AB DNB Bankas

CONSOLIDATED ANNUAL REPORT,
SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

CONTENTS

UAB „Ernst & Young Baltic"
Subačiaus g. 7
LT-01302 Vilnius
Lietuva
Tel.: (8 5) 274 2200
Faks.: (8 5) 274 2333
Vilnius@lt.ey.com
www.ey.com

Juridinio asmens kodas 110878442
PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

Ernst & Young Baltic UAB
Subačiaus St. 7
LT-01302 Vilnius
Lithuania
Tel.: +370 5 274 2200
Fax: +370 5 274 2333
Vilnius@lt.ey.com
www.ey.com

Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

Independent auditor's report to the shareholder of AB DNB Bankas

Report on the Financial Statements

We have audited the accompanying financial statements of AB DNB Bankas, a public limited liability company registered in the Republic of Lithuania (hereinafter "the Bank"), and the consolidated financial statements of the Bank together with its subsidiaries (hereinafter the "Group"), which are presented on pages 27 - 111 and comprise the statements of financial position as at 31 December 2015, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory information).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements, presented on pages 27 - 111, present fairly, in all material respects, the financial position of AB DNB Bankas and the Group as at 31 December 2015, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Bank and the Group taken as a whole. The financial information of the Financial group in Note 40 *Compliance with regulatory requirements* is presented for the purposes of additional analysis and is not a required part of the financial statements mentioned above. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is properly prepared in all material respects in relation to the financial statements taken as whole.

Furthermore, we have read the accompanying Group's Consolidated Annual Report for the year ended 31 December 2015, presented on pages 4 - 26, and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2015.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

Asta Štreimikienė
Auditor's licence
No. 000382

The audit was completed on 22 February 2016.

AB DNB BANKAS' GROUP CONSOLIDATED 2015 ANNUAL REPORT

1. REPORTING PERIOD COVERED BY THIS REPORT

This annual consolidated report covers the period from 1 January 2015 to 31 December 2015.

2. CONTACT DETAILS

Name of the Bank	*AB DNB Bankas*
Legal status	Joint stock company
Date and place of registration	Registered with the Bank of Lithuania on 13 September 1993, registration No. 29
Company code	112029270
Office address	J. Basanavičiaus str. 26, Vilnius, Republic of Lithuania
Telephone number	(+370 5) 239 34 44
Fax number	(+370 5) 213 90 57
E-mail	info@dnb.lt
Website	www.dnb.lt

3. MAIN ACTIVITIES

AB DNB Bankas (hereinafter referred to as the "Bank") is a credit institution holding a license for and is engaged in acceptance of deposits and other repayable funds from unprofessional market players and lending, as well as provision of other financial services, and assumes the risks and liabilities related thereto.

The Bank shall provide the following financial services:

- taking of deposits and other repayable funds;
- lending (including mortgage loans);
- money transfers;
- issuing of payment cards and other payment vehicles and (or) execution of transactions with them;
- financial lease (leasing);
- issuing of financial indemnities and guarantees;
- trading, on its own account or on account of customers, in money market instruments (cheques, bills, certificates of deposits, etc.), foreign exchange, financial futures and options, foreign exchange and interest rate instruments, public trading securities, precious metals;
- investment services;
- financial brokerage (agent activities);
- cash handling;
- consultancy on credits and payments;
- rent of safe deposit lockers;
- currency exchange (cash);
- safekeeping and administration of monetary funds;
- advice to undertakings on the capital structure, manufacturing strategy and the issues related thereto as well as advice and services related to the reorganization, restructuring and acquisition of undertakings;
- provision of services related to issuance of securities;
- issuance and maintenance of electronic money;
- settlements of credit institutions (clearing);
- administration of investment funds or investment companies with a variable capital.

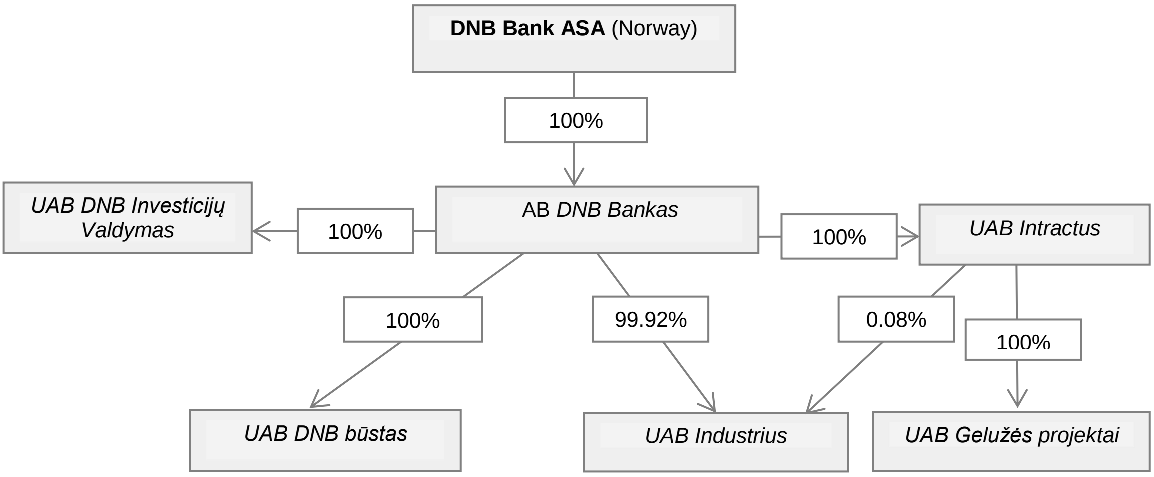
Based on the decision of the Supervisory Service of the Bank of Lithuania dated 13th of July, 2015, DNB bank is no longer held as an issuer.

4. THE ORGANIZATIONAL STRUCTURE

On 31 December 2015 Norway's *DNB Bank ASA* was a sole direct shareholder of *AB DNB Bankas* that held 100 percent direct ownership of the Bank's shares and voting rights.

In Lithuania *AB DNB Bankas' group* (hereinafter referred to as "the Group") at the end of the reporting period consisted of *AB DNB Bankas* and its *subsidiaries: UAB DNB Investicijų Valdymas*, *UAB DNB Būstas*, *UAB Industrius*, *and UAB Intractus* with its subsidiary *UAB Gėlužės projektai.* The data and contacts regarding the subsidiaries of the Bank are described in the section 13 of this report. As at 31 December 2014 Group in Lithuania consisted of AB DNB Bankas and its subsidiaries: UAB DNB Investicijų Valdymas, AB DNB Lizingas, UAB DNB Būstas, UAB Intractus, UAB Industrius, UAB Gėlužės projektai.

In October 2015, AB DNB Lizingas, wholly owned by AB DNB Bankas, was merged to AB DNB Bankas. At the end of the reorganization process the Bank has taken over the rights and obligations of AB DNB Lizingas. The last financial statements (dated 23 October 2015) of AB DNB Lizingas are provided in Note 41 of the consolidated financial statements.



AB DNB Bankas provided financial services to its customers in 46 branches across Lithuania as of 31 December 2015.

5. STRUCTURE AND THE AUTHORIZED CAPITAL

On 31 December 2015 the authorized capital of the Bank was EUR 190 204 563.54 (one hundred ninety million two hundred four thousand five hundred sixty-three Euro and 54 ct.). It is divided into 5,710,134 (five million seven hundred ten thousand one hundred thirty four) ordinary registered shares with EUR 33.31 (thirty-three euro and 31 ct.) par value each.

The authorized capital of *AB DNB Bankas* has not changed during the reporting period.

On 31 December 2015 the authorized capital of *AB DNB Bankas* consisted of:

Type and class of shares	ISIN code of securities	Number of issued shares	Nominal value per share, EUR	Aggregate nominal value, EUR	Share in authorized capital, percent
Ordinary registered shares	LT0000100174	5,710,134	33.31	190,204,563.54	100.00

The entire authorized capital of *AB DNB Bankas* is paid up and no restrictions apply to the shares of the Bank as to their disposal. *AB DNB Bankas* had not issued any convertible securities.

AB DNB Bankas neither held its own shares nor did it sell the shares of its subsidiaries to any third parties in 2015.

No restrictions other than those provided by the legal acts, if any, apply to the securities of *AB DNB Bankas.* No other Bank or other holders' requirements apply to the securities.

The history of the authorized capital formation:

Date	Authorized capital, EUR	Increase of the authorized capital, EUR	Description
2001	29,784,266.39		
2002	51,142,675.50	21,358,409.11	Increase of the authorized capital by additional contributions
2004	56,509,729.78	5,367,054.27	Increase of the authorized capital by additional contributions
2005	67,802,948.33	11,293,218.54	Increase of the authorized capital by additional contributions
2006	82,077,253.24	14,274,304.91	Increase of the authorized capital from undistributed profit
2006	90,284,925.27	8,207,672.03	Increase of the authorized capital by additional contributions
2007	105,332,412.80	15,047,487.54	Increase of the authorized capital by additional contributions
2008	171,165,083.40	65,832,670.58	Increase of the authorized capital from undistributed profit and additional contributions
2009	190,183,448.20*	19,018,364.80	Increase of the authorized capital by additional contributions

* In the year 2015 in accordance with the Law on Euro of the Republic of Lithuania the nominal value expression of securities had been changed as follows: The total value of the same class and the nominal value issued securities in litas is divided by the conversion rate and quantity of the same class and nominal value issued securities. Received value is rounded to the two healthy numbers. According to the abovementioned and to the conversion of the share capital from LTL to EUR due to the quantity of the shares there is a 22 thousand EUR difference.

On 30 June 2011 Norway registered *DNB Bank ASA,* then operating under *DnB NOR Bank ASA* name, has acquired 100 percent of the shares of the Bank from *Bank DnB NORD A/S*, controlled by *DnB NOR Bank ASA* and registered in Denmark*,* thus becoming the sole direct shareholder of the Bank owning 100 percent of its shares and voting rights.

6. SHAREHOLDERS AND THEIR RIGHTS

On 31 December 2015 Norway's *DNB Bank ASA was* the sole direct shareholder of *AB DNB Bankas* that held 100 percent of the Bank's registered authorized capital of EUR 190,204,563.54

Shareholder	Office address	Type of the company	Code	Number of ordinary registered shares	Share of the authorized capital held and number of votes, percent	
					Owned	With associates
DNB Bank ASA	Dronning Eufemias gate 30, 0191 Oslo, Norway	Bank	984851006MVA	5,710,134	100	0

The shareholders of *AB DNB Bankas* shall have the following property rights:

- To receive a share of the profit of the Bank (dividend);
- To receive funds of the Bank if the authorized capital of the Bank is decreased on purpose to disburse funds of AB DNB Bankas to the shareholders;
- To receive a share of the assets of Bank in the event of liquidation;
- To receive shares free of charge when the authorized capital is increased from the Bank's own funds, except in the events stipulated in laws;
- In case the shareholder is a natural person, to devise and bequeath all or any part of the shares to one or several persons;
- To sell or otherwise transfer all or any part of the shares to the ownership of other persons in the procedure and under the conditions prescribed in laws;
- To exercise the pre-emption right in acquisition of the shares or convertible bonds issued by the Bank unless the General Meeting decides to withdraw the pre-emption right from all the shareholders in the procedure prescribed in laws;
- To lend to the Bank in the manner prescribed in laws; however, when borrowing from its shareholders, AB DNB Bankas shall not pledge its assets to the shareholders. When Bank borrows from a shareholder, the interest shall not be higher than the average interest rate offered by commercial banks of the place of residence or business of the lender effective on the date of conclusion of the loan agreement. Thus Bank and the shareholders shall be prohibited from negotiating a higher interest rate;
- Other property rights stipulated in laws.

The shareholder of *AB DNB Bankas* shall have the following non-property rights:

- To participate in the General Meetings of Shareholder;
- To cast the votes granted by the shares held in the General Meetings of Shareholder;
- To receive the information about the Bank to the extent specified in the Law on Companies;
- To appeal to the court for the compensation of the damage suffered by the Bank due to the failure to perform the obligations of the President and the Members of the Management Board of the Bank stipulated in laws and the Bylaws of the Bank, or to perform them duly, and in other cases stipulated in laws.
- Other non-property rights stipulated in laws.

Shares of AB DNB bankas are not admitted to trading on a regulated market.

Unless otherwise established by law, the shareholders of the Bank shall only hold an obligation to pay to the Bank the issue price for all subscribed shares under the established procedure.

The shareholder of *AB DNB Bankas* shall not have special control rights. No restrictions shall apply to the voting rights of the shareholder of the Bank.

