was recognized because of sufficiency of collateral. Such loans are summarized in the following table:

Group, as at 31 December 2018				*Gross value*	
	Stage 1	Stage 2	Stage 3	Total	LTV
Loans to financial institutions	28	-	-	28	1%
Loans to individuals:	38,152	3,001	3,127	44,280	31%
Mortgages -	29,518	2,046	360	31,924	37%
Other-	8,634	955	2,767	12,356	17%
Loans to business customers:	387,080	54,063	9,986	451,129	26%
Central and local authorities, administrative bodies and other -	2,267	79	-	2,346	5%
Large corporates -	21,745	474	101	22,320	18%
SME -	363,068	53,510	9,885	426,463	26%
Total	425,260	57,064	13,113	495,437	26%

f) Purchased or originated credit-impaired (POCI) loans to customers

Loans to customers contain POCI loans to customers. Major part of these loans were acquired under the transaction transfer of assets, rights, transactions and liabilities of Ūkio Bankas under a discount over their nominal value due to their non-performing status at the time of transfer. Details on POCI loans are summarized in the following table:

As at 31 December 2018 (Group, Bank):	*Gross value*	*Impairment*	*Carrying value*
Loans to financial institutions	-	-	-
Loans to individuals:	446	(55)	391
Consumer loans -	-	-	-
Mortgages -	189	(13)	176
Other-	257	(42)	215
Loans to business customers:	5,624	(1,595)	4,029
Central and local authorities, administrative bodies and other -	-	-	-
Large corporates -	-	-	-
SME -	5,624	(1,595)	4,029
Total	6,070	(1,650)	4,420

g) Modifications of loans to customers

The Bank sometimes modifies the payment terms of loans to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery. Modification practices are based on criteria which, in the judgement of management, indicate that payment will most likely continue. The modification of the loan contract does not impact its credit stage assignment (unless payment modifications are made to problematic loans – if loan is modified due to bad credit situation of the borrower twice, it is automatically moved to Stage 3; additional observation periods are introduced for the loans that were modified due to bad credit situation of the borrower to be moved to better stage from Stage 3 or Stage 2).

The amortized cost before modification of loans with lifetime ECL whose cash flows were modified during 2018 as part of Group's restructuring activities was EUR 66,810 thousand, these modifications resulted in a net loss of EUR 17 thousand.

(All amounts are in EUR thousand, unless otherwise stated)

h) Year 2017 disclosures

As the Bank chose not to restate comparative financial information on IFRS 9 adoption, the comparative financial information presented below is not directly comparable to the financial information for the year 2018.

i) impairment and provisioning policies

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

The Group and the Bank carries out valuation of assets on a monthly basis, based on valuation policies approved by the Board of the Bank. The amount of impairment provision for loans that are individually impaired is based on the individual assessment of specific assets using discounted cash flow method and effective interest rates. Collateral is also taken into consideration when estimating an impairment provision. The impairment rates for consumer financing loans are based on analysis of the historical information for each homogenous group of clients and expert judgement. These methodologies enable an assessment of the incurred losses of a high number of the impaired small exposures and at the same time provide a possibility to focus on the individual assessment of the Group's largest impaired borrowers under the discounted cash flow method.

The following loss events are considered by the Group and the Bank when estimating individual impairment. Events that may cause loss in future cannot be recognized as a loss event on the loan evaluation day.

The list of loss events:

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

Loans for which loss event is not identified individually are assessed on collective basis for incurred but not reported (IBNR) loss. The IBNR impairment amount is calculated based on available historical information on the incurred but not reported losses of the Bank and the Group.

Loans and receivables are written-off from the balance sheet when the total loan balance or a part of it is considered as uncollectible under the most optimistic scenario. 100% impairment provision against the carrying amount of the exposure must be recognized before an uncollectible exposure (or part of it that is considered to be uncollectible) can be written-off. Written-off exposures are accounted for as off-balance sheet claims ("accumulated write-offs") until the legal right to claim the amounts from the borrower expires. The accumulated write-offs, including any amount constituting legal claims to the borrowers even if those amounts were never recognized on the balance sheet (the most common example of such cases is the difference between gross value and acquisition value of credit-impaired loans acquired by the Group) amounted to: 31 December 2017 – the Group EUR 100,979 thousand; the Bank EUR 91,573 thousand.

ii) summary loans and advances

Loans and advances are summarised as follows:

		2017
	Group	Bank
Loans to business customers	1,006,859	1,067,488
Loans to individuals	139,738	80,027
*Subtract: Difference between acquisition value and gross value **	(15,035)	(15,035)
Gross	1,131,562	1,132,480
Subtract: Allowance for impairment	(33,235)	(29,553)
of which: for individually assessed loans	*(32,097)*	*(28,786)*
of which:collective allowances for incurrred but not reported losses	*(1,138)*	*(767)*
Net	1,098,327	1,102,927

* Difference between acquisition value and gross value is the difference between the acquisition value of the loans acquired under the transaction transfer of assets, rights, transactions and liabilities of Ūkio Bankas and the gross value of the above-mentioned loans.

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

31 December 2017

	Group		Bank	
	Loans and advances to customers	Loans and advances to financial institutions	Loans and advances to customers	Loans and advances to financial institutions
Neither past due nor individually impaired	988,182	18	963,623	39,756
Past due but not individually impaired	90,714	-	83,663	-
Individually impaired	52,648	-	45,438	-
Gross	**1,131,544**	**18**	**1,092,724**	**39,756**
Less: allowance for impairment	(33,235)	-	(29,553)	-
of which: for individually assessed loans	*(32,097)*	-	*(28,786)*	-
of which: collective allowances for incurrred but not reported losses	*(1,138)*	-	*(767)*	-
Net	**1,098,309**	**18**	**1,063,171**	**39,756**

Impaired loan - is a loan to which a loss event is recognized and allowance for impairment is made. The list of loss events is presented in Impairment and provisioning policies section above.

iii) Loans and advances neither past due nor individually impaired

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

31 December 2017

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Standard	59,766	31,761	2,747	8,748	103,022
Watch	37	3,316	16	3,568	6,937
Substandard	-	2,954	-	874	3,828
Gross	**59,803**	**38,031**	**2,763**	**13,190**	**113,787**
Collective allowances for incurrred but not reported losses	(246)	(28)	(10)	(10)	(294)
Net	**59,557**	**38,003**	**2,753**	**13,180**	**113,493**

	Group loans to business customers				
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Standard	294,263	62,295	18	124,625	481,201
Watch	305,697	13,696	-	45,937	365,330
Substandard	26,294	-	-	1,588	27,882
Total	**626,254**	**75,991**	**18**	**172,150**	**874,413**
Collective allowances for incurrred but not reported losses	(460)	(56)	-	(127)	(643)
Net	**625,794**	**75,935**	**18**	**172,023**	**873,770**

31 December 2017

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Standard	15,658	31,761	1,037	8,748	57,204
Watch	37	3,316	16	3,568	6,937
Substandard	-	2,954	-	874	3,828
Total	**15,695**	**38,031**	**1,053**	**13,190**	**67,969**
Collective allowances for incurrred but not reported losses	(12)	(28)	(1)	(10)	(51)
Net	**15,683**	**38,003**	**1,052**	**13,180**	**67,918**

	Bank loans to business customers				
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Standard	293,268	62,295	39,756	124,625	519,944
Watch	327,951	13,696	-	45,937	387,584
Substandard	26,294	-	-	1,588	27,882
Total	**647,513**	**75,991**	**39,756**	**172,150**	**935,410**
Collective allowances for incurrred but not reported losses	(460)	(56)	-	(127)	(643)
Net	**647,053**	**75,935**	**39,756**	**172,023**	**934,767**

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Other loans to individuals (retail) are secured loans, which are not classified as consumer or mortgage credits and which are assigned e.g. for various personal expenses of the natural entities, for acquisition of real estate, movables or securities.

Loans and advances neither past due nor impaired are loans which are not impaired and payments of which are not past due.

The Group and the Bank examines the potential borrower's financial performance before issuing a loan and monitors any development in financial performance during the whole loan service period. The Group and the Bank evaluates the borrower's financial performance at least quarterly.

iv) Loans and advances past due but not individually impaired

Past due but not individually impaired loans are loans for which principal or interest is past due but no individual allowance for impairment is recognized.

31 December 2017

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Past due up to 30 days	7,089	2,173	41	3,226	12,529
Past due 30-60 days	33	281	147	183	644
Past due 60-90 days	-	366	-	169	535
Past due more than 90 days	6	313	-	401	720
Gross	**7,128**	**3,133**	**188**	**3,979**	**14,428**
Collective allowances for incurrred but not reported losses	(125)	(2)	(3)	(3)	(133)
Net	**7,003**	**3,131**	**185**	**3,976**	**14,295**
Fair value of collateral	24	3,092	-	3,885	7,001

	Group loans to business customers			
	SME	Large corporates	Central and local authorities and other	Total
Past due up to 30 days	42,694	13,020	3,096	58,809
Past due 30-60 days	2,038	-	22	2,060
Past due 60-90 days	3,569	-	-	3,569
Past due more than 90 days	11,847	-	-	11,847
Gross	**60,148**	**13,020**	**3,118**	**76,286**
Collective allowances for incurrred but not reported losses	(44)	(10)	(2)	(56)
Net	**60,104**	**13,010**	**3,116**	**76,230**
Fair value of collateral	58,770	10,305	25	69,100

31 December 2017

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Past due up to 30 days	629	2,173	41	3,226	6,069
Past due 30-60 days	-	281	-	183	464
Past due 60-90 days	-	366	-	169	535
Past due more than 90 days	6	313	-	401	720
Gross	**635**	**3,133**	**41**	**3,979**	**7,788**
Collective allowances for incurrred but not reported losses	-	(2)	-	(3)	(5)
Net	**635**	**3,131**	**41**	**3,976**	**7,783**
Fair value of collateral	24	3,092	-	3,885	7,001

	Bank loans to business customers			
	SME	Large corporates	Central and local authorities and other	Total
Past due up to 30 days	42,694	13,020	3,096	58,810
Past due 30-60 days	2,038	-	22	2,060
Past due 60-90 days	3,569	-	-	3,569
Past due more than 90 days	11,436	-	-	11,436
Gross	**59,737**	**13,020**	**3,118**	**75,875**
Collective allowances for incurrred but not reported losses	(44)	(10)	(2)	(56)
Net	**59,693**	**13,010**	**3,116**	**75,819**
Fair value of collateral	58,770	10,305	25	69,100

(All amounts are in EUR thousand, unless otherwise stated)

v) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Group and the Bank as security is as follows:

31 December 2017

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Impaired loans	7,157	2,029	382	1,125	10,693
Allowance for impairment of individually assessed loans	(3,263)	(1,009)	(230)	(537)	(5,039)
Collective allowances for incurrred but not reported losses	-	(1)	-	-	(1)
Net	**3,894**	**1,019**	**152**	**588**	**5,653**
Fair value of collateral	4	1,466	-	595	2,065

	Group loans to business customers			
	SME	Large corporates	Central and local authorities and other	Total
Impaired loans	40,125	161	1,669	41,955
Allowance for impairment of individually assessed loans	(26,334)	(19)	(705)	(27,058)
Collective allowances for incurrred but not reported losses	(10)	-	(1)	(11)
Net	**13,781**	**142**	**963**	**14,886**
Fair value of collateral	29,234	161	1,623	31,018

31 December 2017

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Impaired loans	251	2,029	57	1,104	3,441
Allowance for impairment of individually assessed loans	(113)	(1,009)	(48)	(516)	(1,686)
Collective allowances for incurrred but not reported losses	-	(1)	-	-	(1)
Net	**138**	**1,019**	**9**	**588**	**1,754**
Fair value of collateral	4	1,466	-	595	2,065

	Bank loans to business customers			
	SME	Large corporates	Central and local authorities and other	Total
Impaired loans	40,167	161	1,669	41,997
Allowance for impairment of individually assessed loans	(26,376)	(19)	(705)	(27,100)
Collective allowances for incurrred but not reported losses	(10)	-	(1)	(11)
Net	**13,781**	**142**	**963**	**14,886**
Fair value of collateral	29,234	161	1,623	31,018

vi) Loans and advances renegotiated

Loans and advances that are not past due or individually impaired at year end and which at the time of their renegotiation were of a substandard risk as at 31 December 2017 amounted to EUR 17.3 million.

Renegotiated loans by the class of financial assets:

31 December 2017

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Renegotiated loans	-	64	-	117	181

	Bank loans to business customers			
	SME	Large corporates	Central and local authorities and other	Total
Renegotiated loans	15,490	-	1,588	17,078

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

1.6. Finance lease receivables

Finance lease receivables are summarised as follows:

	2018		2017	
	Group	Bank	Group	Bank
Business customers	105,634	104,784	76,469	75,577
Individuals	21,100	21,027	16,068	15,925
Gross	**126,734**	**125,811**	**92,537**	**91,502**
Subtract: Allowance for impairment	(2,646)	(1,842)	(1,398)	(604)
Net	**124,088**	**123,969**	**91,139**	**90,898**

During the year ended 31 December 2018, finance lease receivables portfolio of the Group increased by 36.2% (2017: 30.6%). Total impairment provisions for finance lease receivables of the Group amount to EUR 2,646 thousand (2017: EUR 1,398 thousand) and account for 2.09% of the respective portfolio (2017: 1.51%).

a) Credit grades of finance lease receivables

Standard finance lease receivable is a receivable when the borrower's financial performance is either very good or good. Watch finance lease receivable is a receivable when the borrower's financial performance is satisfactory. Substandard finance lease receivable is a receivable when the borrower's financial performance is poor or bad. Problem finance lease receivable is a receivable when the payment is overdue for over 90 days, or the borrower is bankrupt, or the contract is terminated. Finance lease receivables from individuals are assessed based on application scorings when decision is made. After they are granted they are monitored based on their past due status.

Group finance lease receivables

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	52,819	1,501	456	54,776	44,269
Watch	43,218	13,768	4,987	61,973	35,273
Substandard	1,078	2,856	322	4,256	11,120
Problem	-	-	5,729	5,729	1,875
Gross	**97,115**	**18,125**	**11,494**	**126,734**	**92,537**
Less: allowance for impairment	(349)	(537)	(1,760)	(2,646)	(1,398)
Net	**96,766**	**17,588**	**9,734**	**124,088**	**91,139**

Bank finance lease receivables

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	52,801	1,501	456	54,758	44,112
Watch	43,203	13,767	4,986	61,956	35,273
Substandard	1,075	2,857	322	4,254	11,120
Problem	-	-	4,843	4,843	997
Gross	**97,079**	**18,125**	**10,607**	**125,811**	**91,502**
Less: allowance for impairment	(349)	(538)	(955)	(1,842)	(604)
Net	**96,730**	**17,587**	**9,652**	**123,969**	**90,898**

Group finance lease receivables – business customers

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	33,939	632	256	34,827	28,572
Watch	42,675	13,656	4,986	61,317	35,131
Substandard	903	2,798	322	4,023	11,014
Problem	-	-	5,467	5,467	1,751
Gross	**77,517**	**17,086**	**11,031**	**105,634**	**76,468**
Less: allowance for impairment	(260)	(490)	(1,587)	(2,337)	(1,322)
Net	**77,257**	**16,596**	**9,444**	**103,297**	**75,146**

Bank finance lease receivables – business customers

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	33,939	632	256	34,827	28,517
Watch	42,675	13,655	4,986	61,316	35,131
Substandard	903	2,799	322	4,024	11,014
Problem	-	-	4,617	4,617	913
Gross	**77,517**	**17,086**	**10,181**	**104,784**	**75,575**
Less: allowance for impairment	(260)	(491)	(818)	(1,569)	(567)
Net	**77,257**	**16,595**	**9,363**	**103,215**	**75,008**

(All amounts are in EUR thousand, unless otherwise stated)

Group finance lease receivables - individuals

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	18,880	869	200	19,949	15,697
Watch	543	112	1	656	142
Substandard	175	58	-	233	106
Problem	-	-	262	262	124
Gross	19,598	1,039	463	21,100	16,069
Less: allowance for impairment	(89)	(47)	(173)	(309)	(76)
Net	19,509	992	290	20,791	15,993

Bank finance lease receivables - individuals

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Standard	18,862	869	200	19,931	15,595
Watch	528	112	-	640	142
Substandard	172	58	-	230	106
Problem	-	-	226	226	84
Gross	19,562	1,039	426	21,027	15,927
Less: allowance for impairment	(89)	(47)	(137)	(273)	(37)
Net	19,473	992	289	20,754	15,890

b) Payment delays of finance lease receivables

Group finance lease receivables

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Not past due	81,625	12,946	5,624	100,195	65,875
Past due up to 30 days	15,481	3,529	135	19,145	23,138
Past due 31-90 days	9	1,650	7	1,666	1,210
Past due more than 90 days	-	-	5,728	5,728	2,314
Gross	97,115	18,125	11,494	126,734	92,537
Less: allowance for impairment	(349)	(537)	(1,760)	(2,646)	(1,398)
Net	96,766	17,588	9,734	124,088	91,139

Bank finance lease receivables

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Not past due	81,595	12,947	5,623	100,165	65,789
Past due up to 30 days	15,475	3,528	136	19,139	23,114
Past due 31-90 days	9	1,650	5	1,664	1,129
Past due more than 90 days	-	-	4,843	4,843	1,470
Gross	97,079	18,125	10,607	125,811	91,502
Less: allowance for impairment	(349)	(538)	(955)	(1,842)	(604)
Net	96,730	17,587	9,652	123,969	90,898

Group finance lease receivables – business customers

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Not past due	64,856	12,580	5,442	82,878	53,195
Past due up to 30 days	12,652	3,467	120	16,239	20,473
Past due 31-90 days	9	1,039	3	1,051	679
Past due more than 90 days	-	-	5,466	5,466	2,121
Gross	77,517	17,086	11,031	105,634	76,468
Less: allowance for impairment	(260)	(490)	(1,587)	(2,337)	(1,322)
Net	77,257	16,596	9,444	103,297	75,146

Bank finance lease receivables – business customers

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Not past due	64,856	12,581	5,440	82,877	53,183
Past due up to 30 days	12,652	3,466	121	16,239	20,473
Past due 31-90 days	9	1,039	3	1,051	601
Past due more than 90 days	-	-	4,617	4,617	1,318
Gross	77,517	17,086	10,181	104,784	75,575
Less: allowance for impairment	(260)	(491)	(818)	(1,569)	(567)
Net	77,257	16,595	9,363	103,215	75,008

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Group finance lease receivables - individuals

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Not past due	16,769	366	182	17,317	12,680
Past due up to 30 days	2,829	62	15	2,906	2,665
Past due 31-90 days	-	611	4	615	531
Past due more than 90 days	-	-	262	262	193
Gross	19,598	1,039	463	21,100	16,069
Less: allowance for impairment	(89)	(47)	(173)	(309)	(76)
Net	19,509	992	290	20,791	15,993

Bank finance lease receivables - individuals

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Not past due	16,739	366	183	17,288	12,606
Past due up to 30 days	2,823	62	15	2,900	2,641
Past due 31-90 days	-	611	2	613	528
Past due more than 90 days	-	-	226	226	152
Gross	19,562	1,039	426	21,027	15,927
Less: allowance for impairment	(89)	(47)	(137)	(273)	(37)
Net	19,473	992	289	20,754	15,890

c) Stage 3 Finance lease receivables

31 December 2018

	Group				*Bank*			
	Gross value	Allowance for impairment	Net value	Fair value of collateral	Gross value	Allowance for impairment	Net value	Fair value of collateral
31 December 2018:								
Business customers	-	-	-	-	-	-	-	-
Individuals	11,181	(3,550)	7,631	7,684	8,354	(1,609)	6,745	7,684
Total finance lease receivables	77,445	(32,465)	44,980	62,067	74,187	(30,504)	43,683	62,067

d) Information about risk mitigation measures for finance lease receivables

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

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

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

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

The Group

			2018			2017
	Individuals	Business customers	Total	Individuals	Business customers	Total
Unsecured finance lease receivables	926	6,338	7,264	198	4,520	4,718
Finance lease receivables secured by:						
transport vehicles -	18,903	54,516	73,419	14,844	35,013	49,857
real estate -	1,105	26,902	28,007	886	26,503	27,389
equipment and other -	166	17,878	18,044	141	10,433	10,574
Total	21,100	105,634	126,734	16,069	76,469	92,538

The Bank

			2018			2017
	Individuals	Business customers	Total	Individuals	Business customers	Total
Unsecured finance lease receivables	925	6,338	7,263	165	4,514	4,679
Finance lease receivables secured by:						
transport vehicles -	18,890	54,515	73,405	14,820	35,005	49,825
real estate -	1,074	26,902	27,976	886	26,493	27,379
equipment and other -	138	17,029	17,167	55	9,564	9,619
Total	21,027	104,784	125,811	15,926	75,576	91,502

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

The following tables present the LTV distributions of finance lease receivables:

Group finance lease receivables – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	56,175	10,798	8,616	75,589	54,871
50% to 60%	10,255	2,072	667	12,994	8,940
60% to 70%	10,221	1,586	229	12,036	9,065
70% to 80%	7,600	1,672	207	9,479	8,981
80% to 90%	6,980	1,018	81	8,079	5,961
90% to 100%	3,061	499	296	3,856	2,069
higher than 100%	1,034	210	999	2,243	1,930
no collateral	1,789	270	399	2,458	720
Total gross loans	97,115	18,125	11,494	126,734	92,537

Bank finance lease receivables – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	56,175	10,798	8,616	75,589	54,873
50% to 60%	10,255	2,072	667	12,994	8,939
60% to 70%	10,220	1,586	228	12,034	9,065
70% to 80%	7,600	1,672	207	9,479	8,981
80% to 90%	6,981	1,018	81	8,080	5,961
90% to 100%	3,026	499	296	3,821	2,069
higher than 100%	1,034	210	144	1,388	926
no collateral	1,788	270	368	2,426	688
Total gross loans	97,079	18,125	10,607	125,811	91,502

Group finance lease receivables: Individuals – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	12,512	596	227	13,335	10,042
50% to 60%	1,792	167	13	1,972	1,461
60% to 70%	1,525	36	8	1,569	1,387
70% to 80%	1,292	78	22	1,392	1,311
80% to 90%	921	38	20	979	551
90% to 100%	705	75	16	796	702
higher than 100%	574	5	57	636	576
no collateral	277	44	100	421	39
Total gross loans	19,598	1,039	463	21,100	16,069

Bank finance lease receivables: Individuals – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	12,512	596	227	13,335	10,043
50% to 60%	1,792	167	13	1,972	1,460
60% to 70%	1,524	36	8	1,568	1,387
70% to 80%	1,292	78	22	1,392	1,311
80% to 90%	922	38	20	980	551
90% to 100%	670	75	16	761	702
higher than 100%	574	5	57	636	466
no collateral	276	44	63	383	7
Total gross loans	19,562	1,039	426	21,027	15,927

Group finance lease receivables: Business customers – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	43,663	10,202	8,389	62,254	44,829
50% to 60%	8,463	1,905	654	11,022	7,479
60% to 70%	8,696	1,550	221	10,467	7,678
70% to 80%	6,308	1,594	185	8,087	7,670
80% to 90%	6,059	980	61	7,100	5,410
90% to 100%	2,356	424	280	3,060	1,367
higher than 100%	460	205	942	1,607	1,354
no collateral	1,512	226	299	2,037	681
Total gross loans	77,517	17,086	11,031	105,634	76,468

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Bank finance lease receivables: Business customers – LTV distribution

				2018	2017
LTV ratio:	Stage 1	Stage 2	Stage 3	Total	Total
lower than 50%	43,663	10,202	8,389	62,254	44,830
50% to 60%	8,463	1,905	654	11,022	7,479
60% to 70%	8,696	1,550	220	10,466	7,678
70% to 80%	6,308	1,594	185	8,087	7,670
80% to 90%	6,059	980	61	7,100	5,410
90% to 100%	2,356	424	280	3,060	1,367
higher than 100%	460	205	87	752	460
no collateral	1,512	226	305	2,043	681
Total gross loans	77,517	17,086	10,181	104,784	75,575

e) Finance lease receivables against which no impairment loss allowance is recognized

Finance lease receivables contain receivables against which no loss impairment loss allowance was recognized because of sufficiency of collateral. Such receivables are summarized in the following table:

At 31 December 2018:				*Gross value*	
	Stage 1	Stage 2	Stage 3	Total	LTV
Business customers	23,531	6,755	8,925	39,211	25%
Individuals	3,033	141	187	3,361	17%
Total	**26,564**	**6,896**	**9,112**	**42,572**	**24%**

f) Year 2017 disclosures

As the Bank chose not to restate comparative financial information on IFRS 9 adoption, the compative financial information presented below is not directly comparable to the financial information for the year 2018.

i) summary finance lease receivables

Finance lease receivables are summarised as follows:

		2017
	Group	Bank
Business customers	76,482	75,590
Individuals	16,068	15,925
*Subtract: Difference between acquisition value and gross value **	(13)	(13)
Gross	**92,537**	**91,502**
Subtract: Allowance for impairment	(1,398)	(604)
of which: for individually assessed finance lease receivables	(1,330)	(536)
of which: collective allowances for incurrred but not reported losses	(68)	(68)
Net	**91,139**	**90,898**

* Difference between acquisition value and gross value is the difference between the acquisition value of the finance lease receivables acquired under the transaction transfer of assets, rights, transactions and liabilities of Ūkio Bankas and the gross value of the above-mentioned receivables.

			Group
	Individuals	Business customers	Total
Neither past due nor individually impaired	12,678	52,873	65,551
Past due but not individually impaired	3,266	21,845	25,111
Individually impaired	124	1,751	1,875
Gross	**16,068**	**76,469**	**92,537**
Less: allowance for impairment	(76)	(1,322)	(1,398)
of which: for individually assessed finance lease receivables	(63)	(1,267)	(1,330)
of which: collective allowances for incurrred but not reported losses	(13)	(55)	(68)
Net	**15,992**	**75,147**	**91,139**

			Bank
	Individuals	Business customers	Total
Neither past due nor impaired	12,604	52,861	65,465
Past due but not impaired	3,237	21,803	25,040
Impaired	84	913	997
Gross	**15,925**	**75,577**	**91,502**
Less: allowance for impairment	(38)	(566)	(604)
of which: for individually assessed finance lease receivables	(25)	(511)	(536)
of which: collective allowances for incurrred but not reported losses	(13)	(55)	(68)
Net	**15,887**	**75,011**	**90,898**

(All amounts are in EUR thousand, unless otherwise stated)

ii) Finance lease receivables neither past due nor individually impaired

Finance lease receivables from individuals are assessed based on application scorings when decision is made. After the loans are granted they are monitored based on their past due status. All loans to individuals, which are neither past due nor impaired are considered as standard loans from credit risk management view.

2017			Group			Bank
	Individuals	Business customers	Total	Individuals	Business customers	Total
Standard	12,457	25,036	37,493	12,383	25,024	37,407
Watch	139	24,179	24,318	139	24,179	24,318
Substandard	82	3,658	3,740	82	3,658	3,740
Total	12,678	52,873	65,551	12,604	52,861	65,465
Collective allowances for incurrred but not reported losses	(11)	(39)	(50)	(11)	(39)	(50)
Net	12,667	52,834	65,501	12,593	52,822	65,415

Standard lease receivable is a receivable when its repayment is not past due and the borrower's financial performance is either very good or good. Watch lease receivable is a receivable when its repayment is not past due and the borrower's financial performance is satisfactory. Substandard lease receivable is a receivable when its repayment is not past due and the borrower's financial performance is poor or bad.

iii) Finance lease receivables past due but not individually impaired

31 December 2017

			Group			*Bank*
	Individuals	Business customers	Total	Individuals	Business customers	Total
Past due up to 3 days	717	14,990	15,707	716	14,991	15,707
Past due 4-40 days	2,205	5,615	7,820	2,179	5,615	7,794
Past due 41-90 days	249	314	563	249	277	526
Past due more than 90 days	95	926	1,021	93	920	1,013
Gross	3,266	21,845	25,111	3,237	21,803	25,040
Collective allowances for incurrred but not reported losses	(2)	(16)	(18)	(2)	(16)	(18)
Net	3,264	21,829	25,093	3,235	21,787	25,022
Fair value of the collateral	3,260	21,710	24,970	3,232	21,667	24,899

iv) Finance lease receivables individually impaired

			Group			*Bank*
	Individuals	Business customers	Total	Individuals	Business customers	Total
31 December 2017						
Individually impaired	124	1,751	1,875	84	913	997
Allowance for impairment of individually assessed finance lease receivables	(63)	(1,267)	(1,330)	(25)	(511)	(536)
Net	61	484	545	59	402	461
Fair value of collateral	82	1,744	1,826	73	913	986

(All amounts are in EUR thousand, unless otherwise stated)

1.7. Other financial assets

Other financial assets consist of amounts receivable. Their perfomance is monitored based on the past due status.

The Group

	2018			2017		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Stage 1	284	13,237	13,521	N/A	N/A	N/A
Stage 2	-	10	10	N/A	N/A	N/A
Stage 3	12	65	77	N/A	N/A	N/A
Gross	296	13,312	13,608	101	10,399	10,500
Less: allowance for impairment	(21)	(374)	(395)	(7)	(8)	(15)
Net	275	12,938	13,213	94	10,391	10,485

The Bank

	2018			2017		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Stage 1	93	12,913	13,006	N/A	N/A	N/A
Stage 2	-	10	10	N/A	N/A	N/A
Stage 3	7	57	64	N/A	N/A	N/A
Gross	100	12,980	13,080	33	9,598	9,631
Less: allowance for impairment	(9)	(363)	(372)	(7)	(8)	(15)
Net	91	12,617	12,708	26	9,590	9,616

As the Bank chose not to restate comparative financial information on IFRS 9 adoption, the compative financial information for the year 2017 presented below is not directly comparable to the financial information for the year 2018.

31 December 2017

	Group			Bank		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Neither past due nor impaired	94	10,391	10,485	26	9,590	9,616
Past due but not impaired	-	-	-	-	-	-
Impaired	7	8	15	7	8	15
Gross	101	10,399	10,500	33	9,598	9,631
Less: allowance for impairment	(7)	(8)	(15)	(7)	(8)	(15)
Net	94	10,391	10,485	26	9,590	9,616

(All amounts are in EUR thousand, unless otherwise stated)

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

Industry sectors

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

Group	Financial intermediation	Wholesale and retail	Manufacturing	Real estate and rent	Construction	Agriculture, hunting and forestry	Public administration and defence, compulsory social security	Transport, storage and communication	Health and social work	Loans to individuals	Other	Total
At 31 December 2018:												
Cash equivalents	28,925	-	-	-	-	-	11,999	-	-	-	-	40,924
Loans and advances to banks	2,090	-	-	-	-	-	-	-	-	-	-	2,090
Loans and advances to customers:	9,627	153,485	158,947	179,672	94,767	115,984	91,752	20,916	32,865	243,078	161,074	1,262,167
Loans and advances to financial institutions	693	-	-	-	-	-	-	-	-	-	-	693
Loans to individuals (Retail):	-	-	-	-	-	-	-	-	-	243,078	-	243,078
Consumer loans -	-	-	-	-	-	-	-	-	-	91,524	-	91,524
Mortgages -	-	-	-	-	-	-	-	-	-	50,203	-	50,203
Multiapartment rennovation loans -	-	-	-	-	-	-	-	-	-	81,806	-	81,806
Other -	-	-	-	-	-	-	-	-	-	19,545	-	19,545
Loans to business customers:	8,934	153,485	158,947	179,672	94,767	115,984	91,752	20,916	32,865	-	161,074	1,018,396
Large corporates -	-	523	57,602	-	11,145	-	-	6	15,459	-	241	84,976
SME -	8,934	152,962	101,345	179,624	83,546	115,984	502	20,910	14,570	-	157,136	835,513
Central and local authorities, administrative bodies and other -	-	-	-	48	76	-	91,250	-	2,836	-	3,697	97,907
Finance lease receivables:	725	17,690	12,925	6,194	7,683	6,402	467	20,796	845	20,791	29,570	124,088
Individuals -	-	-	-	-	-	-	-	-	-	20,791	-	20,791
Business customers -	725	17,690	12,925	6,194	7,683	6,402	467	20,796	845	-	29,570	103,297
Securities in the trading book:	30,780	2,563	4,569	275	-	-	13,533	169	409	-	7,884	60,182
Debt securities -	13,426	2,549	4,531	239	-	-	13,533	155	387	-	7,564	42,384
Equity securities -	17,354	14	38	36	-	-	-	14	22	-	320	17,798
Derivative financial instruments	737	26	4	-	1	-	-	7	-	181	241	1,197
Investment securities at fair value:	11,914	-	1,909	11	-	-	3,325	-	-	-	3,948	21,107
Equity securities -	4,277	-	-	11	-	-	-	-	-	-	440	4,728
Debt securities -	7,637	-	1,909	-	-	-	3,325	-	-	-	3,508	16,379
Investment securities at amortized cost:	53,194	2,280	42,103	1,009	-	-	463,943	3,015	3,981	-	69,130	638,655
Debt securities -	53,194	2,280	42,103	1,009	-	-	463,943	3,015	3,981	-	69,130	638,655
Other financial assets	-	34	29	29	4	6	-	5	1	275	12,830	13,213
Credit risk exposures relating to off –balance sheet items are as follows:												
Financial guarantees -	1,061	10,178	4,206	808	8,201	190	-	1,015	24	-	13,972	39,655
Letters of credit -	-	72	486	-	183	-	-	-	-	-	19	760
Loan commitments and other credit related liabilities -	-	19,320	29,966	30,907	21,604	8,178	4,260	8,444	986	88,635	53,107	265,407
Total at 31 December2018	139,053	205,648	255,144	218,905	132,443	130,760	589,279	54,367	39,111	352,960	351,775	2,469,445
At 31 December 2017:												
Cash equivalents	73,167	-	-	-	-	-	17,727	-	-	-	-	90,894
Loans and advances to banks	2,218	-	-	-	-	-	-	-	-	-	-	2,218
Loans and advances to customers:	5,546	127,342	130,242	153,160	93,974	95,974	90,458	25,632	32,105	194,100	149,794	1,098,327
Loans and advances to financial institutions	18	-	-	-	-	-	-	-	-	-	-	18
Loans to individuals (Retail):	-	-	-	-	-	-	-	-	-	194,100	-	194,100
Consumer loans -	-	-	-	-	-	-	-	-	-	73,544	-	73,544
Mortgages -	-	-	-	-	-	-	-	-	-	42,153	-	42,153
Multiapartment rennovation loans -	-	-	-	-	-	-	-	-	-	60,659	-	60,659
Other -	-	-	-	-	-	-	-	-	-	17,744	-	17,744
Loans to business customers:	5,528	127,342	130,242	153,160	93,974	95,974	90,458	25,632	32,105	-	149,794	904,209
Large corporates -	-	7,449	57,965	-	8,007	-	-	-	15,497	-	169	89,087
SME -	5,528	119,893	72,277	153,160	85,371	95,974	494	19,858	13,855	-	133,269	699,679
Central and local authorities, administrative bodies and other -	-	-	-	-	596	-	89,964	5,774	2,753	-	16,356	115,443
Finance lease receivables:	2,935	15,539	5,945	6,181	6,269	4,132	577	11,388	718	37,445	10	91,139
Individuals -	-	-	-	-	-	-	-	-	-	15,993	-	15,993
Business customers -	2,935	15,539	5,945	6,181	6,269	4,132	577	11,388	718	21,452	10	75,146
Securities at fair value through profit or loss:	25,708	719	3,800	305	-	421	13,406	167	414	-	4,235	49,175
Debt securities -	18,225	20	36	43	-	-	-	-	25	-	237	18,586
Equity securities -	7,483	699	3,764	262	-	421	13,406	167	389	-	3,998	30,589
Derivative financial instruments	727	225	153	399	166	296	46	23	40	631	325	3,031
Securities available for sale:	10,668	-	2,358	393	-	-	-	-	-	-	3,053	16,472
Equity securities -	4,317	-	-	393	-	-	-	-	-	-	440	5,150
Debt securities -	6,351	-	2,358	-	-	-	-	-	-	-	2,613	11,322
Investment securities held-to-maturity:	54,161	1,302	34,882	1,009	-	-	418,063	2,006	4,533	-	60,304	576,260
Debt securities -	54,161	1,302	34,882	1,009	-	-	418,063	2,006	4,533	-	60,304	576,260
Other financial assets	203	27	10	-	10	6	-	3	1	101	10,124	10,485
Credit risk exposures relating to off –balance sheet items are as follows:												
Financial guarantees -	1,079	6,313	3,928	805	12,910	91	-	779	30	-	7,852	33,787
Letters of credit -	-	60	114	-	-	-	-	-	-	-	88	262
Loan commitments and other credit related liabilities -	3,442	20,583	36,232	9,263	20,937	14,798	5,192	831	1,053	38,459	22,443	173,233
Total at 31 December2017	179,854	172,110	217,664	171,515	134,266	115,718	545,469	40,829	38,894	270,736	258,228	2,145,283

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Bank	Financial intermediation	Wholesale and retail	Manufacturing	Real estate and rent	Construction	Agriculture, hunting and forestry	Public administration and defence, compulsory social security	Transport, storage and communication	Health and social work	Loans to individuals	Other	Total
At 31 December 2018:												
Cash equivalents	28,736	-	-	-	-	-	11,999	-	-	-	-	40,735
Loans and advances to banks	2,090	-	-	-	-	-	-	-	-	-	-	2,090
Loans and advances to customers:	63,414	153,485	158,947	188,030	100,730	115,984	91,752	20,916	32,865	178,632	159,986	1,264,741
Loans and advances to financial institutions	50,255	-	-	-	-	-	-	-	-	-	-	50,255
Loans to individuals (Retail):	-	-	-	-	-	-	-	-	-	178,632	-	178,632
Consumer loans -	-	-	-	-	-	-	-	-	-	27,078	-	27,078
Mortgages -	-	-	-	-	-	-	-	-	-	50,203	-	50,203
Multiapartment renovation loans -	-	-	-	-	-	-	-	-	-	81,806	-	81,806
Other -	-	-	-	-	-	-	-	-	-	19,545	-	19,545
Loans to business customers:	13,159	153,485	158,947	188,030	100,730	115,984	91,752	20,916	32,865	-	159,986	1,035,854
Large corporates -	-	523	57,602	-	11,145	-	-	6	15,459	-	241	84,976
SME -	13,159	152,962	101,345	187,982	89,509	115,984	502	20,910	14,570	-	156,048	852,971
Central and local authorities, administrative bodies and other -	-	-	-	48	76	-	91,250	-	2,836	-	3,697	97,907
Finance lease receivables:	725	17,689	12,870	6,194	7,683	6,390	467	20,782	845	20,754	29,570	123,969
Individuals -	-	-	-	-	-	-	-	-	-	20,754	-	20,754
Business customers -	725	17,689	12,870	6,194	7,683	6,390	467	20,782	845	-	29,570	103,215
Securities in the trading book:	10,732	1,753	3,768	36	-	-	5,637	14	409	-	5,547	27,896
Debt securities -	10,612	1,739	3,730	-	-	-	5,637	-	387	-	5,227	27,332
Equity securities -	120	14	38	36	-	-	-	14	22	-	320	564
Derivative financial instruments	737	26	4	-	1	-	-	7	-	181	241	1,197
Investment securities at fair value:	7,730	-	1,909	11	-	-	3,325	-	-	-	3,532	16,507
Equity securities -	488	-	-	11	-	-	-	-	-	-	24	523
Debt securities -	7,242	-	1,909	-	-	-	3,325	-	-	-	3,508	15,984
Investment securities at amortized cost:	53,194	2,280	42,103	1,009	-	-	463,943	3,015	3,981	-	69,130	638,655
debt securities -	53,194	2,280	42,103	1,009	-	-	463,943	3,015	3,981	-	69,130	638,655
Other financial assets	-	34	29	29	4	6	-	5	1	91	12,509	12,708
Credit risk exposures relating to off –balance sheet items are as follows:												
Financial guarantees -	1,126	10,178	4,206	808	8,201	190	-	1,015	24	-	13,972	39,720
Letters of credit -	-	72	486	-	183	-	-	-	-	-	19	760
Loan commitments and other credit related liabilities -	15,471	19,320	29,981	34,838	22,413	8,178	4,260	8,444	986	88,635	53,092	285,618
Total at 31 December 2018:	183,955	204,837	254,303	230,955	139,215	130,748	581,383	54,198	39,111	288,293	347,598	2,454,596
At 31 December 2017:												
Cash equivalents	70,195	-	-	-	-	-	17,727	-	-	-	-	87,922
Loans and advances to banks	2,218	-	-	-	-	-	-	-	-	-	-	2,218
Loans and advances to customers:	49,057	127,342	130,242	167,283	99,313	95,974	90,458	25,632	32,105	138,114	147,407	1,102,927
Loans and advances to financial institutions	39,756	-	-	-	-	-	-	-	-	-	-	39,756
Loans to individuals (Retail):	-	-	-	-	-	-	-	-	-	138,114	-	138,114
Consumer loans -	-	-	-	-	-	-	-	-	-	17,558	-	17,558
Mortgages -	-	-	-	-	-	-	-	-	-	42,153	-	42,153
Multiapartment renovation loans -	-	-	-	-	-	-	-	-	-	60,659	-	60,659
Other -	-	-	-	-	-	-	-	-	-	17,744	-	17,744
Loans to business customers:	9,301	127,342	130,242	167,283	99,313	95,974	90,458	25,632	32,105	-	147,407	925,057
Large corporates -	-	7,449	57,965	-	8,007	-	-	-	15,497	-	169	89,087
SME -	9,301	119,893	72,277	167,283	90,710	95,974	494	19,858	13,855	-	130,882	720,527
Central and local authorities, administrative bodies and other -	-	-	-	-	596	-	89,964	5,774	2,753	-	16,356	115,443
Finance lease receivables:	2,935	15,533	5,879	6,181	6,269	4,116	577	11,349	718	15,889	21,452	90,898
Individuals -	-	-	-	-	-	-	-	-	-	15,889	-	15,889
Business customers -	2,935	15,533	5,879	6,181	6,269	4,116	577	11,349	718	-	21,452	75,009
Securities at fair value through profit or loss:	5,676	619	3,026	43	-	-	5,905	-	414	-	2,601	18,284
Debt securities -	167	20	36	43	-	-	-	-	25	-	238	529
Equity securities -	5,509	599	2,990	-	-	-	5,905	-	389	-	2,363	17,755
Derivative financial instruments	727	225	153	399	166	296	46	23	40	631	325	3,031
Securities available for sale:	6,535	-	2,358	11	-	-	-	-	-	-	2,638	11,542
Equity securities -	593	-	-	11	-	-	-	-	-	-	24	628
Debt securities -	5,942	-	2,358	-	-	-	-	-	-	-	2,614	10,914
Investment securities held-to-maturity:	54,161	1,302	34,882	1,009	-	-	418,063	2,006	4,533	-	60,304	576,260
debt securities -	54,161	1,302	34,882	1,009	-	-	418,063	2,006	4,533	-	60,304	576,260
Other financial assets	203	27	10	-	10	6	-	3	1	26	9,330	9,616
Credit risk exposures relating to off –balance sheet items are as follows:												
Financial guarantees -	1,146	6,273	3,928	805	12,910	91	-	779	30	-	7,852	33,814
Letters of credit -	-	60	114	-	-	-	-	-	-	-	88	262
Loan commitments and other credit related liabilities -	15,107	20,583	36,232	12,270	21,764	14,798	5,192	831	1,053	38,459	22,436	188,725
Total at 31 December 2017:	207,960	171,964	216,824	188,001	140,432	115,281	537,968	40,623	38,894	193,119	274,433	2,125,499

In 2018, the concentration risk management system was upgraded – a system of internal concentration key risk indicators, which are monitored on a regular basis, was introduced. As at 31 December 2018 the Group and the Bank were compliant with the internal limits.

Concentration exposure
As at 31 December 2018, the largest single exposure comprising loans to several related borrowers treated as a single borrower not secured by the Lithuanian Government guarantees, amounted to EUR 39.2 million, i.e. 18.23% of the Bank's calculated capital (2017: EUR 33.7 million or 18.43% of the Bank's calculated capital).

2. Market risk

The Group takes on exposure to market risk, which means the risk for the Group to incur losses due to the adverse fluctuations in the market parameters such as currency exchange rates (foreign currency risk), interest rates (interest rate risk) or securities prices (securities risk). Securities and interest rate risks are the most significant market risks for the Group while other market risks are of lower significance.

2.1. Foreign exchange risk

The management of the currency exchange risk is regulated by the "Currency Exchange Risk Management Procedures" which specify the principles allowing the Group to reduce the incurred foreign currency fluctuation risk to minimum. The Group is not engaged in any speculative transactions through which it could expect to earn profit from the open currency positions after changes in currency rate. The Board of the Bank approves and reviews on regular basis the maximum limits set to the open currency positions at the level of the Bank's subsidiary companies and the Bank. The Market and Treasury Department of the Bank bears responsibility for the Group's compliance with the Currency Exchange Risk Management Procedures.

The Group and the Bank monitors the foreign currency risk by calculating open currency position. Open currency position (OCP) is equal to assets in the balance sheet and off-balance sheet less balance sheet and off-balance sheet liabilities in a single currency. There are two types of OCP, i.e. long and short. Long position means that Group's assets exceed liabilities in given currency, whereas short position means that liabilities exceed assets. The Group also calculates Overall net open position (ONOP), which is the higher of the total short or total long positions. As at 31 December 2018 the Group's ONOP to capital ratio was 0.17% (2017: 0.29%), the Bank's ONOP to capital ratio was 0.11% (2017: 0.23%).

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Open positions

The Group's open positions of prevailing currencies were as follows:

	USD	Other currencies	Total currencies	EUR	Total
At 31 December 2018:					
Assets					
Cash and cash equivalents	22,186	12,874	35,060	54,244	89,304
Due from other banks	410	-	410	1,680	2,090
Securities in the trading book	6,314	159	6,473	53,709	60,182
Derivative financial instruments	-	-	-	1,197	1,197
Loans granted to customers, finance lease receivables	11,779	103	11,882	1,374,373	1,386,255
Investment securities at fair value	4,433	-	4,433	16,674	21,107
Investment securities at amortized cost	5,260	-	5,260	633,395	638,655
Intangible assets	-	-	-	3,359	3,359
Property, plant and equipment and investment property	-	-	-	18,390	18,390
Other assets	31	14	45	41,145	41,190
Total assets	50,413	13,150	63,563	2,198,166	2,261,729
Liabilities and shareholders' equity					
Due to other banks and financial institutions	313	-	313	68,839	69,152
Derivative financial instruments	-	-	-	1,048	1,048
Due to customers	103,587	13,554	117,141	1,728,647	1,845,788
Special and lending funds	-	-	-	3,192	3,192
Debt securities in issue	-	-	-	20,003	20,003
Liabilities related to insurance activities	2,896	159	3,055	24,912	27,967
Other liabilities	6	-	6	19,835	19,841
Shareholders' equity	(37)	-	(37)	274,775	274,738
Total liabilities and shareholders' equity	106,765	13,713	120,478	2,141,251	2,261,729
Net balance sheet position	(56,352)	(563)	(56,915)	56,915	-
Open currency exchange transactions	56,567	614	57,181	(56,623)	558
Net open position	215	51	266	292	558
At 31 December 2017:					
Assets					
Cash and cash equivalents	11,730	59,806	71,536	58,202	129,738
Due from other banks	398	-	398	1,820	2,218
Securities at fair value through profit or loss	9,010	187	9,197	39,978	49,175
Derivative financial instruments	5	-	5	3,026	3,031
Loans granted to customers, finance lease receivables	10,520	-	10,520	1,178,946	1,189,466
Investment securities					
available-for-sale securities -	3,094	-	3,094	13,378	16,472
held-to-maturity securities -	5,123	-	5,123	571,137	576,260
Intangible assets	-	-	-	4,535	4,535
Property, plant and equipment and investment property	-	-	-	22,932	22,932
Other assets	60	1	61	36,874	36,935
Total assets	39,940	59,994	99,934	1,930,828	2,030,762
Liabilities and shareholders' equity					
Due to other banks and financial institutions	55	-	55	55,662	55,717
Derivative financial instruments	-	-	-	1,894	1,894
Due to customers	93,864	12,851	106,715	1,541,338	1,648,053
Special and lending funds	-	-	-	13,336	13,336
Debt securities in issue	-	-	-	20,003	20,003
Subordinated loan	-	-		34,203	34,203
Liabilities related to insurance activities	5,762	188	5,950	21,282	27,232
Other liabilities	2	-	2	20,346	20,348
Shareholders' equity	382	-	382	209,594	209,976
Total liabilities and shareholders' equity	100,065	13,039	113,104	1,917,658	2,030,762
Net balance sheet position	(60,125)	46,955	(13,170)	13,170	-
Open currency exchange transactions	60,253	(46,571)	13,682	(14,614)	(932)
Net open position	128	384	512	(1,444)	(932)

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

The Bank's open positions of prevailing currencies were as follows:

	USD	Other currencies	Total currencies	EUR	Total
At 31 December 2018:					
Assets					
Cash and cash equivalents	22,173	12,874	35,047	52,685	87,732
Due from other banks	410	-	410	1,680	2,090
Securities in the trading book	3,292	-	3,292	24,604	27,896
Derivative financial instruments	-	-	-	1,197	1,197
Loans granted to customers, finance lease receivables	11,779	103	11,882	1,376,828	1,388,710
Investment securities at fair value	4,433	-	4,433	12,074	16,507
Investment securities at amortized cost	5,260	-	5,260	633,395	638,655
Investments in subsidiaries	-	-	-	24,659	24,659
Intangible assets	-	-	-	1,975	1,975
Property, plant and equipment and investment property	-	-	-	10,295	10,295
Other assets	30	14	44	21,978	22,022
Total assets	47,377	12,991	60,368	2,161,370	2,221,738
Liabilities and shareholders' equity					
Due to other banks and financial institutions	313	-	313	71,007	71,320
Derivative financial instruments	-	-	-	1,048	1,048
Due to customers	103,587	13,554	117,141	1,729,649	1,846,790
Debt securities in issue	-	-	-	20,003	20,003
Special and lending funds	-	-	-	3,192	3,192
Other liabilities	6	-	6	10,269	10,275
Shareholders' equity	(37)	-	(37)	269,147	269,110
Total liabilities and shareholders' equity	103,869	13,554	117,423	2,104,315	2,221,738
Net balance sheet position	(56,492)	(563)	(57,055)	57,055	-
Open currency exchange transactions	56,567	614	57,181	(56,623)	558
Net open position	75	51	126	432	558
At 31 December 2017:					
Assets					
Cash and cash equivalents	11,684	59,806	71,490	55,101	126,591
Due from other banks	398	-	398	1,820	2,218
Securities at fair value through profit or loss	3,167	-	3,167	15,117	18,284
Derivative financial instruments	5	-	5	3,026	3,031
Loans granted to customers, finance lease receivables	10,520	-	10,520	1,183,305	1,193,825
Investment securities					
available-for-sale securities -	3,094	-	3,094	8,448	11,542
held-to-maturity securities -	5,123	-	5,123	571,137	576,260
Investments in subsidiaries	-	-	-	26,895	26,895
Intangible assets	-	-	-	1,684	1,684
Property, plant and equipment and investment property	-	-	-	13,839	13,839
Other assets	60	1	61	15,736	15,797
Total assets	34,051	59,807	93,858	1,896,108	1,989,966
Liabilities and shareholders' equity					
Due to other banks and financial institutions	55	-	55	57,829	57,884
Derivative financial instruments	-	-	-	1,894	1,894
Due to customers	93,864	12,851	106,715	1,542,102	1,648,817
Debt securities in issue	-	-	-	20,003	20,003
Special and lending funds	-	-	-	13,336	13,336
Subordinated loan	-	-	-	34,203	34,203
Other liabilities	2	-	2	11,868	11,870
Shareholders' equity	382	-	382	201,577	201,959
Total liabilities and shareholders' equity	94,303	12,851	107,154	1,882,812	1,989,966
Net balance sheet position	(60,252)	46,956	(13,296)	13,296	-
Open currency exchange transactions	60,253	(46,571)	13,682	(14,614)	(932)
Net open position	1	385	386	(1,318)	(932)

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

The Bank has also granted loans in foreign currency. Although they are usually financed in the same currency, depending on the main currency of the debtor's cash flows, the strengthening of foreign currency against the local currency may adversely affect the debtors' ability to repay the loans, which increases the probability of future losses from loans.

