UAB MEDICINOS BANKAS

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

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Independent Auditor's Report

To the Shareholders of UAB Medicinos Bankas

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

Opinion

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

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

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

Basis for Opinion

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

Company code: 111494971
VAT code: LT114949716

Key Audit Matters

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

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

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

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

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

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

Valuation of investment property (consolidated financial statements) and impairment of investments in subsidiaries (separate financial statements)

See Note 12 and Note 13 to the consolidated and separate financial statements

The carrying amount of investment property in the consolidated financial statements as at 31 December 2017 amounts to EUR 6,213 thousand with the net decrease in the fair value of investment property of EUR 680 thousand during the 2017 year. The carrying amount of investments in subsidiaries in the separate financial statements as at 31 December 2017 amounts to EUR 6,439 thousand with the net decrease in the recoverable amount of the investment in subsidiaries by EUR 1,140 thousand during the 2017 year.

The key audit matter	How the matter was addressed in our audit

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

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

On behalf of KPMG Baltics, UAB

Domantas Dabulis
Partner pp
Certified Auditor

Vilnius, the Republic of Lithuania
13 March 2018

(All amounts in EUR thousand unless otherwise stated)

ANNUAL MANAGEMENT REPORT

The reporting period covered by the Consolidated Annual Report

Year 2017.

Group companies, contact details and types of their main activities

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

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

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

Main activities. Real estate management and development.

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

Main activities. Real estate management and development.

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

Main activities. Real estate management and development.

(All amounts in EUR thousand unless otherwise stated)

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

Main activities. Real estate management and development.

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

Main activities. Real estate management and development.

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

Main activities. Granting of consumer credit to natural persons.

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

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

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

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

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

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

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

Description of the main risk types and uncertainties

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

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

Ratios and prudential requirements for banking activities

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

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

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

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

Credit risk

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

Liquidity risk

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

Market risk

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

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

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

Operational risk

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

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

(All amounts in EUR thousand unless otherwise stated)

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

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

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

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

3. Notes on consolidated financial statements and data

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

4. Data on acquisition of own shares

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

5. Information about the Bank's branches and representatives

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

Bank branches:

Centras Branch
Pamėnkalnio St. 40, LT-01114 Vilnius

Šalčininkai Branch
Vilniaus St. 63, LT-17116 Šalčininkai

Kaunas Branch
Donelaičio St. 76, LT-44248 Kaunas

Klaipėda Branch
Šermukšnių St. 1, LT-91206 Klaipėda

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

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

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

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

6. Material events after the end of financial year

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

7. Company's business planning & forecasting

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

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

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

(All amounts in EUR thousand unless otherwise stated)

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

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

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

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

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

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

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

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

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

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

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

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

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

General quantitative information by business areas:

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

* Paid amounts without taxes paid by employer

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

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

Benefit appointment related with the termination of a contract:

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

9. Information on the internal management

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

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

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

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

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

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

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

Chief Executive Officer has 3 deputies:

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

Committees of the Bank

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

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

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

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

10. Internal control system of the Bank

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

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

Acting Chairman of the Board and Chief Executive Officer Dalia Klišauskienė

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

(continued on the next page)

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

(All amounts in EUR thousand unless otherwise stated)

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

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

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

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

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED INCOME STATEMENTS

The Group 2017	The Group 2016 (restated)		Notes	The Bank 2017	The Bank 2016 (restated)
8,224	7,652	Interest income	22	8,161	7,642
(1,558)	(1,603)	Interest expenses	22	(1,558)	(1,603)
6,666	**6,049**	**Net interest income**		**6,603**	**6,039**
3,742	3,293	Service fee and commission income	23	3,746	3,293
(450)	(524)	Service fee and commission expenses	23	(435)	(524)
3,292	**2,769**	**Net service fee and commission income**		**3,311**	**2,769**
-	-	Net result on equity securities trading		(29)	-
9	602	Net result on securities trading	24	9	602
3,822	3,180	Net foreign exchange gain	25	3,822	3,180
100	226	Net result from operations with derivatives	15	100	226
-	-	Impairment of investments into subsidiaries	13	(1,140)	(1,611)
(974)	(1,216)	Net result on operations on investment property	12, 26	(56)	(153)
333	372	Other income	27	186	353
13,248	**11,982**	**Total operating income**		**12,806**	**11,405**
(233)	(1,817)	Impairment of loans and other financial assets	28	(186)	(1,548)
13,015	**10,165**	**Operating income after impairment**		**12,620**	**9,857**
(6,777)	(6,292)	Salaries and benefits	29	(6,618)	(6,189)
(382)	(312)	Depreciation	10	(382)	(312)
(200)	(184)	Amortisation	11	(190)	(184)
(4,023)	(3,120)	Other operating expenses	29	(3,776)	(2,912)
(11,382)	**(9,908)**	**Total operating expenses**		**(10,966)**	**(9,597)**
1,633	**257**	**Operating profit (loss)**		**1,654**	**260**
(7)	**263**	**Income tax expense**	30	**(7)**	**263**
1,626	**520**	**Profit (loss) for the year**		**1,647**	**523**
1,626	**520**	**Attributable to equity holders of the Bank**		**1,647**	**523**

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

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

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

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

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

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

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The Bank

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

(continued on the next page)

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

(All amounts in EUR thousand unless otherwise stated)

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

The Group

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

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

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

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED CASH FLOW STATEMENTS

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

(continued on the next page)

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

(All amounts in EUR thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED CASH FLOW STATEMENTS (CONT'D)

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

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

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

(All amounts in EUR thousand unless otherwise stated)

Note 1 Background information

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

Pamėnkalnio St. 40,
Vilnius, Lithuania.

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

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

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

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

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

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

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

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

Note 2 Basis of preparation and significant accounting policies

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

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

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

Changes in accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Classification – Financial assets

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

(All amounts in EUR thousand unless otherwise stated)

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

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

Classification – Financial assets (cont'd)

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

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

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

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

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

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

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

The business model assessment

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

SPPI test

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

The expected credit loss impairment model

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

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

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

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

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

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

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

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

Under Stage 3 (default) there are loans with:

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

(All amounts in EUR thousand unless otherwise stated)

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

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

The expected credit loss impairment model (cont'd)

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

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

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

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

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

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

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

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

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

(All amounts in EUR thousand unless otherwise stated)

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

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

The expected credit loss impairment model (cont'd)

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

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

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

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

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

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

Classification - Financial liabilities

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

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

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

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

(All amounts in EUR thousand unless otherwise stated)

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

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

Adoption

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(iv) Annual Improvements to IFRSs

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

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

Basis of consolidation

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

Business combinations

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

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

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

Subsidiaries

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

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

Non-controlling interests

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

Loss of control

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

Inter-company transactions between the Group companies are eliminated.

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

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

Financial assets and financial liabilities

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

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

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

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

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

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

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

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

Financial assets or financial liabilities at fair value through profit or loss

Financial assets

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

Derivative financial instruments

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

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

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group and the Bank have the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

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

Financial assets and financial liabilities (cont'd)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and advances are recognised on drawdown. From the date of signing a contractual agreement to the drawdown date they are accounted for as off-balance sheet items.

Loan agreements foresee the possibility of repayment before the maturity date. The management of the Group and the Bank cannot estimate how often or when clients would use such an option and therefore the cash flows or the expected life cannot be estimated reliably and, consequently, the contractual cash flows over the full contractual term were used by the Group and the Bank in determining the effective interest rate.

Factoring

A factoring transaction is a funding transaction whereby the Group and the Bank finance their customers through buying their receivable claims. Companies transfer rights to invoices due at a future date to the Group and the Bank. Factoring transactions comprise factoring transactions with a right to recourse (the Group and the Bank are entitled to sell the overdue claim back to the customer) and factoring transactions without a right to recourse (the Group and the Bank are not entitled to sell the overdue claim back to the customer). The factor's revenue comprises the lump-sum contract fee charged on the conclusion of the contract, commission fees charged for processing the invoices, and interest income depending on the duration of the payment term set by the purchaser. Gains and losses are recognised in profit or loss when the factoring receivables are derecognised or impaired, as well as through the amortisation process.

The factoring balance includes the aggregate amount of factored invoices outstanding as at the reporting date and all amounts accrued for the unpaid amount.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity through other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in profit or loss.

Debt issued and other borrowed funds

Issued financial instruments and their components are classified as liabilities, where the substance of the contractual arrangement results in the Group and the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of compound financial instruments, that contain both liability and equity elements, are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amounts separately determined as the fair value of the liability component on the date of issue.

After initial recognition, debt issued and other borrowings, which are not designated at fair value through profit or loss, are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

Repurchase agreements

Securities sold that are subject to linked repurchase agreements are retained in the financial statements as trading or investment securities and the liability to the counterparty of the agreement is included in deposits from banks, other deposits, or deposits due to customers, as appropriate. Securities purchased under agreements to resell are recorded as loans and advances to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and amortised over the life of repurchase agreements using effective interest rate for the whole period.

Borrowed securities are not included in the financial statements, unless they were sold to a third party. In that case a liability for the obligation to return these securities is recognised at fair value as a trading liability.

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

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group and the Bank have transferred their rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group and the Bank either (a) have transferred substantially all the risks and rewards of the asset, or (b) have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

Where the Group and the Bank have transferred their rights to receive cash flows from an asset or have entered into a pass-through arrangement, and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's and the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's and the Bank's continuing involvement is the amount of the transferred asset that the Group and the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's and the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-offs

In 2014 the Bank started to apply partial write-offs. Partial write-off may be applicable only for clients having the status of defaulted clients, if there is no evidence that full or partial Bank claim (principal, accrued interest and other charges) towards the client will be covered (e.g. the client has the status of bankrupt procedure, or the Bank has initiated legal procedure and there is not enough collateral and no expected cash flow or any other property to fully cover part of the claim).

When the loans and advances cannot be recovered and all collateral has been realised, they are written-off and charged against impairment for incurred credit losses. The management of the Group and the Bank makes the decision on writing-off loans. Recoveries of loans previously written-off are credited to the profit or loss.

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Employee benefits

Short-term employee benefits

Short-term employee benefits are recognised as a current expense in the period when employees render services. These include salaries and wages, social security contributions, bonuses, paid holidays and other benefits. There are no significant long-term employee benefits.

Social security contributions

The Bank pays social security contributions to the State Social Security Fund (hereinafter referred to as the Fund) on behalf of its employees in accordance with the local legal requirements. The social security contributions are recognised as an expense on an accrual basis and are included within personnel expenses.

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

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to EUR at the official exchange rate of the Bank of Lithuania (spot exchange rate) prevailing at the dates of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in currencies other than EUR are recognised in the profit or loss.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot exchange rate prevailing at the date of the statement of financial position. Gains and losses resulting from the translation of items of the statement of financial position are recognised in the profit or loss. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, while non-monetary assets carried at fair value or revalued amounts are translated at the exchange rate when the fair value was determined.

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

	31 December 2017	31 December 2016
USD	1,1993	1,0453

Interest revenue and expenses

Interest revenue and expense are recognised in the profit or loss on an accrual basis using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Fees and commission

Fees and commission revenue and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission revenue, including account servicing fees, investment management fees, sales commission, placement fees and other are recognised on accrual basis as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to the transaction and service fees, which are expensed as the services are received.

Expenses

Other expenses are recognised on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred. The amount of expenses is usually accounted for as the amount paid or due.

Dividends

Dividend revenue is recognised when the right to receive payment is established.

Cash and cash equivalents

Cash, current accounts with the Bank of Lithuania and current accounts with other banks due to their high liquidity with maturity up to three months from the date of placement are accounted for as cash and cash equivalents in the statement of cash flows. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the profit or loss in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Intangible assets

Initially intangible assets acquired by the Group and the Bank are stated at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. The Group and the Bank do not have any intangible assets with indefinite life.

Intangible assets with finite lives are amortised over the useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense when incurred.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the intangible assets, from the date that it is available for use. The estimate useful life of software is 3–7 years.

Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of that equipment. The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in the profit or loss as incurred.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Buildings are recorded at revalued amounts, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which is determined using fair value at the date of statement of financial position. The fair value of the buildings is determined by appraisals undertaken by certified independent valuators. The depreciation of buildings is calculated on a straight-line basis over their estimated useful lives. The revaluation reserve for buildings is being reduced each period by the difference between depreciation based on the revalued carrying amount of the asset and that based on its original cost, which is transferred directly to retained earnings.

In the case of revaluation, when the estimated fair value of an asset is lower than its carrying amount, the carrying amount of this asset is immediately reduced to the amount of fair value and such decrease is recognised as an expense. However, such impairment is deducted from the amount of increase of the previous revaluation of this asset accounted for in the revaluation reserve to the extent it does not exceed the amount of such increase.

In the case of revaluation, when the estimated fair value of an asset is higher than its carrying amount, the carrying amount of this asset is increased to the amount of fair value and such increase is recorded in the revaluation reserve of property and equipment within equity.

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

Property and equipment (cont'd)

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives for property and equipment are as follows:

Buildings	60–90 years
IT hardware	3–6 years
Vehicles	6 years
Fixtures and fittings	3–10 years

Depreciation methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each financial year-end.

Leasehold improvements are amortised over the shorter of the remaining lease term and their useful lives. The asset's useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group and the Bank have a currently enforceable legal right to set off the amounts and intend either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's and the Bank's trading activity.

Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group and the Bank have access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Group and the Bank measure the fair value of an instrument using quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

For financial instruments traded in active financial markets the fair value is determined by reference to quoted market prices. Bid prices are used for assets and ask prices are used for liabilities. In the absence of an active market the fair value of interest-bearing financial instruments is estimated based on discounted cash flows using the interest rates for items with similar terms and risk characteristics. For unquoted equity investments fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same and discounted cash flow analysis.

Measurement of fair values

A number of the Group and Bank accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group and the Bank use market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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

Measurement of fair values (cont'd)

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

Note 9 – Loans and receivables
Note 10 – Property and equipment
Note 12 – Investment property
Note 32 – Fair value of financial instruments

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the profit or loss;
- a gain or loss on an available-for-sale financial asset is recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses on debt financial instruments) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the profit or loss. Interest in relation to an available-for-sale financial asset is recognised as earned in the profit or loss calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

Impairment of financial assets

The Group and the Bank assess at each date of the statement of financial position whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

<u>Due from banks and loans and advances to customers</u>

For amounts due from banks and loans and advances to customers carried at amortised cost, the Group and the Bank first assess individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group and the Bank determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, they include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding possible future credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

The present value of the estimated future cash flows is discounted using the financial asset's original effective interest rate. If loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

In assessing collective impairment the Group and the Bank use statistical modelling of 2 years historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling.

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

Impairment of financial assets (cont'd)

Due from banks and loans and advances to customers (cont'd)

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale investments

In the case if investments are classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of investment is less than its cost. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit or loss.

Held-to-maturity investments

For held-to-maturity investments the Group and the Bank assess individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts previously charged are credited to the profit or loss. However, the reversal does not result in a carrying amount that exceeds what the amortised cost would have been absent any impairment.

Renegotiated loans

Where possible, the Group and the Bank seek to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan terms. A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Management continuously reviews renegotiated loans to ensure that all criteria are met and that the future payments are likely to occur. The loans continue to be the subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Collective impairment

Individually assessed loans which are not known to be impaired are assessed collectively. Incurred losses which were not estimated during the individual assessment because of lack of time to get information about the events related to these losses are assessed collectively based on historical data.

Impairment of other assets

The carrying amounts of the Group's and the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

If such an indication exists, the Group and the Bank make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in profit or loss.

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

Impairment of other assets (cont'd)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount determined, net of depreciation (if any), had no impairment loss been recognised for the asset in prior years. The reversal of impairment is recognised as profit or loss, unless the assets are carried at revalued amounts. If that is the case, such reversal is recognised as income to the extent it does not exceed the previous revaluation decrease recognised in profit or loss, and the remaining part as a revaluation increase. After such a reversal the depreciation charge (if any) is adjusted in future periods to allocate the asset's revised carrying amount, on a systematic basis over its remaining useful life.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

<u>Finance – the Group and the Bank as lessee</u>

The Group and the Bank recognise finance leases as assets and liabilities in the statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments, each determined at inception of the lease. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine. Otherwise, the Group's and the Bank's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

<u>Operating – the Group and the Bank as lessee</u>

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other administrative and operating expenses.

<u>Finance leases – the Group and the Bank as lessor</u>

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

Share capital

Share capital is presented in the statement of financial position at the amount subscribed.

Income tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is calculated based on the Lithuanian tax legislation.

In accordance with the Law on Corporate Income Tax of the Republic of Lithuania, the current income tax rate is 15% on taxable income. Expenses related with taxation charges and included in these financial statements are based on calculations made by the management in accordance with Lithuanian tax legislation.

Tax losses can be carried forward for an indefinite period, except for the losses incurred as a result of disposal of securities. As at the taxable year 2015, ordinary tax losses carried forward can only be set off against up to 70% of the calculated taxable profits of the taxable period. The losses from disposal of securities can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

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

Income tax (cont'd)

Deferred taxes are calculated using the liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax laws that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred tax assets have been recognised in the statement of financial position to the extent the management believes they will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

Other taxes

Real estate annual tax rate is up to 3% on the tax value of property and equipment and foreclosed assets. The Bank is also obliged to pay land and land rent taxes, make payments to guarantee fund and social security contributions. These taxes are included in other expenses in the income statement.

Off-balance sheet items

All liabilities that may be recognised in the statement of financial position in the future are accounted for as off-balance sheet liabilities. This allows the Group and the Bank to assess capital requirement and to attract the necessary funding to cover these liabilities.