7. ARRANGEMENTS THAT WOULD BE ENFORCED, CHANGED OR TERMINATED AS A RESULT OF CHANGE IN THE BANK'S CONTROL

On 31 December 2015 the following ISDA Master Agreements and TBMA/ISMA Global Master Repurchase Agreement, whereby the counterparties thereto have the right to terminate the transactions with the Bank in case of a change in the Bank's control, were in force:

– ISDA Master Agreement with *UBS Limited* dated 13 January 2006;
– ISDA Master Agreement with *UBS AG* dated 13 January 2006;
– ISDA Master Agreement with *Calyon* dated 15 November 2007;
– ISDA 2002 Master Agreement with *JPMorgan Chase Bank N.A.* dated 19 May 2008;
– ISDA Master Agreement with *Barclays Bank Plc.* dated 18 December 2008;
– ISDA 2002 Master Agreement with *Deutsche Bank AG* dated 19 February 2009;
– ISDA 2002 Master Agreement with *BNP Paribas S.A.* dated 22 June 2009;
– TBMA/ISMA Global Master Repurchase Agreement with *AB SEB Bankas* dated 29 October 2009;
– ISDA 2002 Master Agreement with *Svenska Handelsbanken AB (publ.)* dated 2 June 2010.

As of 31 December 2015 the Bank also had the Finance Contract dated 13 March 2009 with the European Investment Bank, whereby the European Investment Bank has the right to terminate the Finance Contract in case of a change in the Bank's control if, in the reasonable opinion of the European Investment Bank, such a change in the Bank's control has or is likely to have a material adverse effect on the future repayment of the loan received under the Finance Contract.

The provisions of the aforementioned bilateral contracts are deemed confidential with regard to the Bank and the other parties involved and the disclosure thereof could cause damage to the Bank.

On 31 December 2015 the Bank had no other significant arrangements that would be enforced, changed or terminated as a result of the change in the Bank's control.

8. INFORMATION ON SECURITIES LISTED ON REGULATED MARKETS

None of the shares or debt securities issued by AB *DNB Bankas* or its subsidiaries were listed on regulated markets as at the end of 2015.

9. MAIN CHARACTERISTICS OF DEBT SECURITIES ISSUED FOR PUBLIC TRADING

There were no debt securities issued by *AB DNB Bankas* or its subsidiaries for public trading at the end of 2015.

10. INFORMATION ON RELEVANT AGREEMENTS WITH RELATED PARTIES

Information on relevant transactions with related parties are provided in Note 38 of the consolidated 2015 financial statements.

11. MATERIAL EVENTS OVER THE REPORTING PERIOD

Material events of AB DNB Bankas that took place in 2015:

On 23rd March 2015 presented set of audited and approved by sole shareholder - DNB Bank ASA- separate and consolidated financial statements for the year ended 31 December 2014, which are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the consolidated annual report.

Until 13th of July 2015 the information on material events is presented to the Bank of Lithuania, Central storage facility and AB DNB Bankas website. Based on the decision of the Supervisory Service of the Bank of Lithuania dated 13th of July, 2015, DNB bank will be no longer held as an issuer.

12. INFORMATION ON PERFORMANCE RESULTS

In 2015 the Bank and Group operated profitably. This resulted from focus on the operating efficiency and loan portfolio quality as well as moderate increase of business volumes.

In 2015 the Group signed new credit contracts (including leasing) worth of EUR 792.2 million, i.e. EUR 99.8 million less than in 2014. The Group's consolidated net loan portfolio rose by 0.7 percent year-on-year to EUR 2.8 billion.

With funds held by private individuals and legal entities held in their accounts at the Bank increasing, the deposit portfolio rose by 11.5 percent year-on-year up to EUR 2.3 billion. This resulted from the increasing number of the Group's customers that rose by 17 thousand. The Group was providing comprehensive range of financial services to 860 thousand customers.

The Group's assets rose by 3.8 percent year-on-year and stood at EUR 3.9 billion as of 31 December 2015.

In 2015, the net income (net interest income, net fees and commission, net profit (loss) from operations with securities and derivatives, net foreign exchange result and other income) of the group amounted to EUR 105.0 million. The largest relative weight – 61.6 percent – of the operating income fell on the net interest income, which decreased by 1.5 percent year-on-year. The net fees and commission income decreased by 3.0 percent year-on-year to EUR 27.5 million. The net fees and commission income decrease was influenced due to introduction of euro, while interest income decreased due to negative EURIBOR rate.
The focus on remote banking channels, development of the self-service infrastructure for daily financial services and optimization of the customer service network in parallel helped the Group to increase further operating efficiency and further reduce the operating expenses. As a result the Group operating and other expenses decreased by 16.7 percent in 2015 year-on-year to EUR 71.8 million.

In 2015, the Group set aside EUR 11.5 million for impairment losses and provisions.

As a result the Group consolidated profit before taxes rose 15.8 percent year-on-year to EUR 21.7 million and its net profit increased by 17.8 percent up to EUR 19.3 million during the same period.

In 2015, the Group's return on equity (ROE) was 4.3 percent and its cost/income ratio (CIR) made 68.4 percent.

Year	2012		2013		2014		2015	
	Group	Bank	Group	Bank	Group	Bank	Group	Bank
Return on equity (percent)	6.0	6.5	3.2	4.0	3.9	1.5	4.3	4.5
Cost/income (percent.)	67.4	66.4	85.7	84.9	77.9	78.7	68.4	67.3

In 2015 DNB continued to consistently encourage its customers to use electronic daily financial management tools and the branch staff focused on consulting customers regarding savings, investment, credits issues. One of the fastest-growing electronic media last year in DNB was upgraded mobile banking. We reached more than 50.000 downloads in the end of year. Electronic tools are particularly relevant for customers by the fact that 86% of all users connect to the mobile bank at least once a month.

During 2015 the number of DNB self-service zones increased slightly, from 56 to 58, whereas demand for this service increased significantly in all locations. Monthly number of cash deposit operations in DNB self-service areas increased 50 percent and average amount of cash enlarged more than twice. In parallel the Group continued its branch network optimization. Following the growing number of the customers who more often use alternative channels and the efficiency and potential of each outlet, the number of branches was scaled down to 46 at the end of 2015.

In 2015 the Group's customers could use the country's largest ATM network that embraces 535 ATMs of DNB (183) and SEB (352) in 77 cities and towns due to the outstanding common network agreement. On top of that the Group's individual and corporate customers could deposit or withdraw cash from their payment card accounts in more than 1,940 terminals of UAB "Perlo paslaugos" across the country. In 2015 the Group's customers could withdraw money from their payment cards in 82 outlets of Lietuvos *paštas and* 176 PayPost branches across Lithuania. To provide customers more cash withdraw services in the mid of 2015 *AB DNB Bankas* offered possibility for DNB payment card holders to withdraw cash from their payment card account in the country's two largest shopping chains of "IKI" (361 shop) and "MAXIMA" (392 shops). This variety of options was particularly convenient to customers in locations where there were no banking outlet, ATM or during off office hours.
In 2015 the Bank granted more than 180 thousand new payment cards to its individual and business customers so at the end of the year the number of outstanding DNB payment cards topped 510 thousand. The turnover of the payment cards rose almost 25 percent year-on-year to EUR 2.5 billion in 2015 due to increased number of active payment card users and higher average spending. In 2015 cash withdrawal in shops marked with a special sticker grew up to EUR 20.1 million.

In line with increasing number of its payment cards the Group continued to develop the Bank's POS terminal network. In the full year 2015, 714 new partners began using DNB card acquiring service and 1505 new POS terminals were deployed. As a result, the total turnover of cards' acquiring service rose to EUR 626 million.

Due to efforts to further improve user-friendliness and functionality of the internet banking system the number of customers using Bank's internet banking services increased by 8 percent year-on-year in 2015 to 720 thousand.

In order to maintain high quality of customer service, the Group continued to carry out a wide range of customer satisfaction surveys that covered all major aspects of customer interaction with the Bank. That helps to identify the Bank's strengths and set priority actions to ensure positive customer experiences, high level of product and customer service quality.

Retail banking

In line with the Group's strategy aimed at increasing the number of new and existing individual customers who choose DNB as their home bank the Group continued to focus on individual customer service quality and culture, implementation of customer segment approach that focuses on a more flexible response to customer needs and enhancement of the Bank's brand, service and product awareness during the year 2015. Consequently the number of individual customers of the Bank since year-start rose by 16 thousand to 794 thousand.

In 2015 AB DNB Bank continued its 2014 initiated program of financial services for the family. At the end of April we introduced bankers, professional and empathic employees, eager to help families to deal with their finances in easy way. To ensure that bank branches would be more friendly for families, in certain branches families could come to consultation even on Saturdays. Most of bank branches are equipped with a children area.

To have own house are one of the biggest needs for young families. Therefore pursuing responsible lending practices the Bank continued to extend loans under "Your First Home" mortgage credit program which provides an option for the customers to repay the entire credit or part of it early without any additional charge or to defer a payment of credit principal.

Also regarding to the current situation that interest rates reached record lows, the Bank provided the opportunity to hedge against possible future growth and capture their housing loan interest rates for a longer period of time - not just 2 or 5 years, but also 10-year period.

In 2015 the Bank for youth and family builders' segments together with a cinema theatre center FORUM CINEMAS introduced a 7 month length offer called "DNB Movies' Tuesdays". In the 5 biggest Lithuanian cities DNB customers by paying with a payment card on Tuesdays watched movies cheaper. DNB customers who used the offer started more frequently to pay with a payment card and use other banking operations.

In the end of the year for individual customers the Bank introduced a debit card „Visa Debit“ which replaced the former „Visa Electron“ debit card. The newly introduced card allows not only pay with it while shopping in regular places but also buy online, book hotels or plane tickets. The Bank issued 17 thou. “Visa Debit” cards till the end of year 2015.

In response to the customers' need to use banking services at time of their choice, the Group began offering more services by telephone and on-line in 2015. From now on corporate customers are offered to book BizKit corporate service package, salary transfer services by phone or get consultation or help to all questions related to daily banking. Private individuals are offered to make term deposit agreement, acquire a payment card with insurance “Safe card”, accident insurance as well as make agreements on direct debit, standing orders, and SMS services by telephone. On top of it, the Bank’s customers can submit on-line applications for leasing and consumer loans. With number of customers opting for lower-cost self- services, the branch staff was better positioned to allocate more time to customer consulting and sales of higher value-added services.

To provide customers with a range of different financial services at the Bank, *AB DNB Bankas* continued collaboration with ERGO Life Insurance SE insurance company in the year 2015. As a result of active consultations of insurance services and change in customers behavior more than 27 percent of new mortgage takers and more than 82 percent of new consumer loans takers of *AB DNB Bankas* were insured with life insurance in the reporting period. 28 April 2015 *AB DNB bankas* signed cooperation agreement with the largest Lithuanian insurance company "Lietuvos draudimas”. Now, all DNB Bank customers can insure mortgage and travel insurance in Bank’s branches. This insurance is offered DNB customers wishing to insure the purchased property or buying a credit payment card. DNB customers are offered different insurance options, depending on the customer needs. Cooperation under white-label approach, insurance service is provided using the DNB brand, “Lietuvos draudimas” provides insurance products, is responsible for service pricing, record, administer and compensate the damages incurred by the customers.

Corporate banking

To be the main bank for the largest Lithuanian companies and to strengthen positions in a middle size companies segment were set as strategical targets for 2015. The most important attention was paid for usage of capital and credit process efficiency in corporate banking.

In 2015 credit volumes to real estate, administrative and support service activities increased the most during the year while lending volumes to manufacturing, construction, public administration, defense and compulsory social security sectors, transport and wholesale, retail; repair of vehicles sectors was lower compared to the previous year.

While providing a comprehensive range of financial services to large corporates in 2015, *AB DNB Bankas* continued to pay prime attention to small and medium size enterprises (SMEs) offering the solutions to meet the specific needs for this business segment. In 2015, the Bank further developed “Kuriu verslą” ("I'm starting my own business") program to encourage entrepreneurship that covers all key stages in company establishing and developing: starting from the business idea, process planning, company setting up and establishment of the business start-up in the market. Over the reporting period more than 6 thousand people, interested to set up private business, have used DNB’s on-line application or visited website www.kuriuversla.lt. To facilitate the start of their business during the first year, business start-ups were offered “Vitamins for start-ups" package of basic daily banking services free of charge. In the reporting year 2,766 newly set companies have used the solution. Due to the efforts as well as the option to open a cumulative banking account on-line, more than one third of the newly registered young businesses in Lithuania chose AB *DNB Bankas* as their financial partner in 2015.