Sensitivity of foreign exchange risk

Foreign exchange (FX) risk is limited by amounts of open FX positions. For calculation of sensitivity to FX risk all exposures shall be converted into possible loss, i.e. open FX position is multiplied by possible FX rate change. The FX risk parameters for the Group (Bank) have been established in view of the maximum fluctuations of currency exchange rate in 2018 and forecast that exchange rate fluctuations will have the same trends in 2019.

Currency	Annual reasonable shift, 2019	Annual reasonable shift, 2018
CHF	4%	5.5%
DKK	0.25%	0.5%
GBP	3%	8%
SEK	5%	4%
USD	6%	7.5%
Other currencies	4%	4%
CIS countries currencies	6.5%	9%

The following table presents Group (Bank) sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant:

	31 December 2018		*31 December 2017*	
Impact on profit or loss and equity	Group	Bank	Group	Bank
USD	13	5	10	-
GBP	2	2	2	2
CHF	1	1	2	2
DKK	-	-	1	1
SEK	2	2	1	1
Other currencies	4	4	10	10
CIS countries currencies	4	4	2	2
Total	26	18	28	18

The impact of presumable FX rate change on the Group's / Bank's profit for the year is at acceptable level. In 2018 for the Group and for the Bank it equals to EUR 26 thousand (2017: EUR 28 thousand) and EUR 18 thousand (2017: EUR 18 thousand) respectively.

2.2. Interest rate risk

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

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

The risk management is regulated by the Procedures for Interest Rate Risk Management, which were updated in 2017 to introduce a system of internal risk limits and indicators, which establish methods of risk measurement and set up measures for risk management. These procedures are approved by the Board of the Bank and define that:

- the Bank observes the principle to avoid the speculation with future interest rates;
- the risk is evaluated using a system of internal key risk indicators;
- Risk Management and Reporting Department provides the information on regular basis to Risk Management Committee about compliance with internal risk limits.

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Analysis of assets and liabilities by the contractual repricing or maturity dates

The tables below summarize the Group's and the Bank's interest rate risks. Assets and liabilities shown at their carrying amounts categorized by the earlier of contractual repricing or maturity dates.

Details of the Group's interest rate risk are presented below:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Non interest bearing or maturity undefined	Total
31 December 2018:							
Assets							
Cash and cash equivalents	-	-	-	-	-	89,304	89,304
Due from other banks	229	180	-	-	-	1,681	2,090
Securities in the trading book	83	667	1,529	2,337	37,768	17,798	60,182
Derivative financial instruments	-	-	-	-	-	1,197	1,197
Loans to customers, finance lease receivables	206,339	358,143	596,813	40,635	162,245	22,080	1,386,255
Investment securities at fair value	16	60	12	1,791	14,521	4,707	21,107
Investment securities at amortized cost	10,716	25,448	5,270	86,529	511,037	(345)	638,655
Intangible assets	-	-	-	-	-	3,359	3,359
Property, plant and equipment and investment property	-	-	-	-	-	18,390	18,390
Other assets	-	-	-	-	-	41,190	41,190
Total assets	**217,383**	**384,498**	**603,624**	**131,292**	**725,571**	**199,361**	**2,261,729**
Due to other banks and financial institutions	11,193	9,539	50	-	-	48,370	69,152
Due to customers, special and lending funds	88,658	119,285	166,195	302,325	194,393	978,124	1,848,980
Debt securities in issue	-	-	-	-	20,000	3	20,003
Liabilities related to insurance activities	378	104	193	437	26,855	-	27,967
Other liabilities	-	-	-	-	-	20,889	20,889
Shareholders' equity	-	-	-	-	-	274,738	274,738
Total liabilities and shareholders' equity	**100,229**	**128,928**	**166,438**	**302,762**	**241,248**	**1,322,124**	**2,261,729**
Interest rate sensitivity gap	**117,154**	**255,570**	**437,186**	**(171,470)**	**484,323**	**(1,122,763)**	**-**
31 December 2017:							
Assets							
Cash and cash equivalents	-	-	-	-	-	129,738	129,738
Due from other banks	364	87	-	-	-	1,767	2,218
Securities at fair value through profit or loss	27	453	427	1,410	28,273	18,585	49,175
Derivative financial instruments	-	-	-	-	-	3,031	3,031
Loans to customers, finance lease receivables	188,100	313,445	483,295	35,423	138,717	30,486	1,189,466
Investment securities							
available-for-sale securities -	8	19	840	21	10,434	5,150	16,472
held-to-maturity securities -	3,138	22,084	14,003	21,536	515,499	-	576,260
Intangible assets	-	-	-	-	-	4,535	4,535
Property, plant and equipment and investment property	-	-	-	-	-	22,932	22,932
Other assets	-	-	-	-	-	36,935	36,935
Total assets	**191,637**	**336,088**	**498,565**	**58,390**	**692,923**	**253,159**	**2,030,762**
Due to other banks and financial institutions	18,482	5,052	5,164	6,918	400	19,701	55,717
Due to customers, special and lending funds	92,027	128,531	181,357	297,473	169,240	792,761	1,661,389
Debt securities in issue	-	-	-	-	20,003	-	20,003
Subordinated loan	-	20,000	-	-	-	14,203	34,203
Liabilities related to insurance activities	347	85	125	423	26,252	-	27,232
Other liabilities	-	-	-	-	-	22,242	22,242
Shareholders' equity	-	-	-	-	-	209,976	209,976
Total liabilities and shareholders' equity	**110,856**	**153,668**	**186,646**	**304,814**	**215,895**	**1,058,883**	**2,030,762**
Interest rate sensitivity gap	**80,781**	**182,420**	**311,919**	**(246,424)**	**477,028**	**(805,724)**	**-**

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Details of the Bank's interest rate risk are presented below:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Non interest bearing or maturity undefined	Total
At 31 December 2018:							
Assets							
Cash and cash equivalents	-	-	-	-	-	87,732	87,732
Due from other banks	229	180	-	-	-	1,681	2,090
Securities in the trading book	62	617	1,028	1,663	23,962	564	27,896
Derivative financial instruments	-	-	-	-	-	1,197	1,197
Loans to customers, finance lease receivables	206,418	400,112	592,455	36,199	136,187	17,339	1,388,710
Investment securities at fair value	16	60	12	1,791	14,121	507	16,507
Investment securities at amortized cost	10,716	25,448	5,270	86,529	511,037	(345)	638,655
Investments in subsidiaries	-	-	-	-	-	24,659	24,659
Intangible assets	-	-	-	-	-	1,975	1,975
Property, plant and equipment and investment property	-	-	-	-	-	10,295	10,295
Other assets	-	-	-	-	-	22,022	22,022
Total assets	217,441	426,417	598,765	126,182	685,307	167,626	2,221,738
Due to other banks and financial institutions	11,193	10,139	90	-	400	49,498	71,320
Due to customers, special and lending funds	88,658	119,285	166,195	302,325	194,393	979,126	1,849,982
Debt securities in issue	-	-	-	-	20,000	3	20,003
Other liabilities	-	-	-	-	-	11,323	11,323
Shareholders' equity	-	-	-	-	-	269,110	269,110
Total liabilities and shareholders' equity	99,851	129,424	166,285	302,325	214,793	1,309,060	2,221,738
Interest rate sensitivity gap	117,590	296,993	432,480	(176,143)	470,514	(1,141,434)	-
At 31 December 2017:							
Assets							
Cash and cash equivalents	-	-	-	-	-	126,591	126,591
Due from other banks	364	87	-	-	-	1,767	2,218
Securities at fair value through profit or loss	17	398	151	1,062	16,127	529	18,284
Derivative financial instruments	-	-	-	-	-	3,031	3,031
Loans to customers, finance lease receivables	184,858	346,445	485,858	32,319	118,038	26,307	1,193,825
Investment securities							
- available-for-sale securities	-	19	840	21	10,034	628	11,542
- held-to-maturity securities	3,138	22,084	14,003	21,536	515,499	-	576,260
Investments in subsidiaries	-	-	-	-	-	26,895	26,895
Intangible assets	-	-	-	-	-	1,684	1,684
Property, plant and equipment and investment property	-	-	-	-	-	13,839	13,839
Other assets	-	-	-	-	-	15,797	15,797
Total assets	188,377	369,033	500,852	54,938	659,698	217,068	1,989,966
Due to other banks and financial institutions	18,506	5,052	5,204	6,918	1,000	21,204	57,884
Due to customers, special and lending funds	92,027	128,531	181,357	297,473	169,240	793,525	1,662,153
Debt securities in issue	-	-	-	-	20,003	-	20,003
Subordinated loan	-	20,000	-	-	-	14,203	34,203
Other liabilities	-	-	-	-	-	13,764	13,764
Shareholders' equity	-	-	-	-	-	201,959	201,959
Total liabilities and shareholders' equity	110,533	153,583	186,561	304,391	190,243	1,044,655	1,989,966
Interest rate sensitivity gap	77,844	215,450	314,291	(249,453)	469,455	(827,587)	-

(All amounts are in EUR thousand, unless otherwise stated)

Sensitivity of interest rate risk

The table below summarises Group's interest rates sensitive assets and liabilities based on reprising dates based on which cash flow interest rate risk is estimated.

Group	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Non interest bearing or maturity undefined	Total
31 December 2018							
Total interest rate sensitive assets	217,383	384,498	603,624	131,292	725,571	149,635	2,212,003
Total interest rate sensitive liabilities	100,229	128,928	166,438	302,762	241,248	1,041,046	1,980,651
Net interest sensitivity gap at 31 December 2018	117,154	255,570	437,186	(171,470)	484,323	(891,411)	231,352
31 December 2017							
Total interest rate sensitive assets	191,637	336,088	498,565	58,390	692,923	199,242	1,976,845
Total interest rate sensitive liabilities	110,856	153,668	186,646	304,814	215,895	860,437	1,832,316
Net interest sensitivity gap at 31 December 2017	80,781	182,420	311,919	(246,424)	477,028	(661,195)	144,529

Assessing the sensitivity of the Group's profit and other comprehensive income towards the change of interest rates, it has been assumed that interest is to change by 1 percentage point.

The table below summarises the effect on the Group's profit and other comprehensive income of interest rate risk, except for effects on derivative financial instruments, as at 31 December 2018 and 31 December 2017.

		31 December 2018		*31 December 2017*
	Increase (decrease) in profit	Increase (decrease) in other comprehensive income	Increase (decrease) in profit	Increase (decrease) in other comprehensive income
Interest rate increase by 1p.p.	4,039	(751)	2,670	(702)
Interest rate decrease by 1p.p.	(4,047)	804	(2,670)	702

The shift of yield curve according to above mentioned parameters creates significant impact on Group's total comprehensive income and makes EUR 3,288 thousand in 2018 (2017: EUR 1,968 thousand) higher impact and EUR 3,243 thousand in 2018 (2017: EUR 1,968 thousand) lower impact on comprehensive income.

The table below summarises the Bank's interest rates sensitive assets and liabilities based on reprising dates based on which cash flow interest rate risk is estimated.

Bank	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Non interest bearing or maturity undefined	Total
31 December 2018							
Total interest rate sensitive assets	217,441	426,417	598,765	126,182	685,307	121,383	2,175,495
Total interest rate sensitive liabilities	99,851	129,424	166,285	302,325	214,793	1,039,041	1,951,719
Net interest sensitivity gap at 31 December 2018	117,590	296,993	432,480	(176,143)	470,514	(917,658)	223,776
31 December 2017							
Total interest rate sensitive assets	188,377	369,033	500,852	54,938	659,698	168,469	1,941,367
Total interest rate sensitive liabilities	110,533	153,583	186,561	304,391	190,243	858,774	1,804,085
Net interest sensitivity gap at 31 December 2017	77,844	215,450	314,291	(249,453)	469,455	(690,305)	137,282

Assessing the sensitivity of the Bank's profit and other comprehensive income towards the change of interest rates, it has been assumed that interest is to change by 1 percentage point.

The table below summarises the effect on the Bank's profit and other comprehensive income of interest rate risk, except for effects on derivative financial instruments, as at 31 December 2018 and 31 December 2017.

		31 December 2018		*31 December 2017*
	Increase (decrease) in profit	Increase (decrease) in other comprehensive income	Increase (decrease) in profit	Increase (decrease) in other comprehensive income
Interest rate increase by 1p.p.	4,808	(749)	3,153	(693)
Interest rate decrease by 1p.p.	(4,842)	802	(3,153)	693

The shift of yield curve according to above mentioned parameters creates significant impact on Bank's total comprehensive income and makes EUR 4,059 thousand in 2018 (2017: EUR 2,460 thousand) higher impact and EUR 4,040 thousand in 2018 (2017: EUR 2,460 thousand) lower impact on comprehensive income.

(All amounts are in EUR thousand, unless otherwise stated)

2.3. Securities risk

Securities risk is the risk to incur losses from the investment in securities.

The management of the securities risk is regulated by the Investment in Securities Limits Procedure. In order to properly manage the debt securities portfolio risk, the Bank uses an internal limit system that combines maturity/rating limits, geographical region limits imposed on total debt securities portfolio, VaR ratio limits imposed on debt securities at amortized cost portfolio, and VaR and capital requirements amount limits imposed on other debt securities portfolios. For the equity portfolio risk management, a limit system that combines decision taking limits, issuer limits, portfolio limits is used. The compliance with limits must be checked before taking the investment decisions, monthly reports on the compliance with the limits set are submitted to the Bank's Risk Management Committee.

Securities concentrations

Sector concentration of the securities portfolio is disclosed in Financial Risk Management disclosure, section 1.8. Maturities concentration of securities portfolio is disclosed in Financial Risk Management disclosure, section 3.2. Credit quality of the securities portolio is disclosed in Notes 12 and Note 15. Geographical concentration of the debt securities portfolio is presented in tables below, which contain Top 20 countries in which the Group and the Bank have exposures:

Top 20 countries in which the Group has debt security exposures:

	2018				2017			
	Name of the country	Sovereign	Corporate	Total	Name of the country	Sovereign	Corporate	Total
1.	Lithuania	315,970	2,687	318,657	Lithuania	288,060	234	288,294
2.	USA	-	45,576	45,576	USA	-	40,194	40,194
3.	Netherlands	-	34,937	34,937	Poland	32,354	-	32,354
4.	Poland	33,222	-	33,222	France	1,864	24,111	25,975
5.	France	1,879	23,572	25,451	Romania	25,190	-	25,190
6.	Italy	16,802	6,447	23,249	Netherlands	-	22,744	22,744
7.	Romania	21,568	0	21,568	Italy	11,842	7,880	19,722
8.	Ireland	17,333	4,178	21,511	Ireland	13,647	3,073	16,720
9.	Mexico	10,249	8,619	18,868	Mexico	6,024	7,427	13,451
10.	Spain	10,476	3,889	14,365	Slovenia	13,092	-	13,092
11.	Latvia	13,791	-	13,791	Sweden	-	12,835	12,835
12.	Slovenia	12,573	-	12,573	Spain	7,932	4,552	12,484
13.	Sweden	-	12,547	12,547	Bulgaria	9,381	1,331	10,712
14.	Great Britain	-	12,035	12,035	Great Britain	-	9,397	9,397
15.	Czech Republic	1,046	10,373	11,419	Slovakia	9,051	-	9,051
16.	Bulgaria	9,384	501	9,885	Czech Republic	1,044	6,779	7,823
17.	Slovakia	8,899	-	8,899	Germany	-	7,031	7,031
18.	Germany	-	7,801	7,801	Finland	999	5,268	6,267
19.	Finland	999	5,207	6,206	Latvia	3,266	431	3,697
20.	Estonia	-	5,521	5,521	Estonia	-	3,672	3,672
	Other countries	6,610	32,727	39,337	Other countries	7,724	29,742	37,466
	Total	480,801	216,617	697,418	Total	431,470	186,701	618,171

Top 20 countries in which the Bank has debt security exposures:

	2018				2017			
	Name of the country	Sovereign	Corporate	Total	Name of the country	Sovereign	Corporate	Total
1.	Lithuania	315,314	1,995	317,309	Lithuania	287,690	234	287,924
2.	USA	-	45,365	45,365	USA	-	40,194	40,194
3.	Netherlands	-	34,229	34,229	Poland	31,377	-	31,377
4.	Poland	32,259	-	32,259	France	1,864	23,898	25,762
5.	France	1,879	23,142	25,021	Romania	24,756	-	24,756
6.	Italy	15,257	6,447	21,704	Netherlands	-	22,341	22,341
7.	Ireland	17,333	4,035	21,368	Italy	10,886	7,880	18,766
8.	Romania	21,143	-	21,143	Ireland	13,647	3,073	16,720
9.	Mexico	9,389	8,465	17,854	Slovenia	13,013	-	13,013
10.	Spain	10,248	3,889	14,137	Sweden	-	12,685	12,685
11.	Latvia	13,437	-	13,437	Mexico	5,137	7,264	12,401
12.	Slovenia	12,498	-	12,498	Spain	7,696	4,552	12,248
13.	Sweden	-	12,396	12,396	Bulgaria	9,066	1,164	10,230
14.	Great Britain	-	11,482	11,482	Slovakia	9,051	-	9,051
15.	Czech Republic	1,046	9,971	11,017	Great Britain	-	8,619	8,619
16.	Bulgaria	9,074	338	9,412	Czech Republic	1,044	6,779	7,823
17.	Slovakia	8,899	-	8,899	Germany	-	6,652	6,652
18.	Germany	-	7,584	7,584	Finland	999	5,268	6,267
19.	Finland	999	5,207	6,206	Estonia	-	3,391	3,391
20.	Estonia	-	5,080	5,080	Luxembourg	-	3,079	3,079
	Other countries	4,130	29,441	33,571	Other countries	7,742	23,888	31,630
	Total	472,905	209,066	681,971	Total	423,968	180,961	604,929

(All amounts are in EUR thousand, unless otherwise stated)

Sensitivity of securities risk

The sensitivity of debt securities portfolio (at fair value through profit or loss and available-for-sale) to parallel shift of the interest rate curve by 1 percentage point is presented in the table below:

	31 December 2018		*31 December 2017*	
	Increase (decrease) in profit	Increase (decrease) in other comprehensive income	Increase (decrease) in profit	Increase (decrease) in other comprehensive income
Group:				
Interest rate increase by 1p.p.	(1,517)	(751)	(958)	(702)
Interest rate decrease by 1p.p.	1,509	804	958	702
Bank:				
Interest rate increase by 1p.p.	(1,056)	(749)	(729)	(693)
Interest rate decrease by 1p.p.	1,022	802	729	693

3. Liquidity risk

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

3.1. Liquidity risk management process

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

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

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

Starting from 2015, the Bank is subject to regulatory Liquidity coverage ratio (LCR). The Bank complied with this ratio with a substantial cushion (requirement for the LCR is set at 100%). As of 31 December 2018, Bank's LCR ratio (aggregate for all currencies) stood at 277% (31 December 2017: 307%).

Internal liquidity limit system was updated in 2017. It includes such ratios as internal liquidity ratio, minimum negative liquidity gap ratio, liquid assets requirement. As 31 December 2018 and 31 December 2017 the Bank complied with all the internal liquidity ratios.

(All amounts are in EUR thousand, unless otherwise stated)

3.2. Structure of assets and liabilities by maturity

The structure of the Group's assets and liabilities by maturity is presented in the table below. Maturity bands used in the table represent maturities of assets and liabilities under most likely scenario. For liabilities and assets with no payment breaches, contractual terms are used as the representation of most likely scenario unless information indicating otherwise is available. Past due part of the assets with payment breaches over 30 days and total amount of assets past due over 90 days are included in "Maturity undefined" band.

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
At 31 December 2018:									
Assets									
Cash and cash equivalents	89,304	-	-	-	-	-	-	-	89,304
Due from other banks	-	229	181	-	-	151	637	892	2,090
Securities in the trading book	-	83	667	1,529	2,337	10,728	27,040	17,798	60,182
Derivative financial instruments	-	181	279	19	347	371	-	-	1,197
Loans to customers, finance lease receivables	-	35,105	56,615	89,475	147,956	485,824	544,516	26,764	1,386,255
Investment securities at fair value	-	16	60	1,558	2,056	5,521	10,957	939	21,107
Investment securities at amortized cost	-	10,711	25,438	5,259	86,496	123,738	387,013	-	638,655
Intangible assets	-	-	-	-	-	-	-	3,359	3,359
Property, plant and equipment and investment property	-	-	-	-	-	-	-	18,390	18,390
Other assets	6,283	6,214	7,300	727	7,211	3,201	4,225	6,029	41,190
Total assets	**95,587**	**52,539**	**90,540**	**98,567**	**246,403**	**629,534**	**974,388**	**74,171**	**2,261,729**
Due to other banks and financial institutions	40,794	6,181	2,688	408	1,502	4,054	13,525	-	69,152
Due to customers	945,064	99,291	122,144	168,506	308,623	175,711	26,449	-	1,845,788
Special and lending funds	3,192	-	-	-	-	-	-	-	3,192
Debt securities in issue	-	-	-	-	-	20,003	-	-	20,003
Liabilities related to insurance activities	-	378	104	193	437	1,258	25,597	-	27,967
Other liabilities	3,910	7,287	943	758	934	1,212	5,845	-	20,889
Shareholders' equity	-	-	-	-	-	-	-	274,738	274,738
Total liabilities and shareholders' equity	992,960	113,137	125,879	169,865	311,496	202,238	71,416	274,738	2,261,729
Net liquidity gap	(897,373)	(60,598)	(35,339)	(71,298)	(65,093)	427,296	902,972	(200,567)	-
At 31 December 2017:									
Assets									
Cash and cash equivalents	129,738	-	-	-	-	-	-	-	129,738
Due from other banks	-	466	87	1	538	151	94	881	2,218
Securities at fair value through profit or loss	-	26	453	427	1,410	8,332	19,940	18,587	49,175
Derivative financial instruments	-	265	333	283	476	1,400	274	-	3,031
Loans to customers, finance lease receivables	-	27,556	46,994	72,803	110,349	401,472	493,173	37,119	1,189,466
Investment securities									
available-for-sale securities -	-	8	19	840	1,821	2,257	10,101	1,426	16,472
held-to-maturity securities -	-	3,137	22,083	14,003	21,536	180,523	334,978	0	576,260
Intangible assets	-	-	-	-	-	-	-	4,535	4,535
Property, plant and equipment and investment property	-	-	-	-	-	-	-	22,932	22,932
Other assets	7,426	2,137	403	664	4,233	10,215	4,234	7,623	36,935
Total assets	**137,164**	**33,595**	**70,372**	**89,021**	**140,363**	**604,350**	**862,794**	**93,103**	**2,030,762**
Due to other banks and financial institutions	14,023	8,277	380	5,695	8,184	11,282	7,876	-	55,717
Due to customers	736,912	111,344	131,218	185,005	304,159	164,101	15,314	-	1,648,053
Special and lending funds	13,336	-	-	-	-	-	-	-	13,336
Debt securities in issue	-	-	-	-	-	20,003	-	-	20,003
Subordinated loan	-	-	74	-	34,129	-	-	-	34,203
Liabilities related to insurance activities	-	347	85	125	422	1,237	25,016	-	27,232
Other liabilities	2,609	6,801	1,072	893	3,862	1,732	5,273	-	22,242
Shareholders' equity	-	-	-	-	-	-	-	209,976	209,976
Total liabilities and shareholders' equity	766,880	126,769	132,829	191,718	350,756	198,355	53,479	209,976	2,030,762
Net liquidity gap	(629,716)	(93,174)	(62,457)	(102,697)	(210,393)	405,995	809,315	(116,873)	-

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

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

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
At 31 December 2018:									
Assets									
Cash and cash equivalents	87,732	-	-	-	-	-	-	-	87,732
Due from other banks	-	229	181	-	-	151	637	892	2,090
Securities in the trading book	-	62	617	1,028	1,663	6,115	17,847	564	27,896
Derivative financial instruments	-	181	279	19	347	371	-	-	1,197
Loans granted to customers, finance lease receivables	-	35,093	98,479	85,089	142,991	471,692	532,818	22,548	1,388,710
Investment securities at fair value	-	16	60	12	1,790	5,126	8,980	523	16,507
Investment securities at amortized cost	-	10,711	25,438	5,259	86,496	123,738	387,013	-	638,655
Investments in subsidiaries	-	-	-	-	-	-	-	24,659	24,659
Intangible assets	-	-	-	-	-	-	-	1,975	1,975
Property, plant and equipment and investment property	-	-	-	-	-	-	-	10,295	10,295
Other assets	6,283	5,683	4,450	226	576	159	47	4,598	22,022
Total assets	**94,015**	**51,975**	**129,504**	**91,633**	**233,863**	**607,352**	**947,342**	**66,054**	**2,221,738**
Due to other banks and financial institutions	41,884	6,181	3,345	408	1,502	4,075	13,925	-	71,320
Due to customers	946,066	99,291	122,144	168,506	308,623	175,711	26,449	-	1,846,790
Debt securities in issue	-	-	-	-	-	20,003	-	-	20,003
Special and lending funds	3,192	-	-	-	-	-	-	-	3,192
Other liabilities	2,752	1,601	139	172	553	476	5,630	-	11,323
Shareholders' equity	-	-	-	-	-	-	-	269,110	269,110
Total liabilities and shareholders' equity	**993,894**	**107,073**	**125,628**	**169,086**	**310,678**	**200,265**	**46,004**	**269,110**	**2,221,738**
Net liquidity gap	**(899,879)**	**(55,098)**	**3,876**	**(77,453)**	**(76,815)**	**407,087**	**901,338**	**(203,056)**	**-**
At 31 December 2017:									
Assets									
Cash and cash equivalents	126,591	-	-	-	-	-	-	-	126,591
Due from other banks	-	466	87	1	538	151	94	881	2,218
Securities at fair value through profit or loss	-	17	398	151	1,062	4,831	11,296	529	18,284
Derivative financial instruments	-	265	333	283	476	1,400	274	-	3,031
Loans granted to customers, finance lease receivables	-	24,165	79,915	75,308	106,614	390,405	483,575	33,843	1,193,825
Investment securities									
available-for-sale securities -	-	-	19	840	21	1,857	8,177	628	11,542
held-to-maturity securities -	-	3,137	22,083	14,003	21,536	180,523	334,978	-	576,260
Investments in subsidiaries	-	-	-	-	-	-	-	26,895	26,895
Intangible assets	-	-	-	-	-	-	-	1,684	1,684
Property, plant and equipment and investment property	-	-	-	-	-	-	-	13,839	13,839
Other assets	7,427	1,257	271	136	148	80	26	6,452	15,797
Total assets	**134,018**	**29,307**	**103,106**	**90,722**	**130,395**	**579,247**	**838,420**	**84,751**	**1,989,966**
Due to other banks and financial institutions	15,116	8,277	382	5,735	8,184	11,914	8,276	-	57,884
Due to customers	737,676	111,344	131,218	185,005	304,159	164,101	15,314	-	1,648,817
Debt securities in issue	-	-	-	-	-	20,003	-	-	20,003
Special and lending funds	13,336	-	-	-	-	-	-	-	13,336
Subordinated loan	-	-	74	-	34,129	-	-	-	34,203
Other liabilities	2,016	1,701	546	451	3,492	551	5,007	-	13,764
Shareholders' equity	-	-	-	-	-	-	-	201,959	201,959
Total liabilities and shareholders' equity	**768,144**	**121,322**	**132,220**	**191,191**	**349,964**	**196,569**	**28,597**	**201,959**	**1,989,966**
Net liquidity gap	**(634,126)**	**(92,015)**	**(29,114)**	**(100,469)**	**(219,569)**	**382,678**	**809,823**	**(117,208)**	**-**

(All amounts are in EUR thousand, unless otherwise stated)

3.3. Non - derivative cash flows

Undiscounted cash flows in the table below describe contractual liability side outflows which are stated including nominal contract amounts together with interest till the end of the contract.

Group

31 December 2018	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Due to banks	-	46,974	6,650	1,906	7,621	6,032	69,183
Due to customers	-	1,044,372	122,266	478,794	203,742	4,392	1,853,566
Debt securities in issue	-	-	-	120	20,120	-	20,240
Special and lending funds	-	3,192	-	-	-	-	3,192
Liabilities related to insurance activities	-	459	104	630	3,820	22,954	27,967
Total liabilities (contractual maturity dates)	-	1,094,997	129,020	481,450	235,303	33,378	1,974,148

Group

31 December 2017	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Due to banks	-	22,316	369	13,277	14,016	5,787	55,765
Due to customers	-	848,378	131,446	490,607	180,233	2,732	1,653,396
Debt securities in issue	-	-	-	120	20,237	-	20,357
Subordinated loan	-	-	246	21,352	-	-	21,598
Special and lending funds	-	13,336	-	-	-	-	13,336
Liabilities related to insurance activities	-	347	85	547	3,508	22,745	27,232
Total liabilities (contractual maturity dates)	-	884,377	132,146	525,903	217,994	31,264	1,791,684

Bank

31 December 2018	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Due to banks	-	48,064	7,284	1,972	8,188	6,075	71,583
Due to customers	-	1,045,374	122,266	478,794	203,742	4,392	1,854,568
Debt securities in issue	-	-	-	120	20,120	-	20,240
Special and lending funds	-	3,192	-	-	-	-	3,192
Total liabilities (contractual maturity dates)	-	1,096,630	129,550	480,886	232,050	10,467	1,949,583

Bank

31 December 2017	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Due to banks	-	23,410	371	13,949	14,416	5,787	57,933
Due to customers	-	849,144	131,446	490,607	180,233	2,732	1,654,162
Debt securities in issue	-	-	-	120	20,237	-	20,357
Subordinated loan	-	-	246	21,352	-	-	21,598
Special and lending funds	-	13,336	-	-	-	-	13,336
Total liabilities (contractual maturity dates)	-	885,890	132,063	526,028	214,886	8,519	1,767,386

(All amounts are in EUR thousand, unless otherwise stated)

3.4. Remaining contractual maturity off - balance sheet items

Analysis of off-balance sheet items by the remaining maturity is as follows:

Group

At 31 December 2018	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Loan commitments	260,860	-	-	-	-	-	260,860
Guarantees	39,655	-	-	-	-	-	39,655
Operating lease commitments	118	223	321	619	1,706	68	3,055
Other commitments	4,832	474	-	-	-	1	5,307
Total	305,465	697	321	619	1,706	69	308,877

Group

At 31 December 2017	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Loan commitments	171,868	-	-	-	-	-	171,868
Guarantees	33,787	-	-	-	-	-	33,787
Operating lease commitments	96	190	270	485	1,299	122	2,462
Other commitments	-	1,451	113	7	-	56	1,627
Total	205,751	1,641	383	492	1,299	178	209,744

Bank

At 31 December 2018	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Loan commitments	281,071	-	-	-	-	-	281,071
Guarantees	39,720	-	-	-	-	-	39,720
Operating lease commitments	100	186	265	504	1,516	68	2,639
Other commitments	4,832	474	-	-	-	1	5,307
Total	325,723	660	265	504	1,516	69	328,737

Bank

At 31 December 2017	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Loan commitments	187,367	-	-	-	-	-	187,367
Guarantees	33,814	-	-	-	-	-	33,814
Operating lease commitments	98	194	276	491	1,321	122	2,502
Other commitments	-	1,451	113	-	-	56	1,620
Total	221,279	1,645	389	491	1,321	178	225,303

4. Fair value of financial assets and liabilities

4.1. Financial assets and liabilities not measured at fair value

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

a) Loans and advances to banks

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

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

b) Loans and advances to customers and finance lease receivables

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

c) Investment securities

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

d) Deposits from banks, due to customers, debt securities in issue and special lending funds

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

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

e) Other financial assets and other financial liabilities

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

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Group

	As of 31 December 2018		As of 31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Due from other banks	2,090	2,090	2,218	2,218
Loans	1,262,167	1,289,708	1,098,327	1,117,065
Loans to individuals:	243,078	257,888	194,100	200,357
Consumer loans -	91,524	100,349	73,544	74,707
Mortgages -	50,203	52,323	42,153	44,068
Multiapartment renovation loans -	81,806	86,253	60,659	63,838
Other -	19,545	18,963	17,744	17,744
Loans to business customers	1,018,396	1,031,129	904,209	916,690
Central and other authorities -	97,907	95,356	115,443	113,460
Large corporates -	84,976	84,800	89,087	88,907
SME -	835,513	850,973	699,679	714,323
Loans and advances to financial institutions	693	691	18	18
Finance lease receivables	124,088	122,539	91,139	91,558
Investment securities at amortized cost	638,655	653,889	576,260	602,990
Government bonds -	463,943	477,950	418,063	440,753
Corporate bonds -	174,712	175,939	158,197	162,237
Other financial assets	13,213	13,213	10,485	10,485
Liabilities				
Due to other banks and financial institutions	69,152	69,171	55,717	55,956
Due to customers	1,845,788	1,850,187	1,648,053	1,656,140
Due to individuals	1,206,992	1,211,303	1,132,861	1,140,658
Due to private companies	452,713	452,787	336,410	336,656
Due to other enterprises	186,083	186,097	178,782	178,826
Debt securities in issue	20,003	19,850	20,003	20,003
Special and lending funds	3,192	3,192	13,336	13,336

Bank

	As of 31 December 2018		As of 31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Due from other banks	2,090	2,090	2,218	2,218
Loans	1,264,741	1,285,576	1,102,927	1,121,417
Loans to individuals:	178,632	186,667	138,114	144,052
Consumer loans -	27,078	29,128	17,558	18,910
Mortgages -	50,203	52,323	42,153	44,068
Multiapartment renovation loans -	81,806	86,253	60,659	63,838
Other -	19,545	18,963	17,744	17,236
Loans to business customers	1,035,854	1,048,620	925,057	937,502
Central and other authorities -	97,907	95,356	115,443	113,460
Large corporates -	84,976	84,800	89,087	88,907
SME -	852,971	868,464	720,527	735,135
Loans and advances to financial institutions	50,255	50,289	39,756	39,863
Finance lease receivables	123,969	122,419	90,898	91,453
Investment securities at amortized cost	638,655	653,889	576,260	602,990
Government bonds -	463,943	477,950	418,063	440,753
Corporate bonds -	174,712	175,939	158,197	162,237
Other financial assets	12,708	12,708	9,616	9,616
Liabilities				
Due to other banks and financial institutions	71,320	71,339	57,884	58,123
Due to customers	1,846,790	1,851,189	1,648,817	1,656,904
Due to individuals	1,206,992	1,211,303	1,132,861	1,140,658
Due to private companies	453,091	453,165	336,843	337,089
Other	186,707	186,721	179,113	179,157
Debt securities in issue	20,003	19,850	20,003	20,003
Special and lending funds	3,192	3,192	13,336	13,336

(All amounts are in EUR thousand, unless otherwise stated)

4.2. Financial assets and liabilities measured at fair value

a) Fair value hierarchy

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, NASDAQ Stock Exchange, London Stock Exchange, Frankfurt Stock Exchange) or public price quotations (for example, for Lithuanian government bonds, average price quotations from the most active banks that participate in the primary placement auctions of the Lithuanian Government securities are used).

- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The Group uses fair value calculated based on Level 2 inputs for accounting of currency derivatives and derivatives related to prices of equity instruments.

- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes Group's investments into unlisted equity securities, derivatives related to interest rate floor in variable rate loan contracts and liabilities designated at fair value through profit or loss. Details on fair value measurement of these instruments are described in subsection "Details on the main models used in valuation of Level III instruments" (Financial Risk Management disclosure, section 4.2.b), below.

b) Measurement of financial assets and liabilities according to the fair value hierarchy

		2018		*2017*
	Group	Bank	Group	Bank
LEVEL I				
Financial assets in the trading book				
Listed equity securities	560	560	470	470
Units of investment funds	17,234	-	18,112	55
Government bonds	13,533	5,637	13,406	5,905
Corporate bonds	26,626	19,470	16,574	11,241
Investment securities at fair value				
Government bonds	3,325	3,325	-	-
Corporate bonds	12,659	12,659	10,914	10,914
Investment fund units	3,880	92	3,938	214
Total Level I financial assets	**77,817**	**41,743**	**63,414**	**28,799**
LEVEL II				
Financial assets in the trading book				
Derivative financial instruments	1,197	1,197	747	747
Total Level II financial assets	**1,197**	**1,197**	**747**	**747**
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	(1,048)	(1,048)	(1,894)	(1,894)
Total Level II financial liabilities	**(1,048)**	**(1,048)**	**(1,894)**	**(1,894)**
LEVEL III				
Financial assets in the trading book				
Derivative financial instruments	-	-	2,284	2,284
Corporate bonds	2,225	2,225	609	609
Unlisted equity securities	4	4	4	4
Investment securities at fair value				
Corporate bonds	395	-	408	-
Unlisted equity securities	848	432	1,212	414
Total Level III financial assets	**3,472**	**2,661**	**4,517**	**3,311**
Financial liabilities at fair value through profit or loss				
Subordinated loan	-	-	(34,203)	(34,203)
Total Level III financial liabilities	**-**	**-**	**(34,203)**	**(34,203)**

There were no transfers between fair value hierarchy levels during 2018 and 2017.

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

The following table presents the changes in Level III instruments during 2018 and 2017:

The Group

	Securities in the trading book		*Investment securities at fair value*		*Derivatives*		*Financial liabilities at fair value through profit or loss*	
	2018	2017	2018	2017	2018	2017	2018	2017
Value as of 31 December of previous year	613	55	1,620	1,087	2,284	5,566	34,203	22,064
Change in accounting principles	-	-	(5)	-	(2,284)	-	-	-
Value as of 1 January	**613**	**55**	**1,615**	**1,087**	**-**	**5,566**	**34,203**	**22,064**
Additions / Recognition	7,070	2,062		580	-	-	-	-
Disposals	(5,480)	(1,509)	(383)	-	-	-	-	-
Conversion to shares	-	-		-	-	-	(20,000)	-
Derecognition	-	-		-	-	(392)	(4,732)	-
Changes due to interest accrued/paid	26	5	(7)	8	-	-	(428)	-
Revaluations through other comprehensive income	-	-	18	(55)	-	-	-	-
Revaluations through profit or loss	-	-		-	-	(2,890)	(9,043)	12,139
Value as of 31 December	**2,229**	**613**	**1,243**	**1,620**	**-**	**2,284**	**-**	**34,203**

The Bank

	Securities in the trading book		*Investment securities at fair value*		*Derivatives*		*Financial liabilities at fair value through profit or loss*	
	2018	2017	2018	2017	2018	2017	2018	2017
Value as of 31 December of previous year	613	55	414	766	2,284	5,270	34,203	22,064
Change in accounting principles	-	-	-	-	(2,284)	-	-	-
Value as of 1 January	**613**	**55**	**414**	**766**	**-**	**5,270**	**34,203**	**22,064**
Additions / Recognition	7,070	2,062	-	-	-	-	-	-
Disposals	(5,480)	(1,509)	-	(297)	-	-	-	-
Conversion to shares	-	-	-	-	-	-	(20,000)	-
Derecognition	-	-	-	-	-	(392)	(4,732)	-
Changes due to interest accrued/paid	26	5	-	-	-	-	(428)	-
Revaluations through other comprehensive income	-	-	18	(55)	-	-	-	-
Revaluations through profit or loss	-	-	-	-	-	(2,594)	(9,043)	12,139
Value as of 31 December	**2,229**	**613**	**432**	**414**	**-**	**2,284**	**-**	**34,203**

	2018		*2017*	
	Group	Bank	Group	Bank
Total result from revaluation of Level III instruments included in the income statement	9,043	9,043	(15,029)	(14,733)

Details on the main models used in valuation of Level III instruments:

Derivatives related to interest rate floor in variable rate loan contracts (please note that from 2018 they are no longer recognized under IFRS9; see also Note 12): The Bank uses Black-Scholes model to price options. Some inputs are derived from the market (e.g. EURIBOR, EURIBOR forward curves, EURIBOR spot curves), and some imputs (e.g. estimated volatility of EURIBOR rates) are based on the expert judgement of Group's employees.

At 31 December 2017, the shift of yield curve up by 1p.p. would cause decrease in value of derivative financial instruments by EUR 2,221 thousand for the Group and the Bank, the decrease would be accounted in profit (loss). The shift of yield curve down by 1 p.p. would cause increase in value of derivative financial instruments by EUR 2,274 thousand for the Group and the Bank, the increase would be accounted in profit (loss). The increase in volatility of EURIBOR rates by 1 p.p. would cause increase in value of derivative financial instruments by EUR 44 thousand for the Group and the Bank. The decrease in volatility of EURIBOR rates by 1 p.p. would cause decrease in value of derivative financial instruments by EUR 39 thousand for the Group and the Bank.

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

(All amounts are in EUR thousand, unless otherwise stated)

Financial liabilities at fair value through profit or loss (please note that the loan that was classified into this category was converted in 2018; see also Note 30): the derivative part of the financial liability at fair value through profit or loss was priced using Black-Scholes model at initial recognition, and fair valued using this model at each balance sheet date. The measurement of subordinated loan in 2017 financial statements was based on the assumption that EBRD will use its conversion option and convert the subordinated loan to shares in 2018. Various inputs to the model were used such as risk-free rate (market yield of Lithuanian government bonds with similar maturity), current market price and historical volatility of the market price of shares of the Bank for the period equal to number of days until the conversion option can be carried out, projected book value per share at the date of expected maturity (in book value per share projections, data of budgeted activity results and planned capital increases were used). The debt part of the financial liability at fair value through profit or loss was priced using the net present value of estimated future cash flows, the discount rate of 2.00% (i.e. input calculated based on expert judgement of Group's employees) was used for the calculation.

Subordinated loan fair value consisted of:

	2017
Derivative part of the financial liability	12,990
Debt part of the financial liability	21,213
Total value of financial liability at fair value through profit or loss	**34,203**

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

31 December 2017:

	Change in factor	Impact on fair value of the liability
Risk-free rate	Increase by 50 bps	Increase by EUR 37 thousand
	Decrease by 50 bps	Decrease by EUR 37 thousand
Current price of shares	Increase by 10%	Increase by EUR 3,309 thousand
	Decrease by 10%	Decrease by EUR 3,309 thousand
Projected BV per share*	Increase by 10%	Decrease by EUR 2,998 thousand
	Decrease by 10%	Increase by EUR 3,665 thousand
Discount rate used to discount the future cash flows of the debt part	Increase by 100 bps	Decrease by EUR 187 thousand
	Decrease by 100 bps	Increase by EUR 191 thousand
Part of the revaluation attributable to own credit risk	Credit rating increased by 1 notch (from Ba1 to Baa3)	Increase by EUR 40 thousand

**book value*

The valuation was performed quarterly by the employees of the Group. The data for the inputs such as risk-free rate, market price was obtained from the publicly available sources (Bank of Lithuania, Bloomberg, stock exchanges); data for some inputs such as market volatility calculated from the data obtained from publicly available sources (Bloomberg, stock exchanges); data of some inputs used to calculate projected book value per share was obtained from publicly unavailable internal documents of the Group; data of inputs for calculation of fair value of the debt part of the financial liability (i.e. discount rate) was based on expert judgement of Group's employees.

Unlisted equity securities. Most commonly used fair value measures in the Group are: valuations from external independent certified appraisers or assessment of discounted cash flows from the security carried out by employees of the Group. The principles for the assessment of fair value of unlisted equity securities are stipulated in the Instruction for Accounting of Securities.

4.3. Offsetting financial assets and financial liabilities

As of 31 December 2018 and 31 December 2017, only currency derivative instruments were subject to master netting arrangements and similar arrangements. As of 31 December 2018, derivative financial instruments classified as assets in amount of EUR 440 thousand and derivative financial instruments classified as liabilities in amount of EUR 229 thousand were subject to those agreements. As of 31 December 2017, derivative financial instruments classified as assets in amount of EUR 125 thousand and derivative financial instruments classified as liabilities in amount of EUR 1,207 thousand were subject to those agreements.

The Group receives collateral in the form of marketable securities in respect of reverse repurchase agreements, which are included in loans to customers. Gross amount of reverse repurchase agreements: 31 December 2018: EUR 17,044 thousand; 31 December 2017: EUR 2,314 thousand. Securities received as a collateral for reverse repurchase agreements can be pledged or sold during the term of transaction but have to be returned on maturity of the transaction.