Related parties

Parties are considered to be related if one party has the ability to unilaterally or jointly control the other party or exercise significant influence over the other party in making financial or operational decisions, or where parties are under common control. In addition, members of key management personnel as well as their close family members and entities controlled by them, and close family members of individuals that unilaterally or jointly control the Bank or exercise significant influence over it. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Credit-related commitments

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group and the Bank are potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group and the Bank monitor the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Commitments to extend credit are treated as risk assets for capital adequacy calculation purposes.

In the ordinary course of the business the Group and the Bank issue financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, under Other Liabilities caption, being premium received. Subsequent to initial recognition, the Group's and the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required for settling any financial obligation arising as a result of the guarantee where payment has become probable.

Any increase in the liability relating to financial guarantees is recorded to profit or loss under Impairment expenses caption. The premium received is recognised in profit or loss in Net fees and commissions income caption on a straight line basis over the life of guarantee.

Guarantees represent irrevocable assurances that the Group and the Bank will make payments in the event when a customer cannot meet its obligations to the third parties. In case of execution of such a guarantee it is subsequently accounted for as statement of financial position item and is subject for impairment assessment. Until a guarantee is terminated, it is treated as risk asset for capital adequacy calculation purposes.

Documentary and commercial letters of credit represent written undertakings by the Group and the Bank on behalf of a customer authorising a third party to draw drafts on the Group and the Bank up to a stipulated amount under specific terms and conditions. Letters of credit are collateralised by the underlying shipments of goods. Letters of credit are treated as risk assets for capital adequacy calculation purposes.

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

Provisions

Provisions are recognised when the Group and the Bank have a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow or recourses embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The expense relating to any provision is presented in the profit or loss. If the effect of the time value of money is material, provisions are discounted using current pre-tax rate that reflects the risks specific to the liability. Where discounting is used the increase in the provision due to the passage of time is recognised as a borrowing cost.

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits is probable.

Subsequent events

Events subsequent to the year-end that provide additional information about the Group's and the Bank's position at the date of the statement of financial position (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

Note 3 Use of estimates and judgements in the preparation of financial statements

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation and judgements used in the preparation of the accompanying financial statements relate to evaluation of impairment losses for loans and other receivables, available-for-sale and held-to-maturity investments, investments in subsidiaries, fair value measurement, realisation of deferred tax asset, finance leases and derecognition of financial assets and going concern.

Below are presented key assumptions concerning the future and other key sources of estimation uncertainty at the date of the statement of financial position that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment losses on loans and receivables

The Group and the Bank regularly review their loans and receivables to assess impairment. The Group and the Bank use their experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and historical data relating to similar borrowers is available. Similarly, the Group and the Bank estimate changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables when scheduling its future cash flows. The Group and the Bank use their experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. For further information see note 9 and Note 34.

Fair value of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in profit or loss. Based on the policy of the Bank and the Group, investment property has to be revaluated by external valuators at least every 3 years. For further information see Note 12.

Fair value of property and equipment

The buildings are carried at revalued amount which is their fair value as at the revaluation date less subsequently accumulated depreciation and impairment. Revaluations are carried out regularly, at least every 5 years, ensuring that the carrying amount of buildings does not significantly differ from their fair values as at reporting date. The fair value of buildings is established by certified independent real estate valuators.

Note 3 Use of estimates and judgements in the preparation of financial statements (cont'd)

Impairment losses on loans and receivables (cont'd)

Fair value of property and equipment (cont'd)

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets. The revaluation reserve of buildings is reduced by an equivalent amount of annual depreciation charged on revalued buildings each year and is transferred directly to retained earnings.

In case of revaluation, when the estimated fair value of the assets exceeds their carrying value, the carrying value is increased to the fair value and the amount of increase is included into revaluation reserve of property and equipment as other comprehensive income in equity. However, such increase in revaluation is recognised as income to the extent it does not exceed the decrease of previous revaluation recognised in profit or loss. Depreciation is calculated from the depreciable amount which is equal to acquisition cost less residual value of an asset. More information in Note 10.

Impairment of available-for-sale and held-to-maturity investments

The determination of impairment indication is based on comparison of the financial instrument's carrying value and fair value. The Group uses valuation models based on quoted market prices of similar products.

For the purposes of impairment loss measurement, the Bank's management makes estimates of any expected changes in future cash flows from a specific financial instrument based on analysis of financial position of the issuer of the financial instrument. Held to maturity investments are disclosed in Note 8.

Write-off of loans and receivables

In 2014, the Bank started to apply partial write-offs. Partial write-off is applied only for the defaulted clients, if there is no evidence that full or partial Bank claim (principal, accrued interest and other charges) towards the client will be satisfied (e.g. the client has entered bankruptcy, or the Bank has initiated a legal procedure and there is not enough collateral and no expected cash flow or any other property to fully cover part of the claim). More information in Note 9.

Impairment losses on investments in subsidiaries

The Bank tests investments in its subsidiaries for impairment when impairment indicators are identified. The Bank applies the adjusted net asset method for evaluation of the fair value of its subsidiaries. Taking into consideration activities of the subsidiaries, the investment value is measured based on the fair value of the subsidiaries' assets and liabilities. At the end of each year the Bank evaluates investment amount into each subsidiary against subsidiaries' assets and liabilities stated at fair value. The value of the investment property owned by subsidiaries and specified in external valuation reports is adjusted by a certain coefficient defined by the management of the Bank depending on the type of the investment property and associated risks (Note 13).

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

Finance leases

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

Deferred tax asset

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies (Note 30).

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. Please refer to Note 34 for description of change in estimates on loan impairment.

Note 4 Going concern

The separate and consolidated financial statements have been prepared on a going concern basis.

(All amounts in EUR thousand unless otherwise stated)

Note 5 Placements with the central bank

The Group			The Bank	
31 December 2017	31 December 2016		31 December 2017	31 December 2016
1,943	1,894	Compulsory reserve with the central bank	1,943	1,894
27,099	19,164	Correspondent account with the central bank	27,099	19,164
29,042	**21,058**	**Placements with the central bank**	**29,042**	**21,058**

The Bank is being charged for holding compulsory reserves, i.e. for the whole amount of the compulsory reserves applying the European Central Bank's (ECB) main refinance operations interest rate. Moreover, the central bank of Lithuania calculates the interest amount for funds which exceed the amount of the compulsory reserves, applying the European Central Bank's (ECB) interest rate for using the deposit facility.

Note 6 Placements with banks and other credit institutions

The Group			The Bank	
31 December 2017	31 December 2016		31 December 2017	31 December 2016
6,929	7,530	Current accounts with correspondent banks	6,886	7,529
4,610	4,453	Term deposits	4,610	4,453
11,539	**11,983**	**Placements with banks and other credit institutions**	**11,496**	**11,982**

As at 31 December 2017, the Group and the Bank have pledged term deposits with the carrying amount of EUR 1,208 thousand for the possibility to perform FX transactions while as at 31 December 2016 EUR 1,200 thousand were pledged for the possibility to perform FX transactions.

As at 31 December 2017, the Group and the Bank have pledged term deposits with the carrying amount of EUR 66 thousand for an issued guarantee.

Note 7 Financial assets at fair value through profit or loss

The Group and the Bank

The Group			The Bank	
31 December 2017	31 December 2016		31 December 2017	31 December 2016
-	814	Government bonds of the Republic of Lithuania	-	814
-	531	Financial institution bonds	-	531
-	192	Non-financial company bonds	-	192
-	1,147	Government bonds of the Republic of Bulgaria	-	1,147
-	285	Government bonds of the Kingdom of Spain	-	285
-	1,216	Government bonds of the Republic of Latvia	-	1,216
-	997	Government bonds of the Republic of Slovenia	-	997
-	113	Government bonds of the Republic of Turkey	-	113
-	2,468	Government bonds of the Republic of Hungary	-	2,468
-	**7,763**	**Debt securities at fair value**	**-**	**7,763**

As at 31 December 2017 the Group and the Bank had no debt securities recognised at fair value through profit or loss. The debt securities were sold in 2017.

(All amounts in EUR thousand unless otherwise stated)

Note 7 Financial assets at fair value through profit or loss (cont'd)

Coupon rates and maturities of the debt securities are as follows:

	2017		2016	
	%	**Maturity**	**%**	**Maturity**
Government bonds of the Republic of Lithuania	-	-	0.60	2019
Financial institution bonds	-	-	3.25–4.25	2018
Non-financial company bonds	-	-	1.5	2017
Government bonds of the Republic of Bulgaria	-	-	4.25	2017
Government bonds of the Kingdom of Spain	-	-	4.60	2019
Government bonds of the Republic of Latvia	-	-	5.25	2017–2020
Government bonds of the Republic of Slovenia	-	-	4.75	2018
Government bonds of the Republic of Turkey	-	-	5.88	2019
Government bonds of the Republic of Hungary	-	-	4.13–5.75	2018

Note 8 Held-to-maturity investments

Held-to-maturity investments are as follows:

The Group			The Bank	
31 December 2017	**31 December 2016**		**31 December 2017**	**31 December 2016**
18,017	17,998	Government bonds of the Republic of Lithuania	18,017	17,998
-	-	Bank bonds	-	-
1,220	829	Non-financial company bonds	1,220	829
-	521	Government bonds of the Republic of Bulgaria	-	521
1,600	1,087	Government bonds of the Republic of Iceland	1,600	1,087
1,869	1,006	Government bonds of the Kingdom of Spain	1,869	1,006
1,943	-	Government bonds of the Republic of Belgium	1,943	-
1,058	1,115	Government bonds of the Republic of Croatia	1,058	1,115
1,003	3,921	Government bonds of the Republic of Latvia	1,003	3,921
2,127	2,163	Government bonds of the Republic of Poland	2,127	2,163
2,075	2,109	Government bonds of the Republic of Romania	2,075	2,109
2,565	-	Government bonds of the Republic of Slovenia	2,565	-
3,347	960	Government bonds of the Republic of Sweden	3,347	960
1,668	-	Government bonds of the Republic of Finland	1,668	-
-	510	Government bonds of the Republic of Turkey	-	510
1,368	1,441	Government bonds of the Republic of Hungary	1,368	1,441
39,860	**33,660**	**Held-to-maturity investments**	**39,860**	**33,660**

As at 31 December 2017, the Group and the Bank had held-to-maturity debt securities held as collateral amounting to EUR 8,188 thousand (EUR 6,633 thousand as at 31 December 2016) to secure the repurchase agreement under targeted longer-term refinancing operations provided by ECB.

(All amounts in EUR thousand unless otherwise stated)

Note 8 Held-to-maturity investments (continued)

Coupon rates and maturities of held-to-maturity investments are as follows:

	2017		2016	
	%	Maturity	%	Maturity
Government bonds of the Republic of Lithuania	0.3–5.5	2018–2024	1.50–5.50	2017–2024
Bank bonds	-	-	-	-
Non-financial company bonds	1.25–4.5	2018–2020	4.25–4.50	2018–2020
Government bonds of the Republic of Bulgaria	-	-	4.25	2017
Government bonds of the Republic of Iceland	2.5	2020	2.5	2020
Government bonds of the Republic of Belgium	1.125–1.5	2018		
Government bonds of the Kingdom of Spain	0.25–4.00	2018–2019	0.25	2019
Government bonds of the Republic of Croatia	5.875	2018	5.88	2018
Government bonds of the Republic of Latvia	0.25	2018	5.25	2017
Government bonds of the Republic of Poland	0.875–4.00	2019–2021	0.88–4.00	2019–2021
Government bonds of the Republic of Slovenia	4.125–4.75	2018–2019		
Government bonds of the Republic of Romania	2.75–4.625	2020–2025	2.75–4.63	2020–2025
Government bonds of the Republic of Swedish	0.875–1.00	2018	0.88	2018
Government bonds of the Republic of Finland	1.00	2018		
Government bonds of the Republic of Turkey	-	-	7.5	2017
Government bonds of the Republic of Hungary	5.75–6	2018–2019	5.75–6.00	2018–2019

Note 9 Loans and receivables

Loans to customers and receivables comprise:

	The Bank	
	31 December 2017	31 December 2016
Loans to customers, including short-term bills of exchange	152,518	134,797
Receivable with deferred payment	2,661	2,673
Overdrafts	1,348	1,683
Factoring	759	173
Leasing	11,874	10,613
	169,160	**149,939**
Less: individual impairment	(5,461)	(5,006)
Less: collective impairment	(245)	(394)
Loans and receivables, net	**163,454**	**144,539**

	The Group	
	31 December 2017	31 December 2016
Loans to customers, including short-term bills of exchange	152,523	134,818
Receivable with deferred payment	2,927	3,973
Overdrafts	1,348	1,683
Factoring	759	173
Leasing	11,874	10,613
	169,431	**151,260**
Less: individual impairment	(5,506)	(5,275)
Less: collective impairment	(247)	(394)
Loans and receivables, net	**163,678**	**145,591**

(All amounts in EUR thousand unless otherwise stated)

Note 9 Loans and receivables (cont'd)

On 15 September 2017, the Bank and the Group have purchased the loan portfolio of private persons with the nominal value of EUR 27,396 thousand and net discount of EUR 9,179 thousand. The acquisition value of the acquired portfolio amounted to EUR 18,295 thousand, considering directly attributable transaction cost of the financial asset. The gain of EUR 222 thousand was recognised from the above acquisition.

As at 31 December 2017, the Group and the Bank had a concentration of loans within the loan portfolio represented by loans issued to 10 major clients, the amount of which was EUR 29,522 thousand or 18.06% of the Group's net loan portfolios (EUR 29,431 thousand or 20.10% in 2016). As at 31 December 2017, the total impairment of these loans issued to 10 major clients in the Bank and in the Group amounted to EUR 42 thousand (EUR 34 thousand as at 31 December 2016).

Receivable with deferred payment includes the Bank's or the Group's receivables under instalment sale contracts of investment property or sale agreements of creditor's claims of the Bank. Under those sale agreements a buyer usually pays the Bank or the Group initial payment which is at least 10 percent of contractual amount and repays the rest amount of debt at the end of the contract and accrued interest on a regular basis according to the terms and conditions of sale contract. Management of credit risk derived from receivables with deferred payment complies with the general credit risk management principles described in Note 34 and credit risk exposure is mitigated using mortgage of real estate or pledge of creditor claims.

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

	The Bank		
	Corporate loans	**Individuals loans**	**Impairment total**
As at 31 December 2016	**4,419**	**981**	**5,400**
Individual impairment	**4,047**	**959**	**5,006**
Loans and receivables	4,038	959	4,997
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	9	-	9
Collective impairment	**372**	**22**	**394**
Loans and receivables	336	20	356
Loans to banks	-	-	-
Loans to financial institutions	6	-	6
Receivables from leasing	30	2	32
Impairment charged to profit or loss (Note 28)	**1,718**	**796**	**2,514**
Loans and receivables	1,670	795	2,465
Loans to banks	2	-	2
Loans to financial institutions	14	-	14
Receivables from leasing	32	1	33
Reversal of impairment charged to profit or loss (Note 28)	**(1,517)**	**(270)**	**(1,787)**
Loans and receivables	(1,460)	(268)	(1,728)
Loans to banks	(2)	-	(2)
Loans to financial institutions	(18)	-	(18)
Receivables from leasing	(37)	(2)	(39)
Write-offs	**(275)**	**(146)**	**(421)**
Loans and receivables	(275)	(146)	(421)
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	-	-	-
As at 31 December 2017	**4,345**	**1,361**	**5,706**
Individual impairment	**4,152**	**1,309**	**5,461**
Loans and receivables	4,135	1,309	5,444
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	17	-	17
Collective impairment	**193**	**52**	**245**
Loans and receivables	174	51	225
Loans to banks	-	-	-
Loans to financial institutions	2	-	2
Receivables from leasing	17	1	18

(All amounts in EUR thousand unless otherwise stated)

Note 9 Loans and receivables (cont'd)

	The Group		
	Corporate loans	Individuals loans	Impairment total
As at 31 December 2016	**4,688**	**981**	**5,669**
Individual impairment	**4,316**	**959**	**5,275**
Loans and receivables	4,307	959	5,266
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	9	-	9
Collective impairment	**372**	**22**	**394**
Loans and receivables	336	20	356
Loans to banks	-	-	-
Loans to financial institutions	6	-	6
Receivables from leasing	30	2	32
Impairment charged to profit or loss (Note 28)	**1,718**	**843**	**2,561**
Loans and receivables	1,670	842	2,512
Loans to banks	2	-	2
Loans to financial institutions	14	-	14
Receivables from leasing	32	1	33
Reversal of impairment charged to profit or loss (Note 28)	**(1,517)**	**(270)**	**(1,787)**
Loans and receivables	(1,460)	(268)	(1,728)
Loans to banks	(2)	-	(2)
Loans to financial institutions	(18)	-	(18)
Receivables from leasing	(37)	(2)	(39)
Write-offs	**(544)**	**(146)**	**(690)**
Loans and receivables	(544)	(146)	(690)
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	-	-	-
As at 31 December 2017	**4,345**	**1,408**	**5,753**
Individual impairment	**4,152**	**1,354**	**5,506**
Loans and receivables	4,135	1,354	5,489
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	17	-	17
Collective impairment	**193**	**54**	**247**
Loans and receivables	174	53	227
Loans to banks	-	-	-
Loans to financial institutions	2	-	2
Receivables from leasing	17	1	18

(All amounts in EUR thousand unless otherwise stated)

Note 9 Loans and receivables (cont'd)