The agriculture and food processing sectors remained among the key strategic business lines for AB *DNB Bankas* over the reporting period. The Bank granted financing to farmers and agricultural companies for working capital and investments and continued cooperation with the state agricultural credit fund UAB *Žemės ūkio paskolų garantijos Fondas,* to extended credits backed by the guarantees of this institution. In response to farmers' needs, AB *DNB Bankas* extended credits to plant-growing, breeding, dairy and other types of farms to finance their working capital. As a result, in 2015 farmers could use collateral-free credit fast and easy to purchase fuel, feed or for other farming purposes. The Bank also continued cooperation with partners trading in goods for agricultural sector by offering much better financing conditions to farmers, agricultural companies and enterprises. The biggest advantage of these programs is that farmers are guaranteed to have exceptional financing conditions for their business development.

The Bank continued cooperation with UAB *Investicijų ir verslo garantijos* and extended loans backed by guarantees of this state institution.

Investment banking

AB DNB Bankas’ investment banking activity includes trading in securities, full service brokerage services, provision of leverage solutions for private and corporate customers including derivative and structured products, as well as corporate finance services, including M&A advisory and fund-raising.

In 2015, the main sources of investment banking income were foreign exchange, securities brokerage and commission income from DNB Trade™ on-line platform. Foreign exchange turnover in 2015 exceeded EUR 7.5 billion and generated EUR 5.3 million income for the Bank.

Securities brokerage net income of the Group made EUR 0.76 million on turnover of over EUR 3.7 billion in 2015.

The turnover through DNB Trade™ on-line platform was EUR 5.5 billion and generated EUR 0.5 million income. DNB Trade™ is an electronic real-time trading platform, which offers wide range of financial instruments worldwide including FOREX, equities (over 20 bourses), CFDs and futures.

13. SUBSIDIARIES

On 31 December 2015 *AB DNB Bankas* owned the following subsidiaries: *UAB DNB Investicijų Valdymas, UAB DNB Būstas, UAB Industrius and UAB Intractus* with its subsidiary *UAB Gėlužės projektai.*

UAB DNB Investicijų Valdymas

Name	UAB DNB Investicijų Valdymas
Legal status	Limited company
Date and place of registration	Registered with the State enterprise Centre of Registers on 19 August 2003
Company code	226299280
Registered and actual office address	J. Basanavičiaus g. 26, Vilnius, Republic of Lithuania
Telephone numbers	(+370 5) 239 3567
Fax number	(+370 5) 239 3473
E-mail	investicija@dnb.lt
Website	www.dnb.lt
Number of the permission to be engaged in the activities of a management company	VĮK –003

AB DNB Bankas' 100 percent owned subsidiary *UAB DNB Investicijų Valdymas* is engaged in management of pension and investment funds. It is the country's third largest asset management company in terms of assets.

As of the end of 2015 *UAB DNB Investicijų Valdymas* managed three second pillar pension funds, five third pillar pension funds and one investment fund.

At the end of 2015 assets under management of *UAB DNB Investicijų Valdymas* made EUR 285.5 million (EUR 259.3 million in 2014). The company provided its services to 165 thousand customers.

Results of funds under management as at the end of 2015:

Title of the fund	Basics of investment strategy	Unit value change YTD	Benchmark change YTD
Second pillar pension funds			
DNB Pensija 1	Government debt securities, equity 0%	0.80%	1.81%
DNB Pensija 2	Equity up to 25%	2.41%	2.46%
DNB Pensija 3	Equity up to 50%	3.25%	3.04%
Third pillar pension funds			
DNB papildoma konservatyvi pensija	Government debt securities, equity 0%	0.51%	1.81%
DNB Papildoma pensija	Equity up to 50%	3.03%	3.04%
DNB Papildoma pensija 100	Equity up to 100%	3.73%	3.98%
DNB papildoma darbuotojo pensija 25	Equity up to 25%	-1.73%	2.46%
DNB papildoma darbuotojo pensija 50	Equity up to 50%	-2.97%	3.04%
Investment funds			
DNB Equity fund of funds	Equity up to 100%	4.17%	3.98%

UAB DNB Būstas

Name	*UAB DNB Būstas*
Legal status	Limited liability company
Date and place of registration	Registered with the State enterprise Centre of Registers on 10 January 2007
Company code	300631876
Registered office address	J. Basanavičiaus str. 26, Vilnius, Republic of Lithuania
Actual office address	Švitrigailos str. 11M, LT-03228 Vilnius, Republic of Lithuania
Telephone number	(+370 5) 2499 277
Fax number	(+370 5) 2499 276
E-mail	info@dnbbustas.lt
Website	www.dnbbustas.lt

UAB DNB Būstas is a subsidiary of *AB DNB Bankas* that provides brokerage services in the country's real estate market. On 31 December 2015, AB *DNB Bankas* owned 100% percent of *UAB DNB Būstas* registered authorized capital of 399,096.36 EUR.

In 2015 *UAB DNB Būstas* carried out its activities in Vilnius, Kaunas, Klaipėda, Palanga, Šiauliai and the surrounding regions. At the end of the reporting period one real estate brokerage company and 51 individual brokers were providing real estate brokerage services under franchise agreements with *UAB DNB Būstas*. During the reporting period *UAB DNB Būstas* retained its leading position in the newly constructed residential segment and was among the largest real estate brokerage companies in terms of sales and number of listings.

In 2015 *UAB DNB Būstas* earned EUR 197 thousand net profit compared to EUR 173 thousand in the same period a year ago. *UAB DNB Būstas'* brokers intermediated in real estate assets sales worth EUR 67 million during the reporting period.

UAB Intractus

Name	*UAB Intractus*
Legal status	Limited liability company
Date and place of registration	Registered with the state enterprise Centre of Registers on 6 August 2009
Company code	302424698
Registered office address	J. Basanavičiaus str. 26, Vilnius, Republic of Lithuania
Actual office address	J. Basanavičiaus str. 26, Vilnius, Republic of Lithuania
Telephone number	(+370 5) 239 3529
Fax number	-
E-mail	intractus@intractus.lt
Website	-

The Bank's subsidiary *UAB Intractus* is a limited liability company set up for efficient management of foreclosed real estate assets. The company is entitled to effect operations related to the efficient management of real estate, such as buying, selling, letting of real estate and planning its development. On 31 December 2015 AB *DNB Bankas* was the sole shareholder of UAB *Intractus* with a registered authorized share capital of EUR 42,703,257.6.

The real estate assets on the *UAB Intractus'* consolidated statement of the financial position were EUR 53.6 million as of 31 December 2015 including land plots, buildings and premises.

UAB *Intractus* fully owned a limited liability company *UAB Gėlužės projektai* (company code 301135524) with the authorized capital of EUR 7 946 000 as at the end of the reporting period. *UAB Gėlužės projektai* develops one project. At reporting date UAB Gėlužės projektai real estate assets on the balance sheet was EUR 2.5 million.

On 31 December 2015 UAB *Intractus* owned 0.08 percent of *UAB Industrius* (company code 302593805) registered shares.

UAB Industrius

Name	*UAB Industrius*
Legal status	Limited liability company
Date and place of registration	Registered with the state enterprise Centre of Registers on 15 February 2011
Company code	302593805
Registered office address	J. Basanavičiaus str. 26, Vilnius, Republic of Lithuania
Actual office address	J. Basanavičiaus str. 26, Vilnius, Republic of Lithuania
Telephone number	(+370 5) 239 3529
Fax number	-
E-mail	-
Website	-

The Bank's subsidiary *UAB Industrius* is a limited liability company set up for efficient management of foreclosed real estate assets marked not for further development status. On 31 December 2015 *UAB Industrius'* authorized capital was EUR 13,782,237.76 *AB DNB Bankas* owned 99.92 percent of *UAB Industrius* ordinary registered shares and 0.08 percent of the company's shares were owned by the Bank's subsidiary *UAB Intractus*.

At the reporting date *UAB Industrius* real estate assets on the balance sheet was EUR 10.8 million, including real estate like land plots, buildings and premises.

14. RISK MANAGEMENT AND INTERNAL CONTROL

The permanently functioning internal control system and risk management framework are implemented in the Group. The internal control – as a system of organizational measures, actions and internal procedures – ensures effective and efficient operations and prudent conduct of business, compliance with laws and regulations, adequate assessment and control of risks, as well as reliability of financial and non-financial information and submission thereof in a timely manner.

The Group identifies, evaluates, accepts and manages the risk or combinations of risks it is exposed to. In uncertain cases the Group follows principles of precaution, conservatism and prudence. The aim of risk management in *AB DNB Bankas' group* is assuring an acceptable profitability and return on equity pursuing the adequate policy of risk management. While implementing a sound risk management policy the Group focuses not only on minimizing potential risk but also on improving pricing and achieving efficient capital allocation. Risk-related activity of the Bank and the Group is strictly restricted by applying the system of limits. Limitations are set and supervision thereof is executed on a centralized basis at the Group level.

The risk management function of the Group is organized in such a way that ensures efficient risk management and facilitates the realization of the tasks stipulated in the Risk management strategy. Risk management is based on the best practice and is organized in such a way that any possible conflicts of interest would be avoided. The function of all-type risk control is segregated from risk taking, i.e. from the front-office units.

The Bank assesses and manages credit, liquidity, market (interest rate, foreign exchange rate, equity price), operational (including compliance and legal) and other risks it is exposed to in its activities. Credit risk is the dominant risk in the Bank's risk structure. Detailed information about financial risk assessment and management is provided in section Financial Risk Management of the *AB DNB Bankas* 2015 consolidated financial statements. The risk management principles have not changed significantly during the reporting period. The risk management processes are continuously being improved taking into account the best practice applied by the parent bank *DNB Bank ASA*.

As a result of pursuing the appropriate risk management policy and following the laws and regulations the Bank is compliant with all prudential requirements set by the Supervisory Institutions.

Information about the Bank's compliance with prudential requirements:

31 December 2015 (per cent)

Ratio	Bank
Liquidity (LCR ratio)	172.27
Capital adequacy	17.97
Maximum exposure to one borrower (≤ 25 %, 150 EUR million)	11.70

The duly established and regulated control function is operating in the Group. The control function includes risk control, compliance and internal audit functions.

The risk control function is performed by the Operational Risk, Risk Analysis and Markets and Treasury Support and Control departments. The compliance function is performed by the Compliance and the internal audit function – by the Internal Audit departments. Each control function periodically submits reports to the management of the Bank and the shareholder *DNB Bank ASA*.

By joining the euro area, Lithuania became part of European banking union and joined the Single Supervisory Mechanism. The direct supervision of the systemically important and one of the largest 3 banks in Lithuania - AB DNB Bankas has been taken over by the European Central Bank, which closely cooperates with the Bank of Lithuania.

In order to meet the supervisory requirements the Risk Committee has been established in AB DNB Bankas in 2015. The Risk Committee advises the management body on a common present and future risk appetite of the institution and assists the management body in overseeing how the strategy is implemented by senior management (see 22. Information on the activities of the committees).

15. RATINGS

With Norway's *DNB Bank ASA* becoming the sole shareholder of the Bank it has been decided that *AB DNB Bankas* shall use the ratings as assigned to the parent bank. No separate credit ratings are set for *AB DNB Bankas* starting 21 March 2011. Full rating's history of *DNB Bank ASA* and the latest reports are available on the Bank's website www.dnb.lt in the section About the Bank – Financial Reports – Ratings.

16. STRATEGY AND PLANS

DNB Bankas group will continue implementation of its business strategy based on the common strategic platform for all DNB banks operating in the Baltic countries. It reflects the vision and values of DNB and puts prime focus on a customer centric business model as well as long term value creation for customers, employees, shareholders and the society.

For its customers *AB DNB Bankas* aims to be present and attentive, offer competitive prices, attractive products and be responsive and clear. This is aimed at achieving a balanced growth of the customer portfolios and a higher penetration of all banking products and services. The strategy stipulates the Bank shall target to maintain good quality of its loan portfolios, achieve better operational efficiency and continuously develop the competences of its employees. The Bank shall aim to capitalize on its affiliation to the world *DNB group* by utilizing common product solutions and competences within the integrated organizational set-up.