(All amounts are in EUR thousand, unless otherwise stated)

4.4. Classes of financial instruments

A table below provides reconciliation of items of financial assets and liabilities as presented in Statement of Financial Position to classes of financial instruments:

	31 December 2018		31 December 2017	
	Group	Bank	Group	Bank
FINANCIAL ASSETS				
Financial assets mandatorily measured at fair value through profit or loss:				
Trading securities	41,183	27,896	29,632	18,284
trading debt securities: government bonds -	*11,768*	*5,637*	*11,920*	*5,905*
trading debt securities: corporate bonds -	*28,851*	*21,695*	*17,183*	*11,850*
trading equities -	*564*	*564*	*529*	*529*
Other trading book securities	18,999	-	N/A	N/A
other trading book debt securities: government bonds -	*1,765*	-	*N/A*	*N/A*
other trading book debt securities: corporate bonds -	-	-	*N/A*	*N/A*
other trading book equities -	*17,234*	-	*N/A*	*N/A*
Investment securities at fair value	4,728	523	N/A	N/A
non-trading equities -	*4,728*	*523*	*N/A*	*N/A*
Securities at fair value through profit or loss,designated as such upon initial recognition	N/A	N/A	19,543	-
government bonds -	*N/A*	*N/A*	*1,486*	-
corporate bonds -	*N/A*	*N/A*	-	-
equities -	*N/A*	*N/A*	*18,057*	-
Derivative financial instruments	1,197	1,197	3,031	3,031
Financial assets measured at fair value through other comprehensive income:				
Debt securities at fair value through other comprehensive income	16,379	15,984	N/A	N/A
government bonds -	*3,325*	*3,325*	*N/A*	*N/A*
corporate bonds -	*13,054*	*12,659*	*N/A*	*N/A*
Investment securities available-for-sale	N/A	N/A	16,472	11,542
government bonds -	*N/A*	*N/A*	-	-
corporate bonds -	*N/A*	*N/A*	*11,322*	*10,914*
equities -	*N/A*	*N/A*	*5,150*	*628*
Financial assets measured at amortized cost:				
Cash and cash equivalents	89,304	87,732	129,738	126,591
Due from other banks	2,090	2,090	2,218	2,218
Loans to customers	1,262,167	1,264,741	1,098,327	1,102,927
loans to financial institutions -	*693*	*50,255*	*18*	*39,756*
loans to individuals (retail): consumer loans -	*91,524*	*27,078*	*73,544*	*17,558*
loans to individuals (retail): mortgages -	*50,203*	*50,203*	*42,153*	*42,153*
loans to individuals (retail): multiapartment rennovation loans -	*81,806*	*81,806*	*60,659*	*60,659*
loans to individuals (retail): other -	*19,545*	*19,545*	*17,744*	*17,744*
loans to business customers: SME -	*835,513*	*852,971*	*699,679*	*720,527*
loans to business customers: large corporates -	*84,976*	*84,976*	*89,087*	*89,087*
loans to business customers: central and local authorities and other -	*97,907*	*97,907*	*115,443*	*115,443*
Investment securities at amortized cost	638,655	638,655	N/A	N/A
government bonds -	*463,943*	*463,943*	*N/A*	*N/A*
corporate bonds -	*174,712*	*174,712*	*N/A*	*N/A*
Investment securities held-to-maturity	N/A	N/A	576,260	576,260
government bonds -	*N/A*	*N/A*	*418,063*	*418,063*
corporate bonds -	*N/A*	*N/A*	*158,197*	*158,197*
Other financial assets	13,213	12,708	10,485	9,616
Finance lease receivables:				
Finance lease receivables	124,088	123,969	91,139	90,898
individuals -	*20,792*	*20,754*	*15,993*	*15,889*
business customers -	*103,296*	*103,215*	*75,146*	*75,009*
Total financial assets	2,212,003	2,175,495	1,976,845	1,941,367
FINANCIAL LIABILITIES				
Financial liabilities mandatorily measured at fair value through profit or loss:				
Derivative financial instruments	1,048	1,048	1,894	1,894
Financial liabilities at fair value through profit or loss, designated as such upon initial recognition:				
Subordinated loan	-	-	34,203	34,203
Financial liabilities measured at amortised cost:				
Due to banks and financial institutions	69,152	71,320	55,717	57,884
Due to customers	1,845,788	1,846,790	1,648,053	1,648,817
due to individuals -	*1,206,992*	*1,206,992*	*1,132,861*	*1,132,861*
due to private companies -	*452,713*	*453,091*	*336,410*	*336,843*
other -	*186,083*	*186,707*	*178,782*	*179,113*
Special and lending funds	3,192	3,192	13,336	13,336
Debt securities in issue	20,003	20,003	20,003	20,003
Other financial liabilities	13,501	9,366	11,876	7,945
Total financial liabilities	1,952,684	1,951,719	1,785,082	1,784,082

(All amounts are in EUR thousand, unless otherwise stated)

5. The risk inherent in insurance activities

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

Insurance risk

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

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

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

The company manages acceptable insurance risk by valuating the health of the insured person, habits of living, and the history of the health of his family. The company uses a system of several levels of risk to ensure that the payable premium would conform to the state of health of the insured person.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

At present, these risks do not vary significantly in relation to the location of the risk insured by the company. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

Concentration of risk is measured by the insurance amount of the accepted risks:

	2018	2017
Maturity	3.94%	4.18%
Death	30.40%	30.56%
Critical illness	10.80%	10.72%
Death in case of accident	13.44%	12.88%
Trauma	41.43%	41.66%

The company manages these risks through its underwriting strategy and reinsurance arrangements.

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits.

The company follows the principles of conservatism and prudence to settle the price for insurance risk therefore the increase in loss rate of any insurance risk would not impact the result of the Group significantly.

Mortality, survival, casualty and morbidity risks
Mortality, morbidity, survival, casualty risks occur because the frequency or severity of claims and benefits are greater than estimated, that will cause that future premiums will not be sufficient to cover the future claims in case of death, illnesses or trauma. For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics (such as AIDS or SARS) or wide spread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

The survival insurance risk appears due to the longer life time than planned. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

The most significant factor that could increase the casualty insurance risk is the departure from occupational safety, use of obsolete equipment, increasing rate of accidents.

As the company started its operations recently and it does not have enough statistics on mortality, morbidity and casualty, for valuation of the mortality and casualty insurance risks the company uses statistics on mortality and casualty of the population of Lithuania. For valuation of the morbidity insurance risk the company uses morbidity tables of the reinsurance company that has a broad experience of similar activities.

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Profit or loss and insurance liabilities are mainly sensitive to changes in mortality, disability/morbidity, lapse rates, expense rates, discount rates which are estimated for calculating adequate value of insurance liabilities during the liability adequacy test.

Changes in variables represent reasonably possible changes in variables mentioned which could have occurred and would have led to significant changes in insurance liabilities as at the end of the reporting period. These reasonably possible changes represent neither expected changes in variables nor worst-case scenarios.

The analysis was prepared for a change in variables with all other assumptions remaining constant and ignores changes in the values of the related assets.

Sensitivity was calculated for the worse direction in movement; therefore, sensitivity to changes was calculated for a 10% increase in mortality, longevity, disability and morbidity, lapse rates and expense rates. Hence changes in discount rates are stated in 100 basis points for both directions.

The Company's sensitivity to the changes in key variables that have a material impact, 31 December 2018

Variable	*Change in variable*	*Change in profit/loss*	*Change in insurance liability*
Mortality	10%	(408)	408
Longevity	10%	(10)	10
Disability/Morbidity	10%	(260)	260
Lapse rate	10%	(391)	391
Expense rate	10%	(685)	685
Discount rate	100 bp	1,190	(1,190)
	(100 bp)	(1,524)	1,524

The Company's sensitivity to the changes in key variables that have a material impact, 31 December 2017

Variable	*Change in variable*	*Change in profit/loss*	*Change in insurance liability*
Mortality	10%	(415)	415
Longevity	10%	(13)	13
Disability/Morbidity	10%	(293)	293
Lapse rate	10%	(211)	211
Expense rate	10%	(721)	721
Discount rate	100 bp	1,129	(1,129)
	(100 bp)	(1,519)	1,519

Loss rate according to insurance groups:

	2018 (%)	2017 (%)
Life insurance		
Unit-linked insurance	14.0	14.6
Term life insurance	5.1	6.5
Endowment insurance	13.5	14.6
Scholarship insurance	101.6	135.3
Pension insurance	17.2	18.7
Overall loss rate	14.6	16.0

Loss rates by insurance groups were calculated by dividing total claims costs (including change in outstanding claims reserve) per insurance group by gross earned premiums.

Claims lag risk

Claims lag risk occurs when the event is incurred but not yet reported to the Company. If the part of incurred but not reported claims would increase or decrease by 10% during the reporting year, the profit of the Company would decrease or increase by EUR 7 thousand (2017 – EUR 7 thousand).

FINANCIAL RISK MANAGEMENT (continued)

Cancellation risk
Cancellation risk is a risk, when the insurance contract is terminated on the initiative of the policyholder earlier than the contract expires. The surrender value, paid to the policyholder, in case of the contract cancellation, consisted of share from the total mathematical technical provision (2018: 13.9%, 2017: 7.7%), except unearned premium technical provision for the end of the reporting year. Due to the fact that technical provision for every contract is not less than the surrender amount in case of the contract cancellation, therefore, increased number of cancellations shall not affect the results of the Company in the long run. Immediate profits in the current year are netted by decrease in the future income of the Company.

The company manages such risk through the prevention of the cancellation, by notifying the policyholder of possible cancellation due payment delay of a periodical insurance premium, by proposing to change the terms of the contract according to the present situation.

Technical provisions inadequacy risk
Technical provisions inadequacy risk is a risk that calculated insurance technical provisions will be insufficient to reflect (cover) company's underwriting insurance liabilities. In order to reduce the technical provisions inadequacy risk the company periodically tests technical provisions adequacy and ensures compliance with set limits.

6. Operational risk

Operational risk is the risk to incur losses due to inadequate internal control processes or incorrect process implementation, errors and(or) illegal actions of employees, malfunctioning of information systems or external incidents. Unlike other risks (credit, market, liquidity), which are not being taken on purposefully, with anticipation of benefits, operational risk occurs naturally in the course of Bank's business.

The principles for management operational risk in the Bank: proper identification and assessment of operational risk; preventing larger operational risk and losses by implementation of efficient internal control; proper organisation and supervision of internal control environment by continuous revision of applicable control methods; concentration of resources and time towards idenfication and management of main sources of operational risk in all the areas of Bank's activity.

The Bank prepares and continuously improves principles and tools for operational risk management in the Bank and its subsidiaries. They are documented in operational risk management procedure and instruction for management operational risk in subsidiaries, which are an integral part of the Bank's risk management policy.

The operational risk management methods are implemented in the Bank – the system for registration of operational risk events in the administrative information system (AIS), functioning of which is regulated by the Instruction for registration of Operational risk events; the system of operational risk indicators and monitoring of limits of these indicators. Operational risk indicator framework is used to manage reputational risk. Events that have signs of reputational risk and can cause the Bank to incur large losses, are included in the registry of operational risk events and are monitored, analysed and assessed accordingly.

In 2018, the Bank continued to develop systems of operational risk management and internal control organization measures. For that purpose, the Bank renewed the following internal documents: operational risk management procedure, provisions for organization of internal control, provisions for contingency planning organization.

In 2019, the Bank will further improve its internal control organization, business continuity management, systems for registration of incidents and suggestions and information delivery channels, and the system of internal operational risk indicators.

7. IT risk

As more bank's activities are being converted to digital environment, importance of IT risk management is increasing as well. In 2018 IT risk management procedure was renewed, with updated list of means for IT risk management, formalized critical system identification and critical system risk management processes, updated list of IT indicators and their limits. Cyber risk management is further strengthened – new Information protection management procedure was introduced, modern security information and event management system was deployed, workstations are being modernized, IT staff participates in new bank employee trainings. At the end of 2018 new internal procedures were introduced, that would significantly improve IT change management. Significant efforts remain devoted towards proper IT process documentation, access management and data security.

8. Compliance risk

Compliance risk is the risk that the Bank's activities do not comply with the financial institution regulatory requirements set forth in the national legal acts, the EBA (European Banking Authority), the ESMA (European Security and Markets Authority) and Bank of Lithuania guidelines and positions. The compliance function areas were established by the Bank taking into consideration the volume of operations, the complexity of the activities, transactions executed and the risk level of consequences possible for noncompliance. The compliance function performs compliance risk self assessment using risk-based approach on a regular basis and informs Bank's management about the identified risks and their mitigation measures. During 2018, the compliance function was active in area of anti-money laundering (AML) and terrorist financing prevention, strengthening the implementation of requirements of AML and terrorist financing prevention regulation. Substantial attention was also allocated to implementation of process changes in the Bank related to two areas: MiFID II regulation, which changes the provision of investment services and changes in personal data protection in implementation of General Data Protection Regulation.

9. Model risk

The Bank defines model risk as the risk to incur a financial loss or to make incorrect business decisions, publish false reporting disclosures because of the usage of models. In the end of 2017, model risk management procedure was approved in the Bank. In 2018, the Bank compiled a list of internally used models and ranked them by their significance, started a pilot model conceptual review and validation process, performed first ongoing model validation tests. In 2019, the Bank plans to validate some of its most significant models and establish regular ongoing model performance measurement processes.

10. Stress tests

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

11. Capital management

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

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

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

Institutions shall at all times satisfy the following own funds requirements:
1) A Common Equity Tier 1 (CET1) capital ratio of 4.5%. CET1 capital ratio is the Common Equity Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount.
2) A Tier 1 capital ratio of 6%. The Tier 1 capital ratio is the Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount.
3) A total capital ratio of 8%. The total capital ratio is the own funds of the institution expressed as a percentage of the total risk exposure amount.

In addition to minimal capital requirements, the Bank has to comply with additional capital buffer requirements:
- Capital conservation buffer: rate of 2.5% is applied to all institutions operating in EU. The aim of the buffer is to oblige the banks to accumulate additional capital to cover unexpected losses;
- Institution-specific countercyclical capital buffer: regulators in EU countries may set a countercyclical capital buffer at their discretion aiming to reduce the risk of unsustainable credit growth to the banking sector and the economy. Rate applied in Lithuania was 0%, from 31 December 2018 it was increased to 0.5%, from 30 June 2019 it will increase to 1.0%;
- Systemically important institutions buffers. The Bank is subject to an other systemically important institution buffer (O-SII), which aims to oblige the banks that are systemically important to EU or local economy to accumulate additional capital. The O-SII buffer is set individually. The Bank is subject to O-SII buffer of 0.5%. From 31 December 2020 the required buffer will increase to 1.0%;
- Systemic risk reserve buffer. This reserve requirement aims to improve the resilience of institutions to structural systemic risk. Currently systemic risk reserve is applied mostly in North and Middle Europe countries, based on the concentration of banking sector and its importance to economy. For positions in Lithuania no systemic risk reserve buffer requirement is set.

(All amounts are in EUR thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Additional capital requirement of 0.9% (31 December 2017: 1.9%) is alocated for the risks that are identified as material in the process of self-assessment using stress tests and internal capital adequacy assessment (Pillar II). This requirement is subject to annual review in the process of supervisory review and evaluation (SREP).

Therefore, at 31 December 2018 the Bank is subject to a CET1 ratio of 8.9% (31 December 2017: 9.4%), Tier1 capital ratio of 10.4% (31 December 2017: 10.9%) and total capital ratio of 12.4% (31 December 2017: 12.9%).

The Group's own funds are divided into two tiers:

1) Tier 1 capital consists of the share capital, reserve capital (share premium), additional reserve capital, retained earnings of the previous financial year, other reserves and funds for general banking risk less the loss of the current financial year, the goodwill, the intangible assets and part of financial assets revaluation reserve;
2) Tier 2 capital consists of part of financial assets revaluation reserve and additional Tier 2 capital comprised of subordinated loans with a certain term to maturity that are compliant with the regulations of the CRR/CRD IV requirements.

The risk-weighted assets are measured under a standardised approach using risk weights classified according to the nature of each assets and counterpart, taking into account collaterals and guarantees eligible for risk mitigation.A similar treatment with some adjustments is adopted for the off-balance sheet exposures. Capital requirements for operational risk are calculated using the Basic Indicator Approach.

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

		2018		*2017*
	Group	Bank	Group	Bank
Common equity tier 1 capital eligible as CET1 Capital				
Paid up capital instruments	174,211	174,211	131,366	131,366
Share premium	3,428	3,428	-	-
Previous years retained earnings	33,828	27,947	38,020	31,586
Interim profit eligible for inclusion	-	-	-	-
Current year loss	-	-	-	-
Statutory reserve	10,369	10,195	7,177	7,071
Other reserves	756	756	756	756
Part of financial assets revaluation reserve	(492)	(492)	402	232
Transitional IFRS 9 adoption impact adjustment of retained earnings	7,735	6,109	-	-
(-) Goodwill	(1,352)	-	(2,752)	-
(-) Intangible assets	(2,007)	(1,975)	(1,783)	(1,684)
(-) Deferred tax assets that rely on future profitability	(81)	-	(49)	-
(-) Value adjustements due to requirements for prudent valuation	(65)	(47)	(49)	(33)
(-) Other deductions from CET1 capital	(6,454)	(5,155)	(5,083)	(6,528)
TIER 1 CAPITAL	**219,876**	**214,977**	**168,005**	**162,766**
Capital instruments and subordinated loans eligible as T2 Capital				
Subordinated loan capital	-	-	20,000	20,000
Part of financial assets revaluation reserve	-	-	101	58
TIER 2 CAPITAL	**-**	**-**	**20,101**	**20,058**
OWN FUNDS	**219,876**	**214,977**	**188,106**	**182,824**
Own funds requirements for:				
Risk weighted exposure amount for credit risk under the Standardised Approach	1,273,079	1,297,189	1,035,748	1,061,709
Risk weighted exposure amount for the trading book instruments	34,158	23,277	27,533	18,096
Operational risk under the Basic Indicator Approach	163,267	129,741	147,881	113,086
Other capital requirements (credit value adjustment risk)	188	188	338	338
Total risk exposure amount	**1,470,692**	**1,450,395**	**1,211,500**	**1,193,229**
CET1 Capital ratio	**14.95%**	**14.82%**	**13.87%**	**13.64%**
T1 Capital ratio	**14.95%**	**14.82%**	**13.87%**	**13.64%**
Total capital ratio	**14.95%**	**14.82%**	**15.53%**	**15.32%**

The profit of the current year is not included in Tier 1 capital until it is verified by independent auditors. If the profit for the year 2018 was included in Owns funds of the Group and the Bank as of 31 December 2018, it would cause the Total capital ratio to increase to 17.95% and 17.80% respectively.

During the years ended 31 December 2018 and 31 December 2017, the Group and the Bank complied with prudential requirements to which it was subject.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Impairment losses on loans and finance lease receivables. The Bank and the Group review their loan and finance lease portfolios to assess impairment at least on a quarterly basis. In determining the impairment loss amount, the Group makes multiple judgements and estimates, including forward looking assumptions. When making expected credit loss estimate, the Bank and the Group analyse financial information received from a client and client's performance in servicing its loans. The methodology and assumptions used (the credit rating of the client; the recoverability ratio applied; discounted market value of pledged assets) for assessment of client's ability to service debt and estimating both the amount and timing of future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience. However due to inherent limitations of the methodology, the calculated impairment loss as at 31 December 2018 may be inadequate to reflect the losses of the loan portfolio. Please see section 1.3.b of Financial risk management dislosure for the impairment loss sensitivity analysis.

Impairment losses on investments in subsidiaries. The Bank tests investments in its subsidiaries for impairment when impairment indicators are identified. The Bank establishes recoverable amount of investments in subsidiary companies based on discounted future estimated net cash flows to be earned by a subsidiary. Future net cash flows to be earned by investment management and real estate development subsidiaries are based on estimated inflow from sales of financial and other assets held by these subsidiaries less estimated cash outflow related to management and development costs. Future net cash flows from subsidiary involved in leasing operations are estimated based on future expected interest income to be earned on lease portfolio less cash outflows related to financing activities and administration costs. Discount rates are based on current cost of capital used for investments in these subsidiaries. The Group's management applies judgement in estimating cash flows and discount rates used in impairment testing.

Impairment of goodwill. Goodwill is tested for impairment annually. In order to determine if the value of goodwill has been impaired, the cash-generating unit to which goodwill has been allocated is valued using present value techniques, which are further described in Note 17. The Group's management applies judgement in estimating cash flows and discount rates used in impairment testing, changes in these judgements and estimates can significantly affect the assessed value of goodwill. Increase of discount rate used in impairment testing by 2% (other factors held constant) would decrease the net present value of cash generating unit by EUR 2,799 thousand and result in additional impairment of goodwill of EUR 1,352 thousand (2017: EUR 2,672 thousand, no additional goodwill impairment). Decrease of estimated cash flows by 20% (other factors held constant) would decrease the net present value of cash-generating unit by EUR 1,707 thousand and result in additional impairment of goodwill of EUR 1,352 thousand (2017: EUR 2,966 thousand, no additional goodwill impairment).

Inventories. Net realizable value of apartments held for sale and property for development is based either on current estimated sales price of an asset or on expected discounted future cash flows from future development and realization of an asset based on the Group's management plans with respect to a certain asset. Inputs in estimating sales price and future cash flows from development of an asset are based on current market prices. The Group's management applies judgement in estimating cash flows and discount rates used in impairment testing.

Liabilities related to insurance activities. The value of liabilities related to insurance activities (technical insurance provisions) is determined by making assumptions and estimates that have impact on the reported amounts. These estimates and assumptions are regularly reviewed and based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Taxes. The tax authorities have carried out a full-scope tax audit at the Bank for the years 1998 to 2001 (income tax audit was done for the period from 1998 to 2000). There were no significant remarks or disputes. The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Bank's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

The deferred tax assets recognised at 31 December 2018 have been based on future profitability assumptions of the Bank over a five year horizon. In the event of changes to these profitability assumptions, the tax assets recognised may be adjusted.

Finance leases and derecognition of financial assets. Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

(All amounts are in EUR thousand, unless otherwise stated)

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 2018 and in the Statement of comprehensive income for the year then ended is presented in the table below.

	Traditional banking operations and lending	Treasury	Non-core banking activities	Other activities	Eliminations	Total
Internal	2,248	-	549	-	(2,797)	-
External	58,438	10,766	1,204	852	-	71,260
Interest income	**60,686**	**10,766**	**1,753**	**852**	**(2,797)**	**71,260**
Internal	(2,302)	-	-	(603)	2,905	-
External	(5,305)	(3,196)	72	(5)	-	(8,434)
Interest expenses	**(7,607)**	**(3,196)**	**72**	**(608)**	**2,905**	**(8,434)**
Internal	(54)	-	549	(603)	108	-
External	53,133	7,570	1,276	847	-	62,826
Net interest income	**53,079**	**7,570**	**1,825**	**244**	**108**	**62,826**
Internal	202	-	-	(116)	(86)	-
External	14,222	-	-	(23)	-	14,199
Net fee and commission income	**14,424**	**-**	**-**	**(139)**	**(86)**	**14,199**
Internal	148	-	549	(719)	22	-
External	67,355	7,570	1,276	824	-	77,025
Net interest, fee and commissions income	**67,503**	**7,570**	**1,825**	**105**	**22**	**77,025**
Internal	(49)	(3)	-	(16)	68	-
External	(27,717)	(2,702)	-	(6,742)	-	(37,161)
Operating expenses	**(27,766)**	**(2,705)**	**-**	**(6,758)**	**68**	**(37,161)**
Amortisation charges	(552)	(57)	-	(61)	-	(670)
Depreciation charges	(1,040)	(110)	-	(162)	-	(1,312)
Internal	-	-	(2,241)	914	1,327	-
External	(2,983)	-	(1,548)	(3,212)	-	(7,743)
Impairment expenses	**(2,983)**	**-**	**(3,789)**	**(2,298)**	**1,327**	**(7,743)**
Internal	12	-	4,662	11	(4,685)	-
External	6,953	2,447	10,365	8,097	-	27,862
Net other income	**6,965**	**2,447**	**15,027**	**8,108**	**(4,685)**	**27,862**
Profit (loss) before tax	**42,127**	**7,145**	**13,063**	**(1,066)**	**(3,268)**	**58,001**
Income tax	(4,942)	(474)	-	53	-	(5,363)
Profit (loss) per segment after tax	**37,185**	**6,671**	**13,063**	**(1,013)**	**(3,268)**	**52,638**
Non-controlling interest	-	-	-	-	-	-
Profit (loss) for the year attributable to the owners of the Bank	37,185	6,671	13,063	(1,013)	(3,268)	52,638
Total segment assets	1,471,291	772,909	45,742	67,370	(95,583)	2,261,729
Total segment liabilities	1,288,613	679,326	40,203	50,509	(71,660)	1,986,991
Net segment assets (shareholders' equity)	182,678	93,583	5,539	16,861	(23,923)	274,738

(All amounts are in EUR thousand, unless otherwise stated)

SEGMENT INFORMATION (continued)

A summary of major indicators for the main business segments of the Group included in the Statement of financial position as at 31 December 2017 and in the statement of comprehensive income for the year then ended is presented below:

	Traditional banking operations and lending	Treasury	Non-core banking activities	Other activities	Eliminations	Total
Internal	2,252	-	699	13	(2,964)	-
External	54,076	11,939	260	803	-	67,078
Interest income	56,328	11,939	959	816	(2,964)	67,078
Internal	(2,296)	-	-	(707)	3,003	-
External	(5,818)	(4,041)	(49)	(13)	-	(9,921)
Interest expenses	(8,114)	(4,041)	(49)	(720)	3,003	(9,921)
Internal	(44)	-	699	(694)	39	-
External	48,258	7,898	211	790	-	57,157
Net interest income	48,214	7,898	910	96	39	57,157
Internal	216	-	-	(157)	(59)	-
External	10,948	-	-	4	-	10,952
Net fee and commission income	11,164	-	-	(153)	(59)	10,952
Internal	172	-	699	(851)	(20)	-
External	59,206	7,898	211	794	-	68,109
Net interest, fee and commissions income	59,378	7,898	910	(57)	(20)	68,109
Internal	(140)	(9)		(22)	171	-
External	(25,077)	(2,421)	-	(11,663)	(10)	(39,171)
Operating expenses	(25,217)	(2,430)	-	(11,685)	161	(39,171)
Amortisation charges	(398)	(39)	-	(55)	-	(492)
Depreciation charges	(1,104)	(112)	-	(155)	-	(1,371)
Internal	-	-	(1,292)	(558)	1,850	-
External	2,549	-	-	(575)	-	1,974
Impairment expenses	2,549	-	(1,292)	(1,133)	1,850	1,974
Internal	25	-	7,949	10	(7,984)	-
External	3,012	1,556	(8,920)	15,060	-	10,708
Net other income	3,037	1,556	(971)	15,070	(7,984)	10,708
Profit (loss) before tax	38,245	6,873	(1,353)	1,985	(5,993)	39,757
Income tax	(6,612)	(645)	-	(373)	-	(7,630)
Profit (loss) per segment after tax	31,633	6,228	(1,353)	1,612	(5,993)	32,127
Non-controlling interest	-	-	-	-	-	-
Profit (loss) for the year attributable to the owners of the Bank	31,633	6,228	(1,353)	1,612	(5,993)	32,127
Total segment assets	1,277,972	734,912	37,023	74,290	(93,435)	2,030,762
Total segment liabilities	1,139,600	660,327	33,265	56,578	(68,984)	1,820,786
Net segment assets (shareholders' equity)	138,372	74,585	3,758	17,712	(24,451)	209,976

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

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

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 1
NET INTEREST INCOME

	2018		2017	
	Group	Bank	Group	Bank
Interest revenue calculated using the effective interest method (on financial assets at amortized cost and fair value through other comprehensive income):	64,839	57,798	62,058	54,486
on loans to other banks and financial institutions and placements with credit institutions	332	2,565	94	2,426
on loans to customers	54,172	44,930	50,303	40,420
on debt securities at amortized cost	10,049	10,049	11,332	11,332
on debt securities at fair value through other comprehensive income	286	254	329	308
Other similar income:	6,421	5,943	5,020	3,650
on debt securities at fair value through profit or loss	814	419	639	244
on finance leases	5,525	5,442	4,381	3,406
other interest income	82	82	-	-
Total interest income	71,260	63,741	67,078	58,136
Interest expense:				
on financial liabilities designated at fair value through profit or loss	(860)	(860)	(992)	(992)
on financial liabilities measured at amortised cost	(7,330)	(7,339)	(8,719)	(8,713)
on other liabilities	(244)	(244)	(210)	(210)
Total interest expense	(8,434)	(8,443)	(9,921)	(9,915)
Net interest income	62,826	55,298	57,157	48,221

NOTE 2
NET FEE AND COMMISSION INCOME

	2018		2017	
	Group	Bank	Group	Bank
Fee and commission income:				
for administration of loans of third parties	3,811	3,811	3,571	3,571
for settlement services	5,222	5,254	3,894	3,901
for cash operations	4,349	4,349	3,287	3,287
for account administration	3,069	3,069	2,307	2,307
for guarantees, letters of credit, documentary collection	516	516	377	377
for collection of utility and similar payments	253	257	279	288
for services related to securities	1,395	1,486	1,168	1,306
other fee and commission income	903	367	869	257
Total fee and commission income	19,518	19,109	15,752	15,294
Fee and commission expense:				
for payment cards	(3,097)	(3,093)	(2,863)	(2,861)
for cash operations	(916)	(916)	(848)	(848)
for correspondent bank and payment system fees	(422)	(303)	(370)	(237)
for services of financial data vendors	(185)	(185)	(176)	(176)
for services related to securities	(468)	(468)	(362)	(357)
other fee and commission expenses	(231)	(231)	(181)	(181)
Total fee and commission expense	(5,319)	(5,196)	(4,800)	(4,660)
Net fee and commission income	14,199	13,913	10,952	10,634

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 3
NET GAIN FROM OPERATIONS WITH SECURITIES, FOREIGN EXCHANGE AND DERIVATIVES

NET GAIN FROM OPERATIONS WITH SECURITIES

	2018		2017	
	Group	Bank	Group	Bank
Securities in the trading book:				
Realised gain (loss) on equity securities	79	(16)	14	34
Unrealised gain (loss) on equity securities	(1,195)	(5)	1,275	(22)
Realised gain on debt securities	335	353	312	314
Unrealised gain (loss) on debt securities	(841)	(367)	526	413
Net gain (loss) on securities in the trading book	(1,622)	(35)	2,127	739
Investment securities:				
Realised gain on available-for-sale equities	N/A	N/A	131	152
Realised gain (loss) on investment equities at fair value through profit or loss	5	(24)	N/A	N/A
Unrealised gain on investment equities at fair value through profit or loss	69	6	N/A	N/A
Realised gain on available-for-sale debt securities	N/A	N/A	257	257
Realised gain on debt securities at fair value through other comprehensive income	74	74	N/A	N/A
Realised gain on held-to-maturity debt securites	N/A	N/A	393	393
Realised gain on debt securities at amortized cost	2,399	2,399	N/A	N/A
Dividend and other income from equity securities in the trading book	25	25	11	11
Dividend and other income from available-for-sale equity securities	N/A	N/A	4	4
Dividend and other income from investment equities	12	3	N/A	N/A
Net gain on investment securities	2,584	2,483	796	817
Total	962	2,448	2,923	1,556

Group's net gain on operations with securities in the trading book includes investment result of the insurance company assets under unit-linked contracts (see Note 5): a net loss of EUR 1,135 thousand in 2018 and a net gain of EUR 1,269 thousand in 2017.

NET GAIN FROM FOREIGN EXCHANGE AND RELATED DERIVATIVES

	2018		2017	
	Group	Bank	Group	Bank
Net gain from foreign exchange	2,152	1,983	12,390	13,075
Net gain (loss) from derivatives related with foreign exchange	4,779	4,779	(7,561)	(7,561)
Total	6,931	6,762	4,829	5,514

Group's net gain from foreign exchange includes investment result of the insurance company assets under unit-linked contracts (see Note 5): a net gain of EUR 162 thousand in 2018 and a net loss of EUR 661 thousand in 2017.

NET GAIN (LOSS) FROM OTHER DERIVATIVES

	2018		2017	
	Group	Bank	Group	Bank
Net (loss) from derivatives related to interest rate floor in the variable rate loan contracts	-	-	(2,890)	(2,594)
Net gain from derivatives related to prices of financial instruments	4	4	5	5
Total	4	4	(2,885)	(2,589)

From 1 January 2018, under IFRS 9 accounting treatment, the Bank no longer recognizes derivatives related to interest rate floor in the variable rate loan contracts. See Note 12 for more details.

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 4
OTHER OPERATING EXPENSES

	2018		2017	
	Group	Bank	Group	Bank
Rent of buildings and premises	(1,458)	(1,261)	(1,396)	(1,208)
Utility services for buildings and premises	(684)	(622)	(653)	(591)
Other expenses related to buildings and premises	(333)	(331)	(258)	(256)
Transportation expenses	(529)	(361)	(439)	(406)
Legal costs	(390)	(390)	(63)	(63)
Personnel and training expenses	(241)	(222)	(305)	(209)
IT and communication expenses	(2,430)	(2,210)	(2,097)	(1,890)
Marketing and charity expenses	(2,968)	(1,817)	(2,078)	(1,231)
Service organisation expenses	(1,302)	(1,147)	(1,141)	(993)
Non-income taxes, fines	(521)	(78)	(550)	(37)
Costs incurred due to debt recovery	(388)	(247)	(417)	(285)
Other expenses	(856)	(431)	(896)	(405)
Total	(12,100)	(9,117)	(10,293)	(7,574)

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

Bank's subsidiary Bonum Publicum GD UAB (insurance company) is engaged in life insurance business. Bank's subsidiary Pavasaris UAB is engaged in development of the area of multi-apartment residential houses. Revenue and expenses from main activities of these companies are presented in the tables below.

REVENUE RELATED TO OTHER ACTIVITIES OF GROUP COMPANIES

	2018		2017	
	Group	Bank	Group	Bank
Revenue related to insurance activities	6,465	-	6,390	-
Revenue from sale of apartments	51	-	4,149	-
Total	6,516	-	10,539	-

EXPENSES RELATED TO OTHER ACTIVITIES OF GROUP COMPANIES

	2018		2017	
	Group	Bank	Group	Bank
Expenses related to insurance activities:	(3,930)	-	(4,999)	-
*change of the technical insurance provisions that covers the result of investment of assets under unit-linked contracts**	931	-	(650)	-
other changes of the technical insurance provisions	(1,493)	-	(840)	-
insurance benefits paid	(2,903)	-	(3,116)	-
commission expenses incurred and other	(465)	-	(393)	-
Cost of apartments sold	(46)	-	(3,677)	-
Loss from discontinued operations	-	-	(10)	-
Total	(3,976)	-	(8,686)	-

* The investment result of the insurance company assets under unit-linked contracts is included in the following income statement lines:

	2018		2017	
	Group	Bank	Group	Bank
Interest and similar income	42	-	42	-
Net gain (loss) from operations with securities	(1,135)	-	1,269	-
Net gain (loss) from foreign exchange	162	-	(661)	-
Total	(931)	-	650	-

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 6 OTHER INCOME

NET GAIN FROM DISPOSAL OF TANGIBLE ASSETS

In 2018 net gain on disposal of tangible assets (mostly real estate, accounted for as Property, plant and equipment, Investment property or Inventories in the statement of financial position) at the Group amounted to EUR 2,449 thousand (Bank: net gain of EUR 273 thousand). In 2017 net gain on disposal of tangible assets (mostly real estate, accounted for as Property, plant and equipment, Investment property or Inventories in the statement of financial position) at the Group amounted to EUR 2,897 thousand (Bank: net gain of EUR 37 thousand).

NET GAIN FROM DERECOGNITION OF FINANCIAL ASSETS

Net gain from derecognition of financial assets (for the year ended 31 December 2018: Group EUR 582 thousand, Bank EUR 582 thousand; for the year ended 31 December 2017: Group EUR 3,178 thousand, Bank EUR 3,070 thousand) is mainly based on the difference between carrying value of the loans acquired under the transaction of transfer of assets, rights, transactions and liabilities of Ūkio Bankas and the proceeds from the derecognition (repayment or refinancing) of the above-mentioned loans which is charged to profit or loss.

OTHER OPERATING INCOME

		2018		2017
	Group	Bank	Group	Bank
Income from rent of investment property and other income from investment property	626	275	692	49
Income from rent of other assets	252	167	208	112
Net gain (loss) from modification of financial assets	(42)	(42)	N/A	N/A
Other income	539	110	466	219
Total	1,375	510	1,366	380

NOTE 7 IMPAIRMENT LOSSES

		2018		2017
	Group	Bank	Group	Bank
Impairment losses on loans:				
Impairment charge for the year, net (see Note 13)	4,834	4,090	(1,313)	(1,492)
Recoveries of loans previously written off	(1,407)	(656)	(1,104)	(555)
Total impairment losses (reversals) on loans	3,427	3,434	(2,417)	(2,047)
Impairment losses on finance lease receivables:				
Impairment charge for the year, net (see Note 14)	(316)	(305)	101	29
Recovered previously written-off finance lease receivables	(170)	-	(141)	-
Total impairment losses (reversals) on finance lease receivables	(486)	(305)	(40)	29
Total impairment losses (reversals) on loans and finance lease receivables	2,941	3,129	(2,457)	(2,018)
Impairment losses on financial assets other than loans and finance lease receivables:				
Due from other banks: impairment charge, net (see Note 10)	(9)	(9)	-	-
Debt securities: impairment charge, net (see Note 15)	68	68	-	-
Other financial assets: impairment charge, net (see Note 19)	73	75	68	-
Total impairment losses on financial assets other than loans and finance lease receivables:	132	134	68	-
Non-financial assets:				
Goodwill: impairment charge	1,400	-	-	-
Non-financial assets other than goodwill: impairment charge	3,543	1,321	553	-
Non-financial assets other than goodwill: reversal of impairment charge	(627)	(2)	(138)	(25)
Total impairment losses on non-financial assets:	4,316	1,319	415	(25)
Provisions:				
Provisions for pending legal issues: charge	103	103	-	-
Provisions for commitments and guarantees given: charge	251	-	-	-
Total provisions:	354	103	-	-
Total impairment losses on other assets	4,802	1,556	483	(25)
Impairment losses on subsidiaries (see Note 16):				
Investments in subsidiaries: impairment charge	-	2,684	-	3,021
Investments in subsidiaries: reversal of impairment charge	-	(450)	-	(1,760)
Total impairment losses on subsidiaries	-	2,234	-	1,261
Total	7,743	6,919	(1,974)	(782)

Impairment losses on other non-financial assets other than goodwill include impairment of investment properties (Note 26), inventories, assets classified as held for sale and other non-financial assets (Note 19).

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 8
INCOME TAX

	2018 Group	2018 Bank	2017 Group	2017 Bank
Current tax	5,471	4,747	7,609	6,633
Deferred taxes	(379)	(274)	(41)	(249)
Adjustment of previous year income tax	271	271	62	62
Total	5,363	4,744	7,630	6,446

The tax on the Bank's and the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2018 Group	2018 Bank	2017 Group	2017 Bank
Profit before income tax from continuing operations	58,001	57,809	39,757	37,336
Tax calculated at a tax rate of 15%	8,700	8,671	5,964	5,600
Income not subject to tax	(3,913)	(2,571)	(1,717)	(774)
Expenses not deductible for tax purposes	2,468	532	4,651	2,639
Additional deduction of film, charity expenses	(1,032)	(1,032)	(547)	(547)
Adjustments of previous year income tax	271	271	-	-
(Utilisation of) tax losses for which no deferred tax asset was recognized	(4)	-	(452)	(472)
Unrecognized deferred tax assets for recognized tax losses	-	-	(269)	-
Tax impact of IFRS9 adoption	(1,127)	(1,127)	-	-
Income tax charge	5,363	4,744	7,630	6,446

Deferred tax assets

	Group: Revaluation of financial instruments and other assets	Group: Impairment of investment property and inventories	Group: Accruals	Group: IFRS 9 adoption impact	Group: Tax losses carried forward	Group: Total	Bank: Accruals	Bank: IFRS 9 adoption impact	Bank: Revaluation of financial instruments and other assets	Bank: Total
At 1 January 2017	(484)	-	(237)	-	(87)	(808)	(223)	-	-	(223)
To be credited/(charged) to net profit	304	-	(41)	-	28	291	(33)	-	-	(33)
Reclassifications	180	(403)	-	-	-	(223)	-	-	-	-
To be credited/ (charged) to other comprehensive income	-	-	-	-	-	-	-	-	-	-
At 31 December 2017	-	(403)	(278)	-	(59)	(740)	(256)	-	-	(256)
Impact of changes in accounting policies	-	-	-	(1,127)	-	(1,127)	-	(1,127)	-	(1,127)
At 1 January 2018	-	(403)	(278)	(1,127)	(59)	(1,867)	(256)	(1,127)	-	(1,383)
To be credited/(charged) to net profit	-	(189)	(46)	-	(22)	(257)	(44)	-	-	(44)
Reclassifications	(273)	(3)	22	-	-	(254)	-	-	(273)	(273)
To be credited/ (charged) to other comprehensive income	-	-	-	-	-	-	-	-	-	-
To be credited directly to equity	-	-	-	1,127	-	1,127	-	1,127	-	1,127
At 31 December 2018	(273)	(595)	(302)	-	(81)	(1,251)	(300)	-	(273)	(573)

Deferred tax liabilities

	Group: Impairment of investment property and inventories	Group: Revaluation of financial instruments and other assets	Group: Total	Bank: Revaluation of financial instruments and other assets
At 1 January 2017	611	-	611	253
To be credited/(charged) to net profit	(149)	-	(149)	(216)
Reclassification	(462)	533	71	-
To be credited/ (charged) to other comprehensive income	-	14	14	1
At 31 December 2017	-	547	547	38
To be credited/(charged) to net profit	-	(122)	(122)	(230)
Reclassification	-	254	254	273
To be credited/ (charged) to other comprehensive income	-	(81)	(81)	(81)
At 31 December 2018	-	598	598	-

NOTE 8
INCOME TAX (continued)

Taxable losses of the Group and the Bank are carried forward for indefinite term through the use of future taxable profits. Management of the Bank has estimated that future taxable profits of the Bank and the Group will be sufficient to realize the accumulated tax losses. Therefore deferred tax asset from the accumulated tax losses was recognized. Projected terms of expected utilization of deferred tax assets are presented in the table below:

	2018		2017	
	Group	Bank	Group	Bank
Up to 1 year	600	520	389	229
2-5 years	53	53	351	27
Total	653	573	740	256

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	2018		2017	
	Group	Bank	Group	Bank
Deferred tax assets	(1,251)	(573)	(718)	(218)
Deferred tax liabilities	598	-	525	-

NOTE 9
EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period by the weighted average number of ordinary shares in issue during the period. As of 31 December 2018 and 31 December 2017 the Group had no dilutive potential ordinary shares (there were no potential ordinary shares at 31 December 2018; potential ordinary shares resulting from subordinated loan obtained from a shareholder (see Note 30 for more details) had antidilutive effect at 31 December 2017), therefore diluted earnings per share are equal to basic earnings per share.

The number of shares in issue for the year ended 31 December 2018 was 600,726 thousand (2017, retrospectively adjusted by the new shares that were issued in 2018 as a result of bonus issue: 543,583 thousand). Weighted average number of shares in issue for the year ended 31 December 2018 was 546,401 thousand, for the year ended 31 December 2017 (retrospectively adjusted by the new shares that were issued in 2017 as a result of bonus issue) – 543,583 thousand.

Basic earnings per share

Group

	2018	2017
Net profit from continuing operations attributable to equity holders	52,638	32,137
Net profit (loss) from discontinued operations attributable to equity holders	-	(10)
Net profit attributable to equity holders	52,638	32,127
Weighted average number of shares in issue during the period (thousand units)	546,401	543,583
Basic earnings per share (EUR)	0.10	0.06
Basic earnings per share (EUR) from continuing operations	0.10	0.06
Basic earnings per share (EUR) from discontinued operations	-	(0.00)

NOTE 10
CASH AND CASH EQUIVALENTS

	2018		2017	
	Group	Bank	Group	Bank
Cash and other valuables	48,380	46,997	38,844	38,669
Balances in bank correspondent accounts:				
Gross value	28,936	28,747	73,167	70,195
Allowance for impairment	(11)	(11)	-	-
Total balances in bank correspondent accounts, net value	28,925	28,736	73,167	70,195
Placements with Central Bank:				
Correspondent account with Central Bank	-	-	2,932	2,932
Mandatory reserves in local currency, gross value	12,000	12,000	14,795	14,795
Mandatory reserves in local currency, allowance for impairment	(1)	(1)	-	-
Total placements with Central Bank, net value	11,999	11,999	17,727	17,727
Total	89,304	87,732	129,738	126,591

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 10
CASH AND CASH EQUIVALENTS (continued)

The compulsory reserves held in the Bank of Lithuania are estimated on a monthly basis based on the value of indicated liabilities using the established compulsory reserve rate. With effect from 1 January 2015, the compulsory reserve rate was set at 1%. The mandatory reserves are held with the Bank of Lithuania in the form of current deposits. The Bank is free to use the funds held in the current account with the Bank of Lithuania, the average monthly amount of which may be not less than the estimated compulsory reserves.

The balances in bank correspondent accounts and placements with Central Bank are classified as Stage 1 financial assets. Breakdown of balances in bank correspondent accounts by credit rating is presented in the table below:

Rating *

		2018		2017
	Group	Bank	Group	Bank
From AA- to AA+	13,285	13,161	9,301	8,317
From A- to A+	1,340	1,340	47,014	45,027
From BBB- to BBB+	8,884	8,830	4,544	4,544
Lower than BBB-	1,960	1,960	2,556	2,556
No external credit rating (Standard internal rating)	3,467	3,456	9,752	9,751
Total	**28,936**	**28,747**	**73,167**	**70,195**

* for local banks that are subsidiaries of foreign banks, credit rating of the parent institution is used in case no credit rating of the local institution is available.

Reconciliation of allowance for impairment of cash and cash equivalents (including due from banks presented in Note 11) is presented in the table below:

	Group	Bank
Allowance for impairment of cash equivalents and due from banks as of 31 December 2017:	-	-
Impact of change in accounting principles	22	22
Allowance for impairment of cash equivalents and due from banks as of 1 January 2018:	22	22
Change in allowance for impairment	(9)	(9)
Allowance for impairment of cash equivalents and due from banks as of 31 December 2018	13	13

No cash and cash equivalents were pledged as of 31 December 2018 and 2017.

NOTE 11
DUE FROM OTHER BANKS

		2018		2017
	Group	Bank	Group	Bank
Pledged deposits	893	893	983	983
Term deposits	789	789	784	784
Loans	409	409	451	451
Gross value	2,091	2,091	2,218	2,218
Allowance for impairment	(1)	(1)	-	-
Net value	2,090	2,090	2,218	2,218
Breakdown due from other banks by the maturity:				
Short-term (up to 1 year)	409	409	1,092	1,092
Long-term (over 1 year)	1,681	1,681	1,126	1,126
Total	2,090	2,090	2,218	2,218

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

All amounts due from banks are classified as Stage 1 financial assets. As of 31 December 2018, term deposits amounting to EUR 789 thousand (31 December 2017: EUR 784 thousand) were pledged for the guarantees or letters of credit issued for the Bank's clients. Breakdown of balances due from banks by credit rating is presented in the table below:

Rating *

		2018		2017
	Group	Bank	Group	Bank
From AA- to AA+	436	436	975	975
From A- to A+	762	762	792	792
From BBB- to BBB+	893	893	372	372
Lower than BBB-	-	-	-	-
No external credit rating (Standard internal rating)	-	-	79	79
Total	2,091	2,091	2,218	2,218

* for local banks that are subsidiaries of foreign banks, credit rating of the parent institution is used in case no credit rating of the local institution is available.

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 12
FINANCIAL ASSETS AND LIABILITIES IN THE TRADING BOOK

Total balances of financial assets and liabilities in the trading book are presented in the table below:

		2018		*2017*
	Group	Bank	Group	Bank
Assets:				
Derivatives:	1,197	1,197	3,031	3,031
derivatives related to interest rate floor in variable rate loan contracts	-	-	*2,284*	*2,284*
currency derivatives	*479*	*479*	*143*	*143*
derivatives related to prices of financial instruments	*718*	*718*	*604*	*604*
Securities in the trading book	60,182	27,896	49,175	18,284
Liabilities:				
Derivatives:	(1,048)	(1,048)	(1,894)	(1,894)
currency derivatives	*(267)*	*(267)*	*(1,223)*	*(1,223)*
derivatives related to prices of financial instruments	*(781)*	*(781)*	*(671)*	*(671)*
Subordinated loan	-	-	(34,203)	(34,203)

Derivative Financial Instruments – Derivatives Related to Interest Rate Floor in Variable Rate Loan Contracts

The Group granted certain loans to customers with variable interest rate, however, the floor for interest rate was also set in the agreements. The floor presents a put option issued by the client and thus is treated as a derivative embedded in the host contract (loan granted). Until the year-end 2017 IAS39 mandated that if at the moment of granting the loan the floor interest rate is above the contractual variable interest rate, then the embedded derivative is not closely related with host contract and thus should be separated and accounted for separately. From 1 January 2018, IFRS9 mandates that as the loans that contain such conditions pass the SPPI test and are held in line with the business model, main purpose of which is to collect cash flows from the financial instrument, the Group has to apply the classification requirements on the whole instrument and therefore embedded derivatives related to interest rate floor in variable rate loan contracts are no longer recognised separately on the balance sheet.

Until the year-end 2017, upon initial separation of the derivative, the related amount is credited to the loan balance and is amortized to profit (loss), whereas the embedded derivative is fair valued at each balance sheet date. The Bank uses Black-Scholes model to price options. Certain inputs are derived from the market (e.g. historical volatility of EURIBOR rates as well as EURIBOR forward curves). For more details on valuation see section 4.2. of the Financial Risk Management disclosure. In case the loan contract is modified in a way that the modified contract does not include embedded derivative that is not closely related with the host contract, then the embedded derivative is derecognized.

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

		2017
	Group	Bank
Initial recognition		
Value of the embedded derivative	-	-
Credit to loans granted	-	-
Subsequent measurement		
Increase (decrease) in the fair value of the derivative (gain (loss) in profit or loss)	(2,890)	(2,594)
Derecognition		
Value of the embedded derivative on derecognition	(392)	(392)
Debit to loans granted	392	392
Fair value of the derivative as of 1 January	5,566	5,270
Additions	-	-
Revaluations through profit or loss	(2,890)	(2,594)
Derecognition	(392)	(392)
Fair value of the derivative as of 31 December	2,284	2,284

In the process of transition to IFRS9, on 1 January 2018 derivatives related to interest rate floor in variable rate loan contracts were derecognized - see IFRS 9 impact disclosure in Accounting Policies section.