	The Bank		
	Corporate loans	Individuals loans	Impairment total
As at 31 December 2015	**5,263**	**1,754**	**7,017**
Individual impairment	**4,918**	**1,731**	**6,649**
Loans and receivables	4,916	1,731	6,647
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	2	-	2
Collective impairment	**345**	**23**	**368**
Loans and receivables	300	22	322
Loans to banks	-	-	-
Loans to financial institutions	12	-	12
Receivables from leasing	33	1	34
Impairment charged to profit or loss (Note 28)	**3,400**	**741**	**4,141**
Loans and receivables	3,361	740	4,101
Loans to banks	-	-	-
Loans to financial institutions	1	-	1
Receivables from leasing	38	1	39
Reversal of impairment charged to profit or loss (Note 28)	**(1,559)**	**(269)**	**(1,828)**
Loans and receivables	(1,518)	(269)	(1,787)
Loans to banks	-	-	-
Loans to financial institutions	(7)	-	(7)
Receivables from leasing	(34)	-	(34)
Write-offs	**(2,685)**	**(1,245)**	**(3,930)**
Loans and receivables	(2,685)	(1,245)	(3,930)
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	-	-	0
As at 31 December 2016	**4,419**	**981**	**5,400**
Individual impairment	**4,047**	**959**	**5,006**
Loans and receivables	4,038	959	4,997
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	9	-	9
Collective impairment	**372**	**22**	**394**
Loans and receivables	336	20	356
Loans to banks	-	-	-
Loans to financial institutions	6	-	6
Receivables from leasing	30	2	32

(All amounts in EUR thousand unless otherwise stated)

Note 9 Loans and receivables (cont'd)

	The Group		
	Corporate loans	**Individuals loans**	**Impairment total**
As at 31 December 2015	**5,263**	**1,754**	**7,017**
Individual impairment	**4,918**	**1,731**	**6,649**
Loans and receivables	4,916	1,731	6,647
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	2	-	2
Collective impairment	**345**	**23**	**368**
Loans and receivables	300	22	322
Loans to banks	-	-	-
Loans to financial institutions	12	-	12
Receivables from leasing	33	1	34
Impairment charged to profit or loss (Note 28)	**3,669**	**741**	**4,410**
Loans and receivables	3,630	740	4,370
Loans to banks	-	-	-
Loans to financial institutions	1	-	1
Receivables from leasing	38	1	39
Reversal of impairment charged to profit or loss (Note 28)	**(1,559)**	**(269)**	**(1,828)**
Loans and receivables	(1,518)	(269)	(1,787)
Loans to banks	-	-	-
Loans to financial institutions	(7)	-	(7)
Receivables from leasing	(34)	-	(34)
Write-offs	**(2,685)**	**(1,245)**	**(3,930)**
Loans and receivables	(2,685)	(1,245)	(3,930)
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	-	-	-
As at 31 December 2016	**4,688**	**981**	**5,669**
Individual impairment	**4,316**	**959**	**5,275**
Loans and receivables	4,307	959	5,266
Loans to banks	-	-	-
Loans to financial institutions	-	-	-
Receivables from leasing	9	-	9
Collective impairment	**372**	**22**	**394**
Loans and receivables	336	20	356
Loans to banks	-	-	-
Loans to financial institutions	6	-	6
Receivables from leasing	30	2	32

In 2014, the Bank started to apply partial write-offs. Partial write-off is applied only for the defaulted clients, if there is no evidence that full or partial Bank claim (principal, accrued interest and other charges) towards the client will be satisfied (e.g. the client has entered bankruptcy, or the Bank has initiated a legal procedure and there is not enough collateral and no expected cash flow or any other property to fully cover part of the claim).

As at 31 December 2017, the outstanding amount of loans written-off in the Bank amounted to EUR 18.6 million (EUR 39.6 million as at 31 December 2016). During 2017, the income received from the written-off loans amounted to EUR 533 thousand (amounted to EUR 810 thousand during 2016), EUR 142 thousand have been received for sold written-off loan portfolio which amounted to EUR 17 million nominal value.

The impairment calculation policy is disclosed in the Note 34.

(All amounts in EUR thousand unless otherwise stated)

Note 10 Property and equipment

The movements in property and equipment were as follows:

The Bank

	Land, buildings and other real estate	Vehicles	Office equipment and other	Total
Acquisition cost or revalued amounts				
Balance as at 31 December 2016	**3,992**	**546**	**2,378**	**6,916**
Additions (reconstruction)	1,269	211	349	1,829
Disposals and write-offs	(499)	(12)	(414)	(925)
Balance as at 31 December 2017	**4,762**	**745**	**2,313**	**7,820**
Accumulated depreciation and impairment losses				
Balance as at 31 December 2016	**441**	**157**	**1,929**	**2,527**
Depreciation for the year	54	107	221	382
Disposals and write-offs	(16)	(5)	(406)	(427)
Balance as at 31 December 2017	**479**	**259**	**1,744**	**2,482**
Net book value				
As at 31 December 2016	**3,551**	**389**	**449**	**4,389**
As at 31 December 2017	**4,283**	**486**	**569**	**5,338**

The Group

	Land, buildings and other real estate	Vehicles	Office equipment and other	Total
Acquisition cost or revalued amounts				
Balance as at 31 December 2016	**3,992**	**546**	**2,378**	**6,916**
Additions (reconstruction)	1,269	211	354	1,834
Disposals and write-offs	(499)	(12)	(414)	(925)
Balance as at 31 December 2017	**4,762**	**745**	**2,318**	**7,825**
Accumulated depreciation and impairment losses				
Balance as at 31 December 2016	**441**	**157**	**1,929**	**2,527**
Depreciation for the year	54	107	221	382
Disposals and write-offs	(16)	(5)	(406)	(427)
Balance as at 31 December 2017	**479**	**259**	**1,744**	**2,482**
Net book value				
As at 31 December 2016	**3,551**	**389**	**449**	**4,389**
As at 31 December 2017	**4,283**	**486**	**574**	**5,343**

(All amounts in EUR thousand unless otherwise stated)

Note 10 Property and equipment (cont'd)

The Bank (Group)

	Land, buildings and other real estate	Vehicles	Office equipment and other	Total
Acquisition cost or revalued amounts				
Balance as at 31 December 2015	**3,749**	**330**	**2,396**	**6,475**
Additions	243	307	194	744
Disposals and write-offs	-	(91)	(212)	(303)
Balance as at 31 December 2016	**3,992**	**546**	**2,378**	**6,916**
Accumulated depreciation and impairment losses				
Balance as at 31 December 2015	**397**	**168**	**1,922**	**2,487**
Depreciation for the year	44	61	207	312
Disposals and write-offs	-	(72)	(200)	(272)
Balance as at 31 December 2016	**441**	**157**	**1,929**	**2,527**
Net book value				
As at 31 December 2015	**3,352**	**162**	**474**	**3,988**
As at 31 December 2016	**3,551**	**389**	**449**	**4,389**

As at 31 December 2017 and 2016, the Bank and the Group did not have property and equipment purchased under finance lease agreements.

As at 31 December 2016 and 2017, the owner occupied buildings of the Group and the Bank are accounted for at the revalued amounts. The Bank renovated a part of the premises and made the valuation of the entire building in 2016 on the basis of the comparative method. The value according to the valuation report approximates the net book value of the building; therefore, there was no impact recorded due to the recent valuation. Had the buildings been booked at historical costs, the carrying amount of buildings of the Group and the Bank as at 31 December 2017 would be EUR 3,676 thousand (EUR 2,896 thousand as at 31 December 2016).

The following table shows the valuation technique used in measuring the fair value of property, as well as the significant unobservable inputs used:

Type	Valuation technique
Buildings and land with the carrying amount of EUR 4,283 thousand located in Vilnius, Kaunas and Klaipėda.	Every five years an independent valuator evaluates real estate owned by the Bank. Last evaluations for Klaipėda buildings were made in 2018 and for Vilnius and Kaunas building in 2017 by using different valuation techniques: the comparative method and the income method. The fair value was based on the results of comparable sales of similar buildings and land.

(All amounts in EUR thousand unless otherwise stated)

Note 11 Intangible assets

The movements in intangible assets were as follows:

	The Bank	The Group
	Software	**Software**
Acquisition cost		
Balance as at 31 December 2016	**1,959**	**1,959**
Additions	49	80
Disposals and write-offs	(6)	(6)
Balance as at 31 December 2017	**2,002**	**2,033**
Accumulated amortisation		
Balance as at 31 December 2016	**1,576**	**1,576**
Charges for the year	190	200
Disposals and write-offs	(7)	(7)
Balance as at 31 December 2017	**1,759**	**1,769**
Net book value		
As at 31 December 2016	**383**	**383**
As at 31 December 2017	**243**	**264**

	The Bank	The Group
	Software	**Software**
Acquisition cost		
Balance as at 31 December 2015	**1,669**	**1,669**
Additions	292	292
Disposals and write-offs	(2)	(2)
Balance as at 31 December 2016	**1,959**	**1,959**
Accumulated amortisation		
Balance as at 31 December 2015	**1,393**	**1,393**
Charges for the year	184	184
Disposals and write-offs	(1)	(1)
Balance as at 31 December 2016	**1,576**	**1,576**
Net book value		
As at 31 December 2015	**276**	**276**
As at 31 December 2016	**383**	**383**

As at 31 December 2017 and 2016, the Bank and the Group did not have any intangible assets acquired under finance lease agreements.

(All amounts in EUR thousand unless otherwise stated)

Note 12 Investment property

	The Bank 2017	The Bank 2016
Balance at the beginning of year	**913**	**1,200**
Additions	1,070	395
Disposals	(568)	(572)
Changes in fair value	(45)	(110)
Balance at the end of year	**1,370**	**913**

	The Group 2017	The Group 2016
Balance at the beginning of year	**8,354**	**11,192**
Additions	1,871	2,329
Disposals	(3,332)	(3,669)
Changes in fair value	(680)	(1,498)
Balance at the end of year	**6,213**	**8,354**

The Bank's and the Group's additions to the investment property represent the assets taken over for impaired loans. This is not a cash flow transaction; therefore, the acquisitions to the investment property by the Bank and the Group are zero in the Separate and Consolidated Cash Flow Statements. Some items of the investment property were sold by issuing a new loan to the acquirer; therefore, the disposal proceeds were decreased by EUR 250 thousand in the cash flow statement of the Bank and by EUR 976 thousand in the cash flow statement of the Group.

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

	2017	2016
UAB MB Turtas	401	1,320
UAB MB Valda	831	1,144
UAB MB Investicija	554	849
UAB TG Invest-1	2,470	3,542
SIA Nida Capital	586	586
Total	**4,842**	**7,441**

Investment property consists of repossessed assets for defaulted loans. The fair value of investment properties has been determined using valuation reports prepared by external valuators. In addition, the management of the Bank decided to use adjustment coefficients varying as at 31 December 2017 from 0.72 to 0.98 (0.64 to 0.99 as at 31 December 2016), depending on the type of investment property, taking into consideration the liquidity of the asset, VAT risks, costs and other factors:

	2017			2016		
Type of investment property	**Fair value as to valuation reports**	**Adjustment coefficient**	**Adjusted fair value**	**Fair value as to valuation reports**	**Adjustment coefficient**	**Adjusted fair value**
Buildings	3,315		2,843	5,032		4,184
Land plots	4,501		3,369	4,985		4,130
Other	1		1	63		40
Total	**7,817**	0.79	**6,213**	**10,080**	0.83	**8,354**

Note 12 Investment property (cont'd)

During 2017 the Group engaged independent valuation specialists to revaluate the investment property which had been evaluated as early as 4 years ago according to the requirements of the Group's accounting policy. Independent valuations of the Investment property or Consultation regarding expected price were obtained from independent valuators. Repeated valuations of property at net values for each relevant year were the following:

- EUR 4,991 thousand or 80.34% of the investment property in 2017;
- EUR 1,004 thousand or 16.16% in 2016;
- EUR 129 thousand or 2.07% in 2015;
- EUR 89 thousand or 1.44% in 2014.

The Group recognised EUR 680 thousand fair value decrease of investment property in 2017 (EUR 1,498 thousand in 2016).

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

2017 The Bank

Land plots	Price range per are, in EUR thousand
Agricultural	0.01–0.42
Residential	7.45
Other	0.63

Buildings	Price range per sq. m., in EUR thousand
Commercial	0.04–1.18
Residential	0.32–9.92
Other	0.11

2017 The Group

Land plots	Price range per are, in EUR thousand
Agricultural	0.01–0.67
Forestry	0.04
Residential	0.02–7.45
Other	0.01–16.20

Buildings	Price range per sq. m., in EUR thousand
Commercial	0.04–1.18
Residential	0.03–9.92
Outbuildings	0.06
Other	0.11

Note 12 Investment property (cont'd)

2016 The Bank

Land plots	Price range per are, in EUR thousand
Agricultural	0.01–0.11
Forestry	7.45
Other	0.93

Buildings	Price range per sq. m., in EUR thousand
Commercial	0.13
Residential	0.33–1.36
Other	0.11

Other	Price range per unit, in EUR thousand
Other assets	4.18

2016 The Group

Land plots	Price range per are, in EUR thousand
Agricultural	0.01–0.67
Forestry	0.04
Residential	0.04–7.45
Other	0.01–16.20

Buildings	Price range per sq. m., in EUR thousand
Commercial	0.06–1.26
Residential	0.02–1.60
Outbuildings	0.06
Other	0.11

Investment properties are based on the fair value, which is determined based on valuation performed by independent valuators by using comparative value, discounted cash flows from rental or other income and cost approach to valuation methods. Comparative value method is used to determine the market value of comparable properties with similar transaction prices or offer price, taking into account the differences between the object and comparable assets. The use of this method is based on the principle of replacement by the other assets. Discounted cash flows technique: the model is based on expected discounted cash flows from rental or other income. Cost approach to valuation technique: it is a method of appraising property based on the depreciated reproduction or replacement cost (new) of similar assets, plus the market value of the site.

Applying the comparative value method, property assessor must collect and analyse more data on events in the area of similar items for sale and purchase transactions, as well as the proposed sale of similar items. If the property assessor has insufficient information about similar objects (analogue) in the area, he must explore comparable analogues in other areas of comparable facilities and to clarify the difference. In order to calculate the adjustments, there is a need to compare the data and to clarify correction factors: the time correction factor, the size of the area correction factor, correction factor for the financial conditions, other correction factors, expressing the differences of physical and terms of use conditions.

The fair value of investment property was determined by external, independent property valuators, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuators provide the fair value of the Group's investment property portfolio every 3 years. As at 31 December 2017, the Group had investment property in the amount of EUR 89 thousand that was revalued more than 3 years ago.

As mentioned above, in addition to external valuations, the management of the Bank decided to use adjustment coefficients depending on the type of investment property taking into consideration liquidity of the asset, VAT risks, costs and other factors.

(All amounts in EUR thousand unless otherwise stated)

Note 12 Investment property (cont'd)

The fair value measurement for investment property of EUR 6,213 thousand has been categorised as a Level 3 in the fair value hierarchy. The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used:

Type		**Valuation technique**
Commercial properties of EUR 1,439 thousand	Of EUR 312 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar buildings.
	Of EUR 373 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar buildings as well as income method applying capitalization calculation manner.
	Of EUR 521 thousand	Income method (discounted cash flow method).
	Of EUR 9 thousand	Expenses method.
	Of EUR 224 thousand	Comparative value technique and the expenses method.
Outbuildings of EUR 223 thousand	Of EUR 223 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar buildings.
Residential properties of EUR 1,179 thousand	Of EUR 1,179 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar buildings.
Other properties of EUR 2 thousand	Of EUR 2 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar buildings.
Agricultural land plots of EUR 971 thousand	Of EUR 971 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar land plots.
Forestry land plots of EUR 14 thousand	Of EUR 14 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar land plots.
Residential land plots of EUR 1,980 thousand	Of EUR 1,980 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar land plots.
Other land plots of EUR 405 thousand	Of EUR 405 thousand	Comparative value technique: the fair value was based on the results of comparable sales of similar land plots.

(All amounts in EUR thousand unless otherwise stated)

Note 13 Investment in subsidiaries

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

In 2017, the operating result of subsidiaries was a loss of EUR 1,440 thousand (loss of EUR 1,396 thousand in 2016), which was mainly affected by the loss of EUR 918 thousand (EUR 1,063 thousand in 2016) from the sale and the revaluation of the repossessed assets.

	The Bank 2017	The Bank 2016
Balance at the beginning of the year	**14,494**	**16,105**
Additions	764	-
Disposal (nominal value)	(13,056)	-
Reversal of impairment of the disposed assets	5,377	-
Additional impairment of investment in subsidiaries	(1,140)	(1,611)
	(8,055)	**(1,611)**
Balance at the end of the year	**6,439**	**14,494**

During 2017 the Bank transferred an additional contribution of EUR 731 thousand (in cash) to form legal reserves of the subsidiaries. Furthermore, the subsidiary UAB Saugus Kreditas was acquired in October 2017, as disclosed below.

In 2017 the Bank disposed a part of the shares in certain subsidiaries to other subsidiaries for the agreed price based on the adjusted net asset method which is applied to evaluate the fair value of subsidiaries. The shares were disposed for EUR 7,650 thousand (in cash), the net financial impact through profit and loss is a realised loss of EUR 29 thousand. The subsidiaries are partly owned directly and partly indirectly. There was no disposal of shares outside the Group.

Balance as at 31 December 2017	**Ownership (%)**	**Direct ownership (%)**	**Nominal amount**	**Impairment**	**Carrying value**
UAB MB Turtas	100	22.46	753	(304)	449
UAB MB Valda	100	32.52	1,150	(116)	1,034
UAB MB Investicija	100	47.94	1,481	(150)	1,331
UAB TG Invest-1	100	73.22	3,567	(527)	3,040
SIA Nida capital	100	100	850	(298)	552
UAB Saugus Kreditas	100	100	64	(31)	33
Total			**7,865**	**(1,426)**	**6,439**

Balance as at 31 December 2016	**Ownership (%)**	**Direct ownership (%)**	**Nominal amount**	**Impairment**	**Carrying value**
UAB MB Turtas	100	100	5,489	(2,326)	3,163
UAB MB Valda	100	100	5,127	(1,787)	3,340
UAB MB Investicija	100	100	5,792	(2,789)	3,003
UAB TG Invest-1	100	100	5,792	(1,393)	4,399
SIA Nida Capital	100	100	850	(261)	589
Total			**23,050**	**(8,556)**	**14,494**

Fair value evaluation of investment in subsidiaries

The Bank tests investments in its subsidiaries for impairment when impairment indicators are identified. The Bank applies the adjusted net asset method for evaluation of the fair value of its subsidiaries. The value of the investment property owned by subsidiaries and specified in external valuation reports is adjusted by a certain coefficient defined by the management of the Bank depending on the type of the investment property and associated risks (see Note 12).