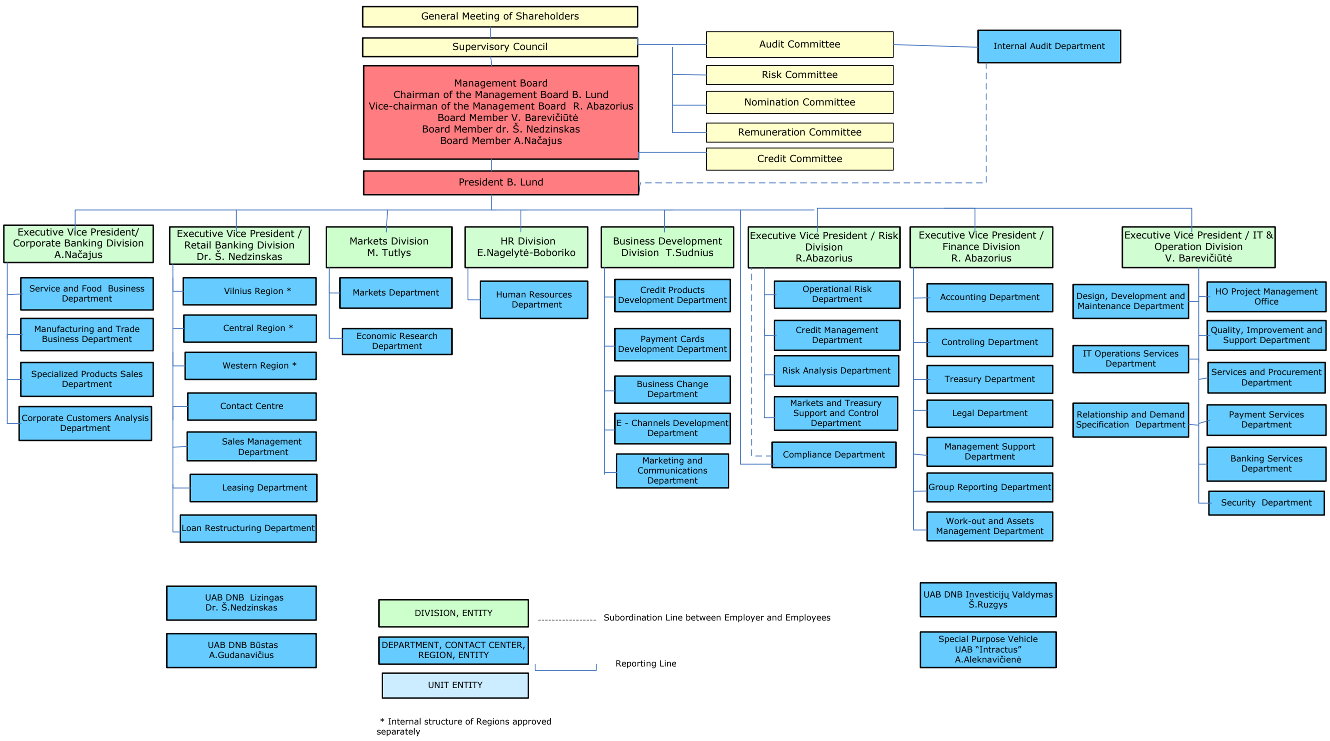
Furthermore *AB DNB Bankas* aims to contribute to maturing the Lithuanian financial market with clear stance on banking and economic issues, considering responsible banking and business ethics and promoting fundamentals of banking. To the Lithuanian society the bank aims to be perceived as transparent and socially responsible.

17. CAPITAL INVESTMENTS

Investments into property, plant, equipment and intangible assets done during 2015 are described in notes 22 and 24 of the consolidated financial statements.

18. ORGANIZATIONAL STRUCTURE

Management Structure of the AB DNB Bankas



19. MANAGEMENT

The Bylaws of *AB DNB Bankas* provide that the bodies of the Bank are the following: General Meeting of Shareholders, Supervisory Council, Management Board and Chief Executive Officer (President).

The General Meeting of Shareholders of the Bank:

- amends the Bylaws of the Bank, save for the exceptions stipulated in laws;
- elects the Supervisory Council or the individual Members thereof;
- removes the Supervisory Council or the individual Members thereof;
- elects and removes the audit company, establishes the terms and conditions of payment for audit services;
- approves the annual financial statements of the Bank and the report on the performance of the Bank;
- establishes the class, the number and sets the nominal value and the minimum issue price of the shares to be issued by the Bank;
- makes the decision to issue the convertible bonds;
- makes the decision to withdraw the pre-emptive right to acquire the shares or convertible bonds of the specific issue of the Bank from all the shareholders;
- makes the decision to convert the Bank's shares of one class into the shares of another class, to approve the share conversion procedure;
- adopts the decision on the profit (loss) distribution;
- adopts the decision on the formation, use, reduction and liquidation of reserves;
- adopts the decision to increase the authorised capital;
- adopts the decision to reduce the authorised capital save for the exceptions stipulated in laws;
- adopts the decision to acquire the Bank's own shares;
- adopts the decision on the reorganization or division of the Bank and to approve the terms and conditions of the reorganization or division;
- adopts the decision to transform the Bank;

- adopts the decision to liquidate the Bank, to cancel the liquidation of the Bank, except in the events stipulated in laws;
- adopts the decision to elect and remove the liquidator of the Bank, except in the events stipulated in laws.

The General Meeting of Shareholders may also make decisions on other issues unless they are attached to the competence of other bodies of the Bank according to laws or the Bylaws of the Bank and unless they are the functions of the management bodies of the Bank by their essence. The General Meeting of Shareholders shall not delegate the issues attached to its competence for other bodies of the Bank to decide.

The Supervisory Council of the Bank shall be a collegial supervisory body supervising the operation of the Bank. The Chairman of the Supervisory Council shall be in charge of the Supervisory Council. The General Meeting shall elect 5 Members of the Supervisory Council. At such election, every shareholder shall have the number of votes equal to the number of the votes granted by his/her shares multiplied by the number of the Supervisory Council Members to be elected. These votes shall be cast, at the shareholders' sole discretion, for one or for several candidates. The candidates who receive the greatest number of votes shall be elected. Should the number of the candidates who have received an equal number of votes be greater than the number of the vacancies on the Supervisory Council, a repeat voting shall be held, and in such voting each shareholder shall vote only for one of the candidates who have received the equal number of votes. The Supervisory Council shall be elected for the period of 4 years.

The Supervisory Council:

- elects the Management Board Members and removes them from the office, makes proposals to the Management Board with regard to the candidate Chairman of the Management Board. Establishment of the salaries and other terms and conditions of the respective employment contracts of the Management Board Members holding other offices in the Bank, the President and the Executive Vice Presidents shall be subject to obtaining of the prior consent of the Supervisory Council. If operation of the Bank generates losses, the Supervisory Council shall consider whether the Management Board Members are suitable to hold the office;
- supervises the activity of the Management Board and the President;
- approves the Regulations of the Supervisory Council;
- approves the business plans of the Bank;
- ensures the existence of the effective internal control system in the Bank;
- makes the proposals and comments to the General Meeting on the Bank's business strategy, the Bank's annual financial statements, the draft profit (loss) distribution and the report on the performance of the Bank as well as on the performance of the Management Board and the President;
- approves the lending policy and establishes the procedure for the lending which is subject to the approval of the Supervisory Council;
- makes the proposal for the Management Board and the President to revoke their decisions which contradict laws and other legal acts, the Bylaws of the Bank or the decisions of the General Meeting of Shareholders;
- establishes the transactions and the decisions which are subject to obtaining of the consent of the Supervisory Council prior to the conclusion or implementation thereof by the management bodies of the Bank;
- takes the decisions on the issues within the competence of the Supervisory Council under the procedures, the approval whereof are delegated to the Supervisory Council under laws, the Bylaws of the Bank and the decisions of the General Meeting of Shareholders;
- discusses or resolves other issues which under laws, the Bylaws of the Bank and the decisions of the General Meeting of Shareholders shall be discussed and resolved by the Supervisory Council.

The Management Board of the Bank is a collegial management body consisting of 6 Members. The Management Board shall be elected by the Supervisory Council for 4 years. Where individual Members of the Management Board are elected, they shall be elected for the period remaining until the expiry of the term of office of the current Management Board. A Member of the Management Board may resign from his/her office prior to the expiry of the term of office subject to a written notice thereof to the Bank at least 14 days in advance. The Management Board shall discuss and approve:

- the management structure of the Bank and the job positions;
- the positions to be filled in by the way of competition;
- the regulations of the branches, representative offices and other individual outlets of the Bank;
- the lending procedure of the Bank, in accordance with the lending policy approved by the Supervisory Council;
- the Bank's procedure for issuing of guarantees and sureties and assuming of other obligations;
- the procedure for writing off of loans and other debt obligations;
- the Regulations of the Credit Committee.

The Management Board shall elect (appoint) and remove the President and the Executive Vice Presidents. The Management Board shall establish the salary of the President and other terms and conditions of his employment contract, approve his job description, apply incentives to or impose penalties on him. The Management Board shall determine what information shall be deemed to be a commercial secret of the Bank.

The Management Board shall adopt:

- the decisions for the Bank to become a founder, a member of other legal persons;
- the decisions to establish branches, representative offices and other individual outlets of the Bank and to terminate their operation;
- the decisions on the investment, transfer, lease of the fixed assets at the book value above 1/20 of the authorised capital of the Bank (per each type of transaction);
- the decisions on the pledge and mortgage of the fixed assets at the book value above 1/20 of the authorised capital of the Bank (in the aggregate amount);
- the decisions on the issuing of guarantees or sureties for the fulfillment of the obligations of other persons in the amount above 1/20 of the authorised capital of the Bank;
- the decisions on the acquisition of the fixed assets for the price above 1/20 of the authorised capital of the Bank;
- the decisions on the issuing of non-convertible bonds;

- the Regulations of the Management Board;
- the decisions on other issues which shall be discussed or resolved by the Management Board under laws and the Bylaws of the Bank.

The Management Board shall establish:

- the terms and conditions of the share issue of the Bank;
- the procedure for the issuing of bonds of the Bank. Where the General Meeting of Shareholders takes the decision on the issuing of the convertible bonds, the Management Board shall have the right to establish additional terms and conditions of their issuing and to approve the bond subscription agreements to be signed by the President or the persons duly authorized thereby;
- the procedure for the recruitment of employees by the Bank and the events when recruitment of employees by the Bank shall be subject to the consent of the Management Board.

The Management Board shall implement the decisions taken by the General Meeting of Shareholders and the Supervisory Council. The Management Board shall analyse and assess the information submitted by the President on the following issues:

- the implementation of the business strategy of the Bank;
- the organisation of the business of the Bank;
- the financial state of the Bank;
- the results of the business activities, the income and expenditure estimates, the stocktaking data and other accounting data of the changes in the assets.

The Management Board shall analyse and assess the draft annual financial statements of the Bank and the draft profit (loss) distribution, and shall submit them to the Supervisory Council and the General Meeting of Shareholders. The Management Board shall establish the methodology for the calculation of the depreciation of the tangible assets and the amortization of the intangible assets to be applied in the Bank.

The President shall be a single person management body of the Bank. The President shall act as follows:

- organise the daily operation of the Bank;
- hire and dismiss the employees of the Bank, conclude and terminate the employment contracts with them, apply incentives to and impose penalties on them;
- establish the rates applied in the calculation of the depreciation of the assets in the Bank;
- represent the Bank in the relations with other persons, the court and the arbitrage without a special power of attorney;
- issue and revoke the powers of attorney and powers of procuration of the Bank;
- issue orders;
- perform any other actions necessary to perform his functions, to implement the decisions of the bodies of the Bank and to ensure of the operation of the Bank.

The President shall be responsible:

- for the organization of the operation and the realization of the objectives of the Bank;
- for the drawing up of the annual financial statements;
- for the drawing up of the contract with the audit company;
- for the submission of the information and documents to the General Meeting of Shareholders, the Supervisory Council and the Management Board in the events stipulated in laws or upon their request;
- for the submission of the documents and particulars of the Bank to the administrator of the register of legal persons;
- for the submission of the documents to the Bank of Lithuania and the Central Securities Depository of Lithuania;
- for the publishing of the information stipulated in laws and other legal acts in the daily stipulated in the Bylaws if the Bank;
- for the submission of the information to the shareholders;
- implementation of the provisions of the Law on Money Laundering Prevention;
- for the performance of other duties stipulated in laws and legal acts, the Bylaws of the Bank and the job description of the President.

The President shall act on behalf of the Bank and shall have the right to conclude transactions at his own discretion save for the exceptions stipulated herein or in the decisions of the bodies of the Bank.

20. SUPERVISORY COUNCIL

According to the Bylaws the Supervisory Council of *AB DNB Bankas* consists of five members. As of 31 December 2015 the Supervisory Council consisted of four members.