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 12
FINANCIAL ASSETS AND LIABILITIES IN THE TRADING BOOK (continued)

Derivative Financial Instruments – Currency Derivatives

As of 31 December 2018 and 31 December 2017, the Group and the Bank had exposure to currency forwards, which represent commitments to purchase and/or sell foreign and local currency in the future at a fixed price.

	2018		2017	
	Group	Bank	Group	Bank
Currency forwards:				
Assets	479	479	143	143
Liabilities	(267)	(267)	(1,223)	(1,223)
Notional amount	83,674	83,674	125,782	125,782
Net gain (loss) from currency derivatives in profit or loss	4,779	4,779	(7,561)	(7,561)

Derivative Financial Instruments – Derivatives Related to Prices of Financial Instruments

The Bank has issued fixed term deposits with additional interest that may be paid for the entire deposit term, if the value of the underlying assets (a group of equity or other financial instruments) linked with the deposit reaches the barrier. Deposit additional interest condition is a call option sold to the customer therefore it is treated as a derivative embedded in the host contract (deposit). The Bank uses call options bought from other counterparties to close the position resulting from embedded options in the deposit contracts. Details on the Bank's options related to prices of financial instruments are presented below:

	2018		2017	
	Group	Bank	Group	Bank
Options bought				
Assets (carrying amount of the options bought)	718	718	604	604
Potential maximal inflow for the options bought	2,788	2,788	2,788	2,788
Revaluation of the options bought through profit or loss	113	113	77	77
Options sold				
Liabilities (carrying amount of the options sold)	(781)	(781)	(671)	(671)
Potential maximal outflow for the options sold	3,008	3,008	3,075	3,075
Revaluation of the options sold through profit or loss	(109)	(109)	(72)	(72)
Net gain from derivatives related to prices of financial instruments in profit or loss	4	4	5	5

Securities in the Trading Book

	2018		2017	
	Group	Bank	Group	Bank
Trading debt securities:				
Government bonds	11,768	5,637	11,920	5,905
Corporate bonds	28,851	21,695	17,183	11,850
Other trading book debt securities:				
Government bonds	1,765	-	1,486	-
Total debt securities	42,384	27,332	30,589	17,755
Trading equity securities	564	564	529	529
Other trading book equity securities	17,234	-	18,057	-
Total equity securities	17,798	564	18,586	529
Total securities in the trading book	60,182	27,896	49,175	18,284
Breakdown of debt securities by time remaining to maturity:				
Short-term (up to 1 year)	4,615	3,369	2,122	1,628
Long-term (over 1 year)	37,769	23,963	28,467	16,127
Total	42,384	27,332	30,589	17,755

Securities in the trading book are comprised of trading securities and other securities that cover technical insurance provisions under unit-linked insurance contracts of life insurance subsidiary. These securities are measured at fair value through profit or loss. In the 2017 financial statements these securities were presented as Securities at fair value through profit or loss. IFRS9 adoption resulted in no changes except for the change of line title.

Securities in the trading book have not been pledged as at 31 December 2018 and 2017.

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 12
FINANCIAL ASSETS AND LIABILITIES IN THE TRADING BOOK (continued)

All of the securities in the trading book, except for unlisted securities, are accounted at fair value that is determined using level 1 requirements as described in fair value hierarchy in Section 4.2 of Financial Risk Management, i.e. fair value is based on quoted prices in active markets for identical assets and liabilities. Unlisted securities are accounted at fair value that is determined using level 3 requirements.

Breakdown of securities in the trading book as at 31 December 2018 and 2017:

		2018		*2017*
	Group	Bank	Group	Bank
Trading securities:				
Debt securities	40,619	27,332	29,103	17,755
AAA	-	-	-	-
from AA- to AA+	1,794	1,236	1,209	1,209
from A- to A+	15,097	11,071	8,703	5,970
from BBB- to BBB+	16,284	9,273	12,549	6,576
from BB- to BB+	3,948	2,256	4,395	1,753
lower than BB-	50	50	543	543
no rating	3,446	3,446	1,704	1,704
Equities	564	564	529	529
listed	560	560	470	470
unlisted	4	4	4	4
units of investment funds	-	-	55	55
Total trading securities	41,183	27,896	29,632	18,284
Other trading book securities:				
Debt securities	1,765	-	1,486	-
AAA	-	-	-	-
from AA- to AA+	-	-	-	-
from A- to A+	1,437	-	936	-
from BBB- to BBB+	328	-	550	-
from BB- to BB+	-	-	-	-
lower than BB-	-	-	-	-
no rating	-	-	-	-
Equities	17,234	-	18,057	-
listed	-	-	-	-
unlisted	-	-	-	-
units of investment funds	17,234	-	18,057	-
Total other trading book securities	18,999	-	19,543	-
TOTAL	60,182	27,896	49,175	18,284

Subordinated Loan

The Group/Bank had a subordinated loan received, carrying value of which was EUR 34,203 thousand as of 31 December 2017. The agreement for the loan provided a conversion option to the loan issuer, which was an embedded derivative, therefore the Bank chose to account for the whole instrument as a financial liability at fair value through profit or loss. The liability was repaid in 2018 by converting it into Bank's shares. See Note 30 for more details on this liability.

NOTE 13
LOANS TO CUSTOMERS

		2018		*2017*
	Group	Bank	Group	Bank
Gross loans to customers	1,304,933	1,301,592	1,131,562	1,132,480
Allowance for loan impairment	(42,766)	(36,851)	(33,235)	(29,553)
NET LOANS TO CUSTOMERS	1,262,167	1,264,741	1,098,327	1,102,927
Breakdown of loans to customers according to maturity				
Short-term (up to 1 year)	293,342	325,872	229,611	258,041
Long-term (over 1 year)	968,825	938,869	868,716	844,886
Total	1,262,167	1,264,741	1,098,327	1,102,927

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 13
LOANS TO CUSTOMERS (continued)

Reconciliation of the gross loan amount is presented in the following tables:

	Group gross loans to customers			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	1,131,562
Impact of change in accounting principles	N/A	N/A	N/A	2,350
Gross carrying amount as at 1 January 2018	915,592	162,521	55,799	1,133,912
Transfer between stages:				
from Stage 1 to Stage 2	*(34,665)*	*34,665*	-	-
from Stage 1 to Stage 3	*(11,302)*	-	*11,302*	-
from Stage 2 to Stage 1	*35,140*	*(35,140)*	-	-
from Stage 2 to Stage 3	-	*(24,670)*	*24,670*	-
from Stage 3 to Stage 1	*157*	-	*(157)*	-
from Stage 3 to Stage 2	-	*11*	*(11)*	-
New loans originated or loan amounts increased	390,950	41,434	3,884	436,268
Loans derecognized during the period (other than write-offs)	(209,375)	(37,881)	(14,590)	(261,846)
Loans written-off during the period	-	-	(3,434)	(3,434)
FX and other movements	74	(23)	(18)	33
Gross carrying amount as at 31 December 2018	1,086,571	140,917	77,445	1,304,933

	Bank gross loans to customers			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	1,132,480
Impact of change in accounting principles	N/A	N/A	N/A	2,350
Gross carrying amount as at 1 January 2018	919,691	163,664	51,475	1,134,830
Transfer between stages:				
from Stage 1 to Stage 2	*(33,117)*	*33,117*	-	-
from Stage 1 to Stage 3	*(10,376)*	-	*10,376*	-
from Stage 2 to Stage 1	*34,501*	*(34,501)*	-	-
from Stage 2 to Stage 3	-	*(24,183)*	*24,183*	-
from Stage 3 to Stage 1	*128*	-	*(128)*	-
from Stage 3 to Stage 2	-	*5*	*(5)*	-
New loans originated or loan amounts increased	350,938	39,131	2,993	393,062
Loans derecognized during the period (other than write-offs)	(176,100)	(35,544)	(11,682)	(223,326)
Loans written-off during the period	-	-	(3,007)	(3,007)
FX and other movements	74	(23)	(18)	33
Gross carrying amount as at 31 December 2018	1,085,739	141,666	74,187	1,301,592

	Group gross loans to individuals (retail)			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	199,592
Impact of change in accounting principles	N/A	N/A	N/A	712
Gross carrying amount as at 1 January 2018	181,461	12,635	6,208	200,304
Transfer between stages:				
from Stage 1 to Stage 2	*(2,054)*	*2,054*	-	-
from Stage 1 to Stage 3	*(4,284)*	-	*4,284*	-
from Stage 2 to Stage 1	*1,151*	*(1,151)*	-	-
from Stage 2 to Stage 3	-	*(3,506)*	*3,506*	-
from Stage 3 to Stage 1	*141*	-	*(141)*	-
from Stage 3 to Stage 2	-	*11*	*(11)*	-
New loans originated or loan amounts increased	116,859	3,474	1,194	121,527
Loans derecognized during the period (other than write-offs)	(62,451)	(3,105)	(2,737)	(68,293)
Loans written-off during the period	-	-	(1,122)	(1,122)
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2018	230,823	10,412	11,181	252,416

	Bank gross loans to individuals (retail)			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	139,903
Impact of change in accounting principles	N/A	N/A	N/A	712
Gross carrying amount as at 1 January 2018	127,874	9,579	3,162	140,615
Transfer between stages:				
from Stage 1 to Stage 2	*(506)*	*506*	-	-
from Stage 1 to Stage 3	*(3,358)*	-	*3,358*	-
from Stage 2 to Stage 1	*512*	*(512)*	-	-
from Stage 2 to Stage 3	-	*(3,019)*	*3,019*	-
from Stage 3 to Stage 1	*112*	-	*(112)*	-
from Stage 3 to Stage 2	-	*5*	*(5)*	-
New loans originated or loan amounts increased	66,651	979	302	67,932
Loans derecognized during the period (other than write-offs)	(24,382)	(768)	(675)	(25,825)
Loans written-off during the period	-	-	(695)	(695)
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2018	166,903	6,770	8,354	182,027

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 13
LOANS TO CUSTOMERS (continued)

Group gross loans to individuals (retail): Consumer loans

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	77,421
Impact of change in accounting principles	N/A	N/A	N/A	-
Gross carrying amount as at 1 January 2018	70,976	3,225	3,220	77,421
Transfer between stages:				
from Stage 1 to Stage 2	(1,772)	1,772	-	-
from Stage 1 to Stage 3	(1,081)	-	1,081	-
from Stage 2 to Stage 1	674	(674)	-	-
from Stage 2 to Stage 3	-	(569)	569	-
from Stage 3 to Stage 1	48	-	(48)	-
from Stage 3 to Stage 2	-	7	(7)	-
New loans originated or loan amounts increased	68,391	2,627	1,140	72,158
Loans derecognized during the period (other than write-offs)	(45,480)	(2,436)	(2,229)	(50,145)
Loans written-off during the period	-	-	(515)	(515)
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2018	91,756	3,952	3,211	98,919

Bank gross loans to individuals (retail): Consumer loans

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	17,732
Impact of change in accounting principles	N/A	N/A	N/A	-
Gross carrying amount as at 1 January 2018	17,389	169	174	17,732
Transfer between stages:				
from Stage 1 to Stage 2	(224)	224	-	-
from Stage 1 to Stage 3	(155)	-	155	-
from Stage 2 to Stage 1	35	(35)	-	-
from Stage 2 to Stage 3	-	(82)	82	-
from Stage 3 to Stage 1	19	-	(19)	-
from Stage 3 to Stage 2	-	1	(1)	-
New loans originated or loan amounts increased	18,183	132	248	18,563
Loans derecognized during the period (other than write-offs)	(7,411)	(99)	(167)	(7,677)
Loans written-off during the period	-	-	(88)	(88)
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2018	27,836	310	384	28,530

Group gross loans to individuals (retail): Mortgages

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	43,194
Impact of change in accounting principles	N/A	N/A	N/A	543
Gross carrying amount as at 1 January 2018	36,975	4,686	2,076	43,737
Transfer between stages:				
from Stage 1 to Stage 2	(75)	75	-	-
from Stage 1 to Stage 3	(188)	-	188	-
from Stage 2 to Stage 1	312	(312)	-	-
from Stage 2 to Stage 3	-	(278)	278	-
from Stage 3 to Stage 1	31	-	(31)	-
from Stage 3 to Stage 2	-	-	-	-
New loans originated or loan amounts increased	12,910	395	45	13,350
Loans derecognized during the period (other than write-offs)	(4,975)	(386)	(171)	(5,532)
Loans written-off during the period	-	-	(471)	(471)
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2018	44,990	4,180	1,914	51,084

Bank gross loans to individuals (retail): Mortgages

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	43,194
Impact of change in accounting principles	N/A	N/A	N/A	543
Gross carrying amount as at 1 January 2018	36,975	4,686	2,076	43,737
Transfer between stages:				
from Stage 1 to Stage 2	(75)	75	-	-
from Stage 1 to Stage 3	(188)	-	188	-
from Stage 2 to Stage 1	312	(312)	-	-
from Stage 2 to Stage 3	-	(278)	278	-
from Stage 3 to Stage 1	31	-	(31)	-
from Stage 3 to Stage 2	-	-	-	-
New loans originated or loan amounts increased	12,910	395	45	13,350
Loans derecognized during the period (other than write-offs)	(4,975)	(386)	(171)	(5,532)
Loans written-off during the period	-	-	(471)	(471)
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2018	44,990	4,180	1,914	51,084

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 13
LOANS TO CUSTOMERS (continued)

Group gross loans to individuals (retail): Multiapartment rennovation loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	60,704
Impact of change in accounting principles	N/A	N/A	N/A	-
Gross carrying amount as at 1 January 2018	60,704	-	-	60,704
Transfer between stages:				
from Stage 1 to Stage 2	-	-	-	-
from Stage 1 to Stage 3	-	-	-	-
from Stage 2 to Stage 1	-	-	-	-
from Stage 2 to Stage 3	-	-	-	-
from Stage 3 to Stage 1	-	-	-	-
from Stage 3 to Stage 2	-	-	-	-
New loans originated or loan amounts increased	30,736	-	-	30,736
Loans derecognized during the period (other than write-offs)	(9,457)	-	-	(9,457)
Loans written-off during the period	-	-	-	-
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2018	81,983	-	-	81,983

Bank gross loans to individuals (retail): Multiapartment rennovation loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	60,704
Impact of change in accounting principles	N/A	N/A	N/A	-
Gross carrying amount as at 1 January 2018	60,704	-	-	60,704
Transfer between stages:				
from Stage 1 to Stage 2	-	-	-	-
from Stage 1 to Stage 3	-	-	-	-
from Stage 2 to Stage 1	-	-	-	-
from Stage 2 to Stage 3	-	-	-	-
from Stage 3 to Stage 1	-	-	-	-
from Stage 3 to Stage 2	-	-	-	-
New loans originated or loan amounts increased	30,736	-	-	30,736
Loans derecognized during the period (other than write-offs)	(9,457)	-	-	(9,457)
Loans written-off during the period	-	-	-	-
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2018	81,983	-	-	81,983

Group gross loans to individuals (retail): Other	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	18,273
Impact of change in accounting principles	N/A	N/A	N/A	169
Gross carrying amount as at 1 January 2018	12,806	4,724	912	18,442
Transfer between stages:				
from Stage 1 to Stage 2	(207)	207	-	-
from Stage 1 to Stage 3	(3,015)	-	3,015	-
from Stage 2 to Stage 1	165	(165)	-	-
from Stage 2 to Stage 3	-	(2,659)	2,659	-
from Stage 3 to Stage 1	62	-	(62)	-
from Stage 3 to Stage 2	-	4	(4)	-
New loans originated or loan amounts increased	4,822	452	9	5,283
Loans derecognized during the period (other than write-offs)	(2,539)	(283)	(337)	(3,159)
Loans written-off during the period	-	-	(136)	(136)
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2018	12,094	2,280	6,056	20,430

Bank gross loans to individuals (retail): Other	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	18,273
Impact of change in accounting principles	N/A	N/A	N/A	169
Gross carrying amount as at 1 January 2018	12,806	4,724	912	18,442
Transfer between stages:				
from Stage 1 to Stage 2	(207)	207	-	-
from Stage 1 to Stage 3	(3,015)	-	3,015	-
from Stage 2 to Stage 1	165	(165)	-	-
from Stage 2 to Stage 3	-	(2,659)	2,659	-
from Stage 3 to Stage 1	62	-	(62)	-
from Stage 3 to Stage 2	-	4	(4)	-
New loans originated or loan amounts increased	4,822	452	9	5,283
Loans derecognized during the period (other than write-offs)	(2,539)	(283)	(337)	(3,159)
Loans written-off during the period	-	-	(136)	(136)
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2018	12,094	2,280	6,056	20,430

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 13
LOANS TO CUSTOMERS (continued)

Group gross loans to financial institutions

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	18
Impact of change in accounting principles	N/A	N/A	N/A	-
Gross carrying amount as at 1 January 2018	18	-	-	18
Transfer between stages:				
from Stage 1 to Stage 2	-	-	-	-
from Stage 1 to Stage 3	-	-	-	-
from Stage 2 to Stage 1	-	-	-	-
from Stage 2 to Stage 3	-	-	-	-
from Stage 3 to Stage 1	-	-	-	-
from Stage 3 to Stage 2	-	-	-	-
New loans originated or loan amounts increased	27	681	-	708
Loans derecognized during the period (other than write-offs)	(17)	-	-	(17)
Loans written-off during the period	-			
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2018	28	681	-	709

Bank gross loans to financial institutions

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	39,756
Impact of change in accounting principles	N/A	N/A	N/A	-
Gross carrying amount as at 1 January 2018	39,756	-	-	39,756
Transfer between stages:				
from Stage 1 to Stage 2	-	-	-	-
from Stage 1 to Stage 3	-	-	-	-
from Stage 2 to Stage 1	-	-	-	-
from Stage 2 to Stage 3	-	-	-	-
from Stage 3 to Stage 1	-	-	-	-
from Stage 3 to Stage 2	-	-	-	-
New loans originated or loan amounts increased	9,851	681	-	10,532
Loans derecognized during the period (other than write-offs)	(17)	-	-	(17)
Loans written-off during the period	-	-	-	-
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2018	49,590	681	-	50,271

Group gross loans to business customers

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	931,952
Impact of change in accounting principles	N/A	N/A	N/A	1,638
Gross carrying amount as at 1 January 2018	734,113	149,886	49,591	933,590
Transfer between stages:				
from Stage 1 to Stage 2	*(32,611)*	*32,611*	-	-
from Stage 1 to Stage 3	*(7,018)*	-	*7,018*	-
from Stage 2 to Stage 1	*33,989*	*(33,989)*	-	-
from Stage 2 to Stage 3	-	*(21,164)*	*21,164*	-
from Stage 3 to Stage 1	*16*	-	*(16)*	-
from Stage 3 to Stage 2	-	-	-	-
New loans originated or loan amounts increased	274,064	37,279	2,690	314,033
Loans derecognized during the period (other than write-offs)	(146,907)	(34,776)	(11,853)	(193,536)
Loans written-off during the period	-	-	(2,312)	(2,312)
FX and other movements	74	(23)	(18)	33
Gross carrying amount as at 31 December 2018	855,720	129,824	66,264	1,051,808

Bank gross loans to business customers

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	952,821
Impact of change in accounting principles	N/A	N/A	N/A	1,638
Gross carrying amount as at 1 January 2018	752,061	154,085	48,313	954,459
Transfer between stages:				
from Stage 1 to Stage 2	*(32,611)*	*32,611*	-	-
from Stage 1 to Stage 3	*(7,018)*	-	*7,018*	-
from Stage 2 to Stage 1	*33,989*	*(33,989)*	-	-
from Stage 2 to Stage 3	-	*(21,164)*	*21,164*	-
from Stage 3 to Stage 1	*16*	-	*(16)*	-
from Stage 3 to Stage 2	-	-	-	-
New loans originated or loan amounts increased	274,436	37,471	2,691	314,598
Loans derecognized during the period (other than write-offs)	(151,701)	(34,776)	(11,007)	(197,484)
Loans written-off during the period	-	-	(2,312)	(2,312)
FX and other movements	74	(23)	(18)	33
Gross carrying amount as at 31 December 2018	869,246	134,215	65,833	1,069,294

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 13
LOANS TO CUSTOMERS (continued)

Group gross loans to business customers: Large corporates	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	89,172
Impact of change in accounting principles	N/A	N/A	N/A	26
Gross carrying amount as at 1 January 2018	87,643	1,555	-	89,198
Transfer between stages:				
from Stage 1 to Stage 2	*(893)*	*893*	-	-
from Stage 1 to Stage 3	-	-	-	-
from Stage 2 to Stage 1	-	-	-	-
from Stage 2 to Stage 3	-	*(155)*	*155*	-
from Stage 3 to Stage 1	-	-	-	-
from Stage 3 to Stage 2	-	-	-	-
New loans originated or loan amounts increased	7,637	299	31	7,967
Loans derecognized during the period (other than write-offs)	(11,450)	(401)	(85)	(11,936)
Loans written-off during the period	-	-	-	-
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2018	82,937	2,191	101	85,229

Bank gross loans to business customers: Large corporates	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	89,172
Impact of change in accounting principles	N/A	N/A	N/A	26
Gross carrying amount as at 1 January 2018	87,643	1,555	-	89,198
Transfer between stages:				
from Stage 1 to Stage 2	*(893)*	*893*	-	-
from Stage 1 to Stage 3	-	-	-	-
from Stage 2 to Stage 1	-	-	-	-
from Stage 2 to Stage 3	-	*(155)*	*155*	-
from Stage 3 to Stage 1	-	-	-	-
from Stage 3 to Stage 2	-	-	-	-
New loans originated or loan amounts increased	7,637	299	31	7,967
Loans derecognized during the period (other than write-offs)	(11,450)	(401)	(85)	(11,936)
Loans written-off during the period	-	-	-	-
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2018	82,937	2,191	101	85,229

Group gross loans to business customers: SME	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	726,547
Impact of change in accounting principles	N/A	N/A	N/A	1,489
Gross carrying amount as at 1 January 2018	534,593	145,250	48,193	728,036
Transfer between stages:				
from Stage 1 to Stage 2	*(31,672)*	*31,672*	-	-
from Stage 1 to Stage 3	*(6,999)*	-	*6,999*	-
from Stage 2 to Stage 1	*33,395*	*(33,395)*	-	-
from Stage 2 to Stage 3	-	*(20,809)*	*20,809*	-
from Stage 3 to Stage 1	*16*	-	*(16)*	-
from Stage 3 to Stage 2	-	-	-	-
New loans originated or loan amounts increased	246,748	36,727	2,641	286,116
Loans derecognized during the period (other than write-offs)	(100,107)	(32,661)	(11,677)	(144,445)
Loans written-off during the period	-	-	(2,312)	(2,312)
FX and other movements	74	(23)	(18)	33
Gross carrying amount as at 31 December 2018	676,048	126,761	64,619	867,428

Bank gross loans to business customers: SME	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	747,416
Impact of change in accounting principles	N/A	N/A	N/A	1,489
Gross carrying amount as at 1 January 2018	552,541	149,449	46,915	748,905
Transfer between stages:				
from Stage 1 to Stage 2	*(31,672)*	*31,672*	-	-
from Stage 1 to Stage 3	*(6,999)*	-	*6,999*	-
from Stage 2 to Stage 1	*33,395*	*(33,395)*	-	-
from Stage 2 to Stage 3	-	*(20,809)*	*20,809*	-
from Stage 3 to Stage 1	*16*	-	*(16)*	-
from Stage 3 to Stage 2	-	-	-	-
New loans originated or loan amounts increased	247,120	36,919	2,642	286,681
Loans derecognized during the period (other than write-offs)	(104,901)	(32,661)	(10,831)	(148,393)
Loans written-off during the period	-	-	(2,312)	(2,312)
FX and other movements	74	(23)	(18)	33
Gross carrying amount as at 31 December 2018	689,574	131,152	64,188	884,914

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 13
LOANS TO CUSTOMERS (continued)

	Group gross loans to business customers: Central and local authorities and other			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	116,233
Impact of change in accounting principles	N/A	N/A	N/A	123
Gross carrying amount as at 1 January 2018	111,877	3,081	1,398	116,356
Transfer between stages:				
from Stage 1 to Stage 2	(46)	46	-	-
from Stage 1 to Stage 3	(19)	-	19	-
from Stage 2 to Stage 1	594	(594)	-	-
from Stage 2 to Stage 3	-	(200)	200	-
from Stage 3 to Stage 1	-	-	-	-
from Stage 3 to Stage 2	-	-	-	-
New loans originated or loan amounts increased	19,679	253	18	19,950
Loans derecognized during the period (other than write-offs)	(35,350)	(1,714)	(91)	(37,155)
Loans written-off during the period	-	-	-	-
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2018	96,735	872	1,544	99,151

	Bank gross loans to business customers: Central and local authorities and other			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 31 December 2017	N/A	N/A	N/A	116,233
Impact of change in accounting principles	N/A	N/A	N/A	123
Gross carrying amount as at 1 January 2018	111,877	3,081	1,398	116,356
Transfer between stages:				
from Stage 1 to Stage 2	(46)	46	-	-
from Stage 1 to Stage 3	(19)	-	19	-
from Stage 2 to Stage 1	594	(594)	-	-
from Stage 2 to Stage 3	-	(200)	200	-
from Stage 3 to Stage 1	-	-	-	-
from Stage 3 to Stage 2	-	-	-	-
New loans originated or loan amounts increased	19,679	253	18	19,950
Loans derecognized during the period (other than write-offs)	(35,350)	(1,714)	(91)	(37,155)
Loans written-off during the period	-	-	-	-
FX and other movements	-	-	-	-
Gross carrying amount as at 31 December 2018	96,735	872	1,544	99,151

Movements in allowance for loan impairment by separate class in 2018 are provided below:

	Group loss allowance against loans to customers			
	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	33,235
Impact of change in accounting principles	N/A	N/A	N/A	8,131
Loss allowance as at 1 January 2018	4,807	6,220	30,339	41,366
Movements with impact to profit or loss:				
New loans originated	3,617	1,947	2,507	8,071
Loans derecognized during the period (other than write-offs)	(1,180)	(1,077)	(1,582)	(3,839)
Changes due to change in credit risk (net)	(940)	(2,140)	4,912	1,832
Update in the methodology for loss allowance estimation	(465)	(489)	(276)	(1,230)
Total movements with impact to profit or loss:	1,032	(1,759)	5,561	4,834
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	(3,434)	(3,434)
FX and other movements	-	1	(1)	-
Total movements without impact to profit or loss:	-	1	(3,435)	(3,434)
Amount as at 31 December 2018	5,839	4,462	32,465	42,766

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 13
LOANS TO CUSTOMERS (continued)

Bank loss allowance against loans to customers

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	29,553
Impact of change in accounting principles	N/A	N/A	N/A	6,214
Loss allowance as at 1 January 2018	2,829	4,972	27,964	35,765
Movements with impact to profit or loss:				
New loans originated	1,727	811	1,845	4,383
Loans derecognized during the period (other than write-offs)	(509)	(502)	(877)	(1,888)
Changes due to change in credit risk (net)	(957)	(2,122)	4,611	1,532
Update in the methodology for loss allowance estimation	308	(212)	(33)	63
Total movements with impact to profit or loss:	569	(2,025)	5,546	4,090
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	(3,007)	(3,007)
FX and other movements	1	1	1	3
Total movements without impact to profit or loss:	1	1	(3,006)	(3,004)
Amount as at 31 December 2018	3,399	2,948	30,504	36,851

Group loss allowance against loans to customers: Loans to individuals (Retail)

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	5,512
Impact of change in accounting principles	N/A	N/A	N/A	3,058
Loss allowance as at 1 January 2018	2,871	1,914	3,785	8,570
Movements with impact to profit or loss:				
New loans originated	2,734	1,222	1,250	5,206
Loans derecognized during the period (other than write-offs)	(767)	(599)	(722)	(2,088)
Changes due to change in credit risk (net)	(685)	(128)	601	(212)
Update in the methodology for loss allowance estimation	(425)	(349)	(242)	(1,016)
Total movements with impact to profit or loss:	857	146	887	1,890
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	(1,122)	(1,122)
FX and other movements	-	-	-	-
Total movements without impact to profit or loss:	-	-	(1,122)	(1,122)
Amount as at 31 December 2018	3,728	2,060	3,550	9,338

Bank loss allowance against loans to customers: Loans to individuals (Retail)

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	1,788
Impact of change in accounting principles	N/A	N/A	N/A	1,141
Loss allowance as at 1 January 2018	893	618	1,418	2,929
Movements with impact to profit or loss:				
New loans originated	844	87	588	1,519
Loans derecognized during the period (other than write-offs)	(94)	(24)	(16)	(134)
Changes due to change in credit risk (net)	(703)	(111)	313	(501)
Update in the methodology for loss allowance estimation	348	(72)	1	277
Total movements with impact to profit or loss:	395	(120)	886	1,161
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	(695)	(695)
FX and other movements	-	-	-	-
Total movements without impact to profit or loss:	-	-	(695)	(695)
Amount as at 31 December 2018	1,288	498	1,609	3,395

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 13
LOANS TO CUSTOMERS (continued)

Group loss allowance against loans to customers: Loans to individuals (Retail) – Consumer loans

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	3,877
Impact of change in accounting principles	N/A	N/A	N/A	2,659
Loss allowance as at 1 January 2018	2,657	1,390	2,489	6,536
Movements with impact to profit or loss:				
New loans originated	2,692	1,208	796	4,696
Loans derecognized during the period (other than write-offs)	(748)	(584)	(715)	(2,047)
Changes due to change in credit risk (net)	(759)	(20)	420	(359)
Update in the methodology for loss allowance estimation	(391)	(282)	(243)	(916)
Total movements with impact to profit or loss:	794	322	258	1,374
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	(515)	(515)
FX and other movements	-	-	-	-
Total movements without impact to profit or loss:	-	-	(515)	(515)
Amount as at 31 December 2018	3,451	1,712	2,232	7,395

Bank loss allowance against loans to customers: Loans to individuals (Retail) – Consumer loans

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	174
Impact of change in accounting principles	N/A	N/A	N/A	762
Loss allowance as at 1 January 2018	679	94	163	936
Movements with impact to profit or loss:				
New loans originated	802	73	134	1,009
Loans derecognized during the period (other than write-offs)	(75)	(9)	(9)	(93)
Changes due to change in credit risk (net)	(777)	(3)	91	(689)
Update in the methodology for loss allowance estimation	382	(5)	-	377
Total movements with impact to profit or loss:	332	56	216	604
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	(88)	(88)
FX and other movements	-	-	-	-
Total movements without impact to profit or loss:	-	-	(88)	(88)
Amount as at 31 December 2018	1,011	150	291	1,452

Group loss allowance against loans to customers: Loans to individuals (Retail) – Mortgages

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	1,040
Impact of change in accounting principles	N/A	N/A	N/A	285
Loss allowance as at 1 January 2018	54	360	911	1,325
Movements with impact to profit or loss:				
New loans originated	31	7	2	40
Loans derecognized during the period (other than write-offs)	(9)	(14)	(6)	(29)
Changes due to change in credit risk (net)	-	(68)	116	48
Update in the methodology for loss allowance estimation	(18)	(14)	-	(32)
Total movements with impact to profit or loss:	4	(89)	112	27
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	(471)	(471)
FX and other movements	-	-	-	-
Total movements without impact to profit or loss:	-	-	(471)	(471)
Amount as at 31 December 2018	58	271	552	881

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 13
LOANS TO CUSTOMERS (continued)

Bank loss allowance against loans to customers: Loans to individuals (Retail) – Mortgages

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	1,040
Impact of change in accounting principles	N/A	N/A	N/A	285
Loss allowance as at 1 January 2018	54	360	911	1,325
Movements with impact to profit or loss:				
New loans originated	31	7	2	40
Loans derecognized during the period (other than write-offs)	(9)	(14)	(6)	(29)
Changes due to change in credit risk (net)	-	(68)	116	48
Update in the methodology for loss allowance estimation	(18)	(14)	-	(32)
Total movements with impact to profit or loss:	4	(89)	112	27
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	(471)	(471)
FX and other movements	-	-	-	-
Total movements without impact to profit or loss:	-	-	(471)	(471)
Amount as at 31 December 2018	58	271	552	881

Group loss allowance against loans to customers: Loans to individuals (Retail) – Multiapartment rennovation loans

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	45
Impact of change in accounting principles	N/A	N/A	N/A	93
Loss allowance as at 1 January 2018	138	-	-	138
Movements with impact to profit or loss:				
New loans originated	-	-	-	-
Loans derecognized during the period (other than write-offs)	-	-	-	-
Changes due to change in credit risk (net)	47	-	-	47
Update in the methodology for loss allowance estimation	(8)	-	-	(8)
Total movements with impact to profit or loss:	39	-	-	39
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	-	-
FX and other movements	-	-	-	-
Total movements without impact to profit or loss:	-	-	-	-
Amount as at 31 December 2018	177	-	-	177

Bank loss allowance against loans to customers: Loans to individuals (Retail) – Multiapartment rennovation loans

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	45
Impact of change in accounting principles	N/A	N/A	N/A	93
Loss allowance as at 1 January 2018	138	-	-	138
Movements with impact to profit or loss:				
New loans originated	-	-	-	-
Loans derecognized during the period (other than write-offs)	-	-	-	-
Changes due to change in credit risk (net)	47	-	-	47
Update in the methodology for loss allowance estimation	(8)	-	-	(8)
Total movements with impact to profit or loss:	39	-	-	39
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	-	-
FX and other movements	-	-	-	-
Total movements without impact to profit or loss:	-	-	-	-
Amount as at 31 December 2018	177	-	-	177

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 13
LOANS TO CUSTOMERS (continued)

Group loss allowance against loans to customers: Loans to individuals (Retail) – Other

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	550
Impact of change in accounting principles	N/A	N/A	N/A	21
Loss allowance as at 1 January 2018	22	164	385	571
Movements with impact to profit or loss:				
New loans originated	11	7	452	470
Loans derecognized during the period (other than write-offs)	(10)	(1)	(1)	(12)
Changes due to change in credit risk (net)	27	(40)	65	52
Update in the methodology for loss allowance estimation	(8)	(53)	1	(60)
Total movements with impact to profit or loss:	20	(87)	517	450
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	(136)	(136)
FX and other movements	-	-	-	-
Total movements without impact to profit or loss:	-	-	(136)	(136)
Amount as at 31 December 2018	42	77	766	885

Bank loss allowance against loans to customers: Loans to individuals (Retail) – Other

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	529
Impact of change in accounting principles	N/A	N/A	N/A	1
Loss allowance as at 1 January 2018	22	164	344	530
Movements with impact to profit or loss:				
New loans originated	11	7	452	470
Loans derecognized during the period (other than write-offs)	(10)	(1)	(1)	(12)
Changes due to change in credit risk (net)	27	(40)	106	93
Update in the methodology for loss allowance estimation	(8)	(53)	1	(60)
Total movements with impact to profit or loss:	20	(87)	558	491
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	(136)	(136)
FX and other movements	-	-	-	-
Total movements without impact to profit or loss:	-	-	(136)	(136)
Amount as at 31 December 2018	42	77	766	885

Group loss allowance against loans to customers: Loans to financial institutions

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	-
Impact of change in accounting principles	N/A	N/A	N/A	-
Loss allowance as at 1 January 2018	-	-	-	-
Movements with impact to profit or loss:				
New loans originated	-	16	-	16
Loans derecognized during the period (other than write-offs)	-	-	-	-
Changes due to change in credit risk (net)	-	(1)	-	(1)
Update in the methodology for loss allowance estimation	-	1	-	1
Total movements with impact to profit or loss:	-	16	-	16
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	-	-
FX and other movements	-	-	-	-
Total movements without impact to profit or loss:	-	-	-	-
Amount as at 31 December 2018	-	16	-	16

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 13
LOANS TO CUSTOMERS (continued)

Bank loss allowance against loans to customers: Loans to financial institutions

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	-
Impact of change in accounting principles	N/A	N/A	N/A	-
Loss allowance as at 1 January 2018	-	-	-	-
Movements with impact to profit or loss:				
New loans originated	-	16	-	16
Loans derecognized during the period (other than write-offs)	-	-	-	-
Changes due to change in credit risk (net)	-	(1)	-	(1)
Update in the methodology for loss allowance estimation	-	1	-	1
Total movements with impact to profit or loss:	-	16	-	16
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	-	-
FX and other movements	-	-	-	-
Total movements without impact to profit or loss:	-	-	-	-
Amount as at 31 December 2018	-	16	-	16

Group loss allowance against loans to customers: Loans to business customers

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	27,723
Impact of change in accounting principles	N/A	N/A	N/A	5,073
Loss allowance as at 1 January 2018	1,936	4,306	26,554	32,796
Movements with impact to profit or loss:				
New loans originated	883	709	1,257	2,849
Loans derecognized during the period (other than write-offs)	(413)	(478)	(860)	(1,751)
Changes due to change in credit risk (net)	(255)	(2,011)	4,311	2,045
Update in the methodology for loss allowance estimation	(40)	(141)	(34)	(215)
Total movements with impact to profit or loss:	175	(1,921)	4,674	2,928
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	(2,312)	(2,312)
FX and other movements	-	1	(1)	-
Total movements without impact to profit or loss:	-	1	(2,313)	(2,312)
Amount as at 31 December 2018	2,111	2,386	28,915	33,412

Bank loss allowance against loans to customers: Loans to business customers

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	27,765
Impact of change in accounting principles	N/A	N/A	N/A	5,073
Loss allowance as at 1 January 2018	1,936	4,354	26,546	32,836
Movements with impact to profit or loss:				
New loans originated	883	708	1,257	2,848
Loans derecognized during the period (other than write-offs)	(415)	(478)	(861)	(1,754)
Changes due to change in credit risk (net)	(254)	(2,010)	4,298	2,034
Update in the methodology for loss allowance estimation	(40)	(141)	(34)	(215)
Total movements with impact to profit or loss:	174	(1,921)	4,660	2,913
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	(2,312)	(2,312)
FX and other movements	1	1	1	3
Total movements without impact to profit or loss:	1	1	(2,311)	(2,309)
Amount as at 31 December 2018	2,111	2,434	28,895	33,440

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 13
LOANS TO CUSTOMERS (continued)

Group loss allowance against loans to customers: Loans to business customers – Large corporates

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	85
Impact of change in accounting principles	N/A	N/A	N/A	236
Loss allowance as at 1 January 2018	309	12	-	321
Movements with impact to profit or loss:				
New loans originated	93	-	-	93
Loans derecognized during the period (other than write-offs)	(92)	(8)	-	(100)
Changes due to change in credit risk (net)	(74)	59	-	(15)
Update in the methodology for loss allowance estimation	(44)	(2)	-	(46)
Total movements with impact to profit or loss:	(117)	49	-	(68)
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	-	-
FX and other movements	-	-	-	-
Total movements without impact to profit or loss:	-	-	-	-
Amount as at 31 December 2018	192	61	-	253

Bank loss allowance against loans to customers: Loans to business customers – Large corporates

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	85
Impact of change in accounting principles	N/A	N/A	N/A	236
Loss allowance as at 1 January 2018	309	12	-	321
Movements with impact to profit or loss:				
New loans originated	93	-	-	93
Loans derecognized during the period (other than write-offs)	(92)	(8)	-	(100)
Changes due to change in credit risk (net)	(74)	59	-	(15)
Update in the methodology for loss allowance estimation	(44)	(2)	-	(46)
Total movements with impact to profit or loss:	(117)	49	-	(68)
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	-	-
FX and other movements	-	-	-	-
Total movements without impact to profit or loss:	-	-	-	-
Amount as at 31 December 2018	192	61	-	253

Group loss allowance against loans to customers: Loans to business customers – SME

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	26,848
Impact of change in accounting principles	N/A	N/A	N/A	4,463
Loss allowance as at 1 January 2018	1,267	4,045	25,999	31,311
Movements with impact to profit or loss:				
New loans originated	653	702	1,257	2,612
Loans derecognized during the period (other than write-offs)	(286)	(469)	(860)	(1,615)
Changes due to change in credit risk (net)	(144)	(1,919)	4,149	2,086
Update in the methodology for loss allowance estimation	1	(134)	(34)	(167)
Total movements with impact to profit or loss:	224	(1,820)	4,512	2,916
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	(2,312)	(2,312)
FX and other movements	-	1	(1)	-
Total movements without impact to profit or loss:	-	1	(2,313)	(2,312)
Amount as at 31 December 2018	1,491	2,226	28,198	31,915

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 13
LOANS TO CUSTOMERS (continued)

Bank loss allowance against loans to customers: Loans to business customers – SME

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	26,890
Impact of change in accounting principles	N/A	N/A	N/A	4,463
Loss allowance as at 1 January 2018	1,267	4,093	25,991	31,351
Movements with impact to profit or loss:				
New loans originated	653	701	1,257	2,611
Loans derecognized during the period (other than write-offs)	(288)	(469)	(861)	(1,618)
Changes due to change in credit risk (net)	(143)	(1,918)	4,136	2,075
Update in the methodology for loss allowance estimation	1	(134)	(34)	(167)
Total movements with impact to profit or loss:	223	(1,820)	4,498	2,901
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	(2,312)	(2,312)
FX and other movements	1	1	1	3
Total movements without impact to profit or loss:	1	1	(2,311)	(2,309)
Amount as at 31 December 2018	1,491	2,274	28,178	31,943

Group loss allowance against loans to customers: Loans to business customers – Central and local authorities and other

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	790
Impact of change in accounting principles	N/A	N/A	N/A	374
Loss allowance as at 1 January 2018	360	249	555	1,164
Movements with impact to profit or loss:				
New loans originated	137	7	-	144
Loans derecognized during the period (other than write-offs)	(35)	(1)	-	(36)
Changes due to change in credit risk (net)	(37)	(151)	162	(26)
Update in the methodology for loss allowance estimation	3	(5)	-	(2)
Total movements with impact to profit or loss:	68	(150)	162	80
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	-	-
FX and other movements	-	-	-	-
Total movements without impact to profit or loss:	-	-	-	-
Amount as at 31 December 2018	428	99	717	1,244

Bank loss allowance against loans to customers: Loans to business customers – Central and local authorities and other

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	790
Impact of change in accounting principles	N/A	N/A	N/A	374
Loss allowance as at 1 January 2018	360	249	555	1,164
Movements with impact to profit or loss:				
New loans originated	137	7	-	144
Loans derecognized during the period (other than write-offs)	(35)	(1)	-	(36)
Changes due to change in credit risk (net)	(37)	(151)	162	(26)
Update in the methodology for loss allowance estimation	3	(5)	-	(2)
Total movements with impact to profit or loss:	68	(150)	162	80
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	-	-
FX and other movements	-	-	-	-
Total movements without impact to profit or loss:	-	-	-	-
Amount as at 31 December 2018	428	99	717	1,244

Movements in allowance for loan impairment by separate class in 2017 are provided below:

	Group	*Bank*
Allowance for loan impairment as at 1 January 2017	36,802	32,440
Allowance for impairment of loans written off during the year as uncollectible	(2,252)	(1,397)
Currency translation differences and other adjustments	(2)	2
Increase (decrease) in allowance for loan impairment (Note 7)	(1,313)	(1,492)
Allowance for loan impairment as at 31 December 2017	33,235	29,553

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 13
LOANS TO CUSTOMERS (continued)

Group:

Group loans to individuals (retail)	Consumer loans	Mortgages	Credit cards	Other	Total
As at 1 January 2017	4,223	1,131	272	866	6,492
Change in allowance for loan impairment	183	(7)	31	38	245
Loans written off during the year	(845)	(84)	(40)	(346)	(1,315)
Other adjustments	73	-	(20)	(8)	45
As at 31 December 2017	3,634	1,040	243	550	5,467

Group loans to business customers	Large corporates	SME	Central and local authorities and other	Total
As at 1 January 2017	30	29,487	793	30,310
Change in allowance for loan impairment	55	(1,713)	100	(1,558)
Loans written off during the year	-	(879)	(58)	(937)
Other adjustments	-	(47)	-	(47)
As at 31 December 2017	85	26,848	835	27,768

Bank:

Bank loans to individuals (retail)	Consumer loans	Mortgages	Credit cards	Other	Total
As at 1 January 2017	132	1,131	19	837	2,119
Change in allowance for loan impairment	8	(7)	45	38	84
Loans written off during the year	(15)	(84)	(15)	(346)	(460)
Other adjustments	-	-	-	-	-
As at 31 December 2017	125	1,040	49	529	1,743

Bank loans to business customers	Large corporates	SME	Central and local authorities and other	Total
As at 1 January 2017	30	29,498	793	30,321
Change in allowance for loan impairment	55	(1,731)	100	(1,576)
Loans written off during the year	-	(879)	(58)	(937)
Other adjustments	-	2	-	2
As at 31 December 2017	85	26,890	835	27,810

NOTE 14
FINANCE LEASE RECEIVABLES

The Group

	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Gross investments in leasing:				
Balance at 31 December 2017	27,852	70,164	3,163	101,179
Impact of change in accouting principles	-	-	35	35
Change during 2018	13,465	23,298	(926)	35,837
Balance at 31 December 2018	41,317	93,462	2,272	137,051
Unearned finance income on finance leases:				
Balance at 31 December 2017	(3,403)	(5,215)	(24)	(8,642)
Change during 2018	(931)	(693)	(51)	(1,675)
Balance at 31 December 2018	(4,334)	(5,908)	(75)	(10,317)
Net investments in leasing before provisions:				
At 31 December 2017	24,449	64,949	3,139	92,537
At 31 December 2018	36,983	87,554	2,197	126,734
Changes in provisions:				
Balance at 1 January 2017	(812)	(439)	(57)	(1,308)
Provisions reversed / (additional provisions charged)	(146)	313	(268)	(101)
Provisions for finance lease debts written off	15	-	-	15
Other adjustments	(4)	-	-	(4)
Balance at 31 December 2017	(947)	(126)	(325)	(1,398)
Impact of change in accounting principles	(1,604)	32	7	(1,565)
Balance at 1 January 2018	(2,551)	(94)	(318)	(2,963)
Provisions reversed / (additional provisions charged)	1,317	(938)	(63)	316
Provisions for finance lease debts written off	1	-	-	1
Balance at 31 December 2018	(1,233)	(1,032)	(381)	(2,646)
Net investments in leasing after provisions:				
At 31 December 2017	23,502	64,823	2,814	91,139
At 31 December 2018	35,750	86,522	1,816	124,088

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 14
FINANCE LEASE RECEIVABLES (continued)

The Bank

	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Gross investments in leasing:				
Balance at 31 December 2017	26,834	70,136	3,163	100,133
Impact of change in accounting principles	-	-	35	35
Change during 2018	13,563	23,321	(926)	35,958
Balance at 31 December 2018	40,397	93,457	2,272	136,126
Unearned finance income on finance leases:				
Balance at 31 December 2017	(3,394)	(5,213)	(24)	(8,631)
Change during 2018	(938)	(695)	(51)	(1,684)
Balance at 31 December 2018	(4,332)	(5,908)	(75)	(10,315)
Net investments in leasing before provisions:				
At 31 December 2017	23,440	64,923	3,139	91,502
At 31 December 2018	36,065	87,549	2,197	125,811
Changes in provisions:				
Balance at 1 January 2017	(86)	(58)	(57)	(201)
Provisions reversed / (additional provisions charged)	(29)	-	-	(29)
Provisions for finance lease debts written off	-	-	-	-
Provisions for finance lease receivables transferred from the subsidiary	(38)	(68)	(268)	(374)
Balance at 31 December 2017	(153)	(126)	(325)	(604)
Impact of change in accounting principles	(1,582)	32	7	(1,543)
Balance at 1 January 2018	(1,735)	(94)	(318)	(2,147)
Provisions reversed / (additional provisions charged)	1,306	(938)	(63)	305
Balance at 31 December 2018	(429)	(1,032)	(381)	(1,842)
Net investments in leasing after provisions:				
At 31 December 2017	23,287	64,797	2,814	90,898
At 31 December 2018	35,636	86,517	1,816	123,969

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

	Group loss allowance against finance lease receivables			
	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	1,398
Impact of change in accounting principles	N/A	N/A	N/A	1,566
Loss allowance as at 1 January 2018	250	895	1,819	2,964
Movements with impact to profit or loss:				
New loans originated	256	190	200	646
Loans derecognized during the period (other than write-offs)	(70)	(302)	(820)	(1,192)
Changes due to change in credit risk (net)	(31)	(150)	577	396
Update in the methodology for loss allowance estimation	(55)	(96)	(15)	(166)
Total movements with impact to profit or loss:	100	(358)	(58)	(316)
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	(1)	(1)
FX and other movements	(1)	-	-	(1)
Total movements without impact to profit or loss:	(1)	-	(1)	(2)
Gross carrying amount as at 31 December 2018	349	537	1,760	2,646

	Bank loss allowance against finance lease receivables			
	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	604
Impact of change in accounting principles	N/A	N/A	N/A	1,544
Loss allowance as at 1 January 2018	250	894	1,004	2,148
Movements with impact to profit or loss:				
New loans originated	256	190	199	645
Loans derecognized during the period (other than write-offs)	(69)	(301)	(818)	(1,188)
Changes due to change in credit risk (net)	(32)	(149)	579	398
Update in the methodology for loss allowance estimation	(55)	(96)	(9)	(160)
Total movements with impact to profit or loss:	100	(356)	(49)	(305)
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	-	-
FX and other movements	(1)	-	-	(1)
Total movements without impact to profit or loss:	(1)	-	-	(1)
Gross carrying amount as at 31 December 2018	349	538	955	1,842

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 14
FINANCE LEASE RECEIVABLES (continued)

Group loss allowance against finance lease receivables - individuals

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	76
Impact of change in accounting principles	N/A	N/A	N/A	171
Loss allowance as at 1 January 2018	89	36	122	247
Movements with impact to profit or loss:				
New loans originated	54	33	55	142
Loans derecognized during the period (other than write-offs)	(14)	(4)	(31)	(49)
Changes due to change in credit risk (net)	(9)	26	30	47
Update in the methodology for loss allowance estimation	(31)	(44)	(3)	(78)
Total movements with impact to profit or loss:	-	11	51	62
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	-	-
FX and other movements	-	-	-	-
Total movements without impact to profit or loss:	-	-	-	-
Gross carrying amount as at 31 December 2018	89	47	173	309

Bank loss allowance against finance lease receivables – individuals

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	38
Impact of change in accounting principles	N/A	N/A	N/A	170
Loss allowance as at 1 January 2018	88	37	83	208
Movements with impact to profit or loss:				
New loans originated	54	34	54	142
Loans derecognized during the period (other than write-offs)	(13)	(4)	(29)	(46)
Changes due to change in credit risk (net)	(9)	24	32	47
Update in the methodology for loss allowance estimation	(31)	(44)	(3)	(78)
Total movements with impact to profit or loss:	1	10	54	65
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	-	-
FX and other movements	-	-	-	-
Total movements without impact to profit or loss:	-	-	-	-
Gross carrying amount as at 31 December 2018	89	47	137	273

Group loss allowance against finance lease receivables – business customers

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	1,322
Impact of change in accounting principles	N/A	N/A	N/A	1,395
Loss allowance as at 1 January 2018	161	859	1,697	2,717
Movements with impact to profit or loss:				
New loans originated	202	157	145	504
Loans derecognized during the period (other than write-offs)	(56)	(298)	(789)	(1,143)
Changes due to change in credit risk (net)	(22)	(176)	547	349
Update in the methodology for loss allowance estimation	(24)	(52)	(12)	(88)
Total movements with impact to profit or loss:	100	(369)	(109)	(378)
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	(1)	(1)
FX and other movements	(1)	-	-	(1)
Total movements without impact to profit or loss:	(1)	-	(1)	(2)
Gross carrying amount as at 31 December 2018	260	490	1,587	2,337

Bank loss allowance against finance lease receivables – business customers

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	N/A	N/A	N/A	566
Impact of change in accounting principles	N/A	N/A	N/A	1,374
Loss allowance as at 1 January 2018	162	857	921	1,940
Movements with impact to profit or loss:				
New loans originated	202	156	145	503
Loans derecognized during the period (other than write-offs)	(56)	(297)	(789)	(1,142)
Changes due to change in credit risk (net)	(23)	(173)	547	351
Update in the methodology for loss allowance estimation	(24)	(52)	(6)	(82)
Total movements with impact to profit or loss:	99	(366)	(103)	(370)
Movements without impact to profit or loss:				
Loans written-off during the period	-	-	-	-
FX and other movements	(1)	-	-	(1)
Total movements without impact to profit or loss:	(1)	-	-	(1)
Gross carrying amount as at 31 December 2018	260	491	818	1,569

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 15
INVESTMENT SECURITIES

Investment securities are comprised of:
- non-trading equities. In 2017 financial statements these securities were presented as available-for-sale equities. In adoption of IFRS9, the Group chose to measure these securities at fair value through profit or loss.
- debt securities at fair value through other comprehensive income. In 2017 financial statements these securities were presented as available-for-sale debt securities. On adoption of IFRS9, allowance for impairment was recognized against these securities: Group EUR 13 thousand; Bank EUR 8 thousand.
- debt securities at amortized cost (held to collect cash flows). In 2017 financial statements these securities were presented as held-to-maturity debt securities. These securities are measured at amortized cost. On adoption of IFRS9, additional allowance for impairment of EUR 283 thousand was recognized against these securities.