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

Acquisition of subsidiaries

On 17/10/2017 the Group acquired UAB Saugus Kreditas.

(All amounts in EUR thousand unless otherwise stated)

Note 13 Investment in subsidiaries (cont'd)

The following is the information on fair values for 2017 at the moment of acquisition and the resulting goodwill:

Percentage ownership interest	100%
Date of purchase	17/10/2017
Acquired assets and liabilities:	
Non-current assets	35
Current assets	235
Non-current liabilities	(185)
Current liabilities	(21)
Net assets	**64**
Share acquired	**64**
Consideration transferred	**(33)**
Goodwill	**31**
Written off to other operating expenses	**31**

The fair value of non-current assets was established based on the market prices of similar assets and the recoverable amount of such assets.

Cash paid for acquired subsidiaries consisted of the following:

Paid for the shares:	(33)
Cash at the moment of acquisition	10
Set-off amount payable to the shareholder	(197)
Cash received (paid) at the moment of acquisition	**(220)**

Note 14 Other assets

Other assets comprise:

The Group			The Bank	
31 December 2017	**31 December 2016**		**31 December 2017**	**31 December 2016**
2,006	1,997	Prepayments	1,997	1,979
484	276	Receivables from customers	223	126
80	-	Receivable value added tax	56	-
108	104	Deferred expenses	108	102
-	159	Cash (litas coins and banknotes)	-	159
209	82	Other	183	81
2,887	2,618		2,567	2,447
(38)	(46)	Less: impairment for losses from receivables	(38)	(46)
2,849	**2,572**	**Other assets**	**2,529**	**2,401**

(All amounts in EUR thousand unless otherwise stated)

Note 15 Derivative financial instruments

The Bank and the Group

31 December 2017	Notional amount Purchase	Fair value Assets	Fair value Liabilities
Foreign exchange forwards (EUR)	7,321	7	19
Foreign exchange swaps (EUR)	2,100	-	12
Foreign exchange swaps (DKK)	202	-	-
		7	**31**

The Bank and the Group

31 December 2016	Notional amount Purchase	Fair value Assets	Fair value Liabilities
Foreign exchange forwards (EUR)	7,270	28	12
Foreign exchange swaps (EUR)	1,834	2	7
		30	**19**

As at 31 December 2017, the Group and the Bank have pledged term deposits with the carrying amount of EUR 1,209 thousand (EUR 1,200 thousand as at 31 December 2016) for the foreign exchange forward agreements.

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

The Group 2017	The Group 2016		The Bank 2017	The Bank 2016
44	(69)	Realised result from swaps	44	(69)
80	284	Realised result from foreign exchange forwards	80	284
(12)	(6)	Unrealised result from swaps	(12)	(6)
(12)	17	Unrealised result from foreign exchange forwards	(12)	17
100	**226**	**Net gain (loss) from operations with derivative financial instruments**	**100**	**226**

Note 16 Due to banks and other credit institutions

The Group 31 December 2017	The Group 31 December 2016		The Bank 31 December 2017	The Bank 31 December 2016
-	4	Term deposits	-	4
3,000	3,000	Deposits CB (ECB Open market operations)	3,000	3,000
600	1,431	Current accounts and overnight deposits	600	1,431
3,600	**4,435**	**Amounts due to banks and other credit institutions**	**3,600**	**4,435**

As at 31 December 2017, interest rates on amounts due to banks and other credit institutions were 0% (from 0.05% to 0.5% as at 31 December 2016).

(All amounts in EUR thousand unless otherwise stated)

Note 16 Due to banks and other credit institutions (cont'd)

Break-down by maturities and contractual interest rates of the amounts due to banks and other credit institutions:

				31 December 2017	
Country	**Currency of issue**	**Maturity**	**Interest rate**	**The Bank**	**The Group**
Lithuania	EUR	-	0.00	600	600
Lithuania	EUR	-	0.00	-	-
Lithuania	EUR	2020	0.00	3,000	3,000
Total				**3,600**	**3,600**

				31 December 2016	
Country	**Currency of issue**	**Maturity**	**Interest rate**	**The Bank**	**The Group**
Lithuania	EUR	-	0.00	1,431	1,431
Lithuania	EUR	2017	0.6	4	4
Lithuania	EUR	2020	0.00	3,000	3,000
Total				**4,435**	**4,435**

Interest rate related with liabilities to EUR 3,000 thousand agreement are under conditions and will depend on lending history of the Bank therefore the cost of this liability may vary from 0 to 0.4 negative percent (this year 0 percent).

As at 31 December 2017, the loan of EUR 3,000 thousand was received based on the repurchase agreement under targeted longer-term refinancing operations provided by ECB. Securities amounting to EUR 8,188 thousand (31 December 2016: EUR 6,633 thousand) and loans receivable amounting to EUR 1,368 thousand (31 December 2016: EUR 1,368 thousand) were held to secure the loan from targeted longer-term refinancing operations (Note 8 and Note 9).

Note 17 Due to customers

Amounts due to customers comprise:

The Group			The Bank	
31 December 2017	**31 December 2016**		**31 December 2017**	**31 December 2016**
165,306	153,414	Term deposits	165,306	153,414
77,025	69,367	Current accounts	78,090	75,260
		Lending funds		
9,426	3,682	UAB Investicijų ir Verslo Garantijos	9,426	3,682
98	346	Rural Credit Guarantee Fund (UAB Žemės Ūkio Paskolų Garantijų Fondas)	98	346
251,855	**226,809**	**Amounts due to customers**	**252,920**	**232,702**
13,997	**12,416**	**Out of which held as security against guarantees and loans**	**13,997**	**12,416**

As at 31 December 2017, amounts due to ten largest customers of the Bank amounted to EUR 20,566 thousand or 8.13% of the Bank's deposit holders (EUR 14,797 thousand or 6.36% in 2016).

(All amounts in EUR thousand unless otherwise stated)

Note 17 Due to customers (cont'd)

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

The Group			The Bank	
31 December 2017	**31 December 2016**		**31 December 2017**	**31 December 2016**
179,604	172,403	Individuals	179,604	172,403
51,915	45,408	Corporate enterprises	52,980	51,301
6,881	1,846	Financial institutions	6,881	1,846
13,455	7,152	Government departments and state owned enterprises	13,455	7,152
251,855	**226,809**	**Amounts due to customers**	**252,920**	**232,702**

An analysis of customer accounts by sector is as follows:

The Group			The Bank	
31 December 2017	**31 December 2016**		**31 December 2017**	**31 December 2016**
179,604	172,403	Individuals	179,604	172,403
14,244	5,148	Insurance and other financial services	14,244	5,148
13,082	5,645	Transport and communication	13,082	5,645
12,024	14,614	Trade	12,024	14,614
6,560	6,066	Agriculture	6,560	6,066
5,203	6,905	Real estate and construction	6,268	12,798
3,916	1,755	Water supply, waste management	3,916	1,755
2,936	3,186	Manufacturing	2,936	3,186
2,833	1,350	Professional, scientific and technical activities	2,833	1,350
2,161	1,134	Administrative and support service activities	2,161	1,134
2,060	2,153	Public administration and defence, compulsory social security	2,060	2,153
1,022	952	Energy	1,022	952
6,210	5,498	Other	6,210	5,498
251,855	**226,809**	**Amounts due to customers**	**252,920**	**232,702**

Note 18 Subordinated loans (the Bank)

Subordinated loans

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

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

Debt securities issued

As at 31 December 2017 and 2016, the Bank and the Group had no bonds issued.

(All amounts in EUR thousand unless otherwise stated)

Note 19 Other liabilities

Other liabilities comprise:

The Group			The Bank	
31 December 2017	31 December 2016		31 December 2017	31 December 2016
510	483	Accrued payments to employees	510	483
30	-	Prepayments (advance payments)	-	-
142	189	Accrued expenses	130	189
158	134	Deferred income	158	134
184	152	Fee payable to the State Social Insurance Board	184	152
30	-	Payable to the Latvian Road Transport Administration	30	-
204	211	Other	140	145
1,258	**1,169**	**Other liabilities**	**1,152**	**1,103**

Note 20 Shareholders' equity

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

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

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

The Group			The Bank	
31 December 2017	31 December 2016		31 December 2017	31 December 2016
2,528	2,528	Special reserve to cover possible losses	2,528	2,528
141	87	Legal reserve	141	87
3,657	2,628	Reserve capital	3,657	2,628
6,326	**5,243**	**Total other reserves**	**6,326**	**5,243**

Nature and purpose of reserves

Legal reserve

The Bank's legal reserve amounted to EUR 141 thousand as at 31 December 2017 (EUR 87 thousand as at 31 December 2016). A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profit are compulsory until the reserve reaches 10% of the share capital. The legal reserve can be used to cover the Bank's operating losses and for share capital increase.

Reserve capital

The Bank's and the Group's reserve capital amounting to EUR 2,528 thousand as at 31 December 2017 (EUR 2,628 thousand as at 31 December 2016) is created from additional shareholders' contributions and the profit of the Bank. The purpose of the reserve capital is to guarantee the financial stability of the Bank. The reserve capital can be used to cover the Bank's operating losses and for share capital increase.

Special reserve to cover possible losses

The Bank has created a special reserve to cover possible losses, which could be used to cover future possible losses.

Revaluation reserve of property and equipment

The revaluation reserve of property and equipment is used to record increase in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

(All amounts in EUR thousand unless otherwise stated)

Note 21 Contractual commitments and contingencies

The contractual commitments and contingencies comprise the following:

The Group 31 December 2017	The Group 31 December 2016		The Bank 31 December 2017	The Bank 31 December 2016
		Credit related commitments and guarantees		
8,994	9,746	Credit related commitments	8,994	9,746
763	477	Guarantees	763	477
9,757	**10,223**		**9,757**	**10,223**
(638)	(1,978)	Less: cash held as security against letters of credit and guarantees	(638)	(1,978)
9,119	**8,245**	**Total credit related commitments and guarantees**	**9,119**	**8,245**
		Operating lease commitments		
448	370	Not later than 1 year	437	370
841	481	Later than 1 year but not later than 5 years	841	481
40	32	Later than 5 years	40	32
1,329	**883**	**Total operating lease commitments**	**1,318**	**883**

In 2017 the Bank's and the Group's operating lease expenses (rent of premises) amounted to EUR 756 thousand (EUR 585 thousand in 2016).

Contingent tax liabilities

The tax authorities have not carried out a full-scope tax audit of the Bank for the period from 2011 to 2017. The tax authorities may at any time during 6 successive years after the end of the reporting tax year carry out an inspection of the Bank's books and accounting records and impose additional taxes or fines. Management is not aware of any circumstances that might result in a potential material liability in this respect.

The State Tax Inspectorate carried an inspection for the period from 01/01/2012 until 31/12/2013.

Insurance

The Group is a member of the obligatory deposit insurance system. The system operates under the Lithuanian legislation and is governed by State Company Deposit and Investment Insurance (Indėlių ir Investicijų Draudimas VĮ). The insurance covers the Bank's liabilities to natural persons and legal entities for the amount of up to EUR 100,000 for each individual in case of business failure.

(All amounts in EUR thousand unless otherwise stated)

Note 22 Net interest income

The Group 2017	The Group 2016		The Bank 2017	The Bank 2016
6,474	5,539	On loans to customers	6,411	5,529
552	722	On impaired loans to customers	552	722
456	515	Leasing	456	515
130	107	Delinquency	130	107
545	656	On held-to-maturity investments	545	656
-	11	On available-for-sale investments	-	11
35	22	On placements with the banks and other credit institutions	35	22
32	80	On investments at fair value through profit or loss	32	80
8,224	**7,652**	**Interest revenue**	**8,161**	**7,642**
(499)	(817)	On obligations to customers, including letters of credit	(499)	(817)
(954)	(763)	Deposit insurance	(954)	(763)
(20)	(2)	On subordinated loans	(20)	(2)
(85)	(21)	On obligations to banks and other credit institutions	(85)	(21)
(1,558)	**(1,603)**	**Interest expenses**	**(1,558)**	**(1,603)**
6,666	**6,049**	**Net interest income**	**6,603**	**6,039**

In 2017 and 2016 the Bank received income from delinquency charges of EUR 130 thousand and EUR 107 thousand respectively, accounted for under the line delinquency. The major part of the income from delinquency charges is related with the cover of non-performing loans. The Bank recognises delinquency charges only when it is aware that the income from delinquency charges will be received.

Note 23 Net service fee and commission income

Net fee and commission income comprises:

The Group 2017	The Group 2016		The Bank 2017	The Bank 2016
2,961	2,605	Cash operations and customer service	2,961	2,605
485	556	Settlements operations	485	556
286	122	Remittances	286	122
3	3	Guarantees	3	3
7	7	Other	11	7
3,742	**3,293**	**Service fee and commission income**	**3,746**	**3,293**
(110)	(189)	Rent fee according to agreements	(110)	(189)
(232)	(238)	Cash operations	(232)	(238)
(26)	(35)	Settlements operations	(26)	(35)
(15)	(11)	Securities transactions	(15)	(11)
(67)	(51)	Other	(52)	(51)
(450)	**(524)**	**Service fee and commission expense**	**(435)**	**(524)**
3,292	**2,769**	**Net service fee and commission income**	**3,311**	**2,769**

(All amounts in EUR thousand unless otherwise stated)

Note 24 Net profit (loss) on securities trading

The Group			The Bank	
2017	**2016**		**2017**	**2016**
10	358	Realised gain (loss)	10	358
(1)	244	Unrealised gain (loss)	(1)	244
9	**602**	**Net profit (loss) on securities trading**	**9**	**602**

Note 25 Net foreign exchange gain

The Group			The Bank	
2017	**2016**		**2017**	**2016**
4,043	3,574	Gain on dealing in foreign currencies	4,043	3,574
(221)	(394)	Revaluation of items in statement of financial position, net	(221)	(394)
3,822	**3,180**	**Net foreign exchange gain**	**3,822**	**3,180**

Note 26 Net result on operations with investment property

The Group			The Bank	
2017	**2016**		**2017**	**2016**
(294)	282	Realised gain (loss)	(11)	(43)
(680)	(1,498)	Changes in fair value	(45)	(110)
(974)	**(1,216)**	**Net result on operations on investment property**	**(56)**	**(153)**

For more details on changes in the fair value for investment property see Note 12.

Note 27 Other income (expenses)

The Group			The Bank	
2017	**2016**		**2017**	**2016**
-	270	Received compensation under the settlement agreement	-	270
136		Income from real estate disposal	136	-
83	-	Income from disposal of claim right	-	
15	-	Insurance benefit	-	-
10	42	Rental revenue	10	8
-	-	Intergroup income	20	18
89	60	Other income (expenses)	20	57
333	**372**	**Total other income (expenses)**	**186**	**353**

Note 28 Impairment of loans and other financial assets

The Group			The Bank	
2017	**2016**		**2017**	**2016**
(780)	(2,576)	Impairment loss on loans and receivables	(733)	(2,307)
6	(5)	Impairment loss on leasing	6	(5)
8	(46)	Reversal of impairment / (impairment) of other assets	8	(46)
533	810	Recovery of loans previously written-off	533	810
(233)	**(1,817)**	**Total impairment of loans and other financial assets**	**(186)**	**(1,548)**

(All amounts in EUR thousand unless otherwise stated)

Note 28 Impairment of loans and other financial assets (cont'd)

Impairment loss on loans and receivables for the year 2017 and 2016 by main factors is as follows:

The Group 2017	The Group 2016		The Bank 2017	The Bank 2016
(733)	(1,015)	Due to changes of collateral value	(733)	(1,015)
329	(182)	Due to changes of cash flow	329	(182)
(74)	(249)	Due to postponement of collateral realization (time effect)	(74)	(249)
(254)	(1,081)	Loss of expected cash flow	(208)	(812)
(143)	76	Administrative expenses	(143)	76
-	(159)	VAT risk	-	(159)
147	(26)	Impairment for general loan portfolio credit risk	148	(26)
533	810	Cash flow (recovery) from written-off loans	533	810
(38)	9	Other factors	(38)	9
(233)	**(1,817)**	**Total impairment loss on loans and receivables**	**(186)**	**(1,548)**

Impairment expenses for the year 2017 and 2016 by industry sectors are as follows:

The Group 2017	The Group 2016		The Bank 2017	The Bank 2016
174	(488)	Real estate operations	174	(219)
(355)	(90)	Individuals	(308)	(90)
(228)	(379)	Manufacturing	(228)	(379)
(22)	(86)	Real estate constructions	(22)	(86)
(5)	(354)	Services	(5)	(354)
168	(70)	Trading enterprises	168	(70)
3	(46)	Agriculture and food processing	3	(46)
(6)	(283)	Transport	(6)	(283)
8	3	Energy	8	3
30	(24)	Local government	30	(24)
(233)	**(1,817)**	**Total impairment of loans and other financial assets**	**(186)**	**(1,548)**

(All amounts in EUR thousand unless otherwise stated)

Note 29 Operating expenses

Salaries and benefits and other operating expenses are as follows:

The Group 2017	The Group 2016		The Bank 2017	The Bank 2016
		Salaries and benefits		
(5,169)	(4,808)	Salaries and bonuses	(5,048)	(4,738)
(1,608)	(1,475)	Social security costs	(1,570)	(1,451)
-	(9)	Other employment taxes	-	-
(6,777)	**(6,292)**	**Total salaries and benefits**	**(6,618)**	**(6,189)**
		Other operating expenses		
(854)	(655)	Occupancy and rent	(853)	(655)
(335)	(332)	Office supplies	(335)	(332)
(449)	(336)	Expenses for service providers for the bank	(449)	(336)
(538)	(330)	Taxes other than income tax	(450)	(271)
(296)	(313)	Communication	(296)	(313)
(53)	(103)	Debt recovery costs	(53)	(103)
(193)	(180)	Transportation expenses	(193)	(180)
(107)	(103)	Expenses related with investment property	(17)	(6)
(100)	(78)	Security	(100)	(78)
(113)	(130)	Marketing and advertising	(113)	(130)
(43)	(25)	Legal and consultancy	(43)	(25)
(97)	(69)	Personnel training	(97)	(69)
(38)	(41)	Representation	(38)	(41)
(7)	(40)	Business travel and related	(7)	(24)
(235)	-	Fine Imposed by the Bank of Lithuania	(235)	-
(103)	(49)	Disposable items	(103)	(49)
(28)	(31)	Stationary supplies	(28)	(31)
(67)	(82)	Insurance expenses	(67)	(82)
(18)	(18)	Participation fees	(18)	(18)
(349)	(205)	Other	(281)	(169)
(4,023)	**(3,120)**	**Total other operating expenses**	**(3,776)**	**(2,912)**

The Board of the Bank of Lithuania under its decision of 30 June 2017 decided to impose a fine to UAB Medicinos Bankas equal to 1.5 percentage of its general income for the year 2016. It was also decided to temporarily, until the Bank of Lithuania will decide to revoke it, limit the Bank‘s lending to its major shareholder and its directly or indirectly controlled companies.