On 18 March 2015 Mats Wermelin was elected as a member of the Supervisory Council by the decision of the sole shareholder of the Bank. He started his office on 12 August 2015 and was elected as the chairman of the Supervisory Council on 24 August 2015 to replace Terje Turnes in this position.

Ten meetings of the Supervisory Council of *AB DNB Bankas* were held during the reporting period. None of the members of the Supervisory Council missed more than half of the Supervisory Council meetings.

Information about position, office term, education, professional qualification and management competence of the members of the Supervisory Council:

Name	Position	Information on start and end of holding the office		Education	Information about management competence and experience
		Start	End		
Terje Turnes	Chairman of the Supervisory Council	24 03 2014	01 06 2015	Tronheim School of Economics; Diploma in economics and administration; the Norwegian School of Marketing Diploma in Marketing; Norwegian School of Economics and Business administration, MBA	Den norske Bank ASA, DnB NOR Bank ASA, various positions (1997-2010); DnB NOR Bank ASA, Head of Baltic and Poland Division (since 2010)
Mats Wermelin	Chairman of the Supervisory Council	12 08 2015	24 03 2018	Stockholm School of Economics, diploma of SEB economist	SEB, head of Product Management (2003-2004); NORD/LB Sweden, Head of Acquisition Finance (2004-2005); DNB bank ASA Sweden head of sales Corporate banking (2005-2010), head of Corporate banking (2010-2013); DNB Bank ASA General manager China (2013-2015)
Tony Samuelsen	Member of the Supervisory Council	24 03 2014	24 03 2018	Norwegian School of Economics and Business Administration, diploma in economics and business administration	DnB NOR, New York, CEO, (1995-1998); DnB NOR, London, CEO (2000-2005); DnB NORD A/S, Chief financial officer (2006-2008); DnB NOR vice-president (since 2008)
Eline Skramstad	Member of the Supervisory Council	24 03 2014	24 03 2018	Science and Technology University of Norway, Master degree	DNB Bank ASA/Den norske Bank ASA account manager (2001-2005); DNB Bank ASA vice president (2005-2009)DNB BANK ASA senior vice president (2009 -2012); *DNB Bank ASA* senior credit officer (since 2012)
Leif Rene Hansen	Member of the Supervisory Council	24 03 2014	24 03 2018	Trade School, Kolding branch; certificate of the state authorised auditor	KPMG Lithuania partner and managing director (1994-2009); DNB Poland, DNB Lithuania and DNB Latvia member of the Internal Audit Committees (since 2009), member of the Supervisory Council of DNB Poland (since 2010)

21. MANAGEMENT BOARD

According to the Bylaws the Management Board of *AB DNB Bankas* consists of six members.

On 31 December 2015 Anne Birgitte Prestholdt resigned from the position of the member of the Management Board and Executive Vice president in order to continue her carrier in DNB bank ASA Norway.

On 23 November 2015 the Supervisory Council elected Anders Krantz as a member of the Management Board. Anders Krantz, member of the Management Board and executive vice-president, responsible for risk management, started his office on 26 January 2016.

On 1st of February 2016 Šarūnas Nedzinskas resigned from the position of the member of the Management Board and Executive Vice president.

Information about position, office term, education, professional qualification and management competence of the members of the Management Board:

Name	Position	Information on start and end of holding the office		Education	Information about management competence and experience
		Beginning	End		
Bjørnar Lund	Chairman of the Management Board, president	24 03 2014	24 03 2018	Norwegian School of management, economist	DnB NOR Bank ASA, various positions (1987 – 2011)
Ramūnas Abazorius	Vice-chairman of the Management Board, Executive Vice-president	24 03 2014	24 03 2018	Vilnius University, master in finance	AB Lietuvos žemės ūkio bankas, manager of the Asset and Liability Management Team (1999-2001); AB Lietuvos žemės ūkio bankas, manager of the Asset and Liability Management Unit of the Financial Risk Department (2001-2003); NORD/LB, manager of the Credit Risk Unit of the Financial Risk Department (2003-2004); DnB NORD bankas, manager of the Controlling Department (2004-2010)
Dr. Šarūnas Nedzinskas	Member of the Management Board, Executive Vice-president	24 03 2014	01 02 2016	Vilnius University, Diploma in Economics; Vytautas Magnus University, MBA, ISM, PhD	AB Lietuvos Žemės ūkio bankas, Manager of the Stock Brokerage Division, Deputy Director of the Deposits and Credit Department, Director of the Credit Department, Member of the Management Board (1994-1997); AB bankas Hermis, vice-chairman of the Management Board (1998-2000); SEB Vilniaus bankas, Director of the Business Development Department, Director of the Financial Institutions Department, Director of the Special Loans Department (2000-2003); UAB Švyturys – Utenos alus, Sales Director (2003-2004); AB Lietuvos draudimas, Member of the Board, Director of Business and Risk Department (2004-2007); AB FMĮ Finasta, Director, chairman of the Board (2007-2008); AB DnB NORD bankas advisor to the president (2008-2009), member of the Management Board (since 2009)
Vaineta Barevičiūtė	Member of the Management Board, Executive Vice-president	24 03 2014	24 03 2018	Vilnius University, law diploma; ISM university, MBA	Vilnius municipality, lawyer (1998-1999); State Tax Inspectorate at the Ministry of Finance, lawyer, deputy unit head (1999-2003); AB bankas NORD/LB Lietuva, DnB NORD bankas, unit manager, Internal audit department manager (2003-2011)
Andrius Načajus	Member of the Management Board, Executive Vice-president	04 08 2014	24 03 2018	Stockholm School of Economics, Riga, Latvia, B.Sc. in Economics and Business Administration; Stockholm School of Economics, Sweden, M. Sc. International Business and Economics, with specialisation in Finance	Trigon Capital, Tallinn, Senior Associate (1999-2002); AB Lietuvos Žemės Ūkio bankas, advisor to the member of the Management Board (2002); AB Lietuvos Žemės Ūkio bankas/AB NORD/LB bankas, Head of Investment Banking (Markets since 25-08-2010) (2002-2010); AB DNB Bankas, Head of Markets for Baltics (2010- 2014)
Anne Birgitte Prestholdt	Member of the Management Board, Executive Vice-president	24 03 2014	31 12 2015	The Norwegian School of Economics and Business Administration	DnB NOR Corporate Clients department, manager (1999-2003); SME Sarpsborg, manager (2003-2009); Assets Restructuring, manager (2009); Retail Norge, Akershus Østfold, Head of Quality (2009-2012)

The members of the Supervisory Council and the Management Board have no shares of the Bank.

The members of the Supervisory Council, the Management Board and the administrative bodies are not connected by any family relationship between any of them.

The members of the Supervisory council, the Management Board and the administrative bodies of the Bank have not been convicted for any crimes of forgery. They have not been publicly officially incriminated or imposed any sanctions by any regulatory authority over the period of past five years. They have not been disqualified by a court from holding office as the member of the bank's administrative, management or supervisory body acting in the management or conduct of the affairs of any Bank.

The members of the Supervisory Council, the Management Board and the administrative bodies of the Bank have no interests of conflict between any duties to the Bank and their private interests and/or other duties. The Bank has not entered into any deal with the above mentioned persons outside his/her principal activities.

Additional information about the Chairman of the Management Board and the Bank's president and Chief Financier:

Bjørnar Lund (Chairman of the Management Board and the president of the Bank): holds diploma in economics from BI Norwegian School of Management. He has been working in the Bank since 2011. Previous work record: Bjørnar Lund has been working in Norway's *DnB NOR Bank ASA* since 1987. He has extensive experience working in various managerial positions in corporate and retail banking in Norway. In addition, he has international experience working abroad as the head of the Nordic Desk of *DnB NOR Bank ASA* in Singapore.

Bjornar Lund has no shares of the Bank.

Jurgita Šaučiūnienė (Chief Accountant, Manager of the Accounting Department): Master's degree in business management from Vilnius University. Start of holding the office as Manager of the Accounting Department at the Bank in 2004. Previous work record: Auditor Assistant, audit company TŪB "J. Kabašinskas ir partneriai" (1997 - 1998); Member of KŪB, J. Kabašinsko KŪB "JKP konsultacijos" (1998 - 1999); Agency NORD/LB bank / NORD/LB Vilniaus branch – Account, Chief Accountant (1999-2003); Head of the Accounting Policy and Accountability Unit, *AB bankas NORD/LB Lietuva* (2003 - 2004).

Jurgita Šaučiūnienė has no shares of the Bank.

22. INFORMATION ON THE ACTIVITIES OF THE COMMITTEES

In the reporting period Internal audit, Risk management, Credit and Remuneration committees were operating in *AB DNB Bankas.* On 1 October new committees were established on the level of the Supervisory Council: Risk, Remuneration and Nomination, committees. Risk management committee on the bank level terminated its activity.

Internal audit committee

AB DNB Bankas Internal audit committee is established by the Supervisory Council of the Bank. Its functions are as follows:

- supervising the functioning of the internal control system and risk management of the Bank,
- ensuring the efficiency of internal audit functions,
- approving the annual audit plan for the Internal audit department and supervising the audit process,
- with regard to the auditing procedure and accounting policy, observing the integrity of financial information,
- reviewing the conclusions and recommendations of the external auditor, monitoring their independence and impartiality,
- determining the risk areas of the Bank's operations to be audited by the Internal audit department and by the external auditor.

Internal audit committee consists of three members:

Chairman	**Tony Samuelsen.** Employer - *DNB Bank ASA.*
Members	**Eline Skramstad.** Employer - *DNB Bank ASA.* **Leif Rene Hansen,** the independent member.

Members of Internal audit committee have no shareholdings in *AB DNB Bankas.*

In 2015 four meetings of the Internal audit committee were held.

Risk management committee (established till 29 09 2015, controlled by the Management Board)

The Risk management committee (hereinafter referred to as the RMC) is a non-structural unit of the Bank established by the resolution of the Management Board of the Bank. The chairman, the vice- chairman and the members of the RMC are appointed by the Management Board of the Bank. The RMC reports to the Management Board of the Bank.

RMC is responsible for ensuring effective formation of optimal capital structure, liquidity and market risk management and control, Optimization of the Bank's asset and liability structure with regards to acceptable risk and return.

Competence areas of RMC:

- capital management of the Bank,
- market risk management,
- liquidity risk management,
- internal fund pricing,
- operational risk including compliance and legal risk.

Risk management committee consists of ten members:

Chairwoman	**Anne Birgitte Prestholdt**, Executive Vice president of the Bank (till 31 December 2015).
Vice-chairman	**Ramūnas Abazorius**, Executive Vice-president of the Bank.
Members	**Dr. Šarūnas Nedzinskas**, Executive Vice-president of the Bank, **Andrius Načajus**, Executive Vice-president of the Bank, **Dalius Darulis**, Manager of the Service and Food Business Department, **Mantas Gikys**, Manager of the Treasury Department, **Michail Leontjev**, Manager of the Markets and Treasury Support and Control Department, **Šarūnas Vaineikis**, Manager of the Prevention Department, **Vaidas Žiedelis**, Manager of the Operational Risk Department, **Vytautas Danta**, Manager of the Compliance Department.

The Risk management committee held six meetings in 2015.

Members of the Risk management committee have no shareholdings in *AB DNB Bankas*.

Risk committee (established from 01 10 2015 controlled by the Supervisory Council)

In order to meet the supervisory requirements the Risk committee has been established in *AB DNB Bankas* on 01 October 2015.

The Risk committee is a non-structural unit of the Bank established by the resolution of the Supervisory Council. The Risk committee is appointed and controlled by the Supervisory Council.

The Risk committee is responsible for ensuring effective formation of optimal capital structure, liquidity and market risk management and control, Optimization of the Bank's asset and liability structure with regards to acceptable risk and return.

Risk committee functions:

- Advise the Supervisory Council on risk related issues,
- Assist the Supervisory Council in overseeing the implementation of the risk strategy,
- Analyze asset and liability structure, make proposals on the optimal capital structure,
- Advise on internal fund pricing.

The Risk committee consists of four members:

Chairwoman	**Eline Skramstad**. Employer - *DNB Bank ASA*
Members	**Mats Wermelin**. Employer - *DNB Bank ASA* **Tony Samuelsen**. Employer - *DNB Bank ASA* **Leif Rene Hansen**, the independent member.

The Risk committee held one meeting in 2015.

Members of the Risk committee have no shareholdings in *AB DNB Bankas*.

Credit committee

The regulations of the Credit committee of AB *DNB Bankas* and its composition are approved by the Management Board of the Bank. Its functions are as follows:

- discussing general situation of credit risk in the Bank;
- discussing and counseling decisions related with risk of significant exposures;
- to approve the reports related to the credit risk.