	2018		2017	
	Group	Bank	Group	Bank
INVESTMENT SECURITIES AT FAIR VALUE:				
Securities available for sale:				
Debt securities:	N/A	N/A	11,322	10,914
Government bonds	N/A	N/A	-	-
Corporate bonds	N/A	N/A	11,322	10,914
Equity securities	N/A	N/A	5,150	628
Total securities available for sale	N/A	N/A	16,472	11,542
Non-trading securities at fair value:				
Debt securities at fair value through other comprehensive income:	16,379	15,984	N/A	N/A
Government bonds	3,325	3,325	N/A	N/A
Corporate bonds	13,054	12,659	N/A	N/A
Non-trading equity securities at fair value through profit or loss	4,728	523	N/A	N/A
Total non-trading securities at fair value	21,107	16,507	N/A	N/A
TOTAL INVESTMENT SECURITIES AT FAIR VALUE	21,107	16,507	16,472	11,542
INVESTMENT SECURITIES AT AMORTIZED COST:				
Held-to-maturity securities:				
Debt securities:	N/A	N/A	576,260	576,260
Government bonds	N/A	N/A	418,063	418,063
Corporate bonds	N/A	N/A	158,197	158,197
Total held-to-maturity securities	N/A	N/A	576,260	576,260
Securities at amortized cost:				
Debt securities:	638,655	638,655	N/A	N/A
Government bonds	463,943	463,943	N/A	N/A
Corporate bonds	174,712	174,712	N/A	N/A
Total securities at amortized cost	638,655	638,655	N/A	N/A
TOTAL INVESTMENT SECURITIES AT AMORTIZED COST	638,655	638,655	576,260	576,260
Breakdown of debt securities by time remaining to maturity:				
Debt securities at fair value through other comprehensive income:				
Short-term (up to 1 year)	1,878	1,878	889	881
Long-term (over 1 year)	14,501	14,106	10,433	10,033
Total debt securities at fair value through other comprehensive income	16,379	15,984	11,322	10,914
Debt securities at amortized cost:				
Short-term (up to 1 year)	127,904	127,904	60,759	60,759
Long-term (over 1 year)	510,751	510,751	515,501	515,501
Total debt securities at amortized cost	638,655	638,655	576,260	576,260

As at 31 December 2018, government bonds at amortized cost with a carrying value of EUR 5,660 thousand (31 December 2017 – held-to-maturity government bonds with a carrying value of EUR 5,722 thousand) were pledged as collateral for currency forwards (Note 12), government bonds at amortized cost with a carrying value of EUR 40,515 thousand were pledged to the Bank of Lithuania as a collateral for Eurosystem market operations (of which, EUR 17,082 thousand were pledged against the outstanding loan of EUR 16,166 thousand and remaining EUR 23,433 thousand was unused collateral – they were pledged for having the opportunity to borrow the funds immediately when needed). As at 31 December 2017, held-to-maturity government bonds with a carrying value of EUR 15,766 thousand were pledged to the Bank of Lithuania as a collateral for Eurosystem market operations, the collateral was unused - they were pledged for having the opportunity to borrow the funds immediately when needed.

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 15
INVESTMENT SECURITIES (continued)

Staging and impairment of the Group's/Bank's investment debt securities:

Group investment debt securities at fair value through other comprehensive income

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Government bonds, gross	3,327	-	-	3,327	-
Less: allowance for impairment	(2)	-	-	(2)	-
Government bonds, net	3,325	-	-	3,325	-
Corporate bonds, gross	12,914	160	-	13,074	11,322
Less: allowance for impairment	(13)	(7)	-	(20)	-
Corporate bonds, net	12,901	153	-	13,054	11,322
Total, gross	16,241	160	-	16,401	11,322
Less: allowance for impairment	(15)	(7)	-	(22)	-
Total, net	16,226	153	-	16,379	11,322

Bank investment debt securities at fair value through other comprehensive income

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Government bonds, gross	3,327	-	-	3,327	-
Less: allowance for impairment	(2)	-	-	(2)	-
Government bonds, net	3,325	-	-	3,325	-
Corporate bonds, gross	12,514	160	-	12,674	10,914
Less: allowance for impairment	(8)	(7)	-	(15)	-
Corporate bonds, net	12,506	153	-	12,659	10,914
Total, gross	15,841	160	-	16,001	10,914
Less: allowance for impairment	(10)	(7)	-	(17)	-
Total, net	15,831	153	-	15,984	10,914

Group investment debt securities at amortized cost

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Government bonds, gross	463,085	1,054	-	464,139	418,063
Less: allowance for impairment	(188)	(8)	-	(196)	-
Government bonds, net	462,897	1,046	-	463,943	418,063
Corporate bonds, gross	173,853	1,005	1,013	175,871	159,219
Less: allowance for impairment	(114)	(32)	(1,013)	(1,159)	(1,022)
Corporate bonds, net	173,739	973	-	174,712	158,197
Total, gross	636,938	2,059	1,013	640,010	577,282
Less: allowance for impairment	(302)	(40)	(1,013)	(1,355)	(1,022)
Total, net	636,636	2,019	-	638,655	576,260

Bank investment debt securities at amortized cost

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Government bonds, gross	463,085	1,054	-	464,139	418,063
Less: allowance for impairment	(188)	(8)	-	(196)	-
Government bonds, net	462,897	1,046	-	463,943	418,063
Corporate bonds, gross	173,853	1,005	-	174,858	158,197
Less: allowance for impairment	(114)	(32)	-	(146)	-
Corporate bonds, net	173,739	973	-	174,712	158,197
Total, gross	636,938	2,059	-	638,997	576,260
Less: allowance for impairment	(302)	(40)	-	(342)	-
Total, net	636,636	2,019	-	638,655	576,260

Reconciliation of allowance for impairment of investment debt securities is presented in the table below:

	Group	Bank
Allowance for impairment of investment debt securities as of 31 December 2017:	**1,022**	**-**
Impact of change in accounting principles	296	291
Allowance for impairment of investment debt securities as of 1 January 2018:	**1,318**	**291**
Change in allowance for impairment	74	74
Update in the methodology for loss allowance estimation	(6)	(6)
Change in FX rates	(9)	-
Allowance for impairment of investment debt securities as of 31 December 2018	**1,377**	**359**

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 15
INVESTMENT SECURITIES (continued)

Breakdown of the Group's/Bank's investment securities as at 31 December 2018 and 2017:

	2018		2017	
	Group	Bank	Group	Bank
Investment securities at fair value:				
Debt securities	16,379	15,984	11,322	10,914
AAA	-	-	-	-
from AA- to AA+	-	-	-	-
from A- to A+	5,563	5,563	3,760	3,760
from BBB- to BBB+	10,268	10,268	6,992	6,992
from BB- to BB+	-	-	162	162
lower than BB-	153	153	-	-
no rating	395	-	408	-
Equities	4,728	524	5,150	628
listed	-	-	-	-
unlisted	848	432	1,212	414
units of investment funds	3,880	92	3,938	214
Total investment securities at fair value	21,107	16,508	16,472	11,542
Investment securities at amortized cost:				
Debt securities	638,655	638,655	576,260	576,260
AAA	-	-	-	-
from AA- to AA+	9,990	9,990	14,034	14,034
from A- to A+	453,265	453,265	404,663	404,663
from BBB- to BBB+	172,370	172,370	153,905	153,905
from BB- to BB+	3,030	3,030	3,658	3,658
lower than BB-	-	-	-	-
no rating	-	-	-	-
Total investment securities at amortized cost	638,655	638,655	576,260	576,260

In previous years, the Bank has reclassified a part of its available for sale debt securities portfolio to held-to-maturity securities (no material reclassifications were performed during 2017). Management of the bank has assessed that it has an intention to hold these securities to their maturity. As of 31 December 2017, total book value of securities reclassified from available for sale to held-to-maturity portfolio was EUR 26,284 thousand. During 2017 other comprehensive expenses recognized in relation to the amortisation of revaluation reserve of reclassified debt securities amounted to EUR 45 thousand. If the reclassification had not been performed, other comprehensive loss recognized in 2017 in relation to these securities would be equal to EUR 950 thousand. On IFRS9 adoption, these securities were attributed to debt security at amortized cost portfolio.

Movements in the financial instruments revaluation reserve:

	The Group			The Bank		
	Financial instruments revaluation reserve, before taxes	Deferred income tax asset (liabilities)	Financial instruments revaluation reserve, after taxes	Financial instruments revaluation reserve, before taxes	Deferred income tax asset (liabilities)	Financial instruments revaluation reserve, after taxes
1 January 2017	365	(54)	311	325	(48)	277
Revaluation	690	-	690	469	-	469
Sale or redemption of securities	(388)	-	(388)	(409)	-	(409)
Amortisation of revaluation related to held-to-maturity investments	(45)	-	(45)	(45)	-	(45)
Deferred income tax	-	(38)	(38)	-	(2)	(2)
31 December 2017	622	(92)	530	340	(50)	290
IFRS9 adoption: transfer of revaluation of equities to retained earnings	(642)	96	(546)	(360)	54	(306)
IFRS9 adoption: transfer of amount of change in the fair value of subordinated loan that is attributable to changes in the credit risk of that liability	(352)	-	(352)	(352)	-	(352)
1 January 2018	(372)	4	(368)	(372)	4	(368)
Revaluation	(486)	-	(486)	(486)	-	(486)
Sale or redemption of securities	(74)	-	(74)	(74)	-	(74)
Conversion of subordinated loan	352	-	352	352	-	352
Deferred income tax	-	84	84	-	84	84
31 December 2018	(580)	88	(492)	(580)	88	(492)

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 15
INVESTMENT SECURITIES (continued)

Bank's cash flows and other movements of investment securities at amortized cost:

	2018	2017
As at 1 January	576,260	524,054
Acquisitions	133,985	149,508
Redemptions	(53,503)	(85,897)
Disposals	(14,282)	(6,656)
Accrued interest	10,233	9,263
Received coupon payment	(13,900)	(13,177)
Amortisation of revaluation reserve	-	(45)
Foreign currency exchange rate impact	233	(734)
Impairment	(343)	-
Reclassifications	(28)	(56)
As at 31 December	638,655	576,260

NOTE 16
INVESTMENTS IN SUBSIDIARIES

2018

	Share in equity	Acquisition cost	Impairment provision	Carrying amount
Bank				
Investments in consolidated directly controlled subsidiaries:				
Bonum Publicum GD UAB	100.00%	8,399	(1,400)	6,999
Minera UAB	100.00%	6,165	(3,371)	2,794
Pavasaris UAB	100.00%	10,456	(10,456)	-
SB Lizingas UAB	100.00%	8,862	-	8,862
SBTF UAB	100.00%	1,029	-	1,029
Šiaulių Banko Investicijų Valdymas UAB	100.00%	5,479	(4,732)	747
Šiaulių Banko Lizingas UAB	100.00%	4,460	(3,391)	1,069
Šiaulių Banko Turto Fondas UAB	100.00%	3,999	(840)	3,159
Total		48,849	(24,190)	24,659

	Share in equity	*Acquisition cost*	*Impairment provision*	*Carrying amount*
Investments in consolidated indirectly controlled subsidiaries:				
*Apželdinimas UAB**	100.00%	300	(300)	-
*Sandworks UAB***	100.00%	35	-	35
*ŽSA 5 UAB ***	100.00%	308	-	308

* Indirectly controlled by subsidiary Šiaulių Banko Turto Fondas UAB
** Indirectly controlled by subsidiary Šiaulių Banko Investicijų Valdymas UAB

2017

	Share in equity	Acquisition cost	Impairment provision	Carrying amount
Bank				
Investments in consolidated directly controlled subsidiaries:				
Bonum Publicum GD UAB	100.00%	8,399	-	8,399
Minera UAB	100.00%	6,165	(2,599)	3,566
Pavasaris UAB	100.00%	10,456	(10,337)	119
SB Lizingas UAB	100.00%	8,862	-	8,862
SBTF UAB	100.00%	1,029	(450)	579
Šiaulių Banko Investicijų Valdymas UAB	100.00%	5,479	(4,732)	747
Šiaulių Banko Lizingas UAB	100.00%	4,460	(3,391)	1,069
Šiaulių Banko Turto Fondas UAB	100.00%	3,999	(445)	3,554
Total		48,849	(21,954)	26,895

	Share in equity	*Acquisition cost*	*Impairment provision*	*Carrying amount*
Investments in consolidated indirectly controlled subsidiaries:				
*Apželdinimas UAB**	100.00%	300	(300)	-
*Sandworks UAB***	100.00%	35	-	35
*ŽSA 5 UAB ***	100.00%	308	-	308

* Indirectly controlled by subsidiary Šiaulių Banko Turto Fondas UAB
** Indirectly controlled by subsidiary Šiaulių Banko Investicijų Valdymas UAB

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 16
INVESTMENTS IN SUBSIDIARIES (continued)

The management of the Group uses value-in-use (discounted cash flows) method and fair value less cost to sell method for testing investment in subsidiaries for impairment. Fair value less cost to sell method is applied for investment management and real estate management entities, where recoverable amount of investments in these entities is based on the fair value of net assets. 6.6% discount rate was used in value in use calculations.

In 2018, the Bank recognized impairment losses to the following investments in subsidiaries: EUR 1,400 thousand to investment in Bonum Publicum (amount equal to the goodwill impairment in Group's financial statements – see Note 17 for details), EUR 770 thousand to investment in Minera UAB and EUR 395 thousand to investment in Šiaulių Banko Turto Fondas UAB (due to losses incurred by these subsidiaries); EUR 119 thousand investment in Pavasaris UAB (value of the investment reduced after the same amount of dividends were paid by the entity) and reversed an EUR 450 thousand impairment to the investment in SBTF UAB (due to the increase in recoverable amount from the investment).

In 2017, the Bank recognized an impairment loss of EUR 2,996 thousand in investment in Pavasaris UAB (value of the investment reduced after dividends (total amount EUR 3,116 thousand) were paid by Pavasaris UAB and recognised in the income statement of the Bank). The Bank reversed an EUR 760 thousand impairment to investment in Šiaulių Banko Turto Fondas UAB (due to the improved financial performance of subsidiary) and an EUR 1,000 thousand impairment to investment in Šiaulių Banko Lizingas UAB (due to the increase in recoverable amount from the investment).

During 2017, the Bank transfered ŽSA 5 UAB from the subsidiaries held for sale to the consolidated subsidiaries. The subsidiary did not perform active operations and had no material assets or liabilities, the reason for this transfer was that the Šiaulių Bankas group needed an entity to be used as a special purpose vehicle therefore its management decided to save the costs of setting up an entity by using one of the existing entities that performed no active operations. At the moment of inclusion in consolidated subsidiaries, ŽSA5 UAB had no material external assets or liabilities, its capital was EUR 11 thousand. Later during 2017 the Bank increased its share capital by asset contibution (equities with a value of EUR 297 thousand) and sold the entity to the subsidiary Šiaulių Banko Investicijų Valdymas UAB.

NOTE 17
INTANGIBLE ASSETS

Software and licences

	Group	Bank
As at 1 January 2017:		
Cost	4,684	4,207
Accumulated amortisation	(3,256)	(2,997)
Net book value	**1,428**	**1,210**
Year ended 31 December 2017:		
Net book value at 1 January	1,428	1,210
Acquisitions	906	861
Write-offs	(59)	-
Amortisation charge	(492)	(387)
Net book value at 31 December	1,783	1,684
As at 31 December 2017:		
Cost	5,424	5,068
Accumulated amortisation	(3,641)	(3,384)
Net book value	**1,783**	**1,684**
Year ended 31 December 2018:		
Net book value at 1 January	1,783	1,684
Acquisitions	894	866
Write-offs	-	-
Amortisation charge	(670)	(575)
Net book value at 31 December	2,007	1,975
As at 31 December 2018:		
Cost	6,238	5,854
Accumulated amortisation	(4,231)	(3,879)
Net book value	**2,007**	**1,975**
Economic life (in years)	3 – 9	3 – 9

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 17
INTANGIBLE ASSETS (continued)

Goodwill

	2018	2017
Goodwill arising from acquisition of:		
Bonum Publicum	1,352	2,686
Pavasaris	-	52
SB Lizingas	-	14
Net book value	1,352	2,752

Goodwill impairment test

For the purpose of impairment testing, goodwill is allocated to one cash generating unit - subsidiary of the Bank Bonum Publicum. The recoverable amount of cash generating unit is determined by applying the value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates.

The main assumptions in assessing value in use are discount and growth rates. Assessing value in use, the management estimated pre-tax discount rates that reflect current market assessment of the time value of money and the risks related to cash generating unit. In calculating the value in use, the discount rate of 6.59% and the growth rate of 2.50% were used. Growth rates used are based on the expected long run economy growth rate.

In 2018, an impairment loss of goodwill in amount of EUR 1,400 thousand was identified. The company's business expansion outlook and future cash flows were reassessed, and the assessment resulted in reduced net present value of projected future cash flows of the company, which was the main cause for the goodwill impairment recognition. The impairment was included in the income statement line "Allowance for impairment losses on other assets" and written-off. No impairment loss for goodwill was identified in 2017 a result of the test.

NOTE 18
PROPERTY, PLANT AND EQUIPMENT

Group	Buildings, premises and land	Vehicles	Office equipment	Construction in progress	Total
As at 1 January 2017:					
Cost	10,175	2,491	6,763	133	19,562
Accumulated depreciation	(2,627)	(646)	(4,820)	-	(8,093)
Net book value	**7,548**	**1,845**	**1,943**	**133**	**11,469**
Year ended 31 December 2017:					
Net book value at 1 January	7,548	1,845	1,943	133	11,469
Acquisitions	31	550	174	125	880
Reclassifications	(27)	-	1	(168)	(194)
Disposals and write-offs	(19)	(155)	(13)	-	(187)
Depreciation charge	(197)	(384)	(685)	-	(1,266)
Net book value at 31 December	7,336	1,856	1,420	90	10,702
As at 31 December 2017:					
Cost	10,160	2,742	6,574	90	19,566
Accumulated depreciation	(2,824)	(886)	(5,154)	-	(8,864)
Net book value	**7,336**	**1,856**	**1,420**	**90**	**10,702**
Year ended 31 December 2018:					
Net book value at 1 January	7,336	1,856	1,420	90	10,702
Acquisitions	-	1,038	322	49	1,409
Reclassifications	(1,901)	-	-	-	(1,901)
Disposals and write-offs	(50)	(343)	(6)	-	(399)
Depreciation charge	(191)	(399)	(591)	-	(1,181)
Net book value at 31 December	5,194	2,152	1,145	139	8,630
As at 31 December 2018:					
Cost	7,561	2,974	6,172	139	16,846
Accumulated depreciation	(2,367)	(822)	(5,027)	-	(8,216)
Net book value	**5,194**	**2,152**	**1,145**	**139**	**8,630**
Economic life (in years)	15-50	5-12	3-20	-	-

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 18
PROPERTY, PLANT AND EQUIPMENT (continued)

Bank	Buildings and premises	Vehicles	Office equipment	Construction in progress	Total
As at 1 January 2017:					
Cost	9,696	1,534	6,382	9	17,621
Accumulated depreciation	(2,309)	(254)	(4,526)	-	(7,089)
Net book value	**7,387**	**1,280**	**1,856**	**9**	**10,532**
Year ended 31 December 2017:					
Net book value at 1 January	7,387	1,280	1,856	9	10,532
Acquisitions	31	451	153	81	716
Disposals and write-offs	(19)	(38)	(6)	-	(63)
Depreciation charge	(191)	(249)	(650)	-	(1,090)
Reclassification	(27)	-	-	-	(27)
Net book value at 31 December	7,181	1,444	1,353	90	10,068
As at 31 December 2017:					
Cost	9,681	1,931	6,242	90	17,944
Accumulated depreciation	(2,500)	(487)	(4,889)	-	(7,876)
Net book value	**7,181**	**1,444**	**1,353**	**90**	**10,068**
Year ended 31 December 2018:					
Net book value at 1 January	7,181	1,444	1,353	90	10,068
Acquisitions	-	849	294	44	1,187
Disposals and write-offs	-	(293)	(5)	-	(298)
Depreciation charge	(185)	(292)	(561)	-	(1,038)
Reclassification to assets held for sale	(1,901)	-	-	-	(1,901)
Net book value at 31 December	5,095	1,708	1,081	134	8,018
As at 31 December 2018:					
Cost	7,144	2,214	5,842	134	15,334
Accumulated depreciation	(2,049)	(506)	(4,761)	-	(7,316)
Net book value	**5,095**	**1,708**	**1,081**	**134**	**8,018**
Economic life (in years)	15-50	5-12	3-20	-	-

The total balance of the assets in the tables above includes assets leased under operating lease agreements as follows:

			Group			Bank
	Vehicles	*Equipment*	*Total*	*Vehicles*	*Equipment*	*Total*
As at 1 January 2017:						
Cost	269	537	806	-	537	537
Accumulated depreciation	(86)	(525)	(611)	-	(525)	(525)
Net book value	**183**	**12**	**195**	**-**	**12**	**12**
Year ended 31 December 2017:						
Net book value at 1 January	183	12	195	-	12	12
Disposals and write-offs	(122)	-	(122)	-	-	-
Depreciation charge	(33)	(11)	(44)	-	(11)	(11)
Net book value at 31 December	28	1	29	-	1	1
As at 31 December 2017:						
Cost	44	502	546	-	502	502
Accumulated depreciation	(16)	(501)	(517)	-	(501)	(501)
Net book value	**28**	**1**	**29**	**-**	**1**	**1**
Year ended 31 December 2018:						
Net book value at 1 January	28	1	29	-	1	1
Additions (+), disposals and write-offs (-)	45	-	45	-	-	-
Depreciation charge	(21)	(1)	(22)	-	(1)	(1)
Net book value at 31 December	52	-	52	-	-	-
As at 31 December 2018:						
Cost	89	481	570	-	481	481
Accumulated depreciation	(37)	(481)	(518)	-	(481)	(481)
Net book value	**52**	**-**	**52**	**-**	**-**	**-**
Economic life (in years)	6-12	6-15	-	-	6-15	-

As at 31 December 2018 and 31 December 2017, there were no property, plant and equipment pledged to third parties.

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 18
PROPERTY, PLANT AND EQUIPMENT (continued)

Future minimum lease payments to be received under non-cancellable operating lease agreements for the Bank and the Group were as follows (this includes investment property disclosed in Note 26):

			2018			*2017*
	up to 1 year	*1-5 years*	*over 5 years*	*up to 1 year*	*1-5 years*	*over 5 years*
Group	130	139	43	132	57	47
Bank	47	57	43	52	74	84

NOTE 19
OTHER ASSETS

		2018		*2017*
	Group	Bank	Group	Bank
Financial assets:				
Amounts receivable	13,213	12,708	10,485	9,616
Breakdown of financial assets according to maturity				
Short-term (up to 1 year)	13,041	12,542	9,430	8,556
Long-term (over 1 year)	172	166	1,055	1,060
Non-financial assets:				
Breakdown of non-financial assets according to maturity				
Short-term (up to 1 year)	22,518	6,097	5,409	649
Long-term (over 1 year)	2,731	1,209	20,307	5,314
Inventories	16,312	-	18,316	-
Deferred charges	895	848	888	859
Assets under reinsurance and insurance contracts	597	-	650	-
Prepayments	4,607	3,777	4,188	3,607
Foreclosed assets	193	142	764	712
Assets held for sale	1,794	1,794	-	-
Other	851	745	910	785
TOTAL OTHER ASSETS	38,462	20,014	36,201	15,579

Balances of other financial assets include impairment. Reconciliation of allowance for impairment of other financial assets is presented in the table below:

	Group	Bank
Allowance for impairment of other financial assets as of 31 December 2017:	23	15
Impact of change in accounting principles	307	288
Allowance for impairment of other financial assets as of 1 January 2018:	330	303
Change in allowance for impairment	73	75
Other financial assets written-off during the period	(5)	(3)
Reclassifications and other movements	(3)	(3)
Allowance for impairment of other financial assets as of 31 December 2018	395	372

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

Breakdown of inventories according to type:

		2018		*2017*
	Group	Bank	Group	Bank
Apartments held for sale	-	-	47	-
Property held for sale or development	16,312	-	18,269	-
Total inventories	16,312	-	18,316	-

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

Real estate properties that are planned to be sold within one year are included in assets classified as held for sale. As of 31 December 2018, such real estate assets consisted ten properties with a fair value of EUR 1,794 thousand. As of 31 December 2017, there were no such assets. An impairment expense of EUR 1,282 thousand related to the repricing these properties down to the realisable value was recognized in 2018 (2017: nil). No income or expenses related to these properties were recorded in profit or loss of discontinued operations.

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 19
OTHER ASSETS (continued)

A net impairment expense of EUR 701 thousand related to repricing inventories and other non-financial assets down to realisable value was included in year 2018 income statement for the Group (the Bank – net expense of EUR 37 thousand). In 2017, the Group included a net reversal of impairment on inventories and other non-financial assets of EUR 98 thousand in its income statement (the Bank – net reversal of EUR 25 thousand).

Investment in subsidiaries classified as held for sale and result of discontinued operations:

		2018		2017
	Group	Bank	Group	Bank
Assets held for sale	-	-	-	-
Liabilities attributable to assets held for sale	-	-	-	-
Profit (loss) of the year from discontinued operations	-	-	(10)	-
of which: gain on disposal of entities	-	-	-	-
Dividends paid to the Bank	-	-	-	256
Remeasurement of investment in subsidiaries held for sale	-	-	-	(55)

During year 2017, the companies held for sale Žalgirio Sporto Arena UAB, ŽSA1 UAB, ŽSA2 UAB, ŽSA3 UAB, ŽSA4 UAB paid dividends to the Bank and were liquidated. In 2017 the Bank transfered ŽSA 5 UAB from the subsidiaries held for sale to the consolidated subsidiaries (see Note 16 for more information).

NOTE 20
DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

		2018		2017
	Group	Bank	Group	Bank
Correspondent accounts and deposits of other banks and financial institutions:				
Correspondent accounts and demand deposits	22,556	23,646	12,066	13,159
Time deposits	2,633	3,711	14,245	15,319
Total correspondent accounts and deposits of other banks and financial institutions	25,189	27,357	26,311	28,478
Due to central bank	16,166	16,166	-	-
Loans received from:				
Other banks	255	255	-	-
Other organisations	9,987	9,987	9,242	9,242
International organisations	17,555	17,555	20,164	20,164
Total loans received	27,797	27,797	29,406	29,406
Total	69,152	71,320	55,717	57,884
Breakdown of due to other banks and financial institutions according to maturity				
Short-term (up to 1 year)	51,573	53,320	36,559	37,694
Long-term (over 1 year)	17,579	18,000	19,158	20,190
Total	69,152	71,320	55,717	57,884

Due to central bank consists of short-term borrowings from Bank of Lithuania in a form of Eurosystem market operations. Government bonds from debt securities at amortized cost portfolio are placed as a collateral. As at 31 December 2018, government bonds with a carrying value of EUR 40,515 thousand were placed as a collateral for borrowings (of which, EUR 17,082 thousand were pledged against the outstanding loan and remaining EUR 23,433 thousand was unused collateral – they were pledged for having the opportunity to borrow the funds immediately when needed). As at 31 December 2017, government bonds with a carrying value of EUR 15,766 thousand were unused collateral – they were pledged for having the opportunity to borrow the funds immediately when needed.

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 21
DUE TO CUSTOMERS

	2018		2017	
	Group	Bank	Group	Bank
Demand deposits:				
National government institutions	24,043	24,043	21,553	21,553
Local government institutions	63,274	63,274	75,060	75,060
Governmental and municipal companies	28,558	28,558	23,431	23,431
Corporate entities	388,159	388,537	274,888	275,321
Non-profit organisations	15,284	15,284	13,309	13,309
Individuals	383,548	383,548	305,237	305,237
Unallocated amounts due to customers	44,838	45,462	40,099	40,430
Total demand deposits	947,704	948,706	753,577	754,341
Time deposits:				
National government institutions	1,334	1,334	231	231
Local government institutions	907	907	948	948
Governmental and municipality companies	5,498	5,498	1,718	1,718
Corporate entities	64,554	64,554	61,522	61,522
Non-profit organisations	2,347	2,347	2,433	2,433
Individuals	823,444	823,444	827,624	827,624
Total time deposits	898,084	898,084	894,476	894,476
Total	1,845,788	1,846,790	1,648,053	1,648,817
Breakdown of due to customers according to maturity				
Short-term (up to 1 year)	1,643,628	1,644,630	1,468,638	1,469,402
Long-term (over 1 year)	202,160	202,160	179,415	179,415
Total	1,845,788	1,846,790	1,648,053	1,648,817

NOTE 22
SPECIAL AND LENDING FUNDS

	2018		2017	
	Group	Bank	Group	Bank
Special funds	3,192	3,192	13,336	13,336
Lending funds	-	-	-	-
Total	3,192	3,192	13,336	13,336
Breakdown of special and lending funds according to maturity				
Short-term (up to 1 year)	3,192	3,192	13,336	13,336
Long-term (over 1 year)	-	-	-	-
	3,192	3,192	13,336	13,336

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

NOTE 23
DEBT SECURITIES IN ISSUE

At 31 December 2018 and 31 December 2017, the Bank had EUR 20,003 thousand debt securities issued, which consisted of a 3 year bond issue of EUR 20,000 thousand (ISIN code LT0000432015). The bonds were issued on 21 December 2017, annual interest rate is 0.60%. The Bank has a right to call the bonds after 2 years. From 6 December 2018 this issue is listed on Nasdaq Baltic Bond List.

Cash flows and other movements of issued debt securities:

	2018		2017	
	Group	Bank	Group	Bank
As at 1 January	20,003	20,003	-	-
Issuance	-	-	20,000	20,000
Redemptions	-	-	-	-
Accrued interest	120	120	3	3
Coupon payments	(120)	(120)	-	-
As at 31 December	20,003	20,003	20,003	20,003

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 24
LIABILITIES RELATED TO INSURANCE ACTIVITIES

Technical insurance provisions:

Bank's subsidiary Bonum Publicum GD UAB is engaged in life insurance business. For the years ended 31 December 2018 and 2017 the technical insurance provisions and their changes were as follows:

	Unearned premiums	Claims outstanding	Loss cover (mathematical)	Unit-linked	Total
Gross:					
At 1 January 2017	15	195	6,373	18,932	25,515
Change for the period	1	21	667	1,028	1,717
At 31 December 2017	16	216	7,040	19,960	27,232
Change for the period	(1)	5	1,156	(425)	735
At 31 December 2018	15	221	8,196	19,535	27,967
Reinsurance share:					
At 1 January 2017	(18)	-	(10)	-	(28)
Change for the period	(1)	(20)	-	-	(21)
At 31 December 2017	(19)	(20)	(10)	-	(49)
Change for the period	-	10	4	-	14
At 31 December 2018	(19)	(10)	(6)	-	(35)
Net value					
At 31 December 2017	(3)	196	7,030	19,960	27,183
At 31 December 2018	(4)	211	8,190	19,535	27,932

Liabilities under unit-linked insurance contracts are fully covered with assets: other securities in the trading book and cash (31 December 2018: securities EUR 18,999 thousand, cash EUR 536 thousand, 31 December 2017: securities designated at fair value through profit or loss at initial recognition EUR 19,543 thousand, cash EUR 417 thousand).

NOTE 25
OTHER LIABILITIES

	2018		2017	
	Group	Bank	Group	Bank
Financial liabilities:				
Trade payables	3,410	824	2,933	250
Accrued charges	10,091	8,542	8,943	7,695
Total financial liabilities	**13,501**	**9,366**	**11,876**	**7,945**
Breakdown of other financial liabilities according to maturity				
Short-term (up to 1 year)	12,852	9,366	6,799	3,049
Long-term (over 1 year)	649	-	5,077	4,896
Non-financial liabilities:				
Advance amounts received from the buyers of assets	3,918	-	788	-
Deferred income	706	308	706	187
Provisions	284	-	60	60
Other liabilities	601	601	2,658	238
Total non-financial liabilities	**5,509**	**909**	**4,212**	**485**
Breakdown of other non-financial liabilities according to maturity				
Short-term (up to 1 year)	4,816	757	2,967	321
Long-term (over 1 year)	693	152	1,245	164
Total non-financial liabilities	**5,509**	**909**	**4,212**	**485**

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 26
INVESTMENT PROPERTY

Investment property

	Group	Bank
Year ended 31 December 2017:		
Carrying amount at 1 January	16,804	1,112
Acquisitions	-	-
Reclassifications	2,892	2,724
Impairment	(513)	-
Depreciation charge	(105)	(33)
Disposals and write-offs	(6,848)	(32)
Carrying amount at 31 December 2017	**12,230**	**3,771**
Estimated fair value at 31 December 2017	12,663	4,009
Year ended 31 December 2018:		
Carrying amount at 1 January	12,230	3,771
Acquisitions	30	-
Reclassifications to assets held for sale	(608)	(608)
Impairment	(933)	-
Depreciation charge	(131)	(59)
Disposals and write-offs	(828)	(827)
Carrying amount at 31 December 2018	**9,760**	**2,277**
Estimated fair value at 31 December 2018	10,288	2,568
Economic life (in years)	20-50	20-50

Income from rent of investment property is included in the income statement line "Other operating income" (see Note 6 "Other income"). Maintenance expenses related to investment property (Group: EUR 172 thousand in 2018, EUR 115 thousand in 2017; Bank: EUR 90 thousand in 2018, EUR 34 thousand in 2017) are included in the income statement line "Other operating expenses".

The Group tests the investment property for impairment mainly using valuations from external independent certified appraisers or valuations performed by Group's employees (as of 31 December 2018, 67% of the carrying value of the investment property was tested for impairment using valuations from external independent certified appraisers; as of 31 December 2017 – 62%). Income or comparative price methods, i.e. valuation techniques attributable to Level 3 (income method or comparative price method) are mostly used valuation techniques to test the investment property for impairment both by external and internal valuators.

NOTE 27
SHARE CAPITAL

As of 31 December 2018 the Banks's share capital amounted to EUR 174,210,616.27, it comprised 600,726,263 ordinary registered shares with par value of EUR 0.29 each (31 December 2017 the Bank's share capital amounted to EUR 131,365,989.88, it comprised 452,986,172 ordinary registered shares with par value of EUR 0.29 each).

The extraordinary meeting of shareholders of Šiaulių bankas that took place on 24 September 2018 passed a resolution to increase Bank's share capital by EUR 16,572 thousand by additional contributions issuing 57 142 857 ordinary registered shares with nominal value of EUR 0.29 and setting the issue price of EUR 0.35 per issued share (i.e. share premium amounts to EUR 3,428 thousand). The European Bank for Reconstruction and Development (hereinafter - EBRD) was provided with the right to acquire all the shares of the new issue. These shares were paid by offsetting mutual commitment between the Bank and EBRD under the subordinated convertible loan agreement signed 23 February 2013 (more information on subordinated loan is presented in Note 30). The amended Charter of the Bank with an increased authorised capital was registered in the Register of Legal Entities on 13 December 2018.

The ordinary meeting of shareholders of Šiaulių bankas that took place on 29 March 2018 passed a resolution to increase Bank's share capital by EUR 26,273 thousand (20%) using Bank's own resources (retained earnings). The amended Charter of the Bank with an increased authorised capital was registered in the Register of Legal Entities on 1 June 2018, the bonus shares were distributed among Bank's shareholders using the proportion of their stakes at the end of the day of accounting of rights of the Meeting (13 April 2018).

The ordinary meeting of shareholders of Šiaulių bankas that took place on 30 March 2017 passed a resolution to increase Bank's share capital by EUR 21,894 thousand (20.0%) using Bank's own resources (retained earnings). The amended Charter of the Bank with an increased authorised capital was registered in the Register of Legal Entities on 6 June 2017, the bonus shares were distributed among Bank's shareholders using the proportion of their stakes at the end of the day of accounting of rights of the Meeting (13 April 2017).

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 27
SHARE CAPITAL (continued)

At 31 December 2018, the European Bank for Reconstruction and Development possessed 26.02% of the authorised capital and votes of the Bank.

Shareholders of the Bank that had signed shareholders agreement - European Bank for Reconstruction and Development, Prekybos namai Aiva UAB, Mintaka UAB, Įmonių Grupė Alita AB, Arvydas Salda, Sigitas Baguckas, Vigintas Butkus, Vytautas Junevičius, Gintaras Kateiva, Kastytis Jonas Vyšniauskas, Algirdas Butkus, - and other shareholders votes of which are calculated together based on the legal acts of Republic of Lithuania, formed a group of acting together shareholders. As of 31 December 2017, this group possessed 38.52 percent of the authorised capital and votes of the Bank. Shareholders agreement was terminated on 20 December 2018 – i.e. the date when the new share issue that converted subordinated loan into share capital was transferred to the EBRD's securities account.

As at 31 December 2018, the Bank had 4,992 shareholders (as at 31 December 2017: 4,496).

Share premium
The share premium represents the difference between the issue price and nominal value of the shares issued by the Bank. Share premium can be used to increase the Bank's authorised share capital. In 2018, the share premium of EUR 3,428 thousand was recognized in the subordinated loan conversion process (described above in this note).

Reserve capital
The reserve capital is formed from the Bank's profit and its purpose is to ensure the financial stability of the Bank. The shareholders may decide to use the reserve capital to cover losses incurred.

Statutory reserve
According to the Law of the Republic of Lithuania on Banks, allocations to the statutory reserve shall be compulsory and shall not be less than 1/20 of the profit available for appropriation. The statutory reserve may, by a decision of extraordinary general or annual meeting of the shareholders, be used only to cover losses of the activities.

NOTE 28
CONTINGENT LIABILITIES AND COMMITMENTS

Contingent tax liabilities
The Tax Authorities have not carried out a full-scope tax audit of the Bank for the period from 2014 to 2018. The Tax Authorities may at any time during 5 successive years after the end of the reporting tax year carry out an inspection of the Bank's books and accounting records and impose additional taxes or fines. Management is not aware of any circumstances that might result in a potential material liability in this respect.

Guarantees issued, letters of credit, commitments to grant loans and other commitments

	2018		2017	
	Group	Bank	Group	Bank
Financial guarantees issued	39,655	39,720	33,787	33,814
Letters of credit	760	760	262	262
Commitments to grant loans	260,860	281,071	171,868	187,367
Operating lease commitments	3,055	2,639	2,462	2,502
Other commitments	4,547	4,547	1,365	1,358
Total	**308,877**	**328,737**	**209,744**	**225,303**

Fair value of the guarantees amounts to EUR 269 thousand at 31 December 2018 (31 December 2017: EUR 163 thousand). It is estimated as the amount of the guarantee fee to be paid by the customers less amortization over the contract period.

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 29
DIVIDENDS

Dividends are declared during the annual general meeting of shareholders of the Bank when appropriation of profit for the reporting period is performed. On 29 March 2018 the ordinary general meeting of shareholders made a decision to pay EUR 0.005 (i.e. 1.72%) dividends per one ordinary registered share with EUR 0.29 nominal value each. The dividends were paid to shareholders as per their stakes at the end of the day of accounting of rights of the Meeting (13 April 2018). Total amount of dividends was EUR 2,265 thousand.

On 30 March 2017 the ordinary general meeting of shareholders made a decision to pay EUR 0.005 (i.e. 1.72%) dividends per one ordinary registered share with EUR 0.29 nominal value each. The dividends were paid to shareholders as per their stakes at the end of the day of accounting of rights of the Meeting (13 April 2017). Total amount of dividends was EUR 1,887 thousand.

In 2018, Bank's 100%-owned subsidiary SB Lizingas UAB paid dividends of EUR 4,000 thousand to the Bank; Bank's 100%-owned subsidiary Pavasaris UAB paid dividends of EUR 119 thousand to the Bank; Bank's 100 owned subsidiary Bonum Publicum GD UAB paid dividends of EUR 500 thousand to the Bank.

In 2017, Bank's 100%-owned subsidiary SB Lizingas UAB paid dividends of EUR 3,300 thousand to the Bank; Bank's 100%-owned subsidiary Pavasaris UAB paid dividends of EUR 3,116 thousand to the Bank; Bank's 100 owned subsidiary Bonum Publicum GD UAB paid dividends of EUR 800 thousand to the Bank; Bank's 100 owned subsidiary Šiaulių Banko Lizingas UAB paid dividends of EUR 200 thousand to the Bank and Bank's subsidiaries held for sale (see Note 19 for details) paid dividends of EUR 256 thousand to the Bank.

NOTE 30
RELATED-PARTY TRANSACTIONS

Related parties with the Bank are classified as follows:

a) members of the Bank's Supervisory Council and Board (which also are the main decision makers of the Group), their close family members and companies that are controlled, jointly controlled over by these related parties.;
b) subsidiaries of the Bank, includes Apželdinimas UAB, Bonum Publicum GD UAB, Minera UAB, Pavasaris UAB, Sandworks UAB, SB Lizingas UAB, SBTF UAB, Šiaulių Banko Investicijų Valdymas UAB, Šiaulių Banko Lizingas UAB, Šiaulių Banko Turto Fondas UAB, ŽSA5 UAB;
c) the shareholders holding over 20% of the Bank's share capital or being a part of a voting group acting in concert that holds over 20% of voting rights therefore presumed to have a significant influence over the Group.

The list of related parties was revised as the shareholders agreement (see Note 27) was terminated on 20 December 2018.

During 2018 and 2017, a certain number of banking transactions were entered into with related parties in the ordinary course of business. These transactions include settlements, loans, deposits and foreign currency transactions.

The year-end balances of loans (incl. off-balance sheet commitments) granted to and deposits accepted from the Bank's related parties, except for subsidiaries, and ranges of annual interest rates were as follows (data of the Bank):

	Deposits, at the year-end		*Range of annual interest rates, %*		*Loans, at the year-end*		*Range of annual interest rates, %*		*Off-balance sheet commitments, at the year-end*	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Members of the Council and the Board	3,176	2,036	0.00-0.50	0.00-0.50	192	82	0.49-17.00	0.47-17.00	51	51
Other related parties (excluding subsidiaries of the Bank)	2,346	19,667	0.00	0.00-0.40	21,225	52,818	1.25-3.87	1.23-3.87	8	517
Total	**5,522**	**21,703**	**-**	**-**	**21,417**	**52,900**	**-**	**-**	**59**	**568**
% of regulatory capital	2.57%	11.87%	-	-	9.96%	28.93%	-	-	0.03%	0.31%

As at 31 December 2018, loans to related parties (except for subsidiaries) with gross amount of EUR 21,340 thousand (31 December 2017: EUR 50,742 thousand) had collaterals.

As at 31 December 2017, the Group and the Bank held debt securities of one entity attributable to related parties. Debt securities attributable to related parties exposure amounted to EUR 234 thousand for the Group and the Bank, interest rate was 3.50%. As at 31 December 2018, the Group and the Bank did not possess debt securities of entities attributable to related parties.

At 31 December 2018 and 2017, Bank's subsidiaries had no material transactions with the related parties except for the Bank and its subsidiaries.

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 30
RELATED-PARTY TRANSACTIONS (continued)

As at 31 December 2018, balance of allowances for impairment losses that are related to balances of loans to related parties, except for subsidiaries, was equal to EUR 32 thousand. Adoption of IFRS9 resulted in recognition of impairment EUR 90 thousand that is related to balances of loans to related parties at 1 January 2018, an impairment of EUR 24 thousand was reversed through profit or loss in 2018, and an impairment of EUR 34 thousand was reclassified as the borrowers status change to unrelated party. As at 31 December 2017, balance of allowances for impairment losses that are related to balances of loans to related parties, except for subsidiaries, was equal to nil. No impairment losses were incurred due to loans mentioned above in 2017.

Transactions with EBRD:

The Group/Bank had a subordinated loan received from the European Bank for Reconstruction and Development (hereinafter – EBRD), book value of which was EUR 34,203 thousand as of 31 December 2017. In 2018, the loan was repaid by converting it to Bank's shares (see Note 27 for details on the conversion). The agreement for the loan was signed at the end of February 2013. Loan amount was EUR 20 million, term – 10 years. Loan agreement provided a conversion option to EBRD, under which EBRD had a right to convert a part of or the whole loan to ordinary shares of the Bank at a price, which at certain scenarios could be more favourable than the market price (but in any case, not less than the nominal value of the share). Because of this option, which is an embedded derivative, the Bank chose to account for the whole instrument as a financial liability at fair value through profit or loss. The fair value of liability is determined using valuation technique attributable to level 3 fair value measurement. For more details on valuation see section 4.2. of Financial Risk Management disclosure.

Subordinated loan related interest expenses amounted to EUR 860 thousand, a gain of EUR 9,043 thousand related to revaluation of the liability to fair value was recorded in profit (loss) statement in 2018 (2017: interest expenses EUR 992 thousand, revaluation loss EUR 12,139 thousand).