(All amounts in EUR thousand unless otherwise stated)

Note 30 Income tax

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

The Group 2017	The Group 2016		The Bank 2017	The Bank 2016
(7)	(26)	Current income tax expenses	(7)	(26)
-	289	Change in deferred income tax	-	289
(7)	**263**	**Total income tax income (expenses)**	**(7)**	**263**
		Components of deferred income tax		
		Deferred income tax assets:		
2,862	3,134	Tax loss carried forward	2,358	2,616
18	18	Accruals	18	18
37	59	Collective impairment for loans	37	59
2,917	**3,211**	**Deferred income tax assets**	**2,413**	**2,693**
(867)	(1,223)	Less: not recognised part of deferred tax asset	(363)	(705)
2,050	**1,988**	**Deferred income tax assets**	**2,050**	**1,988**
		Deferred income tax liabilities:		
(60)	(61)	Revaluation of property and equipment	(60)	(61)
(93)	(30)	Other	(93)	(30)
(153)	**(91)**	**Deferred income tax liabilities**	**(153)**	**(91)**
1,897	**1,897**	**Deferred income tax, net**	**1,897**	**1,897**
		Deferred tax income (expense) recognised:		
	1	In the statement of OCI		1
	1	In the income statement		1

Deferred income tax assets are recognised for tax loss carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. Deferred tax assets on tax losses carried forward of EUR 2,420 thousand at the Bank and EUR 5,780 thousand at the Group have not been recognised because of realisation uncertainty.

Deferred tax components related to revaluation of available-for-sale financial instruments and revaluation of property and equipment are accounted for in equity.

(All amounts in EUR thousand unless otherwise stated)

Note 30 Income tax (cont'd)

Amounts recognised in other comprehensive income

The Bank (Group)

	2017			2016		
	Before tax	**Tax (expense) benefit**	**Net of tax**	**Before tax**	**Tax (expense) benefit**	**Net of tax**
Revaluation of property and equipment	(3)	-	(3)	(4)	1	(3)
Available-for-sale investment securities	-	-	-	-	-	-
Total	**(3)**		**(3)**	**(4)**	**1**	**(3)**

Reconciliation of effective tax rate

The income tax expense, applicable to the result of the current year, can be reconciled with the income tax expenses calculated using statutory income tax rate for the pre-tax income as follows:

The Group 2017		The Group 2016			The Bank 2017		The Bank 2016	
	1,633		257	Profit before tax		1,654		260
15%	245	15%	39	Profit tax calculated at 15% tax rate	15%	248	15%	39
(105%)	(1,708)	(52)%	(135)	Non-taxable income	(94%)	(1,561)	(21)%	(56)
92%	1,529	152%	390	Non-deductible expenses	102%	1,682	112%	292
				Change in unrecognised deferred tax asset				
(22%)	(363)	(75)%	(193)	Utilisation of tax losses carried forward	(16%)	(258)	(56)%	(146)
-	-	-	-	Utilisation of tax losses of the subsidiaries	(6%)	(105)	-	-
18%	304	-	-	Current year tax losses for which no deferred tax asset is recognised	-	-	-	-
		(143)%	(364)	Recognition of previously unrecognised tax losses	-	-	(151)%	(393)
(0%)	**(7)**	**(101)%**	**(263)**	**Total income tax (income) expenses**	**(0%)**	**(7)**	**(101)%**	**(263)**

(All amounts in EUR thousand unless otherwise stated)

Note 30 Income tax (cont'd)

Movement in deferred tax balances

The Bank (Group)

				Balance at 31 December 2017		
	Net balance at 1 January	**Recognised in profit or loss**	**Recognised in OCI**	**Net**	**Deferred tax assets**	**Deferred tax liabilities**
Property and equipment	(61)	-	1	(60)	-	(60)
Available-for-sale securities	-	-	-	-	-	-
Tax loss carry-forwards	1,940	56	-	1,996	1,996	-
Other tax assets	48	6	-	54	54	-
Other tax liabilities	(30)	(63)	-	(93)	-	(93)
Total	**1,897**	**(1)**	**1**	**1,897**	**2,050**	**(153)**

				Balance at 31 December 2016		
	Net balance at 1 January	**Recognised in profit or loss**	**Recognised in OCI**	**Net**	**Deferred tax assets**	**Deferred tax liabilities**
Property and equipment	(62)	-	1	(61)	-	(61)
Available-for-sale securities	-	-	-	-	-	-
Tax loss carry-forwards	1,618	322	-	1,940	1,940	-
Other tax assets	75	(27)	-	48	48	-
Other tax liabilities	(24)	(6)	-	(30)	-	(30)
`Total	**1,607**	**289**	**1**	**1,897**	**1,988**	**(91)**

Note 31 Cash and cash equivalents

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

The Group			The Bank	
31 December 2017	**31 December 2016**		**31 December 2017**	**31 December 2016**
24,478	21,588	Cash on hand	24,478	21,588
27,099	19,164	Current accounts with the Bank of Lithuania	27,099	19,164
6,929	7,530	Current accounts with other credit institutions	6,886	7,529
4,544	4,453	Term deposits with credit institutions up to 90 days	4,544	4,453
63,050	**52,735**	**Cash and cash equivalents**	**63,007**	**52,734**

Note 32 Fair values of financial instruments

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

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

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

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

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

(All amounts in EUR thousand unless otherwise stated)

Note 32 Fair values of financial instruments (cont'd)

Balances with the Central Bank. The carrying amount equals to the fair value as these are current accounts at the Bank of Lithuania.

Financial assets at fair value through profit or loss and available-for-sale financial assets. The carrying amount is the fair value of such investments.

Held-to-maturity investments. Their fair value was calculated based on market quotations.

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

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

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

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

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

The Bank	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and due from central bank	53,520	53,520	42,646	42,646
Placements with banks and other credit institutions	11,496	11,496	11,982	11,982
Held-to-maturity investments	39,860	40,462	33,660	34,878
Loans and receivables	163,454	167,120	144,539	150,465
Other assets	2,529	2,529	2,401	2,401
Total financial assets	**270,859**	**275,127**	**235,228**	**242,372**
Financial liabilities				
Due to banks and other credit institutions	3,600	3,600	4,435	4,435
Due to customers, including letters of credit	252,920	254,196	232,702	233,529
Debt securities issued	-	-	-	-
Subordinated loans	1,000	1,000	1,000	1,000
Other liabilities	1,152	1,152	1,103	1,103
Total financial liabilities	**258,672**	**259,948**	**239,240**	**240,067**

The Group	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and due from central bank	53,520	53,520	42,646	42,646
Placements with banks and other credit institutions	11,539	11,539	11,983	11,983
Held-to-maturity investments	39,860	40,462	33,660	34,878
Loans and receivables	163,678	167,344	145,591	151,517
Other assets	2,849	2,849	2,572	2,572
Total financial assets	**271,446**	**275,714**	**236,452**	**243,596**
Financial liabilities				
Due to banks and other credit institutions	3,600	3,600	4,435	4,435
Due to customers, including letters of credit	251,855	253,131	226,809	227,635
Debt securities issued	-	-	-	-
Subordinated loans	1,000	1,000	1,000	1,000
Other liabilities	1,258	1,258	1,169	1,169
Total financial liabilities	**257,713**	**258,989**	**233,413**	**234,239**

(All amounts in EUR thousand unless otherwise stated)

Note 32 Fair values of financial instruments (cont'd)

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

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

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

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

The fair value of all Bank contracted derivatives is defined as Level 2. These are mainly FX swaps and derivatives which are revaluated using discounted cash flow or present value calculation method. In all cases revaluation is based on market observable inputs. Debt securities are priced in accordance to market quotes and, in cases when there is no active market for particular security, the price for this kind of security is determined with the reference to market observable inputs. As at 31 December 2017 and 2016, due to absence of active market, bonds issued by other Lithuanian and foreign banks were classified under Level 2. There were no movements of financial instruments between Level 1 and Level 2 in 2017 and 2016.

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

The Bank (Group)

As at 31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	7	-	7
Financial assets designated at fair value through profit or loss	-	-	-	-
Available-for-sale financial assets	-	-	-	-
Financial liabilities				
Derivative financial instruments	-	31	-	31

As at 31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	30	-	30
Financial assets designated at fair value through profit or loss	7,040	723	-	7,763
Available-for-sale financial assets	-	-	-	-
Financial liabilities				
Derivative financial instruments	-	19	-	19

(All amounts in EUR thousand unless otherwise stated)

Note 32 Fair values of financial instruments (cont'd)

Financial instruments not measured at fair value

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

Bank

31 December 2017	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Cash and due from banks	53,520	11,496	-	65,016
Held-to-maturity investments	-	39,860	-	39,860
Loans to customers	-	137,910	9,213	147,123
Receivables with deferred payment	-	2,657	-	2,657
Loans to financial institutions	-	1,835		1,835
Receivables from leasing	-	11,821	18	11,839
Other assets	-	2,529	-	2,529
Total financial assets	**53,520**	**208,108**	**9,231**	**270,859**
Liabilities				
Due to banks and other credit institutions	-	3,600	-	3,600
Due to customers	-	252,920	-	252,920
Debt securities issued	-	-	-	-
Subordinated loan		1,000		1,000
Other liabilities	-	1,152	-	1,152
Total financial liabilities	-	**258,772**	**-**	**258,772**

31 December 2016	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Cash and due from banks	42,646	11,982	-	54,628
Held-to-maturity investments	-	33,660	-	33,660
Loans to customers	-	114,769	12,311	127,080
Receivables with deferred payment	-	2,665	-	2,665
Loans to financial institutions	-	4,222	-	4,222
Receivables from leasing	-	10,436	136	10,572
Other assets	-	2,401	-	2,401
Total financial assets	**42,646**	**180,135**	**12,447**	**235,228**
Liabilities				
Due to banks and other credit institutions	-	4,435	-	4,435
Due to customers	-	232,702	-	232,702
Debt securities issued	-	-	-	-
Subordinated loans		1,000		1,000
Other liabilities	-	1,103	-	1,103
Total financial liabilities	**-**	**239,240**	**-**	**239,240**

(All amounts in EUR thousand unless otherwise stated)

Note 32 Fair values of financial instruments (cont'd)

Group

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total carrying amount**
Assets				
Cash and due from banks	53,520	11,539	-	65,059
Held-to-maturity investments	-	39,860	-	39,860
Loans to customers	-	138,017	9,263	147,280
Receivables with deferred payment	-	2,923	-	2,923
Loans to financial institutions	-	1,636	-	1,636
Receivables from leasing	-	11,821	18	11,839
Other assets	-	2,849	-	2,849
Total financial assets	**53,520**	**208,645**	**9,281**	**271,446**
Liabilities				
Due to banks and other credit institutions	-	3,600	-	3,600
Due to customers	-	251,855	-	251,855
Debt securities issued	-	-	-	-
Subordinated loan		1,000		1,000
Other liabilities	-	1,258	-	1,258
Total financial liabilities	**-**	**257,713**	**-**	**257,713**

31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total carrying amount**
Assets				
Cash and due from banks	42,646	11,983	-	54,629
Held-to-maturity investments	-	33,660	-	33,660
Loans to customers	-	114,789	12,312	127,101
Receivables with deferred payment	-	3,377	319	3,696
Loans to financial institutions	-	4,222	-	4,222
Receivables from leasing	-	10,436	136	10,572
Other assets	-	2,572	-	2,572
Total financial assets	**42,646**	**181,039**	**12,767**	**236,452**
Liabilities				
Due to banks and other credit institutions	-	4,435	-	4,435
Due to customers	-	226,809	-	226,809
Debt securities issued	-	-	-	-
Subordinated loans		1,000		1,000
Other liabilities	-	1,169	-	1,169
Total financial liabilities	**-**	**233,413**	**-**	**233,413**

The following table shows the valuation techniques used by the Bank and the Group in measuring Level 2 and Level 3 fair values (where the fair value differs from the carrying amount), as well as the significant unobservable inputs used:

Type	**Valuation technique**	**Significant unobservable inputs**
Held-to-maturity investments	Discounted cash flows	Discount rates
Loans and receivables, loans to banks, loans to financial institutions, receivables from leasing	Discounted cash flows	Discount rates, default rates, expected lifetime
Due to customers	Discounted cash flows	Discount rates
Debt securities issued	Discounted cash flows	Discount rates
Subordinated loans	Discounted cash flows	Discount rates

(All amounts in EUR thousand unless otherwise stated)

Note 33 Related party transactions

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

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

The Bank, 2017	Shareholders	Subsidiaries	Key management personnel	Other*
Loans outstanding as at 31 December 2017, net	-	199	42	1,296
Interest rate,%	-	5	0-4.0	4.0-4.5
Interest income on loans	-	3	1	144
Impairment of loans	-	-	-	-
Term deposits as at 31 December 2017	-	-	3	253
Interest expense on deposits	-	-	-	(3)
Interest rate,%	-	-	0.2-0.6	0.15–6.5
Demand accounts as at 31 December 2017	4	1,065	80	2,996
Bonds issued as at 31 December 2017	-	-	-	-
Interest expense on bonds	-	-	-	-
Interest rate,%	-	-	-	-
Subordinated loans as at 31 December 2017	1,000	-	-	-
Interest expense on subordinated loans	(20)	-	-	-
Interest rate,%	2	-	-	-
Service fee and commission revenue	1	-	-	14
Service fee and commission expenses	-	-	-	(3)
Other operating revenue	-	20	-	-
Other operating expenses	-	-	(40)	(95)

The Bank, 2016	Shareholders	Subsidiaries	Key management personnel	Other*
Loans outstanding as at 31 December 2016, net	-	-	45	3,894
Interest rate,%	-	-	0–3.0	0–5.84
Interest income on loans	-	-	1	134
Impairment of loans	-	-	-	253
Term deposits as at 31 December 2016	-	-	3	362
Interest expense on deposits	-	-	-	(17)
Interest rate,%	-	-	0.25–0.50	0.15–6.5
Demand accounts as at 31 December 2016	80	5,893	38	4,185
Bonds issued as at 31 December 2016	-	-	-	-
Interest expense on bonds	-	-	-	-
Interest rate,%	-	-	-	-
Subordinated loans as at 31 December 2016	1,000	-	-	-
Interest expense on subordinated loans	(2)	-	-	-
Interest rate,%	2	-	-	-
Service fee and commission revenue	1	-	-	13
Service fee and commission expenses	-	-	-	(1)
Other operating revenue	-	18	1	4
Other operating expenses	-	-	(49)	(78)

(All amounts in EUR thousand unless otherwise stated)

Note 33 Related party transactions (cont'd)

The Group, 2017	Shareholders	Key management personnel	Other*
Loans outstanding as at 31 December 2017, net	-	42	1,296
Interest rate,%	-	0–4.0	4.0–4.5
Interest income on loans	-	1	144
Impairment of loans	-	-	-
Term deposits as at 31 December 2017	-	3	253
Interest expense on deposits	-	-	(3)
Interest rate,%	-	0.2–0.6	0.15–6.5
Demand accounts as at 31 December 2017	4	82	2,994
Bonds issued as at 31 December 2017	-	-	-
Interest expense on bonds	-	-	-
Interest rate,%	-	-	-
Subordinated loans as at 31 December 2017	1,000	-	-
Interest expense on subordinated loans	(20)	-	-
Interest rate,%	2	-	-
Service fee and commission revenue	1	-	14
Service fee and commission expenses	-	-	(3)
Other operating revenue	-	-	-
Other operating expenses	-	(41)	(94)

The Group, 2016	Shareholders	Key management personnel	Other*
Loans outstanding as at 31 December 2016, net	-	46	3,899
Interest rate,%	-	0–3.0	0–5.84
Interest income on loans	-	1	134
Impairment of loans	-	-	253
Term deposits as at 31 December 2016	-	3	362
Interest expense on deposits	-	-	(17)
Interest rate,%	-	0.25–0.60	0.15–6.5
Demand accounts as at 31 December 2016	80	40	4,183
Bonds issued as at 31 December 2016	-	-	-
Interest expense on bonds	-	-	-
Interest rate,%	-	-	-
Subordinated loans as at 31 December 2016	1,000	-	-
Interest expense on subordinated loans	(2)	-	-
Interest rate,%	2	-	-
Service fee and commission revenue	1	-	13
Service fee and commission expenses	-	-	(1)
Other operating revenue	-	1	4
Other operating expenses	-	(50)	(77)

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

(All amounts in EUR thousand unless otherwise stated)

Note 33 Related party transactions (cont'd)

The Group

Compensation of key management personnel comprised the following:

	2017	2016
Salaries and other short-term benefits	261	319
Social security costs	82	97
Total key management personnel compensation	**343**	**416**

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

Note 34 Risk management

Risk is inherent in the Bank's and the Group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's and the Group's continuing profitability and each individual within the Bank and the Group is accountable for the risk exposures relating to his or her responsibilities.