Credit committee consists of:

Chairwoman	**Anne Birgitte Prestholdt**, Executive Vice president of the Bank (till 31 December 2015).
Members	**Bjornar Lund,** President of the Bank **Andrius Načajus**, Executive Vice-president of the Bank **Dr. Šarūnas Nedzinskas**, Executive Vice-president of the Bank Representative from the Credit management department Representative from Work Out and asset management departament/Loan Restructuring department Representative from the Corporate banking division

NOTE. Participation in the meetings of the Credit Committee is required depending on the competence level of the considered case and the segment of the client.

In 2015 eighty six meetings of the Credit Committee were held.

Members of the Credit committee have no shareholdings in *AB DNB Bankas.*

Remuneration committee

The Remuneration Committee is established and controlled by the Supervisory Council. New regulations of the Committee were approved on 29 September 2015.

The committee evaluates the policy and practices of the variable remuneration and ensures that the system of remuneration would take into account all types of risks, capital, liquidity and is compatible with sound and effective risk management and strategy, goals and long term interests; Directly oversees the variable remunerations of employees heading the functions responsible for the risk management and compliance; Prepares the decisions to be taken by the Management Board regarding variable remuneration, including those decisions which have implications for the risks assumed and the risk management, taking into considerations the long-term interests of shareholders, investors and other stakeholders in the institution and the public interest.

In 2015 one meeting of the Remuneration Committee was held.

The Bank's Remuneration committee consists of four members:

Chairman	***Mats Wermelin***
Members	Eline Skramstad Tony Samuelsen Leif Rene Hansen

Nomination committee

The Nomination committee was established, controlled and the regulations of the Committee were approved by the Supervisory Council on 29 September 2015.

In 2015 one meeting of the Nomination Committee was held.

The Nomination committee consists of 4 members appointed from the members of the Supervisory Council:

Chairman	***Mats Wermelin***
Members	Eline Skramstad Tony Samuelsen Leif Rene Hansen

The committee functions:

- recommends, for the approval of the management bodies (the Supervisory Council, the Management Board and CEO of the Bank, hereinafter referred to as the management bodies) or for approval of the shareholder, candidates to fill the vacancies in the management bodies, evaluates the balance of knowledge, skills and experience of the management bodies and prepares a description of the roles and capabilities for a particular appointment, and assess the time commitment expected, as well as evaluates the candidates proposed by the shareholder;
- At least annually, assesses the structure, size, composition and performance of the management bodies and makes recommendations to the management bodies with regard to necessary changes;
- At least annually, assesses the knowledge, skills and experience of individual members of the management bodies and of the management bodies collectively, and reports to the management bodies accordingly;
- Makes recommendations to the management bodies in order to ensure that the management body's decision making is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interests of the Bank as a whole;
- Decides on a target for the representation of the underrepresented gender in the management bodies and prepares proposals (policy) on how to increase the number of the underrepresented gender in the management bodies in order to meet that target;
- Periodically reviews the policy for selection and appointment of the senior management and makes recommendations to the management bodies.

23. EMPLOYEES

The Group's human resources management continued to be focused on fostering further the implementation of DNB vision – creating value through the art of serving the customer – among employees and implementation of the Group's values in daily work with customer and colleagues.

As of 31 December 2015 the number of employees in the Group was 1056 employees, 1040 of them were employees of *AB DNB Bankas*. In the reporting year, the number of *AB DNB Bankas Group* employees averaged 1 104, in the AB DNB Bankas - 1082.

Changes in the number of employees and salaries

	31 12 2012	31 12 2013	31 12 2014	31 12 2015
Number of staff in the Bank	1,364	1,221	1,127	1,040
Number of staff in the Group	1,395	1,252	1,158	1,056
Average monthly salary in the Group in Eur	1,222	1,265	1,332	1,372

As at 31 December 2015, the average monthly salary by main staff groups was as follows: Eur 2,852 to the administration (excluding members of the top management); Eur 1,154 to specialists; Eur 670 to clerical staff and workers.

The Group's staff by groups of positions as of 31 December 2015

	Number of employees	Staff structure by education		
		Higher	Specialised secondary (high)	Secondary
Administration	143	138	2	3
Specialists	873	675	94	104
Clerical staff and workers	40	29	4	7
Total	**1056**	**842**	**100**	**114**

24. REMUNERATION POLICY

The Remuneration Policy has been drawn up in accordance with Resolution No. 03-82 of the Board of the Bank of Lithuania of 8 May 2015 on Approval of the Description of Minimum Remuneration Policy Requirements for Employees of Credit Institutions and Financial Brokerage Companies, as well as other legal acts.

AB DNB Bankas' Remuneration Policy also applied to the Bank's subsidiaries reflects the Bank's vision and values and is consistent with the policy of the Bank's sole shareholder, Norwegian DNB Bank ASA. Its goal is to set the Group's overall remuneration system to help implement the set business strategy, form the corporate business culture and affirm the Bank's reputation as an attractive employer. The Group aims to have a consistent and transparent remuneration system enabling for proper evaluation of each employee's contribution taking into consideration the results achieved, encouraging proper risk management and control, preventing from the possibility to assume too high risk and helping to avoid conflict of interest.

The Bank's Remuneration Policy new wording and list of staff whose professional activities may have material impact on the bank's risk profile were approved by the Bank's Supervisory Council on 13 November 2015.

In accordance with the qualitative and quantitative criteria stipulated by Commission Delegated Regulation No. 604/2014, DNB Bankas re-identified categories of staff whose professional activities may have material impact on the bank's risk profile.
No external consultants' services were used to draft the Remuneration Policy. No persons in conflict of interests contributed to preparation of the Remuneration Policy.

Major structural parts of the Remuneration Policy:

- definitions;
- fixed salary;
- variable remuneration;
- collective, project incentive
- benefits
- remuneration to control functions performing units
- Remuneration Committee;
- information disclosure.

Remuneration in AB DNB Bankas' group consists of:

- Fixed Salary means a salary fixed in an employment contract and other long-term benefits not related with performance.
- Variable Remuneration means a non-guaranteed portion of Variable Remuneration which depends on Employee's performance, conduct, commitment to the Group's values and other evaluation criteria and is awarded at the discretion of the employer, and the Employees acquires no right to claim it despite his or her performance. Variable Remuneration may be allocated and paid in the form of financial and non-financial rewards, contributions to the pension funds, rights to the Shares.
- Collective Incentive means a flat-amount non-guaranteed reward provided at the discretion of the employer to its Employees on an annual basis for distinguishing high annual and/or long-term performance of the Group.
- Project Incentive means a non-guaranteed reward provided at the discretion of the employer to the Employees for their contribution to successful implementation of a project, which is additional to and beyond the Employee's direct duties and/or functions.
- Benefits means, in aiming to implement the Best Employer initiative at DNB, the uniform loyalty programs applied to Employees or their separate categories, regardless of their performance.

Remuneration should reflect their competences, experiences, market practice, and achievements. Fixed Salary shall form a sufficiently big portion of total cash to ensure competitive salaries based on the Lithuanian remuneration market research data.

Variable Remuneration may or may not be awarded to the Employee at the discretion of the Employee's manager based on an overall assessment of the Group and/or DNB, and/or the respective structural unit. Variable Remuneration is awarded following the "grandfather" principle, i.e. the allocation of Variable Remuneration shall be approved by the intermediate manager.

The amount of Variable Remuneration, including contributions to the pension funds where such contributions depend on Employee performance, cannot exceed per annum:
- 200% of the annual Fixed Salary per the Bank Employee,
- 100% of the annual Fixed Salary per the Risk Taker.

Variable Remuneration is paid only if DNB's financial situation is sustainable. If the Bank's and/or the respective subsidiary's performance is loss-making, Variable Remuneration is not allocated or is reduced respectively

Principles of the variable remuneration for positions influencing the risk assumed by the Bank

The job positions and/or Employees whose activities performed and/or decisions made are likely to have a significant impact on DNB's risk profile shall be identified once per year. The List is compiled in view of the quantitative and qualitative criteria defined in the Commission Delegated Regulation (EC) No.604/2014 of 4 March 2014.

When considering an issue relating to the allocation of Variable Remuneration to the Risk Takers, including the deferred portion, a 3-year Measurement Period shall be applied.

Not lower than a 50% portion of Variable Remuneration is subject to the Deferral Period. In case the Risk Takers have been provided with Variable Remuneration exceeding 20% of Fixed Salary and it is higher than EUR 8,000 the 50% deferred portion of Variable Remuneration shall be paid out in the form of the Shares of DNB Bank ASA.

1/3 (one third) of the deferred portion of Variable Remuneration in cash and/or in the Shares of DNB Bank ASA will be transferred/paid to the Risk Takers after one year from the date of allocation, the remaining portion of 1/3 (one third) will be transferred/paid after two years from the date of allocation, and the last portion of 1/3 (one third) will be transferred/paid after three years from the date of allocation. The right of ownership to the DNB Bank ASA shares will thus be transferred to the recipient once they are placed at his or her disposal.
Before transfer of the Shares and cash to the Risk Takers a follow-up risk assessment shall be performed in order to analyse whether the initial risk assessment was correct. In case the assessment shows that the initial risk assessment was not correct, the right to claim the allocated Shares and/or cash may be revoked, in full or in part.

The deferred portion of Variable Remuneration in the form of the Shares and cash to the Employees with whom labour relationships were terminated during the Deferral Period is transferred within the terms set in the Remuneration Policy after making a risk assessment for the period stated in the Remuneration Policy for which Variable Remuneration is allocated.

Overall quantitative information on remuneration divided by employee groups (total remuneration amount, total variable remuneration amount, number of employees

Information for 2015 is based on the data available on 31 December 2015. All amounts indicated are before taxes.

AB DNB Bankas	Fixed remuneration (TEur)	Variable remuneration (TEur)	Number of recipients
Bank administration and Risk Takers*	667	184	5
Employees	17,746	835	863
Total:	18,413	1,019	868

*As of 31 December 2015 no payments for performance results of 2015 were made to the Bank employees. Variable remuneration was paid in 2015 for performance results of 2014.

Amounts and form of the variable remuneration portion divided into cash, shares, equity linked financial instruments and other portions, amounts of non-paid deferred remuneration amounts.

AB DNB Bankas	Variable remuneration paid in cash (T EUR)	Allocated deferred variable remuneration in shares (T EUR)	Non-allocated deferred variable remuneration in shares (TEUR)
Bank administration and Risk Takers	92	30.6	61.4
Employees	835	0	0
Total:	927	30.6	61.4

Amount of deferred variable remuneration allocated in the financial year, paid out and adjusted in respect of the performance results

In 2015 no such adjustments were made.

Amount of guaranteed variable remuneration provided under new agreements and severance payments in the financial year and the number of recipients of such payments

No guaranteed variable remuneration was provided to the recipients.

Amounts of severance pays allocated in the financial year, number of recipients of such pays and the largest allocated amount per person:

AB DNB Bankas	Number of recipients	Severance payments amount (TEur)	Largest amount per person (TEur)
	112	1,131	75

The Bank has no special commitments for employees regarding severance payment except the listed below:

The Employer shall pay to the Employee a severance payment, when Employee leaves the Bank and Employment Contract expires or is cancelled on one of the following grounds: (a) on the Employer's initiative, when the Employee is not at fault (incl. recall from duties), (b) when expires the term of office of the Management Board, (c) when the Employee refuses to work after the introduction of changes in employment conditions; (d) when the medical commission or the commission for the establishment of disability concludes that the Employee is unable to work under this Employment Contract. Upon the termination of the employment contract under the grounds mentioned above, the dismissed employee shall be paid a severance pay in the amount of his average monthly wage taking into account the continuous length of service of the Employee (according the paragraph 1 of Article 140 of Labor Code). The Employer shall pay to the Employee an extra severance pay until to his 3 average monthly salaries in addition, but the total amount of all severance payments cannot exceed 6 average monthly salaries.

Additional retirement benefit or early retirement scheme does not apply for the executive officers of the Bank.

Information on amounts allocated within the reporting period to the Bank's Management Board Members holding other positions at the Bank and to the Chief Accountant

In 2015 no assets were gratuitously transferred or guarantees granted to these employees on behalf of the Bank. The information below shows the amounts allocated to these persons in total and the average amounts allocated to the Bank's executives, chief executive officer, and chief accountant. Information on amounts paid individually to each person is not submitted following the requirements relating to the Bank's secret and personal data protection.