Transactions with subsidiaries:

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

	Deposits, at the year-end		*Range of annual interest rates, %*		*Loans, at the year-end*		*Range of annual interest rates, %*		*Off-balance sheet commitments, at the year-end*	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Non-financial institutions	2,043	434	0.00	0.00	10,426	26,027	2.3	2.3	3,461	6,143
Financial institutions	1,128	2,497	0.00-1.90	0.00-1.90	58,092	39,738	2.3-5.0	5.0	16,815	9,429

No collateral is obtained on loans to subsidiaries.

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

	2018	2017
Assets		
Loans	68,518	65,765
Other assets	19	21
Bank's investment in subsidiaries	24,659	26,895
Liabilities		
Term deposits	1,078	1,074
Demand deposits	2,093	1,857

Income and expenses arising from transactions with subsidiaries:

	2018	2017
Income		
Interest	2,865	2,988
Commission income	222	242
Income from foreign exchange operations	4	9
Dividends	4,619	7,672
Other income	39	161
Expenses		
Interest	(14)	(7)
Operating expenses	(30)	(91)
Impairment of loans	(7)	(31)
Impairment of an investment to subsidiaries	(2,234)	(1,261)

As at 31 December 2018 balance of allowances for impairment losses that are related to balances of loans to subsidiaries was EUR 49 thousand (as at 31 December 2017: EUR 42 thousand).

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 30
RELATED-PARTY TRANSACTIONS (continued)

Remuneration of the management of the Group/Bank

During 2018 the total amount of salaries and bonuses (total of payments in cash and in shares of the Bank), including social security contributions and guarantee fund payments, to the Bank's Board members amounted to EUR 2,280 thousand (2017: EUR 1,931 thousand). Liabilities related to long term benefits related to remuneration are presented in the table below:

	2018	2017
Short-term (up to 1 year)	588	455
Long-term (over 1 year)	575	569
Total	1,163	1,024

	Payment in cash due in:				*Payment in shares due in:*				*Total*
	up to 1 year	1 to 2 years	2 to 3 years	Total	up to 1 year	1 to 2 years	2 to 3 years	Total	
31 December 2018:									
for year 2015 salaries and bonuses	40	-	-	40	144	-	-	144	184
for year 2016 salaries and bonuses	68	68	-	136	165	164	-	329	465
for year 2017 salaries and bonuses	68	68	68	204	103	104	103	310	514
Total liability at 31 December 2018	**176**	**136**	**68**	**380**	**412**	**268**	**103**	**783**	**1,163**
31 December 2017:									
for year 2014 salaries and bonuses	24	-	-	24	66	-	-	66	90
for year 2015 salaries and bonuses	40	40	-	80	120	120	-	240	320
for year 2016 salaries and bonuses	68	68	68	204	137	137	136	410	614
Total liability at 31 December 2017	**132**	**108**	**68**	**308**	**323**	**257**	**136**	**716**	**1,024**

Note: liability amounts at 31 December 2017 were changed due to correction of error in previous financial statements. Previously reported total liability to Bank's Board members amount of EUR 1,653 thousand included liabilities to other staff.

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 31
FINANCIAL GROUP INFORMATION

According to local legislation the Bank is required to disclose certain information for the Financial group. As of 31 December 2018 and 31 December 2017 the Bank owned the following directly controlled subsidiaries included in the prudential scope of consolidation (the Bank and four subsidiaries comprised the Financial group, all of the entities attributable to Financial Group operate in Lithuania):

1. Šiaulių Banko Lizingas UAB (finance and operating lease activities),
2. Šiaulių Banko Investicijų Valdymas UAB (investment management activities),
3. Šiaulių Banko Turto Fondas UAB (real estate management activities),
4. SB Lizingas UAB (consumer financing activities).

In the Financial Group financial statements, the subsidiaries of the Bank that are not included in the Financial Group are not consolidated in full as would be required by IFRS 10 but presented on the consolidated balance sheet of the Financial Group as investments in subsidiaries at cost less impairment, in the same way as presented on the balance sheet of the Bank. This presentation is consistent with the regulatory reporting made by the Bank according to the Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (CRR).

STATEMENT OF FINANCIAL POSITION

	31 December 2018		*31 December 2017*	
	Fin. Group	Bank	Fin. Group	Bank
ASSETS				
Cash and cash equivalents	87,990	87,732	127,193	126,591
Securities in the trading book	27,896	27,896	18,284	18,284
Due from other banks	2,090	2,090	2,218	2,218
Derivative financial instruments	1,197	1,197	3,031	3,031
Loans to customers	1,272,183	1,264,741	1,112,395	1,102,927
Finance lease receivables	124,088	123,969	91,139	90,898
Investment securities at fair value	20,810	16,507	15,793	11,542
Investment securities at amortized cost	638,655	638,655	576,260	576,260
Investments in subsidiaries	11,165	24,659	13,006	26,895
Intangible assets	1,996	1,975	1,740	1,684
Property, plant and equipment	8,333	8,018	10,333	10,068
Investment property	5,301	2,277	7,245	3,771
Current income tax prepayment	1,435	1,435	-	-
Deferred income tax asset	967	573	505	218
Inventories	5,256	-	5,574	-
Other financial assets	12,815	12,708	9,640	9,616
Other non-financial assets	8,258	7,306	6,670	5,963
Total assets	2,230,435	2,221,738	2,001,026	1,989,966
LIABILITIES				
Due to other banks and financial institutions	70,195	71,320	56,763	57,884
Derivative financial instruments	1,048	1,048	1,894	1,894
Due to customers	1,846,788	1,846,790	1,648,810	1,648,817
Special and lending funds	3,192	3,192	13,336	13,336
Debt securities in issue	20,003	20,003	20,003	20,003
Subordinated loan	-	-	34,203	34,203
Current income tax liabilities	97	-	3,542	3,440
Deferred income tax liabilities	575	-	466	-
Other financial liabilities				
Other non-financial liabilities	16,308	10,275	14,037	8,430
Total liabilities	1,958,206	1,952,628	1,793,054	1,788,007
EQUITY				
Capital and reserves attributable to owners of the Bank				
Share capital	174,211	174,211	131,366	131,366
Share premium	3,428	3,428	-	-
Reserve capital	756	756	756	756
Statutory reserve	10,241	10,195	7,071	7,071
Financial instruments revaluation reserve	(492)	(492)	401	290
Retained earnings	84,085	81,012	68,378	62,476
Total equity	272,229	269,110	207,972	201,959
Total liabilities and equity	2,230,435	2,221,738	2,001,026	1,989,966

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 31
FINANCIAL GROUP INFORMATION (continued)

INCOME STATEMENT

	2018		2017	
	Fin. Group	Bank	Fin. Group	Bank
Interest revenue calculated using the effective interest method	64,913	57,798	62,411	54,486
Other similar income	6,026	5,943	4,625	3,650
Interest expense and similar charges	(8,443)	(8,443)	(9,915)	(9,915)
Net interest income	**62,496**	**55,298**	**57,121**	**48,221**
Fee and commission income	19,659	19,109	15,885	15,294
Fee and commission expense	(5,319)	(5,196)	(4,778)	(4,660)
Net fee and commission income	**14,340**	**13,913**	**11,107**	**10,634**
Net gain from operations with securities	2,540	2,448	1,687	1,556
Net gain from foreign exchange and related derivatives	6,762	6,762	5,514	5,514
Net gain (loss) from other derivatives	4	4	(2,885)	(2,589)
Net gain (loss) from changes in fair value of subordinated loan	9,043	9,043	(12,139)	(12,139)
Net gain from derecognition of financial assets	582	582	3,178	3,070
Net gain from disposal of tangible assets	671	273	1,770	37
Other operating income	921	510	882	380
Salaries and related expenses	(19,953)	(17,935)	(18,884)	(16,727)
Depreciation and amortization expenses	(1,860)	(1,672)	(1,753)	(1,510)
Other operating expenses	(11,271)	(9,117)	(9,465)	(7,574)
Operating profit before impairment losses	**64,275**	**60,109**	**36,133**	**28,873**
(Allowance) / reversal of allowance for impairment losses on loans and finance lease receivables	(2,967)	(3,129)	2,406	2,018
(Allowance) / reversal of allowance for impairment losses on other assets	(2,176)	(1,556)	117	25
Allowance for impairment losses on investments in subsidiaries	(2,325)	(2,234)	(3,321)	(1,261)
Dividends from investments in subsidiaries and subsidiaries classified as held for sale	619	4,619	4,181	7,681
Profit from before income tax	**57,426**	**57,809**	**39,516**	**37,336**
Income tax expense	(5,328)	(4,744)	(7,458)	(6,446)
Net profit for the year	**52,098**	**53,065**	**32,058**	**30,890**
Net profit attributable to:				
Owners of the Bank	52,098	53,065	32,058	30,890
Non-controlling interest	-	-	-	-
	52,098	53,065	32,058	30,890

STATEMENT OF COMPREHENSIVE INCOME

	2018		2017	
	Fin. Group	Bank	Fin. Group	Bank
Profit for the year	**52,098**	**53,065**	**32,058**	**30,890**
Other comprehensive income (loss):				
Items that may be subsequently reclassified to profit or loss:				
Financial assets valuation gains taken to equity	(486)	(486)	690	469
Financial assets valuation result transferred to profit or loss	(74)	(74)	(540)	(409)
Amortisation of revaluation related to held-to-maturity investments	N/A	N/A	(45)	(45)
Deferred income tax on gain (loss) from revaluation of financial assets	84	84	(15)	(2)
Items that may not be subsequently reclassified to profit or loss:				
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	352	352	N/A	N/A
Other comprehensive income (loss), net of deferred tax	**(124)**	**(124)**	**90**	**13**
Total comprehensive income	**51,974**	**52,941**	**32,148**	**30,903**
Total comprehensive income (loss) attributable to:				
Owners of the Bank	51,974	52,941	32,148	30,903
Non-controlling interest	-	-	-	-
	51,974	52,941	32,148	30,903

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 31
FINANCIAL GROUP INFORMATION (continued)

STATEMENT OF CASH FLOWS

	Year ended			
	31 December 2018		31 December 2017	
	Fin. Group	Bank	Fin. Group	Bank
Operating activities				
Interest received on loans and advances	59,681	52,483	55,705	48,309
Interest received on debt securities in the trading book	894	894	901	901
Interest paid	(8,062)	(8,062)	(9,641)	(9,641)
Fees and commissions received	19,659	19,109	15,885	15,294
Fees and commissions paid	(5,319)	(5,196)	(4,778)	(4,660)
Net cash inflows from trade in securities in the trading book	(8,927)	(11,253)	7,239	7,365
Net inflows from foreign exchange operations	5,468	5,468	9,837	9,837
Net inflows from derecognition of financial assets	582	582	2,026	1,918
Net inflows from disposal of tangible assets	671	273	7,064	362
Cash inflows related to other activities of Group companies	921	510	882	380
Recoveries on loans previously written off	1,582	662	1,245	555
Salaries and related payments to and on behalf of employees	(19,290)	(17,272)	(18,667)	(16,488)
Payments related to operating and other expenses	(11,975)	(9,145)	(9,410)	(7,506)
Income tax (paid)	(10,480)	(9,893)	(8,345)	(7,901)
Net cash flow from operating activities before change in operating assets and liabilities	**25,405**	**19,160**	**49,943**	**38,725**
Change in operating assets and liabilities:				
Decrease in due from other banks	128	128	3,119	3,119
Increase in loans to customers and finance lease receivables	(203,874)	(200,829)	(148,171)	(140,816)
Increase in other assets	(6,960)	(6,069)	(12,877)	(10,698)
Increase (decrease) in due to banks and financial institutions	13,212	13,216	(34,134)	(34,664)
Increase in due to customers	198,499	197,737	153,528	153,534
Decrease in special and lending funds	(10,144)	(10,144)	(14,990)	(14,990)
Increase in other liabilities	1,608	1,213	659	313
Change	**(7,531)**	**(4,748)**	**(52,866)**	**(44,202)**
Net cash flow from (used in) operating activities	**17,874**	**14,412**	**(2,923)**	**(5,477)**

Investing activities				
(Acquisition) of property, plant and equipment, investment property and intangible assets	(2,709)	(2,053)	(1,647)	(1,578)
Disposal of property, plant and equipment, investment property and intangible assets	2,028	1,126	789	398
(Acquisition) of investment securities at amortized cost	(133,985)	(133,985)	(149,508)	(149,508)
Proceeds from redemption of investment securities at amortized cost	70,184	70,184	85,897	85,897
Interest received on investment securities at amortized cost	13,900	13,900	13,177	13,177
Dividends received	647	4,647	3,940	7,425
(Acquisition) of investment securities at fair value	(7,460)	(7,408)	(14,841)	(6,306)
Sale or redemption of investment securities at fair value	2,459	2,459	18,359	12,592
Interest received on investment securities at fair value	251	251	481	465
Disposal of subsidiaries, inflows from subsidiaries held for sale	-	-	3,479	256
Instalments to cover losses and to strengthen the capital of subsidiaries	-	-	(1,000)	(1,000)
Net cash flow used in investing activities	**(54,685)**	**(50,879)**	**(40,874)**	**(38,182)**

Financing activities				
Payment of dividends	(2,272)	(2,272)	(1,864)	(1,864)
Issue and interest on debt securities in issue	(120)	(120)	20,003	20,003
Net cash flow (used in) from financing activities	**(2,392)**	**(2,392)**	**18,139**	**18,139**

Net increase (decrease) in cash and cash equivalents	(39,203)	(38,859)	(25,658)	(25,520)
Cash and cash equivalents at 1 January	127,193	126,591	152,851	152,111
Cash and cash equivalents at 31 December	87,990	87,732	127,193	126,591

(All amounts are in EUR thousand, unless otherwise stated)

NOTE 31
FINANCIAL GROUP INFORMATION (continued)

FINANCIAL GROUP'S STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserve capital	Financial instruments revaluation reserve	Statutory reserve	Retained earnings	Total
1 January 2017	109,472	-	756	311	4,157	63,015	177,711
Transfer to statutory reserve	-				2,914	(2,914)	-
Increase in share capital through bonus issue of shares	21,894	-	-	-	-	(21,894)	-
Payment of dividends	-	-	-	-	-	(1,887)	(1,887)
Total comprehensive income:	-	-	-	90	-	32,058	32,148
Net profit	-	-	-	-	-	*32,058*	*32,058*
Other comprehensive income	-	-	-	*90*	-	-	*90*
31 December 2017	131,366	-	756	401	7,071	68,378	207,972
Impact of change in accounting principles	-	-	-	(769)	-	(8,288)	(9,057)
1 January 2018	131,366	-	756	(368)	7,071	60,090	198,915
Transfer to statutory reserve	-	-	-	-	3,170	(3,170)	-
Reversal of deferred income tax previously recognized directly in equity	-	-	-	-	-	(1,127)	(1,127)
Conversion of subordinated loan to share capital	16,572	3,428	-	-	-	4,732	24,732
Payment of dividends	-	-	-	-	-	(2,265)	(2,265)
Increase in share capital through bonus issue of shares	26,273	-	-	-	-	(26,273)	-
Total comprehensive income:	-	-	-	(124)	-	52,098	51,974
Net profit	-	-	-	-	-	*52,098*	*52,098*
Other comprehensive income	-	-	-	*(124)*	-	-	*(124)*
31 December 2018	174,211	3,428	756	(492)	10,241	84,085	272,229

CAPITAL RATIOS AND COMPLIANCE WITH PRUDENTIAL REQUIREMENTS

	31 December 2018		*31 December 2017*	
	Fin. Group	Bank	Fin. Group	Bank
Tier 1 capital	219,617	214,977	166,168	162,766
Tier 2 capital	-	-	20,080	20,058
Own funds	219,617	214,977	186,248	182,824
Total risk exposure amount	1,453,905	1,450,395	1,199,097	1,193,229
CET1 Capital ratio	15.11%	14.82%	13.86%	13.64%
T1 Capital ratio	15.11%	14.82%	13.86%	13.64%
Total capital ratio	15.11%	14.82%	15.53%	15.32%

During the years ended 31 December 2018 and 31 December 2017, the Financial group and the Bank complied with prudential requirements.

The profit of the current year is not included in Tier 1 capital until it is audited by independent auditors. If the profit for the year 2018 was included in Owns funds of the Financial group and the Bank as of 31 December 2018, it would cause the Total capital ratio to increase to 18.08% and 17.80%, respectively.

CONSOLIDATED ANNUAL REPORT OF ŠIAULIŲ BANKAS AB FOR 2018

The consolidated report of Šiaulių Bankas AB (hereinafter — the Bank) covers the period 01 January 2018 to 31 December 2018.

The description of alternative performance indicators presented in the Bank's website is available at:

Home page › About bank › To Bank's Investors › Financial statements, ratios and prospectuses › Alternative performance measures.

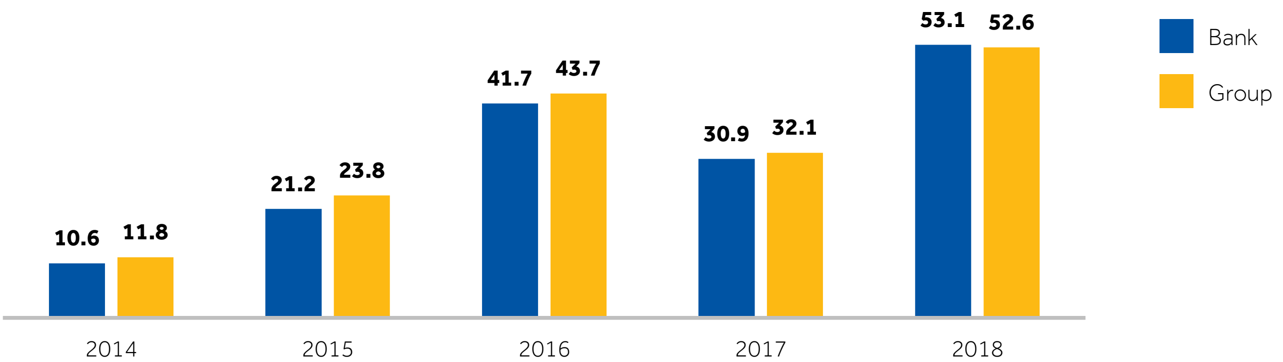
ANNUAL PERFORMACE RESULTS

The year of 2018 was marked with significant achievements - a record-high net profit, consistent growth of sustainable income, stable growth of loan and leasing portfolio. The results were improved by taking into account and responding promptly to customer needs and improving the quality of services - the ambitious goal set several years ago has been realized - according to an independent mystery shopper research Šiaulių Bankas took a leading position and the title of the best customer service bank in Lithuania.

In recent years, the change in the value of the EBRD's subordinated loan has had a significant impact on the bank's results, however, the results of the fourth quarter 2018 had been adjusted for the last time. At the end of 2018, the long-awaited process of the EBRD's subordinated loan conversion that used to cause uncertainty for some time was completed. The enhanced capital creates conditions for the Bank to continue expanding its activities and increasing its shares' attractiveness for investors.

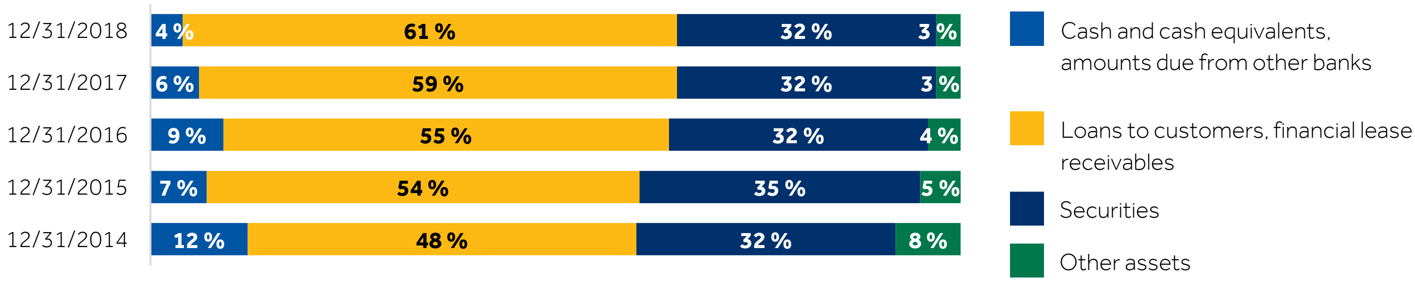
In 2018, the Group had an net profit of 52.6 million euros, or 64 per cent more than in the same period of 2017 when net profit was 32.1 million euros. The net profit of the Bank generated over Q4 reached 14.1 million euros. Results of recurring activities grew by 14 per cent over the year.

Net Profit earned by the Bank and Group, in million euros



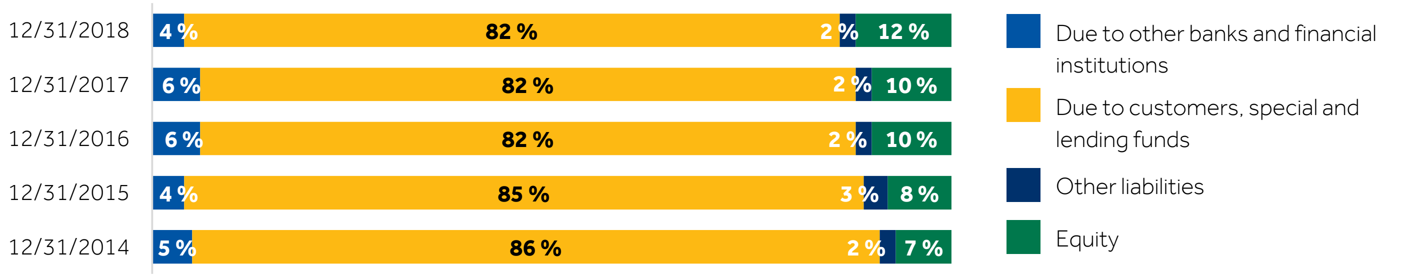
Economic growth in the country, growing consumption and low interest rate environment have ensured a steady growth of the loan portfolio. Over 700 million million euros of new loans were issued per year which is 8 per cent more than in 2017.

The Group's Asset Structure, in per cent



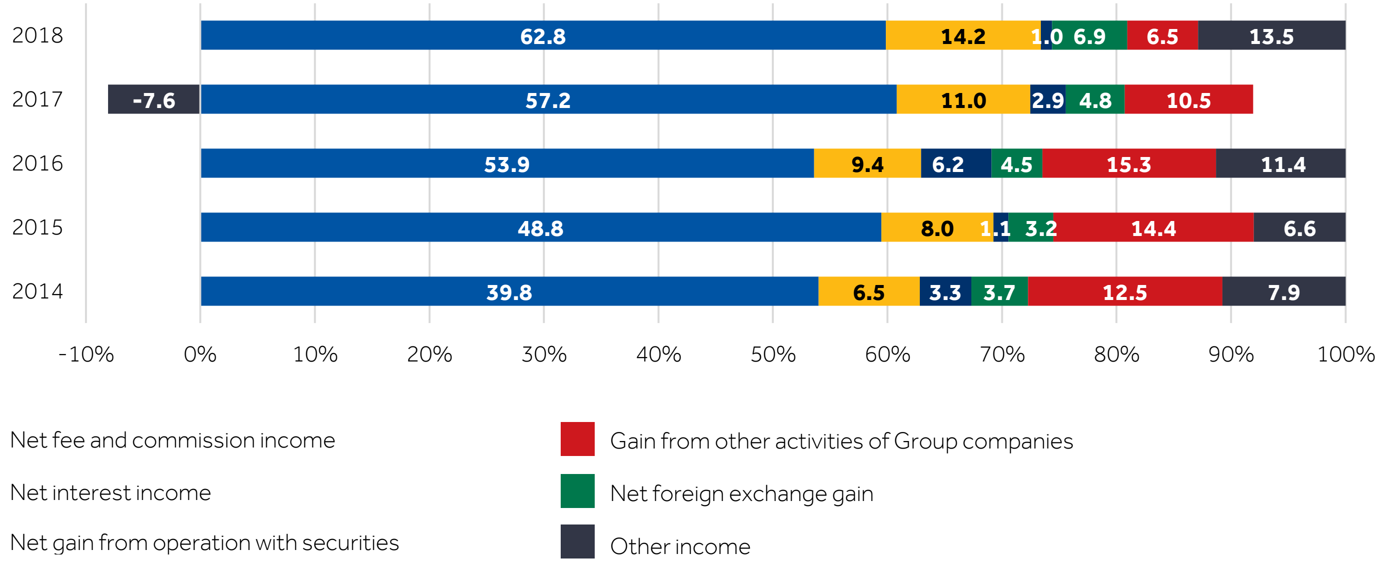
Deposits remain the main instrument for attracting the Bank's resources - deposit portfolio grew by 12 per cent over the year and at the end of 2018 exceeded 1.8 billion euros.

The Group's Liability Structure, in per cent.



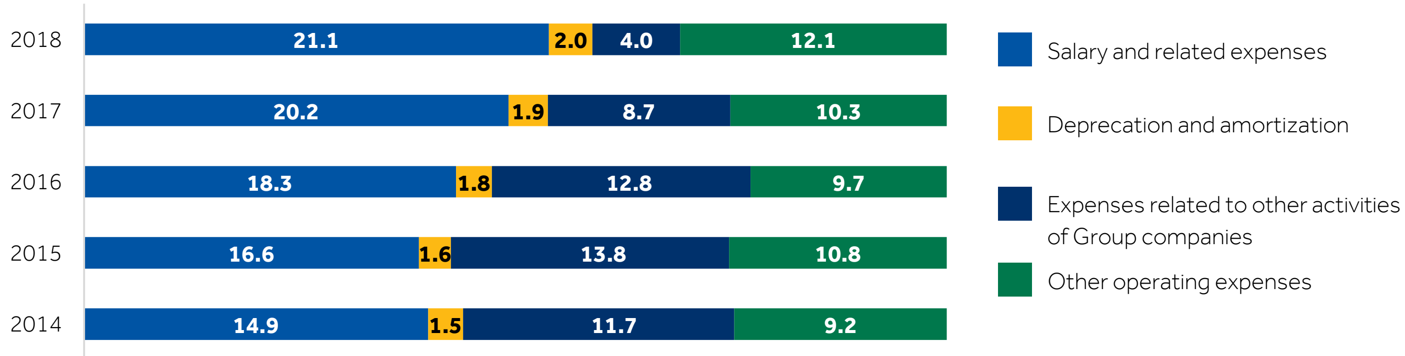
Net interest income increased by 10 per cent over the year up to 62.8 million euro in line with increasing lending volumes and low cost of resources. High activity of clients using the services of the Bank resulted in the net service and commission fee growth - this type of income grew by 30 per cent over the year and reached 14.2 million euros at the end of the year. In 2018, profit from foreign exchange operations also increased significantly - the Group earned 6.9 million euros per year, which by 44 per cent exceeded the result achieved during the respective period last year.

Structure of the Group's Operating Income (m Eur)

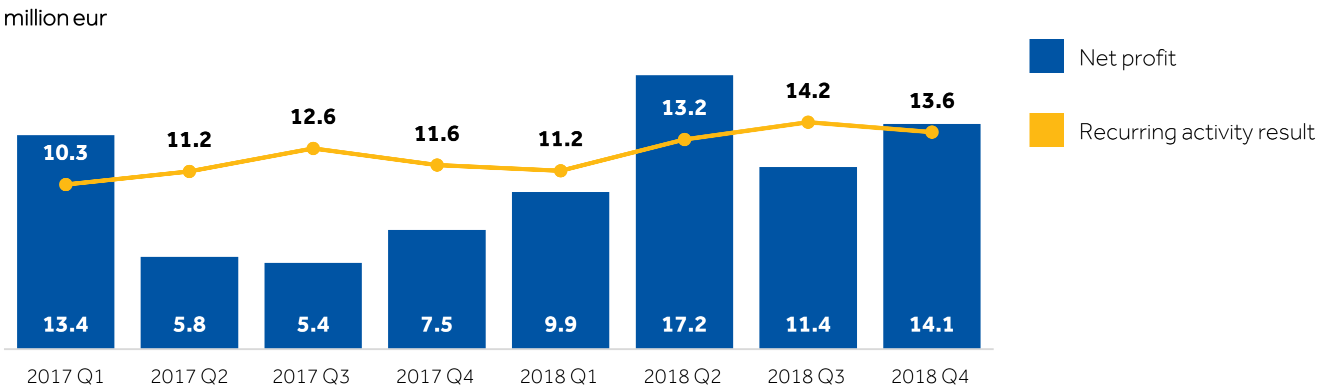


Despite growing needs of the Group the growth of operating costs has been managed. Over the year, salary costs, which account for the largest share of expenditure, grew by 4 per cent. In order to ensure the continuous development of information technologies, IT-related costs have increased by 16 per cent over the year.

Structure of the Group's Operating Expenses (m EUR)



Conservatively assessing assets in 2018, impairment losses on loans and other assets accounted for 7.7 million euros, 2.9 million euros of such losses were recognized as loans.The non-financial assets losses of 1.4 million euros incurred over the fourth quarter consisted of partial write-off of Bonum Publicum UAB goodwill arising from acquisition of the company in 2013 based on transfer of assets, rights, transactions and liabilities of Ūkio Bankas.



Non-recurring income means an indicator used by the Bank for the purpose of analysing the proportion of revenue arising from one-off transactions or transactions that are not typical to the Group's activities. The breakdown of operating profit before impairment into recurring and non-recurring income/expenses is provided below (in thousand EUR):

	2018		2017	
	Group		Group	
	Recurring	Non-recurring	Recurring	Non-recurring
Net interest income	62.826	-	55.945	1.212
Net service fee and commission income	14.199	-	10.952	-
Net profit from transactions in foreign currency	-1.437	2.399	2.530	393
Net gain form foreign exchange and related embedded derivatives	6.931	-	4.829	-
Net loss from other embedded derivatives	-	4	-	-2.885
Net loss from changes in fair value of subordinated loan	-	9.043	-	-12.139
Net gain from derecognition of financial assets	-	582	-	3.178
Net gain from disposal of tangible assets	-	2.449	-	2.897
Revenue related to other activities of Group companies	6.516	-	10.539	-
Other operating income	1.375	-	1.366	-
Salaries and related expenses	-21.085	-	-20.192	-
Depreciation and amortization expenses	-1.982	-	-1.863	-
Expenses related to other activities of Group companies	-3.976	-	-8.686	-
Other expenses	-11.123	-977	-9.759	-534
Operating profit before impairment losses	52.244	13.500	45.661	-7.878

According to the assessment of International rating agency Moody's Investors Service the following ratings apply to the Bank:

- long-term deposit rating - Baa3;
- short-term deposit rating - P-3;
- rating outlook - Positive.

As of 31 December 2018 the customer service network of the Bank consisted of 62 units operating in 37 areas throughout Lithuania.

RISK MANAGEMENT, COMPLIANCE WITH PRUDENTIAL REQUIREMENTS

A complete disclosure of all significant risks incurred by the Group is provided in Financial Risk Management section of the explanatory notes to the 2018 annual financial statements.

With the Bank's income growing quicker than expenses the high efficiency of the performance is being maintained - the cost to income ratio of the Group comprised 37 per cent at the end of the year. Information on the profitability ratios is available on the website of Šiaulių Bankas at *About bank –> To Bank's Investors –> Financial statements, ratios and prospectuses.*

The capital and liquidity situation remains solid as prudential requirements are being met with a proper cushion According to the data as of 31 December 2018 the Bank complied with all the prudential requirements set by the Bank of Lithuania. Information is available on the website of Šiaulių Bankas at: *About bank –> To Bank's Investors –> Financial statements, ratios and prospectuses*.

ACTIVITY PLANS AND FUTURE OUTLOOK

Strategic action plan 2019-2021 was approved by the Supervisory Council on 21-02-2019. Strategic goals have been formulated that include the aim to increase the market share of the company by performing its activities efficiently, qualitatively and responding to the needs of its clients:

Return on equity (ROE)	>15%
Capital adequacy ratio	>15%
Cost / Income (recurring activities)	<45%
Market share in Business financing	10-12%
Market share in Consumer financing	9-11%
Client satisfaction (NPS)	>63

INFORMATION ABOUT RESEARCH AND DEVELOPMENT ACTIVITIES

The Bank is constantly investing and looking for ways to ensure development and better efficiency of its performance.

AUTHORIZED CAPITAL AND SHAREHOLDERS OF THE BANK

In its activities the Bank follows the laws and other legal acts of the Republic of Lithuania, the Charter of the Bank and agreements concluded, the Bank is engaged in usual activity of commercial banks.

The Bank's authorized capital was increased twice in 2018.

The ordinary General meeting of shareholders held on 29 March 2018 passed a resolution to increase the authorized capital of the Bank by EUR 26 273 197.86 from unallocated profit issuing 90 597 234 ordinary registered shares with EUR 0.29 nominal value and to distribute them to the shareholders who owned the Bank's shares at the end of the day of accounting of rights - i.e. on 13 April 2018.The amendments of the Charter related to the capital increase were registered the Register of Legal Entities on 01 June 2018. Personal securities accounts of the shareholders who owned shares on the above mentioned day of accounting of rights were credited with 20% of new shares.

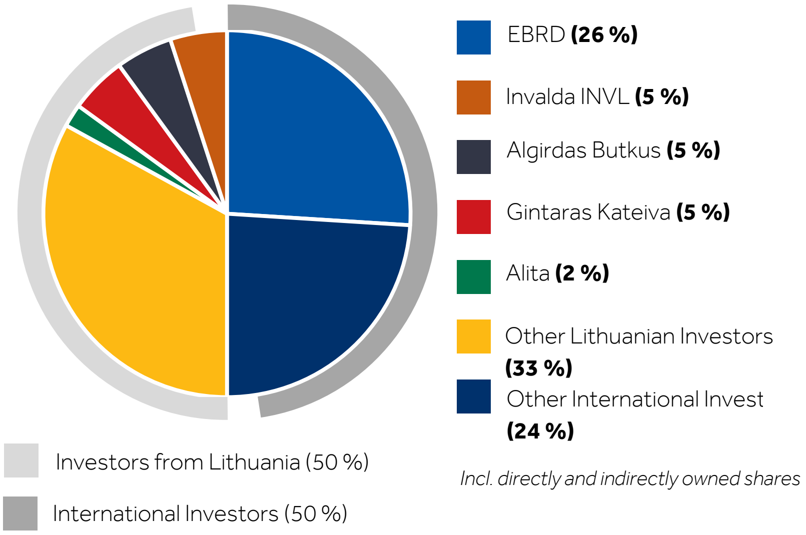
On 24 September 2018 the Extraordinary General Meeting of Shareholders passed the resolution to increase the authorized capital of the Bank by additional contributions of 16 571 428.53 EUR by issuing 57 142 857 ordinary registered shares of 0,29 EUR nominal value at a price of 0,35 EUR. In order to implement the loan conversion right of the European Bank for Reconstruction and Development (EBRD) under the subordinated convertible loan agreement signed by the Bank and EBRD on 23 February 2013 by converting the EBRD loan to the Bank's shares, the Meeting cancelled the pre-emptive right of all the Bank's shareholders to acquire new shares in proportion to the total nominal value of the shares owned by them . All newly issued shares were acquired and subscribed by the EBRD. The amendments of the Charter related to the capital increase were registered the Register of Legal Entities on 13 December 2018, the new shares were provided to the EBRD on 20 December 2018 recording then into EBRD's securities account with the account manager.

As of 31 December 2018, the authorized capital of the Bank totalled to EUR 174,210,616.27 and is comprised of 600 726 263 units of ordinary registered shares (ISIN LT0000102253) with a nominal value of EUR 0.29 each.

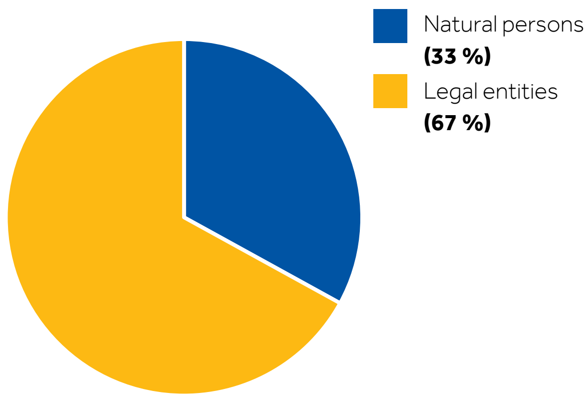
Authorized capital changes:

	01/01/2015	*26/05/2015*	*14/09/2015*	*26/05/2016*	*06/06/2017*	*01/06/2018*	*13/12/2018*
Capital, EUR	78 300 000	85 033 800	91 226 381.99	109 471 658.33	131 365 989.88	157 639 187.74	174 210 616.27

As of 31 December 2018 the number of the Bank's shareholders amounted to 4 992 (at the end of 2017 – 4 496). All issued shares grant the shareholders equal rights foreseen by the Law on Companies of the Republic of Lithuania and the Charter of the Bank.



Incl. directly and indirectly owned shares



The Bank's shareholders owning more than 5 per cent of the Bank's shares as of 31 December 2018 are as follows:

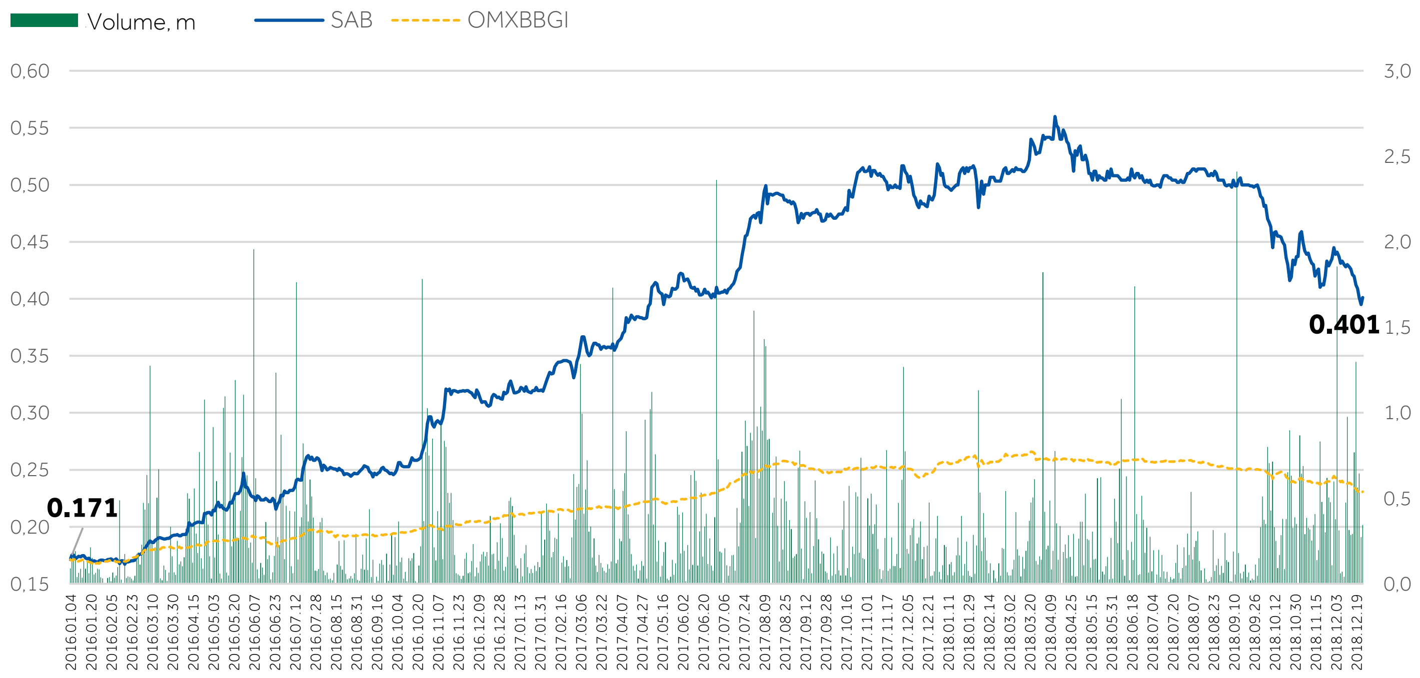
	Number of shares under the right of ownership, units	*Share of authorized capital under the right of ownership, %*	*Share of votes under the right of ownership, %*	*Share of votes together with the related persons, %*
European Bank for Reconstruction and Development	156 308 983	26.02	26.02	-
Invalda INVL AB	32 949 246	5.48	5.48	-
Gintaras Kateiva	31 628 103	5.26	5.26	14.32

Swedbank AS (Estonia) clients owned 9.34 per cent of the Bank's authorized capital and votes as of 31 December 2018, however none of them separately held a share of 5 per cent.

The Bank's top managers whose votes are calculated together in compliance with the law of Securities of the Republic of Lithuania form a group that owned 14.32 per cent of the Bank's authorized capital and votes as of 31 December 2018.

There no restrictions set to transfer of the securities except shares assigned to the Bank's employees in accordance with the Remuneration Policy. These shares are subject to 12 month transfer restriction counting from their assignment day.

Bank's share price and turnover:



Share information:

	2014	2015	2016	2017	2018
Capitalization, EUR mln	71.8	93.7	169.5	266.8	240.9
Turnover, EUR mln	8.1	12.7	23.1	44.5	34.7
P/BV	0.7	0.7	1.0	1.3	0.9
P/E	6.1	3.9	3.9	8.3	4.6
Capital increase from retained earnings, %	8.6	20.0	20.0	20.0	-

The description of alternative performance indicators presented in the Bank's website is available at: Home page › About bank › To Bank's Investors › Financial statements, ratios and prospectuses › Alternative performance measures.

The Bank' shares are traded on Nasdaq Baltic market; they are included into the Main List of this market. As one of the most actively traded Baltic market shares, the Bank's shares are included in the Nasdaq indexes:

- *OMX Baltic Benchmark (OMXBB)* – the Baltic benchmark index consists of the largest and most traded stocks on the Nasdaq Baltic Market representing all sectors;
- *OMX Baltic 10 (OMXB10)* – is a tradable index of the Baltic states consisting of the 10 most actively traded stocks on the Baltic exchanges;
- *OMX Baltic (OMXB)* – is an all-share index consisting of all the shares listed on the Main and Secondary lists of the Baltic exchanges with exception of the shares of the companies where a single shareholder controls at least 90% of the outstanding shares;
- *OMX Vilnius (OMXV)* – is an all-share index which includes all the shares listed on the Main and Secondary lists on the Nasdaq Vilnius with exception of the shares of the companies where a single shareholder controls at least 90% of the outstanding shares;
- *OMX Baltic Financials* – an index of the Baltic financial institutions;
- *OMX Baltic Banks* – an index of the Baltic banks.

Besides, the Bank's shares are included into such indices as *STOXX All Europe Total Market, STOXX EU Enlarged TMI, STOXX Eastern Europe 300, STOXX Eastern Europe 300 Banks, STOXX Eastern Europe Mid 100, STOXX Eastern Europe TMI, STOXX Eastern Europe TMI Small, STOXX Global Total Market, STOXX Lithuania Total Market.*

Acquisition of own shares

The Bank and its subsidiary companies or persons acting at the instruction of the subsidiary companies do not hold any shares of the Bank. The Bank has not acquired its own shares and has not transferred them to others over the accounting period.

The shares to those employees who in compliance with the Bank's Remuneration Policy should receive the shares are purchased at the Nasdaq Vilnius stock exchange on behalf of the group by the joint order which is covered from the Bank's funds.

Dividends

In 2018, the Supervisory Council approved the dividend policy. The Bank,running its activities and planning the size of its capital, aims to provide shareholders with a competitive return on investment through dividends and increasing share value. The Bank will pay dividends on the basis of two assumptions - when external and internal capital and liquidity requirements are sustainably fulfilled and the level of capital after dividends remains sufficient to implement all approved investment and development plans and carry out other capital consuming activities. Taking into account the above-mentioned principles and assumptions, the Bank will aim to allocate at least 25 per cent of the group's earned annual profit for dividends.

Dividends paid by the Bank:

Dividend allocation and disbursement year	*2014*	*2015*	*2016*	*2017*	*2018*
Percent from the nominal value	0.00	0.25	0.69	1.72	1.72
Amount of dividends per share, EUR	0.00	0.000725	0.002	0.005	0.005
Amount of dividends, EUR	0.00	195 750	629 147	1 887 442	2 264 938
Dividend yield,%	-	0.3	0.7	1.1	0.8
Dividends to Group's net profit, %	0.00	1.66	2.64	4.32	7.05

The description of alternative performance indicators presented in the Bank's website is available at:
Home page › About bank › To Bank's Investors › Financial statements, ratios and prospectuses › Alternative performance measures.

Agrrements with inermediaries in public circulation of securities

No agreement have been concluded with the public trading intermediaries for the accounting of the securities issued by the Bank, this accounting is managed by the Bank's Securities Accounting Department. There are also no agreements on the market making of the securities issued by the Bank.

The Bank itself, as an intermediary for public trading, under the agreements with issuers had been managing accounting of 567 securities issues as of 31 December 2018 (including shares of public and private limited liability companies, debt securities, investment funds units). The Bank also carries out market making in the Nasdaq Baltics market and, according to information of the end of 2018, it was market marker of 9 securities issues (5 issues - under the market making programme, 4 issues - under the agreements with the issuers).

Information on malicious transactions

No malicious transactions not meeting the objectives of the Bank, normal market conditions, breaching the shareholders' or other group's interests which have had or will likely have a negative impact on the Bank's performance or activity results have been entered during the reporting period. Moreover, there were no transactions entered in terms of conflict of interest among the senior managers of the Bank, controlling shareholders or other related parties' positions to the Bank and their private interests and (or) positions.

BANK'S MANAGEMENT

The management bodies of the Bank are as follows: the General Meeting of the Shareholders of the Bank, Council of the Bank, Board of the Bank and Chief Executive Officer (Head of the Bank).

General Meeting of Shareholders takes place annually, within three months after the end of fiscal year. The shareholders, having no less than 1/10 of all the votes, as well as the Board and Council have an initiative right of convening the meeting. General Meeting of Shareholders is organized, voting is carried out and resolutions passed in compliance with the Law on Companies. More information on the rights exercised by the General meeting of shareholders ir provided in the annex "Governance report" to the consolidated annual report for 2018.

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 seven 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. 1 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. Upon receipt of a notice of resignation from the position of a member of the Supervisory Council on 05 May 2018 V. Vitkauskas ceased to serve as a member of the Council and committees. The Bank's Supervisory Council (elected on 30/03/2016, the term of office expires on 30-03-2020) currently consists of 6 members. More information on the functions of the Supervisory Council is provided in annex "Governance report" to the consolidated annual report for 2018.

Supervisory Council of the Bank

Arvydas Salda	Gintaras Kateiva	Ramunė Vilija Zabulienė	Darius Šulnis	Martynas Česnavičius	Miha Košak
					
Member since 1991, Chairman since 1999	Member since 2008	Independent Member since 2012	Member since 2016	Member since 2016	Member since 2017
Tenure beginning 30/03/2016/ end 2020	Tenure beginning 30/03/2016/ end 2020	Tenure beginning 30/03/2016/ end 2020	Tenure beginning 09/05/2016/ end 2020	Tenure beginning 09/05/2016/ end 2020	Tenure beginning 26/06/2017/ end 2020
Klaipėdos laisvosios ekonominės zonos valdymo bendrovė, UAB 110707092 Pramonės g. 8, Klaipėda (Member of the Board)	**Litagra, UAB** 304564478 Savanorių pr. 173, Vilnius (Chairman of the Board)	**Ars Domina, VšĮ** 302897128 P. Vileišio g. 9-41, Vilnius (Director)	**Invalda INVL, AB** 121304349 Gynėjų g. 14, Vilnius (President, Member of the Board); **INVL Asset Management, UAB** 126263073 Gynėjų g. 14, Vilnius (Chairman of the Board); **Litagra, UAB** 304564478 Savanorių pr. 173, Vilnius (Member of the Board); **Baltic Farmland, UAB** 303299781 Gynėjų g. 14, Vilnius (Member of the Board)	**PRO FINANCE, UAB** 110886161 Odminių g. 8, Vilnius (Director), **D Investicijų valdymas, UAB** 302937334 Odminių g. 8, Vilnius (Director, Member of the Board)	European Bank for Reconstruction and Development
Share of capital under the right of ownership, % (31/12/2018)					
2.06	5.26	-	-	-	-
Share of votes together with the related persons, % (31/12/2018)					
14.32	14.32	-	-	14.32	-

The Board of the Bank is a collegial Bank management body, consisting of seven members. It manages the Bank, handles its matters and answers under the laws for the execution of the Bank's financial services. Order of the Board's work is set by the Board work regulations. The Board of the Bank is elected by the Council for a term of 4 years. 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. Management Board of the Bank (elected on 30/03/2016; tenure ends on 30/03/2020): More information on the functions of the Supervisory Board is provided in annex "Governance report" to the consolidated annual report for 2018.