The Group and the Bank are exposed to credit risk, liquidity risk and market risk, it is also subject to operating risk.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Supervisory Board

The Supervisory Board has the responsibility for monitoring the overall risk process within the Bank and the Group.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Audit Committee

Audit Committee periodically reviews efficiency of the Bank's internal control procedures, it coordinates and periodically assesses the work of internal audit, monitors and assesses internal and external auditor's reports.

Risk Department

The Risk Department is responsible for monitoring compliance with risk principles, policies and limits, across the Group and the Bank.

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risk of the Group and the Bank.

The Bank Audit Division

Risk management processes throughout the Group and the Bank are audited annually by the internal audit that examines both the adequacy of the procedures and the Bank's and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Note 34 Risk management (cont'd)

Risk measurement and reporting systems

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

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

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

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

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

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

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

Monitoring and controlling of risks are primarily performed based on limits established by the Group and the Bank. These limits reflect the business strategy and market environment of the Group and the Bank as well as the level of risk that the Bank or the Group is willing to accept.

Information compiled from all the business is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Risk Committee and the head of each business division.

The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Supervisory Board receives a comprehensive risk report once a quarter which is designed to provide all necessary information to assess and conclude on the risks of the Group and the Bank.

A daily briefing is given to the Board of Directors on the utilisation of market limits, analysis of proprietary investments and liquidity.

The Group measures credit risk arising from receivables for assets sold with deferred payment by asking to provide additional collateral, by signing real estate deal with restricted use of assets or by postponing ownership of asset sold until the final settlement of the agreed amount.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk

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

In cases, when cash flows of nonperforming loans are based on expected cash flows to be recovered from sale of collateral, value of the collateral is an important estimate in calculating impairment losses for loans and receivables. Sensitivity analysis of real estate market prices is presented in section *Market risk*.

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

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

The Group			The Bank	
31 December 2017	**31 December 2016**		**31 December 2017**	**31 December 2016**
		Statement of financial position items, other than trading and investment activities		
29,042	21,058	Balances with the Bank of Lithuania	29,042	21,058
11,539	11,983	Due from banks	11,496	11,982
147,280	127,101	Loans to customers	147,123	127,080
2,923	3,696	Receivable with deferred payment	2,657	2,665
1,636	4,222	Loans to bank and financial institutions	1,835	4,222
11,839	10,572	Receivables from leasing	11,839	10,572
204,259	**178,632**		**203,992**	**177,579**
		Off balance sheet items		
763	477	Guarantees	763	477
8,994	9,746	Loan commitments	8,994	9,746
214,016	**188,855**	**Total balance and off balance sheet items, other than trading and investment activities**	**213,749**	**187,802**
		Trading and investment activities		
		Financial assets at fair value through profit or loss		
7	*30*	*Derivative financial instruments*	*7*	*30*
-	*7,763*	*Debt securities*	-	*7,763*
		Held-to-maturity investments		
39,860	*33,660*	*Debt securities*	*39,860*	*33,660*
39,867	**41,453**	**Total trading and investment activities**	**39,867**	**41,453**
253,883	**230,308**	**Total credit exposure**	**253,616**	**229,255**

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the possible maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Maximum exposure to credit risk without taking into account any collateral and other credit enhancement (cont'd)

	31 December 2017 The Bank	31 December 2017 The Group	31 December 2016 The Bank	31 December 2016 The Group
Contracted amount				
Loan and credit line commitments	6,604	6,604	7,841	7,841
Undrawn overdraft facilities	2,390	2,390	1,905	1,905
Guarantees and letters of credit	763	763	477	477
Total	**9,757**	**9,757**	**10,223**	**10,223**

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Restricted assets (pledged or otherwise restricted use):

	31 December 2017 The Bank (Group)	31 December 2016 The Bank (Group)
Due from banks	1,275	1,200
Debt securities	8,188	6,633
Loans issued	1,368	1,368
Total	**10,831**	**9,201**

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

	The Bank (Group)	
	31 December 2017	31 December 2016
Government bonds	38,640	39,871
Bank and corporate bonds	1,220	1,552
Derivatives	7	30
Total	**39,867**	**41,453**

Bonds exposure by rating grade	The Bank (Group)	
	31 December 2017	31 December 2016
High grade (AAA-A)	32,690	28,260
Standard grade (B-BBB+)	7,170	13,163
Not rated	-	-
Total	**39,860**	**41,423**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Risk concentration of the maximum exposure to credit risk

Tables below present the breakdown of trading and investment activities by geographical region:

	The Bank (the Group)							
	31 December 2017				31 December 2016			
Bonds exposure by geography	Government bonds	Bank bonds	Financial institution bonds	Non-financial institution bonds	Government bonds	Bank bonds	Financial institution bonds	Non-financial institution bonds
Lithuania	18,017	-	-	-	18,813	-	-	-
Georgia	-	-	-	-	-	-	-	-
Bulgaria	-	-	-	-	1,668	-	-	-
Iceland	1,600	-	-	-	1,087	-	-	-
Spain	1,869	-	-	-	1,291	-	-	-
Croatia	1,058	-	-	-	1,114	-	-	-
Latvia	1,003	-	-	-	5,137	-	-	-
Poland	2,127	-	-	-	2,163	-	-	-
Romania	2,075	-	-	-	2,109	-	-	-
Slovenia	2,565	-	-	-	997	-	-	-
Sweden	3,347	-	-	-	960	-	-	-
Turkey		-	-	-	623	-	-	-
Hungary	1,368	-	-	-	3,909	-	-	-
Germany	-	-	-	421	-	-	531	192
Estonia	-	-	-	799	-	-	-	829
Finland	1,668	-	-	-	-	-	-	-
Belgium	1,943	-	-	-	-	-	-	-
Total	**38,640**			**1,220**	**39,871**	**-**	**531**	**1,021**

The Group and the Bank have no impaired or overdue amounts within trading and investment activities.

For trading and investment activities, the Group and the Bank have assigned "AAA" to "A" (based on Fitch ratings or similar international rating agency equivalent) rating bonds to high grade, "BBB" to "B" rating bonds – to standard grade.

Corporate and bank bonds by sectors

The Bank (the Group)	31 December 2017	31 December 2016
Finance (Bank)	-	-
Real estate	-	192
Energy	799	-
General public administration activities	421	829
Other monetary intermediation	-	531
Total	**1,220**	**1,552**

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

In addition to the Bank of Lithuania requirements to limit exposures to a single borrower and large exposures, the Group also sets exposure requirement that the exposure of the borrowers may not exceed the established internal limits. The maximum exposure requirement to a single borrower established by the Bank of Lithuania is 25 percent. Concentration of credit risk of the Bank is disclosed in Note 34, Credit risk.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

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

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

Exposure by geographical area

The geographical concentration risk is not recognised in the Group's business since the principle of focusing on domestic customers is followed. The Bank's maximum credit exposure to one client or counterparty before impairment as at 31 December 2017 was EUR 4,835 thousand (EUR 4,173 thousand as at 31 December 2016), and after application of all credit risk mitigation measures as at 31 December 2017 was EUR 4,828 thousand (EUR 4,167 thousand as at 31 December 2016). The proportion to the Bank's capital was 20.99% (16.68% as at 31 December 2016).

The Bank, 2017	**Corporate loans**	**Individuals loans**	**Total**
Lithuania	182,366	27,511	**209,877**
United States of America	9	-	**9**
Germany	-	25	**25**
Austria	2,270	-	**2,270**
Russia	135	420	**555**
Belarus	1	110	**111**
Poland	13	-	**13**
France	-	189	**189**
United Kingdom	7	260	**267**
Other	132	301	**433**
	184,933	**28,816**	**213,749**

The Group, 2017	**Corporate loans**	**Individuals loans**	**Total**
Lithuania	182,433	27,670	**210,103**
United States of America	9	-	**9**
Germany	-	25	**25**
Austria	2,270	-	**2,270**
Russia	135	420	**555**
Belarus	1	110	**111**
Poland	13	-	**13**
France	-	189	**189**
United Kingdom	7	260	**267**
Other	174	300	**474**
Total	**185,042**	**28,974**	**214 ,016**

The Bank, 2016	**Corporate loans**	**Individuals loans**	**Total**
Lithuania	172,609	10,119	**182,728**
United States of America	671	-	**671**
Germany	120	26	**146**
Austria	2,632	-	**2,632**
Russia	177	593	**770**
Belarus	6	144	**150**
Poland	12	-	**12**
France	-	202	**202**
United Kingdom	-	192	**192**
Other	116	184	**300**
Total	**176,343**	**11,460**	**187,803**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

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

Exposure by geographical area (cont'd)

The Group, 2016	Corporate loans	Individuals loans	Total
Lithuania	173,498	10,283	**183,781**
United States of America	671	-	**671**
Germany	120	26	**146**
Austria	2,632	-	**2,632**
Russia	176	594	**770**
Belarus	6	144	**150**
Poland	12	-	**12**
France	-	202	**202**
United Kingdom	-	192	**192**
Other	116	184	**300**
Total	**177,231**	**11,625**	**188,856**

Risk by sector

An industry sector split of the Bank's and the Group's financial assets before taking into account collateral held is as follows:

The Bank, 2017	Total
Corporate loans	**184,933**
Trading enterprises	19,651
Real estate operations	24,632
Real estate constructions	5,366
Transport	13,675
Manufacturing	9,748
Services	30,883
Agriculture and food processing	30,256
Energy	4,748
Financial services	42,503
Local government	3,471
Individuals loans	**28,816**
Total	**213,749**

The Group, 2017	Total
Corporate loans	**185,041**
Trading enterprises	19,651
Real estate operations	24,632
Real estate constructions	5,366
Transport	13,676
Manufacturing	9,748
Services	30,948
Agriculture and food processing	30,256
Energy	4,748
Financial services	42,545
Local government	3,471
Individuals loans	**28,975**
Total	**214,016**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

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

Risk by sector (cont'd)

The Bank, 2016	**Corporate loans**
Corporate loans	**176,343**
Trading enterprises	23,830
Real estate operations	23,621
Real estate constructions	3,032
Transport	8,369
Manufacturing	16,588
Services	29,131
Agriculture and food processing	21,358
Energy	5,171
Financial services	33,662
Local government	11,581
Individuals loans	**11,460**
Total	**187,803**

The Group, 2016	**Corporate loans**
Corporate loans	**177,231**
Trading enterprises	23,852
Real estate operations	24,163
Real estate constructions	3,032
Transport	8,369
Manufacturing	16,588
Services	29,454
Agriculture and food processing	21,358
Energy	5,171
Financial services	33,663
Local government	11,581
Individuals loans	**11,625**
Total	**188,856**

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The ability to repay loan is the primary criterion in loan evaluation, though the Group and the Bank always demand collateral. Acceptable collaterals are classified into real estate, movable properties, guarantees, insurance, financial assets and other. Assets accepted as collateral are estimated at their fair value, while estimating present value of the loan taking into account the costs for obtaining and selling the collateral. When real estate is appraised, the Group and the Bank also take into account its liquidity and useful life.

According to the Bank's policy for evaluation of collaterals, different types of collaterals need to be revaluated in different timescale: residential buildings – at least every 5 years, commercial buildings – every 4 years, land – 3-5 years, vehicles – 1 years, other collaterals from 1 to 3 years. In addition to that there is also a requirement that in case of significant price correction in the real estate market or other significant change in economic environment, revaluation of all Bank's collateral should be performed.

The fair value of the rest collateral is appraised using both external and internal valuators.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

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

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

Collateral and other credit enhancements (cont'd)

The Bank (Group), 2017	Corporate loans	Individuals loans	Total
Real estate	240,821	82,834	**323,655**
Securities	1,763	-	**1,763**
Vehicles	37,338	545	**37,883**
Equipment	21,494	118	**21,612**
Cash	846	102	**948**
Credit insurance	1,273	838	**2,111**
Guarantees received	15,348	6	**15,354**
Other	25,362	45	**25,406**
Total	**344,245**	**84,488**	**428,733**

The Bank, 2016	Corporate loans	Individuals loans	Total
Real estate	188,002	28,047	**216,049**
Securities	1,083	0	**1,083**
Vehicles	34,040	569	**34,609**
Equipment	19,483	22	**19,505**
Cash	271	36	**307**
Credit insurance	1,001	186	**1,187**
Guarantees received	12,963	13	**12,976**
Other	21,302	217	**21,519**
Total	**278,145**	**29,090**	**307,235**

The Group, 2016	Corporate loans	Individuals loans	Total
Real estate	188,245	28,141	**216,386**
Securities	1,083	0	**1,083**
Vehicles	34,040	569	**34,609**
Equipment	19,483	22	**19,505**
Cash	271	36	**307**
Credit insurance	1,001	186	**1,187**
Guarantees received	12,963	13	**12,976**
Other	21,302	217	**21,519**
Total	**278,388**	**29,184**	**307,572**

Pledged real estate value (related with NPL assets) is based on the valuation reports of licensed appraisers. New vehicles and equipment collateral value is based on acquisition value according to the acquisition document, used vehicles and equipment – based on the valuation reports of licensed appraisers (revaluation is performed every 3 years for not impaired loans and every 2 years for impaired loans). Guarantees are presented based on contractual terms. Cash is presented as the balance in the account on the reporting day. Securities are presented at their nominal value. Credit insurance value is based on the management‘s evaluation based on the documents from insurance companies. The value of other collaterals (goods, inventories) is based on the management's evaluation.

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Credit quality per class of financial asset

The credit quality of financial assets is managed by the Bank and the Group using an internal credit assessment system as described below.

Impairment and provisioning policies

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

The Group and the Bank carry out valuation of assets on a monthly basis, based on valuation policies approved by the Board of the Bank. The amount of impairment provision is based on the individual assessment of specific assets using discounted cash flow method and effective interest rates. Collateral is also taken into consideration when estimating an impairment provision.

Impairment and provisioning policies

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

The list of loss events:
1) significant financial difficulties of the debtor or issuer, i.e. the borrower's financial status is evaluated as poor or bad;
2) violation of the loan agreement (non-payment of the periodic loan payments (the part of the loan or interest) for more than 90 days;
3) the loan is being restructured;
4) funds granted to the borrower are used not according to the loan purpose, the implementation terms of investment project are violated or collateral value decreases, when repayment terms of the evaluated loans directly depend on the value of the object of security measure;
5) third parties related to the borrower do not fulfil their obligations, which impacts the borrower's ability to fulfil its financial obligations;
6) other loss events (termination or cancellation of the licence validity of the borrower or issuer engaged in licensed activity; the death of the borrower or issuer).

Rating of loans

When evaluating loans, the Group and the Bank apply specific valuation criteria and procedures on the clients. The main criteria for evaluation are those related to client's financial position assessment. The financial position of the client is analysed based on constantly renewed financial information, also taking into account variations in certain financial ratios, affecting the position of the client. Based on a set of defined criteria, ratings are assigned to the clients. High grade ("A" rating group) rating is assigned to reliable transactions, i.e. clients' operations are stable, the client complies with provisions of credit agreement, collateral is of good quality. Standard grade ratings ("B" rating group) are assigned to clients with minor breaches in provisions and loans secured with collateral. Substandard grade ratings ("C" rating group) are assigned to clients not past due but with worse financial situation and restructured clients' loans with identified default risk.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Rating of loans (cont'd)

The Bank, 2017	Neither past due nor impaired High grade	Standard grade	Substandard grade	Unrated	Past due or individually impaired	Total
Asset classes						
Corporate loans	12,197	110,590	1,629	252	10,175	134,843
Individuals loans	19,484	1,783	1,280	-	6,064	28,611
Total	**31,681**	**112,373**	**2,909**	**252**	**16,239**	**163,454**

The Group, 2017	Neither past due nor impaired High grade	Standard grade	Substandard grade	Unrated	Past due or individually impaired	Total
Asset classes						
Corporate loans	12,197	110,657	1,629	252	10,174	134,909
Individuals loans	19,548	1,783	1,292	-	6,145	28,769
Total	**31,745**	**112,440**	**2,921**	**252**	**16,320**	**163,678**

The Bank, 2016	Neither past due nor impaired High grade	Standard grade	Substandard grade	Unrated	Past due or individually impaired	Total
Asset classes						
Corporate loans	32,358	86,006	1,533	332	12,891	133,120
Individuals loans	4,502	263	1,013	-	5,641	11,419
Total	**36,860**	**86,269**	**2,546**	**332**	**18,532**	**144,539**

The Group, 2016	Neither past due nor impaired High grade	Standard grade	Substandard grade	Unrated	Past due or individually impaired	Total
Asset classes						
Corporate loans	32,358	86,574	1,852	332	12,891	134,007
Individuals loans	4,502	263	1,178	-	5,641	11,584
Total	**36,860**	**86,837**	**3,030**	**332**	**18,532**	**145,591**

As at 31 December 2017 the Group and the Bank have accepted collateral for the past due or individually impaired loans in the total amount of EUR 26,645 thousand (EUR 29,167 thousand as at 31 December 2016). As at 31 December 2017 the Group's and the Bank's fair value of collateral for impaired loans was EUR 13,716 thousand (EUR 17,709 thousand as at 31 December 2016).