	Allocated amounts (TEur)
Overall amount to the Bank's all executives and to the chief accountant.	**845**
Under employment agreement	666
Employer's social insurance contributions	179
Other payments including the employer's social insurance contributions*	**171**
Average per executive and chief financier of the Bank.	**121**
Under employment agreement	95.4
Employer's social insurance contributions	25.5

*expenses related with car rent, accommodation and settling

25. DIVIDENDS

Over the period of the past five years the *AB DNB Bankas* paid no dividend.

26. INFORMATION ON HARMFUL TRANSACTIONS CARRIED OUT ON BEHALF OF THE BANK DURING THE REPORTING PERIOD

During the reporting period *AB DNB Bankas* and Group were not engaged into harmful transactions that would be contradictory to the goals of the Bank, were carried out opposite to usual market terms or could harm the interests of the Bank's shareholder or other groups of interested persons.

27. PROCEDURE FOR AMENDING THE BYLAWS

Following the effective Bylaws of the Bank (the recent wording of the Bylaws registered with the Register of Legal Entities on 26 October 2015), and the Law on Joint Stock Companies, the Bylaws of the Bank may be amended by decision of the General Meeting of Shareholders taken by at least 2/3 of the votes of all the shareholders participating in the General Meeting of Shareholders, save for the exceptions established by law.

28. INFORMATION ON LEGAL OR ARBITRAL PROCEEDINGS

During the period from 1 January 2015 to 31 December 2015 the number of litigation (arbitration) proceedings, where the Bank is a party (defendant, plaintiff or the third party), did not incur any significant changes. The cases are related to the financial services provided by the Bank, i.e. executions of the obligations assumed by the customers to the Bank are disputed.

Part of the legal disputes were related to equity linked bonds issued by the Bank, which were acquired by the claimants from the funds borrowed from the Bank. Due to unfavorable market terms the bonds did not record sufficient returns while the obligation of the customers to pay interest on the loans granted remained outstanding. The customers claim that the relevant risks and terms were not properly disclosed, i.e. the Bank provided investment services not in compliance with legal requirements. Part of the cases were examined in the Supreme Court of Lithuania which stated that shortfalls in the provision of the Bank' investment services if any, were not significant enough to recognize the customers were misled in essence therefore the decision to transfer all negative consequences for investment losses to the Bank and to acknowledge the transaction as void is not legitimate, reasonable and correct.

29. SOCIAL PROJECTS

By implementing its business strategy - create value to the customers, employees, shareholders, and society - *DNB group* aims at business development in view of the needs of the present and future generations. *DNB group* regards its corporate social responsibility as a shared responsibility towards achieving sustainable development in the areas and business sectors where it operates.

DNB Bankas takes account of environmental, social and governance-related aspects in product and service development, advisory and sales activities, investment and credit decisions, as well as production and operations, including relations with suppliers. DNB Bankas shall not contribute to the infringement of human or labour rights, corruption, serious environmental harm or other actions that could be regarded as unethical. The social responsibility principles shall apply, among other things, to the areas of governance, environment and society.

DNB Bankas' corporate social responsibility is based on internationally recognised guidelines, including:

- the OECD's guidelines for multinational companies;
- the IFC's guidelines for environmental and social standards;
- the UNEP FI principles;
- the UN Principles for Responsible Investments;
- the UN Global Compact;
- the UN guiding principles on business and human rights.

In 2015, *DNB Bankas group* developed social initiatives and actively participated in the implementation of the social initiatives that create value to the country's society.

DNB bank contributed to promotion of healthy lifestyle: in cooperation with the partners it organised a running event – DNB | NIKE WE RUN VILNIUS. This international event that takes place in many modern cities of the world, attracted 7000 participants in Vilnius. For the first time DNB Family Running, where children from different age groups could participate, was organized.

The bank has a long term partnership with Vilnius city opera and also supports important initiatives of local community by contributing to the community life and cultural events in each town and settlement The largest among such events is the International Christmas Fair in Vilnius, Kaunas "Operetta" and Klaipėda Castle Jazz Festival.

Bank reports its work on sustainable development and corporate social responsibility of the entire *DNB group* on an annual basis. The report is published on www.dnb.no in the English language.

President of AB DNB Bankas

Bjørnar Lund

(all amounts are in EUR thousand, if not otherwise stated)

THE GROUP AND BANK INCOME STATEMENT

		Group		Bank	
	Notes	2015	2014	2015	2014
Interest income		78,424	84,421	76,024	82,368
Interest expense		(13,702)	(18,690)	(13,701)	(18,689)
Net interest income	1	**64,722**	**65,731**	**62,323**	**63,679**
Fee and commission income	2	35,931	37,075	34,697	36,684
Fee and commission expense	2	(8,433)	(8,714)	(8,212)	(8,482)
Net interest, fee and commission income		**92,220**	**94,092**	**88,808**	**91,881**
Net gain (loss) on operations with securities and derivative financial instruments and net foreign exchange result	3	7,907	10,224	8,582	10,160
Share of profit of an associate		2	47	-	-
Impairment, change in fair value of investment property and provisions	4	(11,527)	(5,737)	(10,516)	(13,615)
Other income	5	4,917	6,331	3,399	2,141
Personnel expenses	6	(29,046)	(28,929)	(28,275)	(27,964)
Depreciation and amortisation	7	(4,300)	(3,647)	(3,775)	(3,590)
Other administrative expenses	8	(38,484)	(53,652)	(35,761)	(50,488)
Profit (loss) before income tax		**21,689**	**18,729**	**22,462**	**8,525**
Income tax	9	(2,409)	(2,359)	(2,394)	(2,230)
Net profit (loss) for the year		**19,280**	**16,370**	**20,068**	**6,295**
Profit (loss) attributable to:					
Equity holders of the parent		19,280	16,370	20,068	6,295
Earnings per share (in EUR per share)					
Basic	10	3.38	2.87		
Diluted	10	3.38	2.87		

These Financial Statements were signed on 22 February 2016:

B. Lund
President

J. Šaučiūnienė
Chief Accountant

The accounting policies and notes on pages 35 to 111 are an integral part of these financial statements.

(all amounts are in EUR thousand, if not otherwise stated)

THE GROUP AND BANK STATEMENT OF OTHER COMPREHENSIVE INCOME

	Group		Bank	
	2015	2014	2015	2014
Profit (loss) for the year	**19,280**	**16,370**	**20,068**	**6,295**
Other comprehensive income (expenses) to be reclassified to profit or loss in subsequent periods (net of tax):				
Net gain on available for sale financial assets (note 16)	10,800	-	10,800	-
Other comprehensive income (expenses) not to be reclassified to profit or loss in subsequent periods:	-	-	-	-
Total other comprehensive income (expenses), net of tax	**10,800**	**-**	**10,800**	**-**
Total comprehensive income (expenses) for the year, net of tax	**30,080**	**16,370**	**30,868**	**6,295**
Attributable to:				
Equity holders of the parent	30,080	16,370	30,868	6,295

These Financial Statements were signed on 22 February 2016:

B. Lund
President

J. Šaučiūnienė
Chief Accountant

The accounting policies and notes on pages 35 to 111 are an integral part of these financial statements.

(all amounts are in EUR thousand, if not otherwise stated)

THE GROUP AND BANK STATEMENT OF FINANCIAL POSITION

		Group		Bank	
	Notes	**31 December 2015**	**31 December 2014**	**31 December 2015**	**31 December 2014**
ASSETS					
Cash and balances with central banks	11	108,054	396,110	108,054	396,110
Due from banks and other credit institutions	12	665,795	142,106	665,795	142,106
Financial assets held for trading	13	32,800	24,660	32,800	24,660
Financial assets designated at fair value through profit or loss	14	75,164	207,208	74,219	205,906
Derivative financial instruments	15	5,801	7,370	5,801	7,370
Available for sale financial assets	16	10,800	91	10,800	91
Loans and advances to customers	17	2,756,987	2,737,217	2,780,334	2,881,918
Finance lease receivables	19	142,544	113,385	142,544	-
Investments in subsidiaries	20	-	-	47,991	70,154
Investment in an associate	21	464	638	493	592
Investment property	23	63,038	80,894	1,579	-
Property, plant and equipment	22	22,184	26,383	22,177	26,323
Intangible assets	24	5,472	5,269	4,477	3,759
Deferred tax asset	9	5,017	5,243	5,017	5,243
Other assets	25	9,652	15,044	8,952	8,092
Non-current assets and disposal groups held for sale	26	5,537	3,790	29	270
Total assets		**3,909,309**	**3,765,408**	**3,911,062**	**3,772,594**
LIABILITIES AND EQUITY					
Due to banks and other credit institutions	27	1,084,261	1,210,752	1,084,261	1,210,752
Derivative financial instruments	15	5,550	6,562	5,550	6,562
Due to customers	28	2,342,734	2,100,196	2,347,725	2,103,543
Debt securities in issue		-	60	-	60
Provisions	29	1,417	1,364	1,417	11,584
Current income tax liabilities		1,108	-	1,197	-
Other liabilities	30	12,833	15,170	11,463	12,663
Total liabilities		**3,447,903**	**3,334,104**	**3,451,613**	**3,345,164**
Equity attributable to equity holders of the Bank					
Ordinary shares	31	190,205	190,183	190,205	190,183
Share premium	31	81,942	81,942	81,942	81,942
Retained earnings		66,858	49,891	64,974	46,081
Reserves	32	122,401	109,288	122,328	109,224
Total equity		**461,406**	**431,304**	**459,449**	**427,430**
Total liabilities and equity		**3,909,309**	**3,765,408**	**3,911,062**	**3,772,594**

These Financial Statements were signed on 22 February 2016:

B. Lund
President

J. Šaučiūnienė
Chief Accountant

The accounting policies and notes on pages 35 to 111 are an integral part of these financial statements.

(all amounts are in EUR thousand, if not otherwise stated)

THE GROUP STATEMENT OF CHANGES IN EQUITY

	Issued shares	Share premium	Available for sale financial assets revaluation reserve	Mandatory reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2014	**190,183**	**81,942**	**-**	**1,447**	**105,741**	**35,621**	**414,934**
Total comprehensive income (expenses) for the year, net of tax	-	-	-	-	-	16,370	16,370
Transfer to mandatory reserve	-	-	-	2,100	-	(2,100)	-
Balance at 31 December 2014	**190,183**	**81,942**	**-**	**3,547**	**105,741**	**49,891**	**431,304**
Profit for the period	-	-		-	-	19,280	19,280
Other comprehensive income (note 16)	-	-	10,800	-	-	-	10,800
Total comprehensive income (expenses) for the year, net of tax	**-**	**-**	**10,800**	**-**	**-**	**19,280**	**30,080**
Transfer to mandatory reserve	-	-	-	2,313	-	(2,313)	-
Conversion of the share capital	22	-	-	-	-	-	22
Balance at 31 December 2015	**190,205**	**81,942**	**10,800**	**5,860**	**105,741**	**66,858**	**461,406**

These Financial Statements were signed on 22 February 2016:

B. Lund
President

J. Šaučiūnienė
Chief Accountant

The accounting policies and notes on pages 35 to 111 are an integral part of these financial statements.

(all amounts are in EUR thousand, if not otherwise stated)

THE BANK STATEMENT OF CHANGES IN EQUITY

	Issued shares	Share premium	Available for sale financial assets revaluation reserve	Mandatory reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2014	**190,183**	**81,942**	**-**	**1,389**	**105,741**	**41,880**	**421,135**
Total comprehensive income (expenses) for the year, net of tax	-	-	-	-	-	6,295	6,295
Transfer to mandatory reserve	-	-	-	2,094	-	(2,094)	-
Balance at 31 December 2014	**190,183**	**81,942**	**-**	**3,483**	**105,741**	**46,081**	**427,430**
Profit for the period	-	-	-	-	-	20,068	20,068
Net gain on available for sale financial assets (note 16)	-	-	10,800	-	-	-	10,800
Total comprehensive income (expenses) for the year, net of tax	-	-	10,800	-	-	20,068	30,868
Equity increase resulting from reorganisation of AB DNB Lizingas (note 41)			-			1,129	1,129
Transfer to mandatory reserve	-	-	-	2,304	-	(2,304)	-
Conversion of the share capital	22	-	-	-	-	-	22
Balance at 31 December 2015	**190,205**	**81,942**	**10,800**	**5,787**	**105,741**	**64,974**	**459,449**

These Financial Statements were signed on 22 February 2016:

B. Lund
President

J. Šaučiūnienė
Chief Accountant

The accounting policies and notes on pages 35 to 111 are an integral part of these financial statements.