Board of the Bank

Algirdas Butkus	Vytautas Sinius	Donatas Savickas	Daiva Šorienė	Vita Urbonienė	Jonas Bartkus	Ilona Baranauskienė
						
Chairman since 1999 (Chairman of the bank's Supervisory Council 1991 - 1999) Deputy Chief Executive Officer	Deputy Chairman of the Board since 2014 (at the Board since 2011) Chief Executive Officer	Deputy Chairman of the Board of the Bank since 1995, Deputy Chief Executive Officer, Head of Finance and Risk Management Division.	Member since 2005 Deputy Chief Executive Officer, Head of Sales and Marketing Division	Member since 2011 Chief Financial Officer, Head of Accounting and Tax Division	Member since 2012 Head of IT Division	Member since 2014 Head of Legal and Administration Division
Tenure beginning 30/03/2016/ end 2020	Tenure beginning 30/03/2016/ end 2020	Tenure beginning 30/03/2016/ end 2020	Tenure beginning 30/03/2016/ end 2020	Tenure beginning 30/03/2016/ end 2020	Tenure beginning 30/03/2016/ end 2020	Tenure beginning 30/03/2016/ end 2020
Share of capital under the right of ownership, % (31/12/2018)						
2.80	0.17	0.11	0.01	0.08	0.11	0.03
Share of votes together with the related persons, % (31/12/2018)						
14.32	14.32	14.32	14.32	14.32	14.32	14.32

MEMBERS OF THE COMMITTEES FORMED WITHIN THE BANK, THE AREAS OF THEIR PERFORMANCE

The functions, procedures of formation and the policy of activities of the committees formed at the Bank are defined by the legal acts of the Republic of Lithuania, legal acts of the Bank of Lithuania as well as provisions of the certain committees approved by the Management Board or Supervisory Council of the Bank.

COMMITTEES SUBORDINATE TO THE BANK'S SUPERVISORY COUNCIL:

Information on the members of the committees as of 31 December 2018:

The Risk Committee shall advise the management bodies of the Bank on the overall current and future risk acceptable to the Bank and strategy and assist in overseeing the implementation of the strategy at the Bank, shall verify whether prices of liabilities and assets offered to clients take fully into account the Bank's business model and risk strategy and shall also shall carry out other functions provided for in its provisions.

	Name, surname
Chairman	Darius Šulnis
Members:	Miha Košak
	Arvydas Salda

The Audit Committee monitors and discusses the process of financial statement preparation, the efficiency of the Bank's internal control, risk management and internal audit systems, the processes of the audit and internal audit performance on regular basis and performs other functions foreseen by the legal acts of the supervisory authority and provisions of the Internal Audit Committee. Following the laws and legal act if the supervisory authority the composition, competences and arrangement of activities of the Audit Committee are defined by the provisions of the internal Audit Committee approved by the Bank's Supervisory Council.

	Name, surname
Chairman	Ramunė Vilija Zabulienė
Members:	Martynas Česnavičius
	Gintaras Kateiva

The Nomination Committee nominates and recommends, for the approval of the management bodies of the bank or for approval of the general meeting of shareholders, candidates to fill management body vacancies, evaluates the balance of skills, knowledge and experience of the management body of the Bank, submits comments and findings related to the matter, assesses the structure, size , composition, operating results , skills of its members, their experience and carries out other functions provided for in its provisions.

	Name, surname
Chairman	Ramunė Vilija Zabulienė
Members:	Darius Šulnis
	Miha Košak

The Remuneration Committee shall advise the management bodies of the Bank on the overall current and future risk acceptable to the Bank and strategy and assist in overseeing the implementation of the strategy at the Bank, shall verify whether prices of liabilities and assets offered to clients take fully into account the Bank's business model and risk strategy and shall also shall carry out other functions provided for in its provisions.

	Name, surname
Chairman	Gintaras Kateiva
Members:	Martynas Česnavičius
	Arvydas Salda

COMMITTEES SUBORDINATE TO THE BANK'S MANAGEMENT BOARD:

Information on the members of the committees as of 31 December 2018:

The Loan Committee analyses loan presentation documents, decides regarding granting of loans and amendment of their terms, suggests regarding improvement of loan administration procedures and performs other functions foreseen by its provisions.

	Name, surname	Position
Chairman	Vytautas Sinius	Chief Executive Officer
Members:	Edas Mirijauskas (Deputy)	Director of Credit Risk Department
	Giedrius Sarapinas	Deputy Director of Credit Risk Department
	Daiva Šorienė	Head of Sales and Marketing Division
	Donatas Savickas	Head of Finance and Risk Management Division
	Ramūnas Dešukas	Director Distressed Assets Department
	Mindaugas Rudys (a substitute member)	Head of Service Development Division

The Risk Management Committee performs the functions related to arrangement, coordination and control of the risk management system of the Bank, assessment and assurance of the risk level corresponding to the risk tolerance acceptable to the Bank as well as other functions provided in its regulations:

	Name, surname	Position
Chairman	Donatas Savickas	Head of Finance and Risk Management Division
Members:	Algimantas Gaulia (Deputy)	Director of Risk Management and Reporting Division
	Pranas Gedgaudas	Deputy Director of Markets and Treasury Department
	Edas Mirijauskas	Director of Credit Risk Department
	Jolanta Dūdaitė	Head of Risk Management Unit
	Morena Liachauskienė	Director of Operational Risk Department

ASSESSMENT OF INTERANAL CONTROL

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

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

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

Internal control pursues to ensure legitimacy, economy, efficiency, effectiveness and transparency of the Bank's activities, implementation of strategic and other activity plans, protection of assets, reliability and comprehensiveness of information and reports in line with the fulfilment of contractual and other obligations to third parties and management of risk factors related to the aforementioned activities.

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

The Bank Group's internal control system and assessment of the internal risk management is performed by the Bank's Internal Audit Division. This Division informs the Bank's Internal Audit Committee and the Bank's Board regarding the detected shortcoming and violations.

THE EXTERNAL AUDIT

In 2014 the Bank's audit was carried out by the audit company PricewaterhouseCoopers UAB (company's address: J. Jasinskio str 16B, 01112 Vilnius Tel. (8 5) 300 2392, Fax. (8 5) 301 2392, the company registered on 29/12/1993, No. UĮ 93-369, code 111473315).

This audit company was selected after the Bank's Board interviewed a number of international audit companies and discussed their offers. The selection of the audit company is based on the reputation risk, the price of service and other factors.

29 March 2018 the Bank's General Shareholders' Meeting passed a resolution to elect PricewaterhouseCoopers UAB to verify the Bank's annual financial statements and consolidated annual report for the year 2018 and 2019.

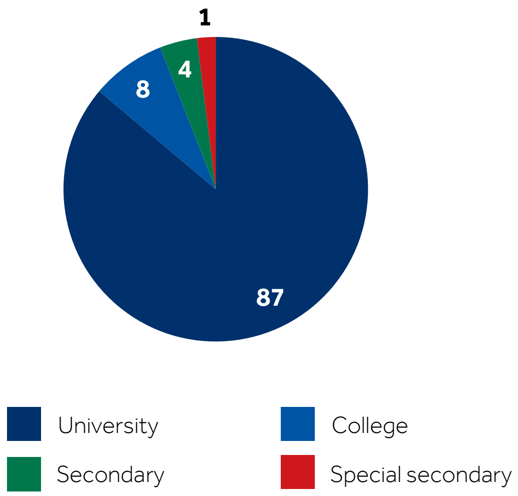
thousand EUR (exl. VAT costs)	*Group*		*The Bank*	
	2017	2018	2017	2018
Auditing of financial statements under agreement	88	86	56	51
Cost of assurance and other related services	-	-	-	-
Cost of tax advisory service	1	3	1	3
Cost of other services	18	7	17	7
Total	107	96	74	61

EMPLOYEES

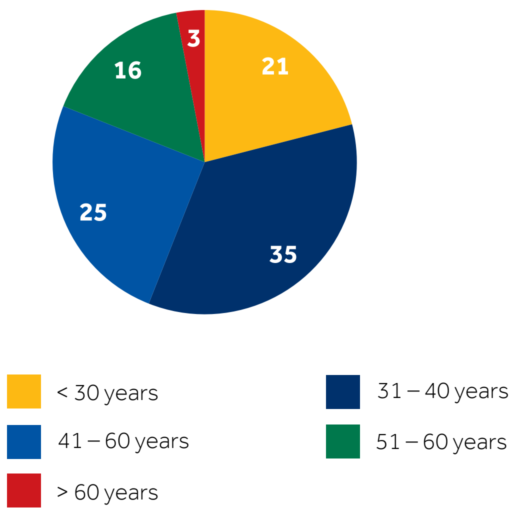
On 31 December 2018 **the Bank** employed 714 employees, **the Group** - 815. Comparing to 31 December 2017 the number of employees at the Bank increased by 1.7 per cent, whereas at the Group this number increased by 1.0 per cent.

As of 31 December 2018 **the Group** employed 80 per cent of women and 20 per cent of men.

Distribution of Group's employees by education,%



Distribution of the Group's employees by age, %



Average monthly salary of the Bank's employees before taxes:

	Leading employees		*Other employees*	
	Average number of employees	Average monthly salary, in EUR	Average number of employees	Average monthly salary, in EUR
2016	87	3.528	581	921
2017	87	4.274	577	972
2018	84	4.991	563	1.132

Average monthly salary of the employees in 2018 before taxes:

	Leading employees		*Other employees*	
	Average number of employees	Average monthly salary, in EUR	Average number of employees	Average monthly salary, in EUR
The Bank	84	4.991	563	1.132
Group	99	4.938	662	1.131

Personnel

The HR strategy focuses on achieving the Group's long-term goals in attracting and retaining efficient employees, educating and raising their level of expertise, motivating and engaging with the Group through formation of a high-performance culture.

Relations with the employees

The Bank fosters long-term relationships with its employees. As of 31 December 2018 the percentage of the employees who have been working at the Bank for more than 10 years comprised 33 per cent.

In 2018, the total staff turnover at the Bank was 13.2%. (14.5% in 2017).

For long-term work at the Bank employees are encouraged according to a special award programme.

Evaluation of activities

Once a year, the Bank conducts an annual discussion and assessment of its employees' performance. During these discussions, the heads discuss with their employees the results of the achievement of the annual goals, the implemented projects, the competencies distinguishing between the strengths and the areas to be developed, the specific educational tools and their career opportunities. The discussion encourages sharing mutual feedback , thus, strengthening open and value-based communication and collaboration. To ensure that each employee feels contributing through his work to and influencing the overall results of the Bank, and that the efforts of all employees are directed in the same direction, the annual goals that contribute to the overall performance of the Bank are elaborated during the discussion between the head and the employee.

Organizational structure

The Bank and the Group constantly strive to work effectively, flexibly respond to the changes and needs of the external environment, to implement the Bank's strategic directions, to ensure that the organizational structure meets business needs as much as possible, to ensure optimal organization of work, efficiency of processes and employee competence.

In 2018, in order to make the Bank's performance more efficient, the structural changes of the Bank's departments were implemented and the organizational management structure of the network units in the regions was updated.

Employee training

In 2018, two-day training for new employees, involving all new Bank employees, was continued on a quarterly basis. Education of leading managers to ensure sustainable progress and development of the organization was one of the priorities in 2018 . The Academy of Executives, which started a year ago, finished the course with training sessions on the role of the leading manager in team building. The Executive Club established as the continuing project of the Academy was launched in two cities. Leadership Supervision and Adaptive Leadership Sessions were organized to consolidate senior leadership.

In 2018 we continued our unique programme called "Financing Solutions Forum", organized by the Bank arranged for loan officers to enhance their functional and general competencies. More than 200 employees attended the final forum conference, where the spectrum of messages ranged from macro economic review, digitization to collaborative team work and self-motivation searches.

Project management training for specialists and leading managers was organized in order to achieve greater efficiency in work, more professional team work anagement and coordination.

Intensive, 13-sessions, internal trainers programme was held at the Bank during the summer, seeking that at all bank employees could use the MS Excel program more efficiently.

The head office employees also raised their competence by participating in external conferences and seminars.

Opportunities of internship

In 2018, the Bank has been further actively collaborating with the high schools by participating in career days, making presentations, initiating visits of students' groups to the Bank and providing opportunities for students to have the wide-ranging apprenticeship with the Bank.

In 2018, 63 student did their compulsory or voluntary apprenticeship in various Bank's units. The biggest number of interns gained work experience in the customers service points all around Lithuania.

Employees' motivation

For the implementation of the objectives set by the Bank, unit and fulfilment of individual professional goals the employees are fostered with bonuses on a quarterly basis, whereas on-off bonuses are paid for implementation of important projects. The employees whose professional performance may have a significant impact on the risks assumed by the Bank are fostered with annual deferred payment bonuses (for more see *24. Remuneration Policy*).

The Group's employees have possibility to save for their additional pension at exceptional terms when part of the payment is paid by the employee himself and another part by the employer. The long-term incentive "Let's Save Together" prepared cooperating with the Bank's subsidiary life insurance company *Bonum Publicum* attracted more than 27 per cent of the total employees.

At the initiative of the Bank in 2018, taking into account their uninterrupted length of service and position, additional vacation were granted to and accumulated by the employees.

Employees with 1-4 years (inclusive) work experience who study according to official and unofficial education programs can also benefit from the Bank's initiative which provides up to 5 working days paid leave for studies.

Other additional benefits that are not based on employee performance results and can be assigned to employees include following:

- possibility to participate in inter-bank and other tournaments of different sports;
- traditional summer event and other team building events,
- Employees are encouraged to receive one-off bonuses on the occasion of personal holidays and events of importance to the Bank;
- reimbursement of part of a sports club subscription;
- one-time bonuses / commemorative gifts: first marriage, anniversary (50, 60, etc.) for loyalty to the Bank;
- lump-sum benefits in the event of death of a member of the worker's family, a major disaster, a critical illness, etc .;
- 100% of the first 2 days of sick leave;
- free flu vaccination and other discounts offered by the Bank's partners.

REMUNERATION POLICY

Information is prepared and delivered in compliance with resolution No. 03-82 regarding the Minimum Requirements Guidelines for Remuneration Policy to Credit Institutions and Brokerage Firms Employees approved on 8 May 2015 , Charter of the Bank, resolutions of the Management Board and Supervisory Council of the Bank and other Bank's internal legislation.

Information related to the process of decision-making defining the remuneration policy and the number of meeting held by the main body supervising the remuneration during the financial year

The Bank's Financial Group follows the Remuneration Policy approved by the decision of the Bank's Supervisory Council on 29 October 2015 which has been in force since 1 January 2016. The services of external consultants were not used in the preparation of this Remuneration Policy.

The Remuneration Policy was reviewed in 2017 and 2018, however the current Remuneration Policy was not corrected.

The Remuneration Policy subject to the Bank's Supervisory Council' approval with consent of the Remuneration Committee,whereas the Bank's Management Board is responsible for the implementation of the policy.

The composition of the Remuneration Committee is approved by the Supervisory Council of the Bank, the list of members of the Committee and the functions provided in the chapter Committees formed at the Bank of the present report. In 2018, 3 (three) meetings of the Remuneration Committee took place.

Relation between remuneration and activity results

Variable remuneration is paid seeking to relate personal employees' activity purposes with long-term concerns of the Bank. A variable remuneration fund is formed only after evaluation of the Bank's performance results, taking into account the current and future risk, used capital and liquidity costs. The estimated variable remuneration fund cannot limit the Bank's or Group's ability to strengthen its capital base. The variable remuneration is based on the total assessment of the results achieved by an employee, unit and the Bank. Variable remuneration allocation conditions are the same for all employees, including employees whose professional activities and (or) decisions can have a significant impact on the risk assumed by the Bank.

The models of variable remuneration calculation applied at the Bank are prepared to meet the Bank's business strategy, purposes, values, long-term continuous activity interests, stimulate reliable and efficient risk management and to facilitate avoiding a conflict of interest. These models are developed not to induce the employees to assume the excessive risks unacceptable to the Bank, thus, to ensure investor and customer protection principles in the banking services.

The most important characteristics of remuneration system, including information on criteria used for assessment of performance results, correction of the risks, deferment policy and allocation criteria

The Group, considering its size, nature of operations performed, the extent and the activity's complexity as well as accepted risk, uses the following elements of the remuneration system:

- official (fixed/stable) remuneration
- variable remuneration (variable remuneration in the Group means quarterly bonuses to the employees and annual variable remuneration (annual bonuses) to the employees whose professional performance and (or) passed resolutions may have a significant impact on the risks assumed by the Bank);
- various additional benefits not related to the performance results of the Group and its employees.

Vertinant metinių tikslų pasiekimą, vadovaujamasi kiekybiniais ir kokybiniais kriterijais. Atsižvelgiama ne tik į darbuotojo While assessing the achievement of the annual objectives, the quantitative and qualitative criteria are taken into consideration. Not only a level of personal achievements, financial results of the unit and the Bank but also non-financial (qualitative) contribution including relations with customers, colleagues, compliance with the standards, implementation of the internal regulations, policies and procedures, pro-activeness, responsibility, improvement of activities, etc. are taken into account.

Considering the possible risks related to the evaluated annual results of the employee whose professional activities (or) decisions might have significant impact on the risks accepted by the Bank not less than 40 per cent of the variable remuneration is subject to 3 (three) years of grace period paying in equal portions. 50 per cent of variable remuneration paid immediately and deferred are paid in cash, 50 per cent are paid in bank's shares with a 12 (twelve) month year grace period to the right of transfer. This period has been determined combining the long-term continuous activity interests of the Bank and Financial Group and the employee motivation.

Relation between fixed and variable remuneration

To foster sound and efficient risk management variable remuneration cannot exceed 100 per cent of fixed remuneration unless the General Meeting of Shareholders increases the maximum variable and fixed remuneration ratio to 200 per cent in line with the conditions of the Directive 2013/36 /EU.

Information on criteria for assessment of performance results which provide basis for right to shares, options or variable parts of remuneration

Payment of the deferred variable remuneration at the Bank applies to the employees whose professional performance and (or) passed resolutions may have a significant impact on the risks assumed by the Bank.

A deferred portion is paid if operational goals of the Bank, unit and (or) employee are being implemented. Variable remuneration, including the deferred portion, is paid only in case of sustainable financial situation of the Bank. The variable remuneration, without prejudice to requirements in legislation, can be reduced or not paid if the Bank's performance results do not comply with the indicators foreseen in the strategy or in case the Bank operates at a loss, if an employee acted unfairly or his activities led to the Bank's or Financial Group's loss. Both a current variable remuneration amount and earlier earned due amounts are subject to adjustments.

The right to the Bank's shares as part of the variable remuneration is based on the same performance evaluation criteria which apply to the portion paid in cash.

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

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

Aggregate quantitative information on remuneration results in 2018

Following requirements provided for by the Bank of Lithuania, as of 31 December 2018, the employees whose professional performance and (or) decisions can have a significant impact on the risks assumed by the Bank totalled to 34 employees - 28 of them were employees of the Bank, 4 employees of SB Lizingas UAB and 1 employee of Šiaulių Banko Investicijų Valdymas UAB.

Further in the chapter *Remuneration Policy* we shall provide information in tables on the fixed and variable remuneration of the employees of the Bank and its financial group who assume significant risks marking out senior management (members of the Board) and other risk-assuming employees as well as key information about their remuneration split by business areas.

The Bank	Employees assuming significant risks				
	Senior management (members of the Board)	Including senior managers (members of the Board)			
		Traditional banking and lending	Treasury and other activities	Business management function	Total
FIXED REMUNERATION, 2018, in thousand EUR	931	499	84	1284	1868
Number of shares, units	7	8	2	17	27
VARIABLE REMUNERATION for 2017, assigned in 2018, in thousand EUR	776	421	54	1084	1559
Portion of variable remuneration in cash, in thousand EUR	388	210	27	542	779
not differed (paid) VR in 2018 for 2017 in cash, in thousand EUR	233	126	16	325	468
assigned differed (not paid) VR in 2018 for 2017 in cash, in thousand EUR	155	84	11	217	312
Portion of variable remuneration in shares, in thousand EUR	388	210	27	542	779
not differed (paid) VR in 2018 for 2017 in shares, in thousand EUR	233	126	16	325	468
assigned differed (not paid) VR in 2018 for 2017 in shares, in thousand EUR	155	84	11	217	312
Number of beneficiaries, units	7	8	2	17	27
Portion of variable remuneration from the fixed remuneration, in thousand EUR	83%	84%	64%	84%	83%
Pay-outs related to agreement termination in 2018, thousand EUR					0
Largest amount per party, thousand EUR	0	0	0	34	34
Number of shares, units	0	0	0	1	1
Guaranteed variable remuneration in 2018, in thousand EUR	-	-	-	-	-
Number of shares, units	-	-	-	-	-
assigned differed VR in 2018 for 2014-2016 in cash, in thousand EUR	100	49	5	137	191
assigned differed VR in 2018 for 2014-2016 in shares, in thousand EUR	240	119	12	329	460
outstanding not paid differed VR as of 31/12/2018 for 2015-2017 in cash, in thousand EUR	289	148	19	397	564
outstanding not paid differed VR as of 31/12/2018 for 2015-2017 in shares, in thousand EUR	314	158	19	430	608

Bank's Financial Group	Employees assuming significant risks				
	Senior management (members of the Board)	Including senior managers (members of the Board)			
		Traditional banking and lending	Treasury and other activities	Business management function	Total
FIXED REMUNERATION, 2018, in thousand EUR	931	722	171	1284	2178
Number of shares, units	7	12	4	17	33
VARIABLE REMUNERATION for 2017, assigned in 2018, in thousand EUR	776	613	124	1084	1821
Portion of variable remuneration in cash, in thousand EUR	388	306	62	542	910
not differed (paid) VR in 2018 for 2017 in cash, in thousand EUR	233	184	38	325	547
assigned differed (not paid) VR in 2018 for 2017 in cash, in thousand EUR	155	122	24	217	363
Portion of variable remuneration in shares, in thousand EUR	388	306	62	542	910
not differed (paid) VR in 2018 for 2017 in shares, in thousand EUR	233	184	38	325	547
assigned differed (not paid) VR in 2018 for 2017 in shares, in thousand EUR	155	122	24	217	363
Number ofbeneficiaries, units	7	12	4	17	33
Portion of variable remuneration from the fixed remuneration, in thousand EUR	83%	85%	73%	84%	242%
Pay-outs related to agreement termination in 2018, thousand EUR					0
Largest amount per party, thousand EUR	0	0	0	34	34
Number of shares, units	0	0	0	1	1
Guaranteed variable remuneration in 2018, in thousand EUR	-	-	-	-	-
Number of beneficiaries, units	-	-	-	-	-
assigned differed VR in 2018 for 2014-2016 in cash, in thousand EUR	100	68	10	137	215
assigned differed VR in 2018 for 2014-2016 in shares, in thousand EUR	240	158	20	329	507
outstanding not paid differed VR as of 31/12/2018 for 2015-2017 in cash, in thousand EUR	289	217	43	397	657
outstanding not paid differed VR as of 31/12/2018 for 2015-2017 in shares, in thousand EUR	314	233	42	430	706

MAJOR INVESTMENTS MADE OVER THE REPORTING PERIOD

The major investments made by the Group over the reporting period are provided in the table below in thousand euros:

Acquisition of property, plant and equipment, investment property and intangible assets	2.328
Acquisition of investment securities (assessed at amortized cost)	133.985
Acquisition of investment securities (assessed at fair value)	7.078

INVOLVEMENT IN ASSOCIATED STRUCTURES

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

- Association of Lithuanian Banks
- Society for Worldwide Interbank Financial Telecommunication (SWIFT)
- Nasdaq Baltic Stock Exchanges (Nasdaq Vilnius, Nasdaq Riga, Nasdaq Tallinn)
- MasterCard Worldwide International Payment Card Organization
- ISACA
- Lithuanian Employers' Confederation
- Šiauliai Chamber of Commerce, Industry and Crafts
- Šiauliai Association of Industrialists
- Kelmė region Association of of Entrepreneurs
- Klaipeda Chamber of Commerce, Industry and Crafts
- Klaipeda Association of Industrialists
- Mazeikiai Association of of Entrepreneurs
- Akmenė Association of of Entrepreneurs
- Kaunas Chamber of Commerce, Industry and Crafts
- Panevezys Chamber of Commerce, Industry and Crafts Utena branch
- Tauragė Association of of Entrepreneurs
- Panevezys Chamber of Commerce, Industry and Crafts
- Vilnius Chamber of Commerce, Industry and Crafts
- Šilalė region Association of of Entrepreneurs
- Association of Lithuanian Financial Brokers
- Association of Human Resources Professionals
- BNI recommended marketing services

GROUP OF THE BANK'S COMPANIES

	Nature of acitivities	Registration date	Company code	Address	Tel.	E- mail, website
Šiaulių Bankas AB	commerical banking	04/02/1992	112025254	Tilžės str. 149 LT-76348 Šiauliai	+370 41 595 607	info@sb.lt, www.sb.lt

The Bank directly controls the following subsidiaries

SB Lizingas UAB	finance lease, consumer credits	14/07/1997	234995490	Laisvės al. 80, LT-44249 Kaunas	+370 37 407 200	info@sbl.lt, www.sblizingas.lt
Šiaulių Banko Lizingas UAB	Finance lease (leasing) and operating leases	16/08/1999	145569548	Vilniaus str. 167, 76352 Šiauliai	+370 41 598 010, +370 5 272 3015	lizingas@sb.lt, www.sb.lt
Šiaulių Banko Turto Fondas UAB	Management of real estate	13/08/2002	145855439	Vilniaus str. 167, 76352 Šiauliai	+370 41 525 322	turtofondas@sb.lt, www.sbip.lt
„SBTF" UAB	management and administration of real estate	24/11/2004	300069309	Vilniaus str. 167, 76352 Šiauliai	+370 41 525 322	sbtf@sb.lt, www.sbip.lt
Minera UAB	Management of real estate	30/09/1992	121736330	Dvaro str. 123A, LT-76208 Šiauliai	+370 41 399 423	info@minera.lt, www.sbip.lt, www.minera.lt
Pavasaris UAB	Development of residential multi-apartment area	25/09/1992	121681115	Jonažolių str. 3-113, 04138 Vilnius	+370 5 244 8096	info@pavasaris.net, www.sbip.lt, www.pavasaris.net
Life insurance Bonum Publicum UAB	Life Insurance	31/08/2000	110081788	Laisvės pr. 3, LT-04215 Vilnius	+370 5 236 2723	life@bonumpublicum.lt, www.bonumpublicum.lt
Šiaulių banko investicijų valdymas	Investment management	31/08/2000	145649065	Šeimyniškių str. 1A, LT-09312 Vilnius	+370 5 272 2477	sbiv@sb.lt, www.sbip.lt

The Bank indirectly controls the following subsidiaries:

Sandworks UAB	Management of real estate	10/10/2012	302896357	Skruzdynės str. 1, LT- 93123 Neringa	+370 615 34251	
*ŽSA 5 UAB **	Activities of head offices (maintenance and management of related units)	03/10/2012	302878779	Jogailos str. 9, LT-01116 Vilnius	+370 688 56660	
*Apželdinimas UAB"***	afforestation, landscaping	05/02/1991	132443396	A. Mickevičiaus str. 56, LT-44244 Kaunas	+370 37 391 055	

* Bank's 100% owned subsidiary Šiaulių Banko Investicijų Valdymas UAB controlled 100% of shares

* Bank's 100% owned subsidiary Šiaulių Banko Turto Fondas UAB controlled 100% of shares

OTHER INFORMATION, PUBLICLY DISCLOSED INFORMATION AND MAJOR EVENTS

TRANSACTIONS WITH RELATED PARTIES

Information on these transactions is provided in the note 30 of the explanatory note of the financial statements as of 31 December 2018.

In accordance with the procedures set by the Charter of the Bank and the legal acts of the Republic of Lithuania all the stock events are announced in the Central regulated information base and on the Bank's website https://www.sb.lt/ in the rubric „ Reports on Stock Events".

Other important events are available on the Bank's website https://www.sb.lt/ under „Significant events and dates".

Deputy Chief Executive Officer acting as Chief Executive Officer Donatas Savickas

6 March 2019

ŠIAULIŲ BANKAS

REPORT ON THE BANK'S GOVERNANCE

(Annex No. 1 to the Consolidated Annual Report for 2018)

Following Article 23[1] of the Law of the Republic of Lithuania on Financial reporting by Undertakings the Bank discloses its compliance its specific provisions and recommendations.

Item 1. Reference (s) to the applicable (applicable) Corporate Governance Code (s) and where (s) it is published (published) and / or a reference to all publicly available information on corporate governance practices.

The Bank's shares are traded on a regulated market and are listed on the Nasdaq Baltic Main List. Following Article 22 paragraph 3 of the Law on Securities of the Republic of Lithuania and clause 24.5 clause of the Listing Rules of Nasdaq Vilnius AB, the Bank discloses its compliance with the Governance Code for the companies quoted on the Nasdaq Vilnius AB, which has been prepared in accordance with the Commission recommendation 2014/208/ES approved by the European Commission regarding quality of governance reporting provided by undertakings. For 2018, the Bank followed the form of NASDAQ OMX Vilnius Corporate Governance Report approved by the Board of Nasdaq OMX Vilnius AB dated 16 March 2015, which complies with the approved version of Nasdaq Vilnius Corporate Governance Code prepared by the Board of Nasdaq OMX Vilnius on 14 December 2009.

A new wording of the Corporate Governance Code of the Listed Companies of the Nasdaq Vilnius dated 15 January 2019 and a form the Corporate Governance Report prepared according to it is mandatory for the preparation of the Governance Report for 2019 and subsequent years. The Bank's Governance Report for 2018 is prepared on the basis of the old form.

Item 2. In the event of a deviation from, and / or non-compliance with the applicable (applicable) provisions of corporate governance code (s), the provisions being deviated from and / or not complied with and the reasons for it.

Following Article 22 paragraph 3 of the Law on Securities of the Republic of Lithuania and clause 24.5 clause of the Listing Rules of Nasdaq Vilnius AB, the Bank discloses its compliance with the Governance Code for the companies quoted on the Nasdaq Vilnius AB, its specific provisions and recommendations. Where the Bank does not meet some of its provisions or recommendations it is indicated which specific provisions or recommendations are not met and explanatory information is provided.

Structured Disclosure Table

PRINCIPLES/ RECOMMENDATIONS	YES / NO / NOT APPLICABLE
Principle I: Basic Provisions The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.	
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value. COMMENTARY General purposes of the Bank, in attaining of which the Bank fulfils its mission, and the main business areas, aiming at exceptional competence, as well as plans are publicly declared in the Bank's notifications and are placed on the website of the Bank as well as reviewed during the meetings with investors.	Yes
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes
1.3. company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes

1.4. A company's supervisory and management bodies should ensure that the rights and interests not only of the company's shareholders but also of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected. — Yes

COMMENTARY

The rights and interest of the shareholders, employees, clients and other entities related to the bank's activities are respected; the bank works in compliance with requirements set by the Labour Code as well as with the provisions stated in the agreements between clients and suppliers.

Principle II: The corporate governance framework

The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.

2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process. — Yes

COMMENTARY

The Bank's bodies include a general shareholders' meeting, the Bank's Supervisory Council, the Bank's Board and the chief executive officer.

2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies. — Yes

COMMENTARY

The Board performs the function of the Bank's management and bears responsibility for the performance of the Bank. The supervision of the management bodies is under the Bank's Supervisory Council control.

2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer. — Not applicable

COMMENTARY

Both bodies are formed at the Bank - the Bank's Supervisory Council and the Bank's Board.

2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body. — Yes

COMMENTARY

The Supervisory Council is set up at the Bank. The candidates to the Supervisory Council are elected and the votes for them are given in compliance with procedures defined in the law. The right of small shareholders to have their own representative is not suppressed.

2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies. — Yes

COMMENTARY

The Bank's Board consists of 7 members; the Supervisory Council also consists of 7 members, however, at the end of the reporting year 2018, there were 6 Supervisory Council members on duty as one Council member resigned and no other member has yet been elected to his place. Taking into consideration the Bank's size, scope of activities and the number of shareholders such number of members is the most optimal. Each member has one vote while the bodies are making decisions.

2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board. — Yes

COMMENTARY

Supervisory Council members are elected for 4 years. According to the Bank's Charter members of management and supervisory bodies can be re-elect for the next tenure.

Only the body of the Bank who elected a member of Supervisory Council or a member of the Board can remove them.	
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision. COMMENTARY The Chairman of Supervisory Council has never been the Bank's chief executive officer, previous and current positions do not constitute a barrier for the implementation of independent and impartial supervision.	Yes

Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting

The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.

3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders. COMMENTARY General Shareholders' Meeting shall elect a Supervisory Council. Candidates to the Supervisory Council are proposed; voting is held by following the procedures set in the laws. The election procedure of the Supervisory Council member applied by the Bank established in the Law on Companies of the Republic of Lithuania is favourable for the combination of minority shareholders to elect their representative to the Supervisory Council.	Yes
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report. COMMENTARY Information on the candidates to the Supervisory Council is provided before the shareholders' meeting if the members are suggested in advance. During the meeting the members to the Supervisory Council introduce information on them required by laws and answer the shareholders' questions before voting. Eligibility of the member to be elected to the Supervisory Council is assessed by the Bank of Lithuania. The Bank's annual and interim reports include the updated information on the collegial bodies' members' education, professional experience and current position.	Yes / No
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body. COMMENTARY While electing the members of the Supervisory Council, their work experience and professional competence are disclosed. The Bank supposes that it is suffice to meet the standards and provisions set in the Acts of Law of the Republic of Lithuania including the requirement approved by the resolutions of the Bank of Lithuania which indicates that people who are being elected and assigned into senior management have to receive the permission from the Bank of Lithuania to be appointed to the relevant positions.	Yes / No
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by the members of collegial body, the collegial body should determine its desired composition with regard to the company's structure and activities, and evaluate this periodically. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration determination policy. COMMENTARY With regard to the fact that all the members of the collegial body receive permission of the Bank of Lithuania to hold positions, it is considered that they possess necessary knowledge of and experience to properly implement the tasks. The members of the Supervisory Council participate in the Bank's overall management system assessment process.	Yes

The members of the audit committee have knowledge in field of finance; an independent member is competent in the field of audit. The members of the Remuneration Committee have knowledge and experience in the remuneration establishment policy.

3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge. — Yes

COMMENTARY

New members shall familiarize themselves with their duties, the Bank and its activity.
The Nomination Committee shall analyse the need for additional skills and knowledge and shall provide its proposals.

3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members. — Yes

COMMENTARY

Performing their duties the members of the Supervisory Council seek avoiding the conflict of interests. The shareholders offering the candidates to the Supervisory Council and voting for them have their own opinion concerning which candidates will represent their interest in the Council best. There is 1 independent member in the Supervisory Council.

3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: — Yes

1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;
2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;
3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);
4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);
5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group;
6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;
7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;
8) He/she has not been in the position of a member of the collegial body for over than 12 years;
9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.

3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances. COMMENTARY While electing the independent member of the Council, he has been considered as independent. The Bank's annual report also contained information stating which member of the Supervisory Council is independent.	Yes
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent. COMMENTARY The independent member of the Council meets all criteria of independence.	Yes
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Not applicable
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration. COMMENTARY The bank has concluded the agreement with the independent Council member foreseeing the remuneration form the Bank's funds, however, according to the Law on Companies the confirmation of the size of the remuneration by the shareholders' meeting is not subject to the competence of the meeting.	Yes / No

Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting

The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.

4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.	Yes
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should: COMMENTARY All the members of the Supervisory Council act in good faith with regard to the Bank and according to the interest of the Bank and its shareholders but not of their own one or of the third parties trying to maintain their independence while making decisions. a) under all circumstances maintain independence of their analysis, decision-making and actions; b) do not seek and accept any unjustified privileges that might compromise their independence, and; c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes

4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes

COMMENTARY

The members of the Supervisory Council actively participate in the meetings and devote sufficient time to properly perform his duties as a member of the collegial body. During the reporting period 5 meeting were held in total. One member of the Supervisory Council did not attend the first three meetings, later he resigned from the Supervisory Council which remained with 6 members. All other members attended all five meetings.

4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes

COMMENTARY

Significant transactions not attributable to the Bank's ordinary activities are concluded with related persons of the Bank shall be made only with the approval of the Bank's Supervisory Council for the conclusion of such Transaction. The Supervisory Council, when deciding on such transactions, shall follow the opinion of the Audit Committee, which shall contain information on whether the transaction is conducted under market conditions, whether the transaction is fair to and resonable with respect the Bank and non-Counterparties of such transaction as well as assumptions, criteria and arguments on which the Committee's opinion is based.

4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient resources administrative (including financial) resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using their services with a view to obtaining information on market standards for remuneration systems, the Remuneration committee should ensure that they would not at the same time advice the affiliated company, executive director or members of management body.	Yes

COMMENTARY

The work and decisions of the Supervisory Council are not influenced by people who elected the members of this body. The members of the Supervisory Council have a right to receive the information and documents necessary for appropriate performance of their duties through the Bank's Board and Chief Executive Officer.

4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	Yes

COMMENTARY

The Bank has formed the Audit Committee, Remuneration Committee and Nomination Committee. The independent member of the Supervisory Council is assigned to the Audit and Nomination Committees.

4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should act independently and based on integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to refresh membership and that undue reliance is not placed on particular individuals.	Yes / No

COMMENTARY

The Audit Committee consists of 4 members
The Nomination and Remuneration Committee consists of 3 members. The members of all these Committee are the member of the Bank's Supervisory Council. The independent member of the Supervisory Council is assigned to the Audit and Nomination Committees.

4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes / No

COMMENTARY

The authority delegated to the Committee as well as its reporting are set in the Committees' provisions approved by the Supervisory Council.
The Remuneration Committee acts in compliance with the Remuneration Policy approved by the Supervisory Council.
The Supervisory Council bears responsibility for the establishment of the principles of the Remuneration Committee and models of variable remuneration calculations.
Information regarding the functions 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.

4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes

COMMENTARY

Other members of the management bodies who are not Committee's members participate in the meetings in case the Committee invites. The employees and experts can also be invited to the Committee's meetings.

4.12. Nomination Committee.	Yes

4.12.1. Key functions of the nomination committee should be the following:

1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;
2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;
3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;
4) Properly consider issues related to succession planning;
5) Review the policy of the management bodies for selection and appointment of senior management.

4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	Yes

4.13. Remuneration Committee.	Yes / No

COMMENTARY

The Remuneration Committee at the Bank evaluates the principles of variable remuneration, the remuneration of employees who may have a significant impact on the risks assumed by the Bank, and the variable remuneration of senior management responsible for risk management and compliance, and decisions on the allocation of variable remuneration amounts, taking into account the long-term interests of the Bank, shareholders and other parties concerned submits the information to the Supervisory Council.
The Remuneration Policy shall be reviewed by the Supervisory Council at least once a year and, if necessary, amended.
The salary of employees and senior managers is determined or approved by the Chief Executive Officer, Board or Supervisory Council of the Bank within their competence.

4.13.1. Key functions of the remuneration committee should be the following:

1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;
2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;
3) Ensure that remuneration of individual executive directors and the member of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company;
4) Periodically review the remuneration policy (as well as the policy regarding share-based remuneration) for executive directors or members of management body, and its implementation;
5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;
6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);
7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.

4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:	Yes

1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;
2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;
3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.

4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.	Yes
4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general shareholders' meeting for this purpose.	No
4.14. Audit Committee.	Yes

COMMENTARY

The Audit Committee in the Bank consists of 3 members including the independent Council member.

4.14.1. Key functions of the audit committee should be the following:

1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);
2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;
3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;
4) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;
5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;
6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.

Yes

4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centres and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.

Yes

4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.

Yes

4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.

Yes

4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.

Yes

4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.

No

4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.

Yes / No

COMMENTARY

The Audit Committee provides only its annual statements to the Supervisory Council as the Committees meets 4-5 times a year and it does not report for the every second meeting.

4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities. COMMENTARY The members of the Supervisory Council participate in the Bank's overall management system assessment process. Information about the internal organization of Supervisory Council (chairman, deputy and members) is announced on the website of the Bank, annual and interim reports. Separate information on the Supervisory Council's procedures and changes caused by self-assessment is not published.	Yes / No

Principle V: The working procedure of the company's collegial bodies

The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.

5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting. COMMENTARY The Supervisory Council is chaired by the Chairman of the Supervisory Council, the Bank's Board is chaired by the Chairman of the Bank's Board. These persons are responsible for the proper convocation of the meeting of relevant collegial body and its handling.	Yes
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month. COMMENTARY The Meetings of the Supervisory Council are carried not less than 4 times a year. The interval between two meetings cannot be longer than 4 months. The Meetings of the Bank's Board are carried more frequently than once a month.	Yes
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration establishment are discussed.	Yes

Principle VI: The equitable treatment of shareholders and shareholder rights

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.

6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders. COMMENTARY The ordinary registered shares that comprise the Bank's authorized capital grant the same rights all their holders.	Yes
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes

COMMENTARY The rights provided by the newly issued shares are described in the Securities prospects, while the rights provided by the earlier issued shares are provided in regular annual reports.	
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No / Yes
COMMENTARY The decisions regarding the long-term assets the balance value of which exceeds 1/20 of the Bank's authorized capital, purchase, pledge or hypothec as well as liabilities of other persons the amount of which exceeds 1/20 of the Bank's authorized capital are made by the Bank's Board. Shareholders are aware of important transactions by the Bank's announcement on stock events.	
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholdersme.	Yes
6.5. Possible, in order to ensure the foreigners the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting, including decisions projects of the meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes
COMMENTARY All documents prepared for the General Meeting of Shareholders are pre-published in Lithuanian and English. Decisions taken by the General Meeting of Shareholders are published as information of the Issuer through the system of publication of regulated information. These reports are publsihed and remain available on the Bank's website. The voting results of the meeting are also published on the Bank's website.	
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes
COMMENTARY The Bank's shareholders may participate in the general shareholders' meeting in person or through their representative. The advanced voting is possible as well by filling the general voting bulletin.	
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by providing opportunity to the shareholders to vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	No
COMMENTARY The Bank does not provide the shareholders with possibility to vote at shareholders' meetings by electronic means. Foreign shareholders usually authorize the local accounts managers accounting their shares to represent them and usually deliver voting instructions to them thought SWIFT messages.	

Principle VII: The avoidance of conflicts of interest and their disclosure

The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.

7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of	Yes

his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes
COMMENTARY All the transactions with the members of the Bank's bodies are concluded in usual (standard) conditions. Information to the shareholders is provided in annual and interim reports.	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes

Principle VIII: Company's remuneration policy

Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.

8.1. A company should make a public report of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration report should be published as a part of the company's annual statement as well as posted on the company's website.	Yes / No
COMMENTARY 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.	
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	Yes
COMMENTARY The Remuneration Policy report provides data about all employees and management, distinguishing the shares of the fixed and variable remuneration.	
8.3. Remuneration statement should leastwise include the following information:	Yes / No
COMMENTARY The Remuneration Policy report is prepared according to the requirements set by the resolutions of the Board of the Bank of Lithuania, therefore, not all clauses specified in this Code are described. Considering the possible risks related to the evaluated annual results of the employee whose professional activities might have significant impact on the risks accepted by the Bank not less than 40 per cent of the variable remuneration (not less than 50 per cent for 2018 and subsequent years) is subject to 3 years of grace period paying in equal portions. The calculation of the variable remuneration is based on the results of the employee's performance evaluation. 50 per cent the variable remuneration is paid in cash, 50 per cent - in Bank's shares. The payment of a portion of the deferred variable remuneration is decided annual ly on basis of the employee's performance appraisal. According to the Remuneration Policy approved by the Board of the Bank, the variable remuneration, including the deferred portion, is paid only in the event of a sustained financial situation of the Bank. The Bank's internal procedures also specify the cases in which variable remuneration may be adjusted (reduced).	
1) the relation of the variable and non-variable components of directors' remuneration and its explanation; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of the activities' results evaluation criteria contributes to the long-term interests of the company; 4) An explanation of the methods used to determine whether performance criteria are met; 5) Sufficient details of deferral periods for variable component of the remuneration; 6) Sufficient information on the link between remuneration and performance;	

7) The main criteria for the annual bonus scheme and any other non-cash benefits and their justification;
8) Sufficiently detailed information on the policy of payouts leeaving the job;
9) Details of the vesting period for the share-based remuneration, as specified in item 8.13;
10) Details of the retention of shares after vesting, as specified in item 8.15;
11) Sufficient information on the composition of similar groups of companies whose remuneration policy has been analyzed to determine the remuneration policy of the company concerned;
12) Description of the main characteristics of the supplementary pension or early retirement scheme for directors;
13) The remuneration statement should not contain commercially sensitive information.

8.4. Remuneration report should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies. No

COMMENTARY

The report of the Remuneration policy is not prepared in compliance with the scope defined in the present clause.

8.5. Remuneration report should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. No

COMMENTARY

According to the requirements set by the Bank of Lithuania the report reveals the average sizes of the remuneration. Other information defined in this item is not published.

8.5.1. The following remuneration and/or emoluments-related information should be disclosed: No

1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;
2) The remuneration and advantages received from any undertaking belonging to the same group;
3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;
4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;
5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;
6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.

8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: No

1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;
2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;
3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;
4) All changes in the terms and conditions of existing share options occurring during the coming financial year.

8.5.3. The following supplementary pension schemes-related information should be disclosed: No

COMMENTARY

According to the requirements set by the Bank of Lithuania the report reveals the average sizes of the remuneration. Other information defined in this clause is not published.

1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;
2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.

8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.	Ne
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component of remuneration. The non-variable component of remuneration should be sufficient to allow the company not to pay variable components of remuneration when activity's results evaluation criteria are not met. COMMENTARY The Remuneration Policy defines that variable remuneration may not exceed 100 per cent of fixed remuneration, except cases when general meeting of shareholders decides to increase it, however, by not more than 200 per cent. Variable remuneration cannot form such a substantial part of the remuneration that would encourage employees to ignore the long-term interests of the Bank.	Yes
8.7. Award of variable components of remuneration should be subject to predetermined and measurable activity's results evaluation criteria. COMMENTARY The amount of the variable remuneration is based on the general evaluation of the employee's, outlet's or Bank's activity result in accordance with the acitvity goals set in advance,	Yes
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration. COMMENTARY The deferred portion of the variable remuneration applicable to the employees is not less than 40 per cent (not less than 50 per cent for 2018 and subesequent years)	Yes / No
8.9. Contractual arrangements with executive or members of management bodies should include provision which permits the company to reclaim variable components of remuneration that was awarded on the basis of data which subsequently proved to be manifestly misstated. COMMENTARY The Remuneration policy foresees the review of the assignment of the differed portion of the variable remuneration and to pay it only in case the set goals and the results of the bank meet the goals set in the strategy.	No
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof. COMMENTARY No principles of termination payments are foreseen by the Remuneration policy.	Not applicable
8.11. Termination payments should not be paid if the termination is due to inadequate activity's results. COMMENTARY See item 8.10.	Not applicable
8.12. The information on preparatory and decision-making processes, during which a remuneration policy of directors is being established, should also be disclosed. Information should include data, if applicable, on authorization and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting. COMMENTARY The official salaries of the employees and senior managers are established or approved by the Bank's CEO, Board and Supervisory Council in accordance with the competence. The principles of the variable remuneration are supervised by the Remuneration Committee which prepares prepares drafts for allocation of variable remuneration amounts, taking into account the long-term interests of the Bank, shareholders and other stakeholders, and submits them to the Supervisory Council. If the services of the external consultant were used they would be specified in the report of the Remuneration Policy.	Yes / No

8.13. Shares should not vest for at least three years after their award in case the remuneration is share-based. COMMENTARY As foreseen by the Remuneration Policy not less than 40 per cent of the variable remuneration (not less than 50 per cent for 2018 and subsequent years) is subject to 3 years of grace period splitting the disbursement equally over the grace period. 50 per cent of variable remuneration is paid in Bank's shares.	Yes / No
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable activity's results evaluated criteria. COMMENTARY Share options or any other right to acquire shares or to be remunerated on the basis of share price movements are not foreseen by the Remuneration Policy. 50 per cent of variable remuneration paid immediately and deferred are foreseen to be paid in bank's shares with a 12 (twelve) month grace period to the right of transfer. The Remuneration policy foresees the review of the assignment of the differed portion of the variable remuneration and to pay it only in case the set goals and the results of the bank meet the goals set in the strategy.	Yes / No
8.15. After vesting, directors should retain a particular number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components). COMMENTARY The share transfer is limited for a period of 12 (twelve) months. No restrictions are foreseen after this period.	No
8.16. Remuneration of non-executive or supervisory directors should not include share options. COMMENTARY The members of the Supervisory Council are not subject to any form of remuneration.	Not applicable
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general shareholders' meetings and make considered use of their votes regarding directors' remuneration. COMMENTARY According to the structure of the Bank's bodies, the determination of remuneration for the members of the Board is not a prerogative of the shareholders' meeting.	No
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory. COMMENTARY The Remuneration Policy and its implementation are the prerogative of the Remuneration Committee and the Council of the Bank. Therefore, the voting does not take place in the shareholders' meeting.	No
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes. COMMENTARY The General Meeting of Shareholders to be held on 28 March 2018 shall approve the Rules for Share Granting, where the principles of payment of remuneration to the Bank's shares shall be specified. The Bank will execute provision of the Bank's shares as a variable remuneration for employees for the year 2018 and subsequent years in accordance with these rules.	Yes

8.20. The following issues should be subject to approval by the shareholders' annual general meeting: — No

COMMENTARY

the Rules for Share Granting to be aprroved by the General Meeting of Shareholders shall include not all items of this issue

1) Grant of share-based schemes, including share options, to directors;
2) Determination of maximum number of shares and main conditions of share granting;
3) The term within which options can be exercised;
4) The conditions for any subsequent change in the exercise of the options, if permissible by law;
5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms.

Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.

8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval. — Not applicable

COMMENTARY

In share options, where the Bank's shares will be presented as part of the variable remuneration, they will be presented free of charge (except for the employee's tax liability, the fulfillment of which will be one of the conditions for exercising the option). The General Meeting of Shareholders does not approve the provisions of share options.

8.22. Provisions of Articles **8.19** and **8.20** should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting. — Not applicable

COMMENTARY

See item 8.21

8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website. — Yes / No

COMMENTARY

The draft rules on the granting of shares have been submitted with draft resolutions of the General Meeting of Shareholders no later than 21 day before the meeting. The rules on the issue of shares do not provide for the specification of specific employee lists with names and surnames, as the rules establish common principles for the allocation of shares.

Principle IX: The role of stakeholders in corporate governance

The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.

COMMENTARY

The interest holders' rights are respected. The Bank obeys the agreements with the suppliers, creditors, and clients. The relations with employees are regulated by the labour contracts. The employees can provide offers in the filed improvement of work conditions. The Bank's employees participate in the Bank's authorized capital.

9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.	Yes
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes

Principle X: Information disclosure and transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.

10.1. The company should disclose information on: COMMENTARY The information disclosed in this section is submitted in annual and interim reports, in prospects of securities issue and in the website of the Bank. 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.	Yes
10.2. It is recommended to disclose the consolidated results of the whole group to which the company belongs when information specified in item 1 of Recommendation 10.1 is under disclosure.	Yes
10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. COMMENTARY The information regarding the professional experience of the Supervisory Council and the Bank Board, and capacities taken in other companies is provided in the Annual Reports of the Bank and is available on the bank's website. The information regarding received remuneration of the particular person is not published. The information regarding income in average values is published in the Annual Report of the Bank.	Yes / No
10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information.	Yes
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Nasdaq Vilnius, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes

10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes

Principle XI: The selection of the company's auditor

The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.

11.1. An annual audit of the company's financial reports and annual reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	No
COMMENTARY The candidate for the Bank's audit agency is provided by the Bank's Board to the General Shareholders' Meeting in compliance with the results of audit agency review.	
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Yes
COMMENTARY Information on remuneration to the audit company is provided for publicly in the annual reports of the Bank. The Supervisory Council is familiar with this information.	

Item 3. ***Information on the extent of risk and risk management - to describe risk management related to financial reporting, risk mitigation measures and internal control system in the company.***

More details are provided in the risk management disclosure in notes *Financial Risk Management* (36 page) to the financial statements for the year 2018 on the internal control system - in the consolidated annual report for 2018 in chapter *Assessment of Internal Control* (152 page).

Item 4. ***Information about significant shareholdings, controlled directly or indirectly.***

As of 31 December 2018 in accordance with the procedure established by the Law on the Disclosure of Securities of the Republic of Lithuania and the Rules of Disclosure of the Bank of Lithuania, the following shareholdings have been declared:

- The European Bank for Reconstruction and Development (EBRD) holds a stake of 26.02%, the acquisition of which was announced on 21 December 2018.
- A stake of 14.32% of the senior management of the Bank (together with the shares held by the companies under control of senior managers and the spouse of one of the managers), the acquisition of which was announced on 21 December 2018.
- Invalda INVL AB holds a stake over 5 per cent, acquisition of which was announced on 17 September 2015. The size of the stake was 6.79% on the day of the report, as of 31 December 2018 it was 6.14% (or 5.48%).

Item 5. ***Information on transactions with related parties, as defined in Article 37^2 of the Law on Companies (specifying the counterparty (legal form, name, code, register of the legal person, data on this person, address (address); name of the natural person, correspondence) and the value of the transaction).***

Pursuant to the requirements of the Law on Companies of the Republic of Lithuania, the Board of the Bank approved the Procedure for Conclusion of Transactions with Persons Related to the Bank. This Procedure provides for Transactions making significant influence to the Bank, the Bank's finances, assets, and liabilities Transactions are considered significant if their value is equal to or exceeds 1/5 of the Bank's authorized capital.

In 2018, the Bank published one notice on significant transactions with the Bank related persons on its website:

REPORT 12/04/2018

Transactions concluded with the subsidiary of Šiaulių Bankas AB - SB Lizingas UAB.
Company code 234995490, address Laisvės Al. 80/Maironio str. 26. Kaunas.

Transaction data:

- Loan Limit EUR 37 000 000 (maturity date 30 March 2019, interest rate 5%)
- Loan Limit EUR 8 000 000 (maturity date 30 March 2019, interest rate 5%)

Loan transactions with a related party of Šiaulių Bankas AB have been concluded in compliance with regular business activities of Šiaulių Bankas under normal market conditions. According to the assessment of Šiaulių Bankas AB, loan transactions and loan transaction terms are fair with respect to Šiaulių Bankas AB and its shareholders who are not parties of those loan transactions.

Item 6. ***Information about shareholders exercising special control rights and a description of these rights.***

There are no Bank's shareholders with the special control rights.

Item 7. ***Information on any existing restrictions on voting rights, such as restrictions on the voting rights of persons holding a given percentage or number of votes, the deadlines by which voting rights may be exercised, or systems whereby the property rights attaching to the securities are separated from the holder of the securities.***

As of 31 December 2018, the Bank does not have any information on any restrictions on voting rights with the Bank's shares, the deadlines by which voting rights may be exercised, or any systems that separated the voting rights granted by these shares from the shareholder.

Item 8. ***Information on the rules governing the election and replacement of the members of the Board, as well as amendments to the Charter.***

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 members of the Board are elected in compliance with the provisions of the Assessment Policy of Top Managers. An assessment survey is completed in accordance with this policy and the assessment survey with the assessment results are submitted to the Bank's Nomination Committee. Only after the Nomination Committee approves the assessment of the assessed person (Applicant to the Top Management) it can be provided to the nominating/electing person/body for the final decision regarding his/her eligibility to take a respective office at the Bank.

Item 9. ***Information on the authorizations of the members of the Board.***

The Management Board of the Bank is a collegial Bank management body, consisting of 7 (seven) members. It manages the Bank, handles its matters and answers under the laws for the execution of the Bank's financial services. The Board of the Bank is elected by the Council for a term of 4 years - the number of tenures is not limited. If individual Board members are elected, they are elected till the end of the active Board's term.

The Bank's Board shall consider and approve:

- the annual report of the Bank;
- the structure of the Bank management and positions; posts in which persons are employed only by holding competitions;
- regulations of the branches, representatives and other separate subdivisions of the Bank;
- order of the Bank's loans granting, following the loan granting policy, approved by the Supervisory Council;
- order of issuing guarantees, securities and taking of other liabilities;
- order of writing-off of the loans and other debt liabilities;
- regulations of the Loan Committee and Risk Management Committee of the Bank.
- also the Board shall elect (assign) and remove from office the Chief Executive Officer and his deputies. The Board sets salary and other terms of labour contract with the Chief Executive Officer, approves his Staff Regulations, induces and imposes sanctions to the Chief Executive Officer;
- also the Board determines the information to be considered commercial secret of the Bank.

The Board shall adopt:

- decisions on the Bank becoming the incorporator, member of other legal entities;
- decisions on opening branches, representatives and other separate subdivisions of the Bank as well as on cancellation of their activities;
- decisions on the 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;
- decisions on other matters it has to consider or solve under the Laws or Charter of the Bank.

The Board shall set:

- terms for the shares issue of the Bank;
- order for issue of the bonds of the Bank. When the General Shareholders' Meeting adopts a resolution regarding the issuing of convertible bonds, the Board is entitled to set additional terms of issuing and to approve bond subscription agreements, signed by the Chief Executive Officer or his authorized person;
- order and cases of employment in the Bank, when the employees are engaged with the Board's approval.
- The Board shall execute resolutions passed by the Meeting and Supervisory Council.
- The Board shall analyse and evaluate the material submitted by the Chief Executive Officer on:
- implementation of the Bank's activities strategy;
- arrangement of the Bank's activities;
- financial state of the Bank;
- results of economic activities, income and expenditure estimates, stock-taking data and other records of valuables.

The Board shall also analysis, assess the Bank's draft annual financial statements and draft of the profit (loss) allocation and submit them to the 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.

*Item 10. **Information about the competence of the General Meeting of Shareholders, the rights of the shareholders and their implementation, if this information is not established by law.***

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.

General Meeting of Shareholders is organized, voting is carried out and resolutions passed in compliance with the Law on Companies of the Republic of Lithuania. If the meeting cannot take place due to lack of a quorum (more than ½ of the total votes), the re-convened meeting of shareholders with the valid agenda of the previous meeting shall be summoned.

Exclusively the General Shareholders' Meeting:

- amends Charter of the Bank, except in cases, provided in the laws;
- amend the Bank's head office;
- elects the Bank's Supervisory Council members;
- recalls the Bank's Supervisory Council or its individual members;
- elects and recalls the audit company to audit the annual financial statements, sets the terms of payment for audit services;
- approves the set annual financial statements of the Bank;
- sets class, number, par value and minimum issue price of the shares, issued by the Bank;
- adopts resolution regarding:
- issuing of convertible bonds;
- cancellation of the preference right to purchase shares or convertible bonds of the Bank of a given emission to all of the shareholders;
- conversion of the Bank's shares of one class into another, approval of the conversion order;
- allocation of profit (loss);
- making, use, reduction and cancellation of reserves;
- increase of authorized capital;
- reduction of authorized capital, except of the cases, provided in the laws;
- purchase by the Bank of its own shares;
- reorganization or demerge of the Bank and approving terms of such reorganization or demerge; except of the cases, provided in the Law on Companies of the Republic of Lithuania;
- 6.3.8.10 restructuring of the Bank;
- quidation of the Bank, cancellation of liquidation, except cases, provided in the laws;
- to select and cancel the Bank's liquidator, except cases, provided in the laws.

*Item 11. **Information on the composition of management, supervisory bodies and their committees, and the areas of activity of their senior manager.***

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 7 (seven) members is elected by the General Meeting of Shareholders for a term of four years. The initiators of the Meeting or the shareholders holding shares that grant at least 1/20 of the Bank's shares, shall have the right of proposing the members of the Supervisory Council.

The candidates are proposed before the Meeting or during such Meeting. Each candidate to the Supervisory Council's members shall inform the Meeting about his current capacity and how his activities are related to the Bank or to other legal entities associated with the Bank.

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

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

The functions of the Supervisory Council are as follows:

- elect members of the Board and remove them from office, make recommendations to the Board regarding the candidature for the Chairman of the Board. Prior approval of the Council is necessary to obtain before setting salaries of the Board members who hold other positions in the Bank, Chief Executive Officer and his deputies, as well as other terms of labour contract. If the Bank operates at a loss, the Council must consider the suitability of the Board members for their positions;
- elect members of the Internal Audit Committee;
- supervise activities of the Board and the Chief Executive Officer;
- supervise the implementation of business plans of the Bank, analysis the Bank's income and expenses, own investments and capital adequacy issues;
- approve the Rules of Procedure of the Supervisory Council of the Bank;
- approve business plans of the Bank and annual budget;
- approve any type of policies related to the Bank's activities including the risk management policy;
- ensure the effective internal control system in the Bank;
- make proposals and comments to the General Shareholders' Meeting on the Bank's work strategy, the Bank's annual financial statements, the draft of the profit (loss) distribution and the report on the Bank's activities as well as activities of the Board and the Chief Executive Officer of the Bank;
- approve loan granting policy and set order of borrowing subject to Supervisory Council's approval;
- make proposals to the Board and the Chief Executive Officer to cancel their resolutions that contradict the laws and other legal acts, this Charter or resolutions of the General Meeting of the Shareholders;
- set the list of transactions and resolutions, making or implementation of which is subject to the Council's approval;
- adopt resolutions, assigned to the Supervisory Council's competence according to the orders, approved by the Supervisory Council; such order shall be adopted by the Council following the laws, this Charter or resolutions of the General Meeting of Shareholders;
- consider other matters, subject to its consideration or solution, provided for in the laws of this Charter or in the resolutions adopted by the Meeting which are subject to discussion and resolution of the Supervisory Council.

Chief Executive Officer is a single person management body of the Bank who arranges everyday activities of the Bank and performs other actions necessary to perform his functions, to implement the decisions of the Bank's bodies and to ensure the Bank's activities.

Functions of the CEO:

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

Chief Executive Officer is responsible for:

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

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

The Chief Executive Officer and the members of the Board and Supervisory Council participate in the general meetings of shareholders. Chief Executive Officer of the Bank Vytautas Sinius, Head of Accounting and Tax Division of the Bank Vita Adomaitytė as well as members of the Supervisory Council of the Bank participated in the General meeting of shareholders held in 2016. The shareholders had an opportunity to discuss the issues of concern with the senior management of the Bank directly.

More information on the composition of management bodies and committees is available in chapter "Bank's Governance" of the consolidated annual report for 2018.

*Item 12. **The election of the head of the company, members of the management and supervisory bodies is subject to diversity policies relating to aspects such as age, gender, education, professional experience, description, objectives of this policy, ways and results of its implementation during the reporting period. If diversity policy is not applied, the reasons for its non-application should be stated.***

Diversity Policy is not applied at the Bank because the Bank's internal policies, such as the Code of Ethics, state that no inequality, violence, psychological or similar forms of pressure and discrimination are tolerated.

Item 13. ***Information on the remuneration of remuneration of each collegial body members (average salaries paid during the reporting period, showing separately bonuses, additional payments, tantiemes and other pay-outs).***

Information of the Bank's Group on the remuneration of each member of the management and supervisory body (average salaries paid during the reporting period, showing separately bonuses, additional payments, tantiemes and other pay-outs) is as follows:

Remuneration of the Bank's management and supervisory bodies for 2018 (excluding employer taxes):

	Bank's Supervisory Council (7 members), thousand euros	*average amount, thousand euros*	*Bank's Management Board (7 members), thousand euros*	*average amount, thousand euros*
Salary	106	15	936	134
bonuses	0	0	813	116
tantiemes	385	55	0	0
Other pay-outs	18	3	1	0
Total:	508	73	1750	250

Item 14. ***Information about all mutual agreements among shareholders (their essence, conditions).***

The Bank does not have any information about any mutual agreements between the shareholders related to the Bank's shares (exercising the rights of the shareholders in a coordinated vote, etc.), effective as of 31/12/2018. The Shareholders' Agreement signed in 2005 by such Bank's sharehoders as European Bank for Reconstruction and Development (EBRD),Trade House Aiva, Mintaka UAB , Enterprise group Alita AB, Arvydas Salda, Sigitas Baguckas, Vigintas Butkus, Vytautas Junevičius, Gintaras Kateiva, Kastytis Jonas Vyšniauskas and Algirdas Butkus was effective till 20/12/2018.

This does not mean that the Bank may not be aware of certain agreements between two banks' clients (owning the Bank's shares) on other issues - the Bank does not deem necessary to disclose such agreements therein.

SOCIALLY RESPONSIBLE ACTIVITY REPORT 2018

Prepared according to the standard of the Global Accountability Initiative

(Annex No. 2 to the Consolidated Annual Report for 2018)

About the report

Since 2008, Šiaulių bankas is a member of the Global Compact initiated by the United Nations. In developing its Corporate Social Responsibility Report, the Bank follows the principles of the agreement, and this year reports for the second time, based on the recommendations of the Global Reporting Initiative (GRI).

Since 2010, the bank provides comprehensive social responsibility reports every year, which are publicly available on the Bank's website under the heading Social Responsibility and Global Compact. This report presents the Bank's Socially Responsible Activity Report for January-December 2018.

The report on socially responsible activities of Šiaulių bankas presents the Bank's progress in relations with employees, customers and the community and in the field of environmental protection.

Please feel free to submit your questions and comments on the report on socially responsible activities by by e-mail komunikacija@sb.lt

CEO's Word

We are proud to be a Lithuanian bank. By providing financial services to our customers every day, we undoubtedly contribute to their wealth creation, realization of ideas and ambitions.

After all, the credit granted to the company means new opportunities: business development, innovation, new jobs created. A decent financing solution gives the population the impetus to realize a long-matured dream: to create cosy homes, broaden horizons, and gain valuable knowledge.

We are happy to contribute to the growth of society, but at the same time realize our responsibility. Therefore, with our knowledge, opportunities and energy, we promote the growth of the country's economy, develop entrepreneurial abilities, strengthen communities, and care for clean environment.

By giving a positive impulse to society, we grow ourselves, and socially responsible activities give a deep meaning to our work.

The report on socially responsible activity 2018 presents Šiaulių Bankas' approach to sustainable activities and particular work we have done for the benefit of society.

Vytautas Sinius, CEO of Šiaulių bankas

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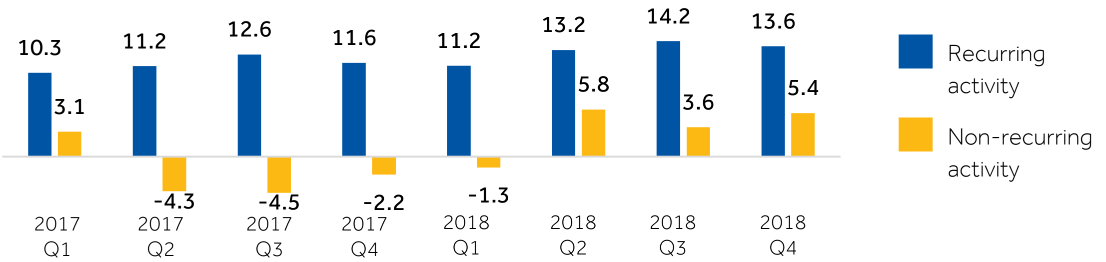
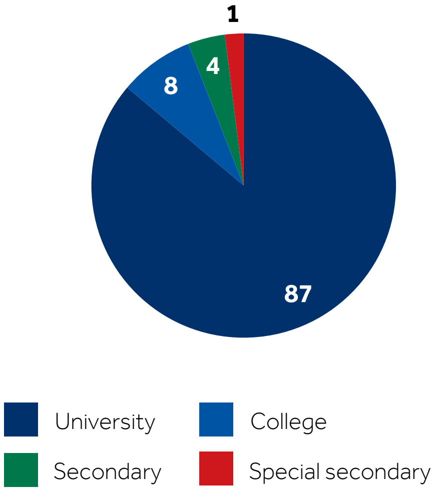
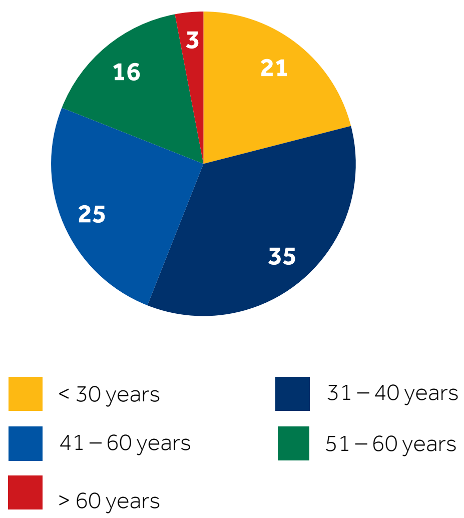
GRI standard disclosure criterion	Description	Reference
Strategy and analysis		
102-14 Statement by the chief decision-maker on the importance of sustainability for the organization and its sustainability management strategy		CEO's Word
102-15 Main effects, risks and opportunities	The key areas of the organisation's impact are determined by the nature of the group's activities and its long-term strategy. Economy Every day the Bank contributes to the growth of the Lithuanian economy. By offering a wide range of small and medium business finance instruments, the Bank aims to promote the development and growth of these businesses. As a major partner in the renovation of multi-apartment buildings in the country, the Bank contributes to energy efficiency projects. Social area In order to promote entrepreneurship of the country's population, the Bank's employees regularly read reports on business development opportunities. In order to strengthen the communities and be closer to them, the Bank supports social, cultural projects and initiatives in the regions. Environment The Bank aims to reduce consistently the amount of resources consumed, and to preserve the environment in which it operates.	
Company description		
102-1 Company description	The Bank, established in 1992, is a rapidly and steadily growing financial institution with a diversified shareholder base distributed among Lithuanian and foreign shareholders, including the European Bank for Development and Reconstruction, which controls 26.02% of bank shares. By providing professional financial services to private and corporate customers, the Bank seeks to be a reliable, flexible and attentive financial partner, which is of great importance to the growth of the country's potential, the well-being of the Lithuanian population and business.	
102-2 Activities, brands, products and services	Strategic directions of the Bank: ▪ Business finance; ▪ Consumer finance. The following services are provided to private and business clients at the Bank: ▪ Bank service plans for a set monthly fee (for private customers); ▪ Opening and administration of bank accounts in euros and foreign currencies for Lithuanian and foreign clients; ▪ Transfer of funds in euros and foreign currencies to accounts in banks operating in Lithuania and abroad; ▪ Collection of utilities and other contributions; ▪ Electronic billing service, periodic and conditional payments; ▪ Account management in an online banking system; ▪ Mobile banking services; ▪ Issue and administration of payment cards; ▪ Provision of various short-term and long-term credits; ▪ Foreign exchange trading; ▪ Conclusion of various types of deposit agreements; ▪ Investment services; ▪ Mediation in transactions on securities (securities) exchanges; ▪ Transactions concluded over the counter; ▪ Counselling on issue, acquisition and transfer of securities; ▪ Managing the accounting of shares issued by companies; ▪ Debt securities (DS) authorization; ▪ Preparation of prospectuses for securities issued; ▪ Other investment services; ▪ Distribution of commemorative coins, numismatic sets, etc.proginių monetų, numizmatinių rinkinių platinimas ir kt.	

102-3 Location of headquarters	The Bank's head office is located in Šiauliai.
102-4 Place of performance of transactions	The Bank's branches operate in major Lithuanian cities and regional centres, which are financially active. Bank services are provided throughout Lithuania.
102-5 Property and legal form	Šiaulių bankas is a limited liability public company. The shares issued by the Bank are listed on the Baltic Main List and are listed on the Nasdaq indexes. On 31 December 2018 the number of bank shareholders was 4,992.
102-6 Served markets	Bank services are provided in the Republic of Lithuania.
102-7 Organizational scale	Recurring and Non-recurring activity, (billion euros)  In 2018, the Bank's Group earned 52.6 million euros and the Bank 53.1 million euros of unaudited net profit. Compared to 2017, the stable income of the banking group from last year's recurring activities increased by 14 percent.
102-8 Employee information	On 31 December 2018, 714 employees worked in the bank or 815 together with bank group companies. On 31 December 2018 the bank group employed 80 per cent of women and 20 per cent of men.. Distribution of group employees by education, per cent  Distribution of group employees by age, per cent 
102-11 Precautionary principle or method	See report disclosure criterion 102-30. For more information see Financial Risk Management, the explanatory letter to Financial Accountability 2018.
102-12 External initiatives	Šiaulių bankas since 2010 has been member of the United Nations Global Compact.

102-13 Membership in associations	Organizations, associations and associated organizations the bank is involved in: ▪ Lithuanian Banking Association; ▪ Lithuanian Financial Brokerage Association; ▪ Lithuanian Confederation of Employers; ▪ Association of Personnel Management Professionals; ▪ Vilnius Chamber of Commerce, Industry and Crafts; ▪ Kaunas Chamber of Commerce, Industry and Crafts; ▪ Klaipėda Chamber of Commerce, Industry and Crafts; ▪ Šiauliai Chamber of Commerce, Industry and Crafts; ▪ Panevėžys Chamber of Commerce, Industry and Crafts; ▪ Panevėžys Chamber of Commerce, Industry and Crafts Utena Branch; ▪ Klaipėda Association of Industrialists; ▪ Šiauliai Association of Industrialists; ▪ Akmenė Association of Entrepreneurs; ▪ Kelmė region Association of Entrepreneurs; ▪ Mažeikiai Association of Entrepreneurs; ▪ Tauragė Association of Entrepreneurs; ▪ Kelmė Association of Entrepreneurs; ▪ Šilalė region Association of Entrepreneurs ▪ ISACA; ▪ BNI recommendation marketing service; ▪ Stock Exchange NASDAQ OMX Baltic; ▪ Global Interbank Financial Telecommunication Organization (SWIFT); ▪ MasterCard Worldwide International Payment Card Organization; ▪ Visa Inc; ▪ UN Global Initiative Global Compact.
Ethics and integrity	
102-16 Values, principles, standards and standards of conduct	In the day-to-day activities, the Bank's employees follow the following three basic sets of principles: ▪ Bank values; ▪ Code of Ethics; ▪ Customer service standard. The four bank values (Trust, Professionalism, Respect, Responsibility) at the general bank conference in 2014 were refined jointly by all the bank's employees. In order to make it easier to understand and adopt the bank's values and descriptive behaviours, from 2015 onwards the bank plays a game of values. Its purpose is to identify the behaviour of everyday situations that best matches the bank's values. The value game encourages employees to collaborate, exchange views and make a joint decision. Such a game is played on a quarterly basis by all new employees at the Newbie Days. The Bank is guided by the Code of Ethics, which does not tolerate any inequality, violence, psychological or other forms of pressure and discrimination. The Bank has a common anonymous intranet channel for the compliance officer, through which any employee can report a violation of any regulatory requirement in the Bank. The report is investigated and, if confirmed, prompt action is taken to eliminate the violation. The customer service standard defines the behaviour of employees in serving customers.

102 – 17 Consultation mechanisms and ethical issues Corporate governance	The Bank is subject to an anonymous mechanism of reporting to compliance officer and Chairman of the Bank Appointment Committee. Anonymous messages can be posted on the bank's intranet website at any time of the day. The notice to the compliance officer mechanism is to report any unlawful actions by the Bank group employees (including executives): theft of the Bank, its clients, partners, employees assets, fraud, abuse of office, conflicts of interest, suspicions of non-compliance with the Bank's Code of Ethics or other requirements of the Bank's internal legislation, etc. The Bank's Compliance and Prevention Department is responsible for this mechanism. The measure allows the Chairman of the Bank's Appointment Committee for confidential (also anonymous if needed) reporting of any committed or suspected violation of the opinion of a single member of the bank or a small group of members that may harm the interests of the bank. All messages are confidential and, at the request of the rapporteur, anonymous. New channels are introduced to the new employees in the newbie training. Information on ethical and unethical behaviour is provided in the Bank's Code of Ethics. No messages were received in 2018.	
Corporate governance		
102-18 Management structure	General shareholders meeting **The Supervisory Council** is a collegial supervisory body **The Board** is a collegial management body **Head of Administration** - one-man management body	For more information see annual report, under Bank Management
102-22 Composition of the supreme governing body and its committees	**Bank's Board members:** ▪ Algirdas Butkus, Board Chairman; ▪ Vytautas Sinius; ▪ Donatas Savickas; ▪ Daiva Šorienė; ▪ Vita Urbonienė; ▪ Jonas Bartkus; ▪ Ilona Baranauskienė. There are Risk, Internal Audit, Nomination, Remuneration, Loan, Risk Management and Regional Loan Committees in the Bank.	see annual report, under Bank Management and Members of the Committees formed in the Bank and directions of their Activities
102-23 Chairman of the supreme management body	Algirdas Butkus is the Bank's Board Chairman.	
102-24 Nomination and selection of the highest management body	The members of the Board are elected, recalled and supervised by the Bank's Supervisory Council. The term of office of the Board is four years, the number of terms of office is not limited. If individual members of the Board are elected, they are elected until the end of the term of office of the current Board.	
102-25 Conflicts of interest	Members of the Bank's Supervisory Council and Board act in the interest of the bank and shareholders, avoiding conflicts of interest. All transactions with bank managers are made on market terms. The work regulation of Bank's Board contains a provision that a member of the Board must avoid activities that may cause a conflict of interest. A member of the Board must disclose all information to the Bank that may give rise to a conflict of interest and update this information before commencing his duties. A member of the Board has no right to vote and attend the Board meeting when dealing with his or her responsibilities in the Board, or when considering matters that may be of interest to the member or when the Bank may be at risk due to lack of objectivity.	See annual report, under Transactions with related parties
102-26 Role of the highest management body in defining the goal, values and strategy	The Board analyzes and evaluates the material presented by the Bank's head on the implementation of the Bank's strategy and the organization of the Bank's activities.	
102-27 Collective knowledge of the highest management body	Members of the Board regularly participate in key national economic conferences. Once a year, there is a strategic top management session where members of the Board and the Supervisory Council hear messages on various topics from global economic trends to social or demographic environments, innovation, strategic management, etc.	

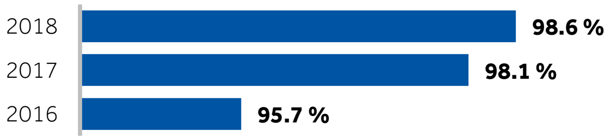
102-28 Evaluation of the performance of the highest management body	The Bank's Appointment Committee evaluates the structure, size, composition and performance of the Bank's governing bodies once a year and makes recommendations for changes as necessary. The evaluation of the management bodies is presented in the annual report of the Nomination Committee. One of the functions of the Bank's Appointment Committee is also to evaluate regularly the skills, knowledge and experience of individual directors and report to the collegial body.	
102-29 Identification and management of economic, environmental and social impacts	Economic, environmental and social impacts are assessed at the level of senior management when planning bank activities.	
102-30 Effectiveness of risk management processes	The Bank analyzes, evaluates, assumes and manages the risks or groups of risks it faces in its operations. Risk management policy, approved by the Bank's Supervisory Council and its different risk management procedures, helps to ensure the integrity of risk management process within the Group. The objective of the risk management policy is to define the risks and the principles of their management in the activities of the Group. As the various risks faced by the Group are interrelated, their management is centralized, for this purpose there is Risk Management Committee. One of the main goals of the Bank's Risk Management Committee is the organization and coordination of the risk management system. The Group reviews its risk management procedures and systems on a regular basis, at least once a year, taking into account market developments, new products and emerging best practices. Šiaulių bankas' Group of Companies annually conducts self-assessment. This process analyzes the types of risks that can arise from banking activities and have a significant impact on the bank group. The major risks faced by the Group are: credit, market, liquidity, concentration, operational, IT and compliance risks.	For more information see Financial Accountability 2018, explanatory letter, under Financial Risk Management
102-32 Role of the supreme management body in the reporting of sustainability	The report is reviewed by CEO.	
Employees		
102-35 Remuneration policy	The remuneration of employees at the Bank is determined by the Remuneration Policy, bonus assigning procedure, variable remuneration assigning, calculation and payment procedure, rules for calculation and payment of wages and related payments, rules of work procedure and other internal legislation.	Annual report, under Remuneration Policy
102-36 The process of determining the salary	Since 2017, the Bank uses the *Korn Ferry Hay Group* methodology, which takes account of the pay rates for specific job levels when determining remuneration. The levels are set taking into account the whole national market as well as regional differences (excluding managerial positions). This allows to ensure internal and external reward justice.	

Involvement of stakeholders

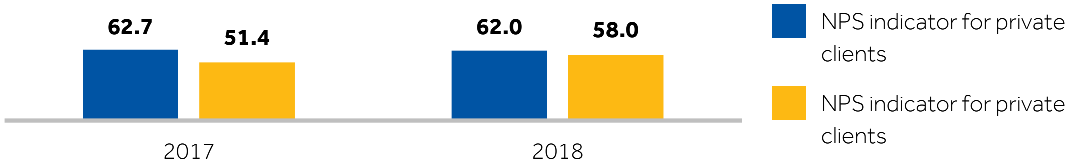
102-40 List of stakeholder groups	*Stakeholders*	*Methods of inclusion*
	Employees	▪ Social initiatives; ▪ Suggestion provision and realization opportunities; ▪ Report to compliance officer opportunity; ▪ Annual discussion of the activity; ▪ Bank's internal website (intranet).
	Shareholders	▪ Regular reports; ▪ Presentation of performance results to investors; ▪ Shareholders meetings.
	Clients	▪ Customer service quality surveys; ▪ Communication on social networks; ▪ Bank's website; ▪ Events for clients.
	Suppliers and Partners	-
	Regulatory bodies	▪ Regular reports; ▪ Attendance at meetings.
	Communities, society	▪ Support and Support Projects; ▪ Educational activities.
	Associated Structures	▪ Social Responsibility Report.
	Media	▪ Notices; ▪ Comments; ▪ Events.
102-42 Identification and selection of stakeholders	Stakeholders have been selected based on the nature of the organization's activities and on what the organization can have impact, directly or indirectly, and what has an impact on the organization.	
102-43 Approach to stakeholder engagement	Customer feedback is sought through the analysis of the secret buyer, the customer recommendation index (NPS index) and customer service quality and employee sales skills of the Lithuanian commercial banking sector. The secret buyer survey assesses the quality of customer service at the bank's divisions. The survey evaluates the areas in which customer service employees still have to pull up and which work perfectly well. The survey data is used as a basis for the annual training of customer service managers. The aim of the NPS indicator survey is to find out how private and business clients value Šiaulių bankas. In 2018, two NPS studies were conducted. One study was carried out by an external company, the other by responsible bank employees. The aim of the study of customer service quality and sales skills of the Lithuanian commercial banking sector is to measure and compare the fulfilment of the main customer service quality criteria in the Lithuanian commercial banking sector, to identify the strongest and weakest service areas and to evaluate the customer service quality trends. In 2018, secret buyer survey was conducted once by an external company. Other ways of involving stakeholders are listed in disclosure 102-40.	

102-44
Main topics and problems raised

In the course of the secret buyer's survey, in 2018 Šiaulių bankas became the bank that serves customers the best. Customer service quality was rated at 98.6 percent.



According to the NPS indicator survey, many customers were satisfied with the banking services, and most often the electronic banking was indicated in the areas to be improved. NPS indicator in 2018 was 60. NPS indicator in 2017 was 57.4.



According to the data of the survey of customer service quality and sales skills of the Lithuanian commercial banking sector, the position of Šiaulių bankas in the Lithuanian commercial banking sector was assessed, assessing the quality of customer service and the results of sales skills. The survey showed that Šiaulių bankas is the first in the mentioned sector and its customer service rate is 98.6%.

Report settings

102-45
Entities included in consolidated financial statements

Bank's subsidiaries:

The Bank directly controls the following subsidiaries:

- SB Lizingas UAB (finance lease, consumer credits);
- Šiaulių banko lizingas UAB (finance leases (leasing) and operating leases);
- Šiaulių banko turto fondas UAB (real estate management);
- SBTF UAB (management and administration of real estate and movables);
- Minera UAB (real estate management);
- Pavasaris UAB (development of residential apartment area);
- Life insurance Bonum Publicum UAB (life insurance);
- Šiaulių banko investicijų valdymas UAB (investment management);
- ŽSA 5 UAB (headquarters' activities).

The Bank indirectly controls the following subsidiaries:

- Sandworks UAB (real estate management);
- Apželdinimas UB (afforestation, landscaping);
- ŽSA 5 UAB (headquarters' activities).

For more information see in chapter of the annual report "Group of the Bank's Companies"

102-46
Definition of report content and topic boundaries

The report has selected the topics and criteria on which the bank collects data and which can be accurately estimated. New, additional criteria are measured for each year.

102-47
List of important topics

Socially responsible activities sought by the Bank to improve the quality of life in Lithuania, to promote sustainable economic development and environment, is focused on the areas in which the Bank may seek to have a positive impact, i.e.:

- Employees;
- Bank customers;
- Environmental protection;
- Communities and the general public.

This report includes topics related to all these areas.

102-50
The reference period

Report for 2018 was submitted.

102-51
Date of latest report

Since 2017, the bank reports under the Global Reporting Initiative (GRI) standard. This report is the second one.

102-52 Reporting cycle	The report on socially responsible activities is prepared annually.
102-53 Contact point for report related questions	Please submit questions and comments on the report on socially responsible activities by e-mail komunikacija@sb.lt.
102-54 Notifications about reporting in accordance with GRI standards	This report is based on the GRI Standards Baseline.
102-56 External check	This report has been audited.

Economic efficiency

201-1 Direct economic value created and distributed

Based on performance, the general meeting of shareholders annually decides whether to pay dividends to shareholders.

Data on the dividends paid by the bank:

	2016	*2017*	*2018*
Percentage of the nominal value	0.69	1.72	1.72
Dividend amount per share, Eur	0.002	0.005	0.005
Dividend Amount, Eur	629 147	1 887 442	2 264 938
Dividends to net profit,%	2.64	4.32	7.05

203-2 Significant indirect economic impact

Small and medium business finance
One of the priority areas of the Bank's activities is the financing of small and medium-sized businesses, which helps the Bank to promote the development of small and medium-sized enterprises (SMEs). The Bank is actively using a variety of financial engineering instruments that make it possible to finance companies that would not be able to obtain usual credit, thus contributing to their growth.
Of all the banks operating in Lithuania, Šiaulių bankas has the largest number of products with European Union facilities administered by Invega UAB: a risk-sharing instrument for SME financing, various portfolio guarantees for SME loans, factoring and leasing. The bank also has a guarantee from the European Investment Bank for the financing of innovative companies aimed to promote the development of innovations.

Renovation of multi-apartment buildings and regional development
The Bank aims to promote the development of the economy of the regions of the country and to reduce the differences between them.
One of the measures is the financing of renovation (refurbishment) of apartment buildings. A large part of apartment renovation projects takes place outside major cities. These projects involve the companies that manage them and the construction contractors thus creating jobs in the regions.
Šiaulių bankas is the leader in financing the renovation of multi-apartment buildings: 2 out of 3 multi-apartment buildings in Lithuania are financed by Šiaulių bankas. At the end of 2018, Šiaulių bankas signed a guarantee agreement with the European Investment Bank for the implementation of apartment renovation projects. Under this agreement, Šiaulių bankas will allocate up to EUR 150 million for apartment renovation.

Other modernization projects
The Bank is also involved in the energy efficiency improvement program. In 2018, the agreement was signed with VIPA, according to which the bank will finance the modernization of municipal buildings as a financial intermediary also contributing its own funds. This financial instrument is intended to increase the energy efficiency of municipal public buildings and is financed by the European Regional Development Fund.

204-1 Local purchases

In 2018, 91.6 percent all purchases were from local suppliers, 8.4 percent from foreign ones.

<table>
<tr><th colspan="2">Transparency and prevention of corruption</th></tr>
<tr><td>205-1
Assessing corruption-related risks</td><td>Money laundering prevention
The Bank is responsible for the prevention of money laundering and terrorist financing by consistently and purposefully implementing existing and developing new measures to prevent money laundering and terrorist financing and to apply them in its activities:
▪ Identification of customers, customer representatives and beneficiaries;
▪ Collection and verification of information on the purpose and nature of the business relationship (application of "Know Your Customer" rule);
▪ Monitoring of business relationships and monetary transactions;
▪ Identification of suspicious monetary transactions and transmission of information to the Financial Crime Investigation Service and others.
Existing and new anti-money laundering measures are developed taking into account: legislation regulating the prevention of money laundering and terrorist financing of the Republic of Lithuania, FATF (Financial Action Task Force), EU, UN, US legislation.

Prevention of corruption and conflict of interest
Actions that can be defined as intolerable cases of corruption are defined in the Code of Ethics of Šiaulių bankas AB.
In order to avoid potential conflicts of interest, bank employees provide declarations of economic interests.
The Bank pays all taxes to the State of Lithuania responsibly, complies with the legislation in force, prepares transparently for and participates in tenders. The Bank implements the requirements of the Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS).</td></tr>
<tr><td>205-2
Communication and training on anti-corruption policies and procedures</td><td>The Bank's employees are committed to complying with the Šiaulių bankas AB Code of Ethics, which sets out the following principles as the most important:
▪ Honesty;
▪ Responsibility and accountability;
▪ Respect for the law, human and human rights;
▪ Impartiality, objectivity and justice;
▪ Exemplary behaviour.

The Code of Ethics regulates what can be considered as intolerable cases of corruption. All new employees of the Bank are introduced to the Code of Ethics.</td></tr>
<tr><td>205-3
Confirmed corruption cases and actions taken</td><td>In 2018, no incidents of corruption were identified.</td></tr>
<tr><td>206-1
Legal action on anti-competitive conduct and antitrust practices</td><td>No such actions were identified during the reporting period.</td></tr>
<tr><th colspan="2">Environment Protection</th></tr>
<tr><td>301-1
Consumption of materials for packaging</td><td>1032 kg of different products were produced for the bank's needs. Of these, plastic payment cards: 394 kg, packing materials (envelopes, paper and plastic bags, promotional packages, cash locks): 638 kg.</td></tr>
</table>

<table>
<tr><td>302-1
Energy consumption in the organization</td><td>
Fuel consumption

	Consumed in 2017, tons	Consumed in 2018, tons
Petrol	96.72 t	91.83 t
Diesel fuel	67.70 t	72.00 t

Electric power consumption

	Quantity consumed / produced from renewable sources in 2017	Quantity consumed / produced from renewable sources in 2018
Electricity	2549,443MWh / 1127,046 MWh	2596,167 MWh / 1401,795 MWh
Consumption from renewable sources	44 %	54 %

Gas consumption for heating:

	Consumed in 2017	Consumed in 2018
Gas	109306 kWh	207360 kWh

Organization uses two types of heating: district and gas. It is currently not possible to estimate the energy used for district heating.
</td></tr>
<tr><td>302-4
Reducing energy consumption</td><td>
To reduce fuel consumption and reduce atmospheric emissions:

- The Bank uses an electronic ordering system for operational cars, which allows planning business trips in groups and travelling to the lowest possible number of cars;
- Bank employees are encouraged to travel by public transport (e.g. by train, bus) to Lithuania;
- Encourages to organize meetings involving employees and partners from different cities, in modern teleconferencing halls in Vilnius, Kaunas, Klaipėda and Šiauliai.

In order to reduce paper consumption, in 2018 the internal and external document management system, which reduces the need for printed documents, continues to be actively developed.
In 2018, the first robot was introduced in the bank, which has made the manual processing of payment card transactions automated.
</td></tr>
<tr><td>Disclosure 305-1
Direct (Scope 1) GHG emissions</td><td>Not calculated.</td></tr>
<tr><td>305-2
Indirect energy (Scope 2) GHG emissions</td><td>Not calculated.</td></tr>
<tr><td>307-1
Non-compliance with environmental laws and regulations</td><td>There were no non-compliances with environmental laws and/or regulations during the reporting period.</td></tr>
</table>

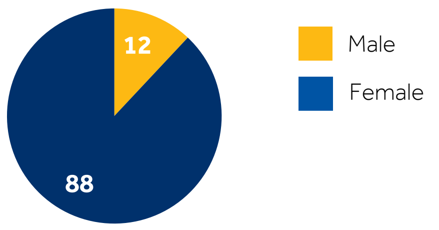
Relations with employees

401-1
Recruitment of new employees and change of employees

The Bank maintains long-term working relationships with employees. On 31 December 2018 almost 33 per cent Bank employees have been working for more than 10 years. In 2018 the total turnover of employees was 13.2 per cent (Total staff turnover in 2017 was 14.5%).

On 31 December 2018, in total, 714 employees worked in the bank and 805 employees in the bank group. Compared to 31 December 2017, the number of employees in the Bank increased by 1.7%, while the number of employees in the Bank Group increased by 1.2%.

Total staff turnover in 2018 was 13.2 per cent.
New employees in 2018 by gender:



New employees in 2018 by region:

	Number of new employees
Kaunas	30
Klaipėda	11
Šiauliai	21
Vilnius	43
Total:	**105**

401-3
Parental leave

All employees, regardless of gender, are entitled to parental leave.

Employees, in 2018 using parental leave *:

	Number of employees
Female	31
Male	0
Total:	**31**

**This figure includes both parental leave granted and extended in 2018.*

Paternal leaves granted in 2018:

	Number of employees
Male	6

Number of employees returning to work after childcare leave in 2018 by gender:

	Number of employees
Female	20
Male	1
Total:	**20**

404-1
Average number of trainings per employee per year

The average number of training days per year for the Bank's network staff is 1.5 days. The staff of the Centre and the regional units had an average of 8 hours of external training per year.

404-2 Employee qualification and transition assistance programs	The system of employee education includes the process of adaptation of newcomers, professional, specific (compulsory training regulated by LT legislation), general education training. Newbie Days for newbie adaptation program is a 2-day event where internal lecturers introduce new employees to the company and its ongoing processes, departmental functions and responsibilities. In 2018, approximately 90 new employees participated in the Newbie Days. Every year, the Bank's network staff – customer service managers, group managers – are trained to update their knowledge of banking products and train their customer service skills. The purpose of these trainings is to provide, consolidate and develop customer service, active sales skills, change employee attitudes, familiarize employees with existing or new bank products and services. In 2018, 12 such training projects took place. Started in 2017, the training program for credit managers, credit project managers Financing Solutions Forum was continued. In 2018, about 80 employees of the bank's credit field participated in this program. The final financing solutions forum conference was devoted to external speakers, experts sharing insights and trends: the macro situation, digitization, regulation, as well as touching topics like self-motivation and history of winning teams. More than 200 bank employees attended this conference. 80 employees of the Centre's departments participated in external training, which raised their expertise in professional fields. Started in 2017, executive training program, the executive academy was completed in 2018. It was attended by 94 top and middle managers of the bank, who improved the skills of leadership, emotional intelligence and teamwork during the program. Program duration was 64 hours per employee. In 2018, two executive club sessions were held in Vilnius and Šiauliai. Senior executives participated in the continuing education program: Executive Supervision and Adaptive Leadership. In order to achieve efficiency, working in work groups and more professional project management, a great attention in the bank in 2018 was dedicated to strengthening project management expertise by organizing two-day project management training for project managers/managers and one-day training for top managers.
Communities and the general public	
413-1 Activities with local community involvement, impact assessments and development programs	*Cooperation with educational institutions or organizations* In 2018 the bank supported: ▪ Lithuanian Student Union; ▪ Vilnius College career days; In 2018 the bank cooperated: ▪ Evaluated the project works of Vilnius University, Faculty of Economics and Business; ▪ Lectures on the profession of banker were organized for pupils in Saulė Gymnasium of Šiauliai; ▪ Collaborated with Utena College. One bank employee was chairman of the exam commission; ▪ Employees of the Bank gave lectures/presentations at the events of Kėdainiai and Raseiniai Farmers' Union. *Community Strengthening* Being a bank of Lithuanian capital, it pays great attention to fostering traditions of cities and towns of the country and promoting cultural life. In 2018, the bank allocated almost 48 thousand euro support for community, cultural and sporting projects: ▪ Ukmergė, Alytus, Šiauliai, Utena, Varėna town celebrations; ▪ Pažaislis Music Festival; ▪ Lithuanian Music Support Foundation; ▪ Sea Festival in Klaipeda; ▪ Šiauliai Rotary Club; ▪ And for other projects. Sports Organizations & Events: ▪ Basketball club Šiauliai; ▪ Dakar Rally (crew of V. Žala and Saulius Jurgelėnas). *Reducing social exclusion* Since 2014, in co-operation with the Public Enterprise Goodwill Projects, the bank provides the opportunity for clients to: ▪ Donate the desired amount of money to aukok.lt social projects through the online banking system; ▪ Donate cash in donation boxes in the bank's branches. In 2018, almost 1700 euros were collected in the donation boxes, which were transferred to the Public Enterprise Good Will Projects.

Compliance	
417-2 Cases of non-compliance in product and service information and labelling	On 28 August 2018 the Supervisory Authority (Bank of Lithuania) imposed Šiaulių bankas a fine amounting 0.03 per cent of the amount of gross annual activity income for 2017, i.e. EUR 28,113 for the bank in the period of 1-31 May 2018, by promoting consumer credit advertising on television, did not comply with Article 4 of the Law on Consumer Credit requirements set out in Annex I, that the standard information is presented in a noticeable manner over the noticeably long time. The Bank recognized incomplete implementation of the law and paid the fine. The Bank's Contact Centre registers customer complaints or claims regarding the provision of information about services or products. In 2018, there were no cases of non-compliance when the bank or group companies was fined or warned for misinformation about the services.
418-1 Complaints based on customer privacy violations and loss of customer data	The Bank has not received any reasonable complaints about a breach of client privacy.
419-1 Failure to comply with social and economic laws and regulations	The Bank has not identified any cases of non-compliance with social or economic laws or regulations.

CONFIRMATION FROM THE RESPONSIBLE PERSONS

We, Deputy Chief Executive Officer acting as Chief Executive Officer of Šiaulių bankas AB Donatas Savickas and Chief Accountant Vita Urbonienė, confirm hereby that the provided consolidated financial statements of Šiaulių bankas AB for 2018 are compiled in compliance with applicable accounting standards, correspond to the reality and correctly reveal the assets, liabilities, financial status, activity result and cash flows of Šiaulių bankas AB and its Group of Companies, moreover, we confirm that the review of the business development and activities, the status of the Bank and the Group, alongside with the description of the key risks and indeterminacies incurred, are correctly revealed in the consolidated annual report.

Deputy Chief Executive Officer acting as Chief Executive Officer	Donatas Savickas
Chief Accountant	Vita Urbonienė

6 March 2019