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Ageing analysis of past due but not impaired loans per class of financial asset

The Bank , 2017	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Asset classes					
Corporate loans	2,900	339	70	273	**3,582**
Collaterals for overdue loans	4,833	620	128	755	**6,336**
Individuals loans	2,294	146	199	805	**3,444**
Collaterals for overdue loans	6,769	452	513	1,871	**9,605**

The Group, 2017	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Asset classes					
Corporate loans	2,900	339	70	273	**3,582**
Collaterals for overdue loans	4,833	620	128	755	**6,336**
Individuals loans	2,379	157	199	805	**3,540**
Collaterals for overdue loans	6,769	452	513	1,871	**9,605**

The Bank (Group), 2016	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Asset classes					
Corporate loans	1,699	312	2,078	24	**4,133**
Collaterals for overdue loans	3,258	609	2,407	268	**6,542**
Individuals loans	1,600	66	-	42	**1,708**
Collaterals for overdue loans	8,618	55	-	81	**8,754**

As at 31 December 2017 the Bank has EUR 12,094 thousand renegotiated loans due to financial difficulties of the clients (EUR 18,592 thousand as at 31 December 2016).

Loans and receivables per period overdue (excluding the impaired loans) and the value of collaterals pledged to secure them:

The Bank, 2017	Not overdue	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and receivables						
Loans and receivables	147,197	5,194	485	269	1,079	**154,224**
Collaterals	398,472	11,602	1,073	641	2,626	**414,413**
Over (under) collateralised	**251,276**	**6,408**	**588**	**372**	**1,547**	**260,190**

The Group, 2017	Not overdue	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and receivables						
Loans and receivables	147,341	5,214	496	269	1,079	**154,399**
Collaterals	398,472	11,602	1,073	641	2,626	**414,413**
Over (under) collateralised	**251,132**	**6,388**	**577**	**372**	**1,547**	**260,015**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Credit risk (cont'd)

Ageing analysis of past due but not impaired loans per class of financial asset (cont'd)

The Bank, 2016	**Not overdue**	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and receivables						
Loans and receivables	126,446	3,305	379	2,091	66	**132,287**
Collaterals	273,887	11,875	664	2,407	349	**289,182**
Over (under) collateralised	**147,441**	**8,570**	**285**	**316**	**283**	**156,895**

The Group, 2016	**Not overdue**	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and receivables						
Loans and receivables	126,885	3,305	379	2,091	359	**133,019**
Collaterals	273,933	11,875	664	2,407	640	**289,519**
Over (under) collateralised	**147,048**	**8,570**	**285**	**316**	**281**	**156,500**

Collective impairment

The collective impairment (in percentage) for loans is calculated annually. The calculations are performed using historical data of 3-year period. As the ratio of collective impairment is recalculated annually, the assumptions made are also revised annually. In 2017, the estimated weighted average loss ratio of 0.15% was established and approved. In 2016 the average rate was increased from 0.15% to 0.3% after the review of the Bank of Lithuania (Note 35).

Sensitivity analysis:

The Bank / the Group		**2017**	**2016**
	Ratio change	**Pre-tax impact on profit**	
Collectively impaired loans and receivables	+0.1 pp	(154)	(152)
	-0.1 pp	154	152

Liquidity risk

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

The major part of term deposits in the Bank's and the Group's deposit portfolio are placed for 6 to 13 month period, and average monthly fluctuations of this portfolio not exceeding more than 5 percent according to historical data. Several year statistics of the Group and the Bank show that activities of the Group and the Bank ensure stable level of those funds, also most of such funds are extended after maturity; this allows investing them into longer term financial assets.

From the beginning of 2015, the mandatory requirements of compliance with liquidity coverage ratio came into force according to Regulation (EU) No 575/2013 of the European Parliament and of the Council. The liquidity coverage ratio (LCR) refers to highly liquid assets held by the Bank or the Group in order to meet short-term obligations. The Bank or the Group is required to hold an amount of highly-liquid assets, such as cash treasury bonds and other liquid financial instruments, equal to or greater than net cash outflow over a 30-day period, i.e. liquidity coverage ratio cannot be lower than 100 percent. The liquidity coverage ratio of the Bank was started to be measured from the beginning of 2014, but it wasn't a compulsory requirement. Liquidity coverage ratios of the Bank and the Group are as follows:

The Group			**The Bank**	
31 December 2017	**31 December 2016**		**31 December 2017**	**31 December 2016**
90,760	78,583	Liquid assets	90,760	78,583
12,423	9,307	Short-term (up to 30 days) obligations	12,575	11,516
731	**844**	**LCR (%)**	**722**	**682**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Liquidity risk (cont'd)

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

The Bank

	31 December 2017							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	Total
Assets:								
Cash and due from banks	60,406	3,335	-	66	-	-	1,209	**65,016**
Investments in debt securities	-	3,575	11,420	7,575	10,343	6,947	-	**39,860**
Investments in subsidiaries	-	-	-	-	-	-	6,439	**6,439**
Loans to customers	-	3,943	5,246	25,987	46,105	59,748	6,094	**147,123**
Receivables with deferred payment	-	4	-	-	2,653	-	-	**2,657**
Loans to bank and financial institutions	-	249	7	1,579	-	-	-	**1,835**
Receivables from leasing	-	275	542	2,286	4,600	3,942	194	**11,839**
Other assets	-	1,725	-	-	-	-	9,674	**11,399**
Total	**60,406**	**13,106**	**17,215**	**37,493**	**63,701**	**70,637**	**23,610**	**286,168**
Liabilities:								
Due to banks and other credit institutions	600	-	-	-	3,000	-	-	**3,600**
Due to customers	78,091	16,958	23,637	92,793	25,218	16,220	3	**252,920**
Debt securities issued	-	-	-	-	-	-	-	**-**
Subordinated loans	-	-	-	-	-	1,000	-	**1,000**
Other liabilities	19	1,146	2	7	5	4	-	**1,183**
Total	**78,710**	**18,104**	**23,639**	**92,800**	**28,223**	**17,224**	**3**	**258,703**
Net position	**(18,304)**	**(4,998)**	**(6,424)**	**(55,307)**	**35,478**	**53,413**	**23,607**	**27,465**
Accumulated gap	***(18,304)***	***(23,302)***	***(29,726)***	***(85,033)***	***(49,555)***	***3,858***	***27,465***	
Loan commitments	**-**	8,994	-	-	-	-	-	**8,994**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Liquidity risk (cont'd)

The Bank	31 December 2016							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	Total
Assets:								
Cash and due from banks	50,175	3,253	-	-	-	-	1,200	**54,628**
Investments in debt securities	-	83	5,986	8,634	13,830	12,834	56	**41,423**
Investments in subsidiaries	-	-	-	-	-	-	14,494	**14,494**
Loans to customers	-	3,780	5,913	26,849	42,154	40,883	7,501	**127,080**
Receivables with deferred payment	-	-	-	-	-	2,662	3	**2,665**
Loans to bank and financial institutions	-	273	120	239	691	2,899	-	**4,222**
Receivables from leasing	-	231	423	2,340	3,931	3,487	160	**10,572**
Other assets	-	1,917	-	2	-	-	8,094	**10,013**
Total	**50,175**	**9,537**	**12,442**	**38,064**	**60,606**	**62,765**	**31,508**	**265,097**
Liabilities:								
Due to banks and other credit institutions	1,431	-	-	4	-	3,000	-	**4,435**
Due to customers	75,262	18,192	24,354	90,266	15,571	9,053	4	**232,702**
Debt securities issued	-	-	-	-	-	-	-	**-**
Subordinated loans	-	-	-	-	-	1,000	-	**1,000**
Other liabilities	7	1,120	2	5	5	4	-	**1,143**
Total	**76,700**	**19,312**	**24,356**	**90,275**	**15,576**	**13,057**	**4**	**239,280**
Net position	**(26,525)**	**(9,775)**	**(11,914)**	**(52,211)**	**45,030**	**49,708**	**31,504**	**25,817**
Accumulated gap	***(26,525)***	***(36,300)***	***(48,214)***	***(100,425)***	***(55,395)***	***(5,687)***	***25,817***	***-***
Loan commitments		9,746						**9,746**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Liquidity risk (cont'd)

The Group	31 December 2017							
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Without maturity**	**Total**
Assets:								
Cash and due from banks	60,449	3,335	-	66	-	-	1,209	**65,059**
Investments in debt securities	-	3,575	11,420	7,575	10,343	6,947	-	**39,860**
Loans to customers	-	3,959	5,263	26,031	46,137	59,748	6,142	**147,280**
Receivables with deferred payment	-	4	13	40	2,760	106	-	**2,923**
Loans to bank and financial institutions	-	249	7	1,380	-	-	-	**1,636**
Receivables from leasing	-	275	542	2,286	4,600	3,942	194	**11,839**
Other assets	-	2,045	-	-	-	-	14,543	**16,588**
Total	**60,449**	**13,442**	**17,245**	**37,378**	**63,840**	**70,743**	**22,088**	**285,185**
Liabilities:								
Due to banks and other credit institutions	600	-	-	-	3,000	-	-	**3,600**
Due to customers	77,026	16,958	23,637	92,793	25,218	16,220	3	**251,855**
Debt securities issued	-	-	-	-	-	-	-	**-**
Subordinated loans	-	-	-	-	-	1,000	-	**1,000**
Other liabilities	19	1,252	2	7	5	4	-	**1,289**
Total	**77,645**	**18,210**	**23,639**	**92,800**	**28,223**	**17,224**	**3**	**257,744**
Net position	**(17,196)**	**(4,768)**	**(6,394)**	**(55,422)**	**35,617**	**53,519**	**22,085**	**27,441**
Accumulated gap	**(17,196)**	**(21,964)**	**(28,358)**	**(83,780)**	**(48,163)**	**5,356**	**27,441**	
Loan commitments	**-**	8,994	-	-	-	-	-	**8,994**

The Group	31 December 2016							
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Without maturity**	**Total**
Assets:								
Cash and due from banks	50,176	3,253	-	-	-	-	1,200	**54,629**
Investments in debt securities	-	83	5,986	8,634	13,830	12,834	56	**41,423**
Loans to customers	-	3,780	5,920	26,852	42,161	40,887	7,501	**127,101**
Receivables with deferred payment	125	-	-	318	264	2,986	3	**3,696**
Loans to bank and financial institutions	-	273	120	239	691	2,899	-	**4,222**
Receivables from leasing	-	231	423	2,340	3,931	3,487	160	**10,572**
Other assets	-	2,067	-	2	-	-	15,556	**17,625**
Total	**50,301**	**9,687**	**12,449**	**38,385**	**60,877**	**63,093**	**24,476**	**259,268**
Liabilities:								
Due to banks and other credit institutions	1,431	-	-	4	-	3,000	-	**4,435**
Due to customers	69,369	18,192	24,354	90,266	15,571	9,053	4	**226,809**
Debt securities issued	-	-	-	-	-	-	-	**-**
Subordinated loans	-	-	-	-	-	1,000	-	**1,000**
Other liabilities	73	1,120	2	5	5	4	-	**1,209**
Total	**70,873**	**19,312**	**24,356**	**90,275**	**15,576**	**13,057**	**4**	**233,453**
Net position	**(20,572)**	**(9,625)**	**(11,907)**	**(51,890)**	**45,301**	**50,036**	**24,472**	**25,815**
Accumulated gap	***(20,572)***	***(30,197)***	***(42,104)***	***(93,994)***	***(48,693)***	***1,343***	***25,815***	
Loan commitments		9,746						**9,746**

Overdue loans are disclosed under column "Without maturity" as at 31 December 2017 and 2016.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Liquidity risk (cont'd)

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

The Bank

	31 December 2017							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	Total
Liabilities:								
Due to banks and other credit institutions	600	-	-	-	3,000	-		**3,600**
Due to customers	78,088	17,061	23,804	93,546	25,953	17,095	4	**255,551**
Debt securities issued	-	-	-	-	-	-	-	**-**
Subordinated loans	-	-	-	-	-	1,000	-	**1,000**
Other liabilities	19	1,146	2	7	5	4	-	**1,183**
Guarantees	763	-	-	-	-	-	-	**763**
Credit commitments	8,994	-	-	-	-	-	-	**8,994**
Total undiscounted financial liabilities	**88,464**	**18,207**	**23,806**	**93,553**	**28,958**	**18,099**	**4**	**271,091**

The Bank

	31 December 2016							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	Total
Liabilities:								
Due to banks and other credit institutions	1,431	-	-	4	-	3,000	-	**4,435**
Due to customers	75,262	18,276	24,471	90,848	16,118	9,649	4	**234,628**
Debt securities issued								**-**
Subordinated loans	-	-	-	-	-	1,000	-	**1,000**
Other liabilities	8	1,120	2	5	5	4	-	**1,144**
Guarantees	477	-	-	-	-	-	-	**477**
Credit commitments	9,746	-	-	-	-	-	-	**9,746**
Total undiscounted financial liabilities	**86,924**	**19,396**	**24,473**	**90,857**	**16,123**	**13,653**	**4**	**251,430**

The Group

	31 December 2017							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	Total
Liabilities:								
Due to banks and other credit institutions	600	-	-	-	3,000	-	-	**3,600**
Due to customers	77,023	17,061	23,804	93,546	25,953	17,095	4	**254,486**
Debt securities issued	-	-	-	-	-	-	-	**-**
Subordinated loans	-	-	-	-	-	1,000	-	**1,000**
Other liabilities	19	1,252	2	7	5	4	-	**1,289**
Guarantees	763	-	-	-	-	-	-	**763**
Credit commitments	8,994	-	-	-	-	-	-	**8,994**
Total undiscounted financial liabilities	**87,399**	**18,313**	**23,806**	**93,553**	**28,958**	**18,099**	**4**	**270,132**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Liquidity risk (cont'd)

The Group

	31 December 2016							
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Without maturity**	**Total**
Liabilities:								
Due to banks and other credit institutions	1,431	-	-	4	-	3,000	-	**4,435**
Due to customers	69,369	18,276	24,471	90,848	16,118	9,649	4	**228,735**
Debt securities issued								**-**
Subordinated loans	-	-	-	-	-	1,000	-	**1,000**
Other liabilities	8	1,186	2	5	5	4	-	**1,210**
Guarantees	477	-	-	-	-	-	-	**477**
Credit commitments	9,746	-	-	-	-	-	-	**9,746**
Total undiscounted financial liabilities	**81,031**	**19,462**	**24,473**	**90,857**	**16,123**	**13,653**	**4**	**245,603**

The Group and the Bank do not expect to pay under any of the guarantees, though they were included in the range on demand assuming worst case scenario. In case of failure of clients to fulfil the obligations where the Group and the Bank have issued guarantees, guarantees would become payable on demand.

Market risk

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

The Bank and the Group by managing loans in foreclosure processes and holding as investment property repossessed assets face real estate market price risk. Real estate market price risk is the risk to incur losses due to low market liquidity that disables to sell assets at the desired time for a desired price or a possibility to sell available assets (investments) is lost.

The Bank

		Effect for profit and loss	
	Changes in presumptions	**31 December 2017**	**31 December 2016**
Land	+ 10%	443	344
Commercial property	+ 10%	596	414
Residential property	+ 10%	540	379
Other assets	+ 10%	143	116
Total		**1,722**	**1,253**
Land	- 10%	(443)	(344)
Commercial property	- 10%	(596)	(414)
Residential property	- 10%	(540)	(379)
Other assets	- 10%	(143)	(116)
Total		**(1,722)**	**(1,253)**

The Group

		Effect for profit and loss	
	Changes in presumptions	**31 December 2017**	**31 December 2016**
Land	+ 10%	742	729
Commercial property	+ 10%	697	554
Residential property	+ 10%	602	593
Other assets	+ 10%	165	142
Total		**2,206**	**2,018**
Land	- 10%	(742)	(729)
Commercial property	- 10%	(697)	(554)
Residential property	- 10%	(602)	(593)
Other assets	- 10%	(165)	(142)
Total		**(2,206)**	**(2,018)**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Interest rate risk

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

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

The Bank (The Group)		Effect on net interest income	
	Interest rate change	31 December 2017	31 December 2016
LTL	+ 1%	-	-
EUR	+ 1%	502	99
USD	+ 1%	77	41
Other	+ 1%	5	4
LTL	- 1%	-	-
EUR	- 1%	(502)	(99)
USD	- 1%	(77)	(41)
Other	- 1%	(5)	(4)

The table below summarises the Group's and the Bank's exposure to interest rate risk as at 31 December 2017 and 2016. The table below includes the Group's and the Bank's assets and liabilities at carrying amounts, classified by the earlier of contractual re-pricing or maturity dates.

	31 December 2017						
The Bank	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets:							
Cash and due from banks	3,335	-	-	-	-	-	**3,335**
Loans and receivables	32,615	38,300	63,652	18,255	5,063	6,472	**164,357**
Investments in debt securities	3,575	11,420	5,796	1,773	10,343	6,947	**39,854**
Other assets	203	20	30	30			**283**
Sensitive assets to interest rate fluctuation	**39,728**	**49,740**	**69,478**	**20,058**	**15,406**	**13.419**	**207,829**
Non-sensitive assets to interest rate fluctuation							**78,412**
Liabilities:							
Due to banks and other credit institutions	-	-	-	-	-	-	-
Due to customers	16,207	23,038	30,194	61,540	23,282	8,291	**162,552**
Debt securities issued	-	-	-	-	-	-	-
Other liabilities	1,723					8,800	**10,523**
Sensitive liabilities to interest rate fluctuation	**17,930**	**23,038**	**30,194**	**61,540**	**23,282**	**17,091**	**173,075**
Non-sensitive liabilities and equity to interest rate fluctuation							**113,166**
Total interest sensitivity gap	**21,798**	**26,702**	**39,284**	**(41,482)**	**(7,876)**	**(3,672)**	**-**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Interest rate risk (cont'd)

	31 December 2016						
The Bank	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets:							
Cash and due from banks	3,290	78	-	-	-	-	**3,368**
Loans and receivables	14,432	33,329	46,690	30,049	4683	6,145	**135,328**
Investments in debt securities	82	5,986	1,954	6,680	13,822	12,833	**41,357**
Other assets	80	20	31	61	90	-	**282**
Sensitive assets to interest rate fluctuation	**17,884**	**39,413**	**48,675**	**36,790**	**18,595**	**18,978**	**180,335**
Non-sensitive assets to interest rate fluctuation							**85,562**
Liabilities:							
Due to banks and other credit institutions	-	-	-	4	-	-	**4**
Due to customers	16,406	24,102	37,170	52,810	15,217	5,048	**150,753**
Debt securities issued	-	-	-	-	-	-	**-**
Other liabilities	3,931	-	-	-	-	1,096	**5,027**
Sensitive liabilities to interest rate fluctuation	**20,337**	**24,102**	**37,170**	**52,814**	**15,217**	**6,144**	**155,784**
Non-sensitive liabilities and equity to interest rate fluctuation							**110,113**
Total interest sensitivity gap	**(2,453)**	**15,311**	**11,505**	**(16,024)**	**3,378**	**12,834**	**-**

	31 December 2017						
The Group	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets:							
Cash and due from banks	3,335	-	-	-	-	-	**3,335**
Loans and receivables	32,627	38,328	63,681	18,120	5,199	6,578	**164,533**
Investments in debt securities	3,575	11,420	5,796	1,773	10,343	6,947	**39,854**
Other assets	203	20	30	30			**283**
Sensitive assets to interest rate fluctuation	**39,740**	**49,768**	**69,507**	**19,923**	**15,542**	**13,525**	**208,005**
Non-sensitive assets to interest rate fluctuation							**77,254**
Liabilities:							
Due to banks and other credit institutions							
Due to customers	16,207	23,038	30,194	61,540	23,282	8,291	**162,552**
Debt securities issued	-	-	-	-	-	-	-
Other liabilities	1,723					8,800	**10,523**
Sensitive liabilities to interest rate fluctuation	**17,930**	**23,038**	**30,194**	**61,540**	**23,282**	**17,091**	**173,075**
Non-sensitive liabilities and equity to interest rate fluctuation							**112,183**
Total interest sensitivity gap	**21,810**	**26,730**	**39,313**	**(41,617)**	**(7,740)**	**(3,566)**	**-**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Interest rate risk (cont'd)

	31 December 2016						
The Group	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets:							
Cash and due from banks	3,290	78	-	-	-	-	**3,368**
Loans and receivables	14,432	33,336	46,797	30,264	4,954	6,473	**136,256**
Investments in debt securities	82	5,986	1,954	6,680	13,822	12,833	**41,357**
Other assets	80	20	31	61	90	-	**282**
Sensitive assets to interest rate fluctuation	**17,884**	**39,420**	**48,782**	**37,005**	**18,866**	**19,306**	**181,263**
Non-sensitive assets to interest rate fluctuation							**78,805**
Liabilities:							
Due to banks and other credit institutions	-	-	-	4	-	-	**4**
Due to customers	16,406	24,102	37,170	52,810	15,217	5,048	**150,753**
Debt securities issued	-	-	-	-	-	-	**-**
Other liabilities	3,931	-	-	-	-	1,096	**5,027**
Sensitive liabilities to interest rate fluctuation	**20,337**	**24,102**	**37,170**	**52,814**	**15,217**	**6,144**	**155,784**
Non-sensitive liabilities and equity to interest rate fluctuation							**104,503**
Total interest sensitivity gap	**(2,453)**	**15,318**	**11,612**	**(15,809)**	**3,649**	**13,162**	**-**

The Bank and the Group is exposed to the price risk, which arises from investments measured as fair value though profit and loss (FVTPL). The management of the Group monitors the proportions of debt securities in its investment portfolio based on market indices. The Bank estimates the impact of the change in market yields on the value of the securities designated at fair value portfolio as at 31 December 2016. The Bank had no securities designated at fair value portfolio as at 31 December 2017.

The table below shows the impact of the change in value of securities designated at fair value if the yield increases/decreases by one percentage point on pre-tax income and equity:

The Bank / the Group		**2017**	**2016**
	Yield change	**Pre-tax impact on profit**	
Securities designated at FVTPL	+1%	-	(93)
	-1%	-	95

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Currency risk

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

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

The Bank	**Statement of financial position**		**Off Balance sheet**			
31 December 2017	Assets	Equity and liabilities	Contingent claims	Contingent liabilities	Open position	Position as % of capital
EUR	253,510	263,234	9,840	202	(86)	(0.40)%
USD	19,963	19,622	-	417	(76)	(0.35)%
Other currencies	12,695	3,312	201	9,448	136	0.63%
Total assets	**286,168**	**286,168**	**10,041**	**10,067**		
Long positions						320
Short positions						(260)
Eligible capital						21,426
Open foreign currency position 2017						**1.50%**

The Bank	**Statement of financial position**		**Off Balance sheet**			
31 December 2016	Assets	Equity and liabilities	Contingent claims	Contingent liabilities	Open position	Position as % of capital
EUR	233,790	243,281	9,104	-	(387)	(1.99)%
USD	19,485	19,441	-	-	44	0.23%
Other currencies	11,822	2,375	-	9,096	351	1.81%
Total assets	**265,097**	**265,097**	**9,104**	**9,096**		
Long positions						420
Short positions						(25)
Eligible capital						19,422
Open foreign currency position 2016						**2.16%**

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Currency risk (cont'd)

The Group	**Statement of financial position**		**Off Balance sheet**			
31 December 2017	Assets	Equity and liabilities	Contingent claims	Contingent liabilities	Open position	Position as % of capital
EUR	252,527	262,251	9,840	202	(86)	(0.39)%
USD	19,963	19,622	-	417	(76)	(0.35)%
Other currencies	12,695	3,312	201	9,448	136	0.62%
Total assets	**285,185**	**285,185**	**10,041**	**10,067**		
Long positions						320
Short positions						(260)
Eligible capital						21,907
Open foreign currency position 2017						**1.46%**

The Group	**Statement of financial position**		**Off Balance sheet**			
31 December 2016	Assets	Equity and liabilities	Contingent claims	Contingent liabilities	Open position	Position as % of capital
EUR	227,961	237,452	9,104	-	(387)	(1.88)%
USD	19,485	19,441	-	-	44	0.21%
Other currencies	11,822	2,375	-	9,096	351	1.70%
Total assets	**259,268**	**259,268**	**9,104**	**9,096**		
Long positions						420
Short positions						(25)
Eligible capital						20,622
Open foreign currency position 2016						**2.04%**

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

	2017	**2016**
Increase in FX rates by 10%	6	40
Decrease in FX rates by 10%	(6)	(40)

Anti-money laundering risk management

UAB Medicinos Bankas is implementing money laundering and terrorist financing prevention policy according to the legislation of the Republic of Lithuania and international legislation.

The Bank's money laundering and terrorist financing prevention policy's aims, its implementation procedures and instruments are regulated in the special Bank's documents.

(All amounts in EUR thousand unless otherwise stated)

Note 34 Risk management (cont'd)

Anti-money laundering risk management (cont'd)

Main procedures of money laundering and terrorist financing prevention:
- Know Your Customer procedures;
- customer identification;
- monitoring of the financial transactions performed by customers;
- identification of suspicious transactions and termination hereof (special systems introduced at the Bank enable to efficiently implement the procedure);
- keeping of information about transactions performed by customers and register handling;
- providing timely information to the Bank staff and training;
- internal control.

The Bank is following strict ethical and moral norms and is working with those clients whose funds and assets are reasonable and whose legitimacy is not doubtful.

Note 35 Capital

The Group's and the Bank's capital management procedures are based on the regulatory capital requirements contained in the Capital Requirements Directive (CRD) and in the Capital Requirements Regulation (CRR), which took effect on 1 January 2015. The CRD consists of three pillars two of which were represented in the financial statements:

Pillar one contains a set of rules for the mathematical calculation of capital requirements for credit, market and operational risks. These rules are set by Regulation (EU) No. 575/2013 of the European Parliament and of the Council and require banks to maintain a common equity Tier 1 capital ratio of 4.5% and a total capital adequacy ratio of 8% of risk-weighted assets. On 30 June 2015 a new requirement for Tier 1 equity items came into effect. According to these requirements, there is a need to accumulate additional reserve, which is equal to 2.5 percentage from generally evaluated risk amount. The risk weighted asset is determined based on a standard method when different risk weight is attributed to different categories of asset based on its type and risk involved, taking into account collateral and warranties, which hedge the risk. Off-balance sheet positions are evaluated in a similar way. Operating risk capital adequacy requirement is determined based on the base indicator method. From December 2018 the obligation to accumulate an additional countercyclical capital buffer of 0.5 per cent will come into force. From 2018 December the set countercyclical capital buffer rate would increase capital assets by approximately EUR 610 thousand.

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

Capital components	**2016**	**2017**	**2018**
General capital adequacy ratio	8.00	8.00	8.00
General capital adequacy ratio plus Pillar II	11.40	11.40	11.40
General capital adequacy ratio plus Pillar II and Capital conservation buffer	13.90	13.90	13.90

Pillar two describes the supervisory review process and requires banks to carry out an internal capital adequacy assessment process (ICAAP).

The Bank's internal capital adequacy monitoring process is reviewed at least once a year and the most critical risks to the Bank are determined. The Bank assesses that credit, market, liquidity, concentration and operating risks are the most important to the Bank's activities. Also, during the review process all of the above mentioned risks are divided into sub-categories. All structural units of the Bank are involved in self-assessment to exposure of such risks. Based on the identified significant risks, an additional capital adequacy requirement (in addition to the Pillar one ratio) is determined. An additional required capital is determined on a periodical basis based on stress testing and internal capital adequacy assessment.

Based on self-assessment results the Bank's management determined that credit risk is the most significant to the Bank. Concentration risk is assessed as a part of credit risk. Operating risk was assessed as moderate in the Bank. The following subcategories of operating risk are analysed in the Bank: IT risk and the Bank's employees' mistake risk. Liquidity risk is managed centrally; however, due to the fact that the Bank does not have a strong parent company (financial institution), this risk is assessed as medium. Market risk includes foreign exchange, debt securities price risks. Other risks are considered as not material. There are internal regulations in the Bank which determine risk management process integrity. The risks taken by the Bank are controlled by limit system that is implemented in the Bank. In addition to the limit system, additional measures such as risk source monitoring and informing Bank's management are applied.

In addition to assessment of various risks and calculation of required additional capital stress testing for credit, liquidity, market, interest rate, foreign exchange and operational risks is performed. The purpose of such test is to determine whether the Bank's capital is sufficient to cover potential losses due to possible deterioration of the financial position of the Bank. Stress testing is performed once a year in order to comply with the regulations set by the Bank of Lithuania.

(All amounts in EUR thousand unless otherwise stated)

Note 35 Capital (cont'd)

The primary objectives of the Group's and the Bank's capital management are to ensure that the Group and the Bank comply with externally imposed capital requirements and that the Group and the Bank maintain healthy capital ratios in order to support their business and to maximise the shareholders' value. Taking into consideration Regulation (EU) No. 575/2013 of the European Parliament and of the Council and capital adequacy requirements, the Bank's and the Group's total capital adequacy ratio should not be less than 13.90 percent. As at 31 December 2017, the Group's and the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

Capital adequacy ratio, according to the requirements of the Bank of Lithuania, was estimated as follows:

	2017		2016	
	Group	Bank	Group (restated)*	Bank (restated)*
Capital adequacy ratio	**15.01**	**14.59**	**14.08**	**12.79**
As reported in previous year financial statements			17.04	16.47

* After the inspection performed by the Bank of Lithuania in 2017, the calculation of the capital adequacy ratio for 2016 was adjusted (explained below).

The Capital adequacy ratio is estimated by taking into consideration share capital, retained earnings, reserve capital, legal reserve and revaluation reserves, but excluding the current year result until the approval of the annual shareholder's meeting. Furthermore, the increase in the impairment provisions decrease the capital base, not taking into consideration any reversal of the provisions during the year. As the net result of the year subsequently is included in the capital base after the annual results are approved by the shareholder, for the disclosure purposes the Bank and the Group presented the Capital adequacy ratio including the current year result and not taking into consideration the increase in the impairment provisions.

	2017		2016	
	Group	Bank	Group (restated)	Bank (restated)
Capital adequacy ratio (taking into consideration the current year result and not taking into consideration the net increase in the impairment provisions)	**17.77**	**17.70**	**15.84**	**15.27**

The result for the reporting year will be included in the capital base after the general shareholders' meeting approves the annual statements and if the profit is transferred to capital reserves.

The Bank's capital adequacy ratio for 2016 was adjusted due to the following:

1) Tier 1 capital, which comprises share capital, retained earnings, reserve capital, legal reserve and revaluation reserves, was adjusted for:
    a. reduced by not including the profit of EUR 1 077 thousand for 2016;
    b. general and specific credit risk provisions were included which decreased Tier 1 equity by EUR 3,249 thousand;
    c. additional special provision of EUR 246 thousand (see Note 36) decreased the retained earnings;
2) Tier 2 capital was adjusted as the subordinated loan of EUR 1 000 thousand was not included in the capital base.

The Group's capital adequacy ratio for 2016 was adjusted due to the following:

1) Tier 1 capital, which comprises share capital, retained earnings, reserve capital, legal reserve and revaluation reserves, was adjusted for:
    a. reduced by not including the profit of EUR 1 074 thousand for 2016;
    b. general and specific credit risks provisions were included which decreased Tier 1 equity by EUR 2,050 thousand;
    c. additional special provision of EUR 246 thousand (see Note 36) decreased the retained earnings;
2) Tier 2 capital was adjusted as the subordinated loan of EUR 1 000 thousand was not included in the capital base.

Considering the above adjustments, the Bank and the Group as at 31 December 2016 has not complied with the restated general capital adequacy ratio plus Pillar II and Capital conservation buffer for 2016. On 30 March 2017 the shareholder approved the annual results for 2016, transferring the profit of 2016 year to the capital reserves. After the approval of the shareholder results, the Bank and Group complied with the capital adequacy ratio.

After the review of the regulator, the Bank took actions to improve the procedures in the bank according to decisions of the regulator. The lending to the shareholder-related companies was reduced by approximately EUR 2.5 million during 2017. When the limitations were eliminated, the regulator approved the inclusion of the subordinated loan to the Tier 2 capital base.

(All amounts in EUR thousand unless otherwise stated)

Note 36 Corrections of errors

Correction of errors in its financial statements since 2015.

STATEMENTS OF FINANCIAL POSITION

The Group				The Bank		
31 December 2015	**Adjustment**	**31 December 2015 (restated)**	**Assets**	**31 December 2015**	**Adjustment**	**31 December 2015 (restated)**
122,612	(246)	122,366	Loans to customers	122,595	(246)	122,349
4,714	-	4,714	Receivables with deferred payment	3,259	-	3,259
5,271	-	5,271	Loans to bank and financial institutions	5,271	-	5,271
11,393	-	11,393	Finance lease receivable	11,393	-	11,393
143,990	(246)	143,744		142,518	(246)	142,272
243,353	**(246)**	**243,107**	**Total assets**	**247,270**	**(246)**	**247,024**

31 December 2015	**Adjustment**	**31 December 2015 (restated)**	**Equity**	**31 December 2015**	**Adjustment**	**31 December 2015 (restated)**
1,039	(246)	793	Retained earnings	1,037	(246)	791
25,540	**(246)**	**25,294**	**Total shareholders' equity**	**25,538**	**(246)**	**25,292**

The Group				The Bank		
31 December 2016	**Adjustment**	**31 December 2016 (restated)**	**Assets**	**31 December 2016**	**Adjustment**	**31 December 2016 (restated)**
127,875	(774)	127,101	Loans to customers	127,854	(774)	127,080
3,700	(4)	3,696	Receivables with deferred payment	2,669	(4)	2,665
4,228	(6)	4,222	Loans to bank and financial institutions	4,228	(6)	4,222
10,588	(16)	10,572	Finance lease receivable	10,588	(16)	10,572
146,391	(800)	145,591		145,339	(800)	145,539
260,068	**(800)**	**259,268**	**Total assets**	**265,897**	**(800)**	**265,097**

31 December 2016	**Adjustment**	**31 December 2016 (restated)**	**Equity**	**31 December 2016**	**Adjustment**	**31 December 2016 (restated)**
1,081	(800)	281	Retained earnings	1,083	(800)	283
26,615	**(800)**	**25,815**	**Total shareholders' equity**	**26,617**	**(800)**	**25,817**

(All amounts in EUR thousand unless otherwise stated)

Note 36 Corrections of errors (cont'd)

INCOME STATEMENTS

The Group				The Bank		
31 December 2016	**Adjustment**	**31 December 2016 (restated)**		**31 December 2016**	**Adjustment**	**31 December 2016 (restated)**
(1,263)	(554)	(1,817)	Impairment of loans and other financial assets	(994)	(554)	(1,548)
1,074	**(554)**	**520**	**Profit (loss) for the year**	**1,077**	**(554)**	**523**

There was no impact of the correction of errors on operating, investing and financing cash flows for the year ended 2016.

Note 37 Events after the reporting date

There were no material subsequent events that would require adjustment of or disclosure in those financial statements of the Group and the Bank.