(all amounts are in EUR thousand, if not otherwise stated)

THE GROUP AND BANK STATEMENT OF CASH FLOWS

	Notes	Group 2015	Group 2014	Bank 2015	Bank 2014
Operating activities					
Interest receipt		72,575	76,648	67,918	75,435
Interest payments		(14,931)	(17,038)	(14,302)	(17,465)
Collected previously written-off loans		1,503	2,342	1,503	2,342
Net receipt from FX trading and operations in securities		17,582	9,805	17,582	9,805
Fee and commission receipt		35,931	37,075	34,697	36,685
Fee and commission payments		(8,433)	(8,714)	(8,212)	(8,482)
Salaries and related payments		(29,404)	(29,746)	(28,546)	(28,725)
Other payments		(34,066)	(46,498)	(32,448)	(47,548)
Net cash flows from operating activities before changes in operating assets and liabilities		**40,757**	**23,874**	**38,192**	**22,047**
(Increase) decrease in operating assets:					
(Increase) decrease in loans to credit and financial institutions		(452,202)	104,344	(474,702)	95,908
(Increase) in loans granted, except loans to credit and financial institutions		(44,738)	(163,894)	(14,275)	(164,167)
(Increase) in trading securities		(12,276)	(8,086)	(12,276)	(8,086)
(Increase) decrease in other assets		(596)	(17,711)	(18,546)	(10,598)
Change in operating assets		**(509,812)**	**(85,347)**	**(519,799)**	**(86,943)**
Increase (decrease) in liabilities:					
Increase in liabilities to central bank		342,700	-	342,700	-
(Decrease) in liabilities to credit and financial institutions		(470,205)	(6,142)	(459,327)	(4,907)
Increase in deposits		244,058	290,192	246,073	291,199
Increase (decrease) in other liabilities		(110)	(1,035)	(951)	(966)
Change in operating liabilities		**116,443**	**283,015**	**128,495**	**285,326**
Income tax paid		**(943)**	**(130)**	**(884)**	**-**
Net cash flows from operating activities		**(353,555)**	**221,412**	**(353,996)**	**220,430**
Investing activities					
Acquisition of property, plant, equipment and intangible assets		(2,091)	(8,247)	(2,086)	(6,685)
Disposal of property, plant, equipment and intangible assets		496	3	496	3
Decrease in securities		129,880	32,911	129,658	32,328
Dividends received		35	17	737	17
Interest received		2,767	1,080	2,719	1,026
Net cash flows from investing activities		**131,087**	**25,764**	**131,524**	**26,689**

The accounting policies and notes on pages 35 to 111 are an integral part of these financial statements.

(all amounts are in EUR thousand, if not otherwise stated)

THE GROUP AND BANK STATEMENT OF CASH FLOWS (CONTINUED)

		Group		Bank	
	Notes	2015	2014	2015	2014
Financing activities					
Own debt securities redemption		(60)	(3,474)	(60)	(3,474)
Interest paid		(2)	(90)	(2)	(90)
Net cash flows from financing activities		**(62)**	**(3,564)**	**(62)**	**(3,564)**
Net increase (decrease) in cash and cash equivalents		**(222,530)**	**243,612**	**(222,534)**	**243,555**
Net foreign exchange difference on cash and cash equivalents		5,968	3,231	5,972	3,288
Cash and cash equivalents at 1 January		**462,752**	**215,909**	**462,752**	**215,909**
Cash and cash equivalents at 31 December	35	**246,190**	**462,752**	**246,190**	**462,752**

These Financial Statements were signed on 22 February 2016:

B. Lund
President

J. Šaučiūnienė
Chief Accountant

GENERAL BACKGROUND

The name of AB DNB Bankas was registered on November 11, 2011. The Bank as a joint stock company was registered on September 13, 1993. The Bank possesses a license No.10 issued by the Bank of Lithuania, which entitles the Bank to provide financial services established in the Law on Banks of the Republic of Lithuania and the Law on Financial Institutions of the Republic of Lithuania.

The Bank accepts deposits, issues loans, makes money transfers and documentary settlements, exchanges currencies for its clients, issues and processes debit and credit cards, provides financial lease services ,is engaged in trade finance and is investing and trading in securities as well as provides other financial services established in the Law of the Republic of Lithuania on Banks and on Financial Institutions.

As at 31 December 2015 the Bank owned the following subsidiaries:

- UAB DNB Investicijų Valdymas (investment asset management activities),
- UAB DNB Būstas (real estate brokerage),
- UAB Intractus (real estate management, development and sale). UAB Intractus owned (0.08% of shares) company UAB Industrius (Company was registered in Legal Entities, State enterprise Centre of Register on 15 February 2011) and subsidiary UAB Gelužės projektai (acquired from Bank on 19 October 2011),
- UAB Industrius (real estate management, development and sale); Company capital increase was registered in Legal Entities, State enterprise Centre of Register on 21 December 2012.

In October 2015, AB DNB Lizingas, wholly owned by AB DNB Bankas, was merged to AB DNB Bankas. At the end of the reorganization process the Bank has taken over the rights and obligations of AB DNB Lizingas. As under IFRS 3 “Business combinations” this was the transaction between entities under common control of a controlling shareholder, the Bank selected to apply the “pooling of interest method”, which will be applied to future similar transactions. Having applied the pooling of interests method, the combination income and expenses of the leasing acquired in the current year were excluded from the income statement for 2015 until the merger date and no inclusion of prior period balances has been made. The difference between the investment cost in the Bank's stand alone accounts and total equity (based on carrying amounts/book values) of the leasing merged was accounted for directly in equity (retained earnings). The last financial statements (dated 23 October 2015) of AB DNB Lizingas are provided in Note 41.

As at 31 December 2015 the Bank owned 100% of the share capital of UAB DNB Būstas, UAB DNB Investicijų Valdymas, UAB Intractus and 99.92% UAB Industrius of the share capital. UAB DNB Intractus owned 100% of the share capital of UAB Gėlužės projektai and 0.08% UAB Industrius. As at 31 December 2014 AB DNB Bankas Group (hereinafter referred to as “the Group”) in Lithuania consisted of AB DNB Bankas and its subsidiaries UAB Investicijų Valdymas, AB DNB Lizingas, UAB DNB Būstas, UAB Intractus, UAB Industrius, UAB Gėlužės projektai.

The head offices of the Bank and subsidiary UAB DNB Investicijų Valdymas are located in Vilnius, Basanavičiaus str. 26, the head office of UAB Intractus, UAB Industrius and UAB Gelužės projektai are located in Vilnius, Basanavičiaus str. 26,, the head office of UAB DNB Būstas is located in Vilnius, Švitrigailos str. 11 M.

At the end of the reporting period the Bank had 46 client service outlets (2014: 60 client service outlets). As at 31 December 2015 the Bank had 1,040 employees (2014: 1,127 employees). As at 31 December 2015 the Group had 1,056 employees (2014: 1,158 employees).

As at 31 December 2015 the authorized capital of the Bank is EUR 190,204,564 (2014: 190,204,564), which is divided into 5,710,134 (2014: 5,710,134) ordinary registered shares with EUR 33.31 par value each. As at 30 June 2011 Bank DnB NORD A/S (DK) was the single shareholder holding 100% of the Bank’s shares (2010; 100%). On 30 June 2011 Norway registered DNB Bank ASA, entity code 984851006MVA (until November 11, 2011 named DnB NOR Bank ASA) has acquired 100 percent of shares of AB DnB Nord bankas from Denmark registered Bank DNB NORD A/S, controlled by DNB Bank ASA. As disclosed in Note 31, *Share capital* DNB Bank ASA has become direct shareholder of the Bank owning 100 percent of its shares and voting rights.

After Bank DnB NORD A/S completed the squeeze-out procedure of AB DnB NORD Bankas and became the sole shareholder of the Issuer having 100 percent ownership of its shares and votes, on 12 February 2010 AB DnB NORD Bankas shares were delisted from the Secondary List of the stock exchange.

ACCOUNTING POLICIES

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

Basis of preparation of financial statements

The financial statements of the Group and the Bank are prepared in accordance with International Financial Reporting Standards effective as of 31 December 2015 that have been adopted for use in the European Union (hereinafter – IFRS). The financial statements are prepared on a historical cost basis, except for available-for-sale financial assets, financial assets designated at fair value through profit or loss, financial assets and financial liabilities held for trading, derivative financial instruments and investment properties, that have been measured at fair value and non-current assets and disposal groups held for sale that have been measured at fair value less costs to sell.

These financial statements combine the consolidated financial statements for the Group and stand-alone financial statements of the parent Bank. In addition the financial information of Financial Group is presented in Note 40 in accordance with the requirements of the Bank of Lithuania.

Amounts shown in these financial statements are presented in the local currency, Euro (EUR). 1 January 2015 was the day of Euro adoption in Lithuania, thus on this day the functional currency of the Group was converted. According to irrevocable decision of the European Council the Litas to Euro conversion rate was 3.45280 LTL for 1 EUR. Accordingly comparative figures were converted using the mentioned conversion rate.

Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

During the year the Group has adopted the following IFRS amendments:
- Annual Improvements to IFRSs 2011 – 2013 Cycle
- IFRIC Interpretation 21: Levies

Annual Improvements to IFRSs 2011 – 2013 Cycle is a collection of amendments to the following IFRSs:
- **IFRS 1 *First-time adoption of IFRS*:** This improvement clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment did not impact the financial statements of the Group.
- **IFRS 3 *Business Combinations*:** This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. This amendment did not impact the financial statements of the Group.
- **IFRS 13 *Fair value Measurement:*** This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation. This amendment did not impact the financial statements of the Group.
- **IAS 40 *Investment property*:** This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other. This amendment did not impact the financial statements of the Group.

IFRIC Interpretation 21 Levies This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognized in the financial statements when the activity that triggers the payment of the levy occurs. The implementation of this standard had no effect on the financial statements of the Group.

Standards issued but not yet effective

The Group has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorization of these financial statements for issue, but which are not yet effective:

Amendments to IAS 1 *Presentation of financial statements: Disclosure Initiative* *(*effective for financial years beginning on or after 1 January 2016 once endorsed by the EU)

The amendments to IAS 1 further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The implementation of this standard will not have any impact on the financial position or performance of the Group, however may result in additional disclosures.

Amendments to IAS 16 *Property, Plant & Equipment* and IAS 38 *Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization* *(*effective for financial years beginning on or after 1 January 2016)

The amendment provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. The implementation of this amendment will have no impact on the financial statements of the Group, as the Group does not use revenue-based depreciation and amortisation methods.

ACCOUNTING POLICIES (continued)

Amendments to IAS 19 *Employee Benefits* (effective for financial years beginning on or after 1 February 2015)

The amendments address accounting for the employee contributions to a defined benefit plan. Since the Group's employees do not make such contributions, the implementation of this amendment will not have any impact on the financial statements of the Group.

Amendments to IAS 27 *Equity method in separate financial statements* (effective for financial years beginning on or after 1 January 2016)

The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The Group has made the decision not to use the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

Amendment to IFRS 11 *Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations* (effective for financial years beginning on or after 1 January 2016)

IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The implementation of this standard will not have any effect on the financial statements of the Group.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

IFRS 9 replaces IAS 39 and introduces new requirements for classification and measurement, impairment and hedge accounting. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IFRS 10, IFRS 12 and IAS 28 *- Investment Entities: Applying the consolidation exception* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (endorsement deferred indefinitely)

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business and partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 14 *Regulatory Deferral Accounts* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

IFRS 14 provides first-time adopters of IFRS with relief from derecognizing rate-regulated assets and liabilities. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. The implementation of this standard will not have any impact on the Group.

IFRS 15 *Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 16 *Leases* (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)

IFRS 16 replaces IAS 17 and specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. The Group has not yet evaluated the impact of the implementation of this standard.

Improvements to IFRSs

In December 2013 IASB issued the Annual Improvements to IFRSs 2010 – 2012 Cycle (effective for financial years beginning on or after 1 February 2015):

- *IFRS 2 Share-based Payment;*
- *IFRS 3 Business Combinations;*
- *IFRS 8 Operating Segments;*

ACCOUNTING POLICIES (continued)

- *IFRS 13 Fair value Measurement;*
- *IAS 16 Property, Plant and Equipment;*
- *IAS 24 Related Party Disclosures;*
- *IAS 38 Intangible Assets.*

In September 2014 IASB issued the Annual Improvements to IFRSs 2012 – 2014 Cycle (effective for financial years beginning on or after 1 January 2016):

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operation*;
- IFRS 7 *Financial Instruments: Disclosures*;
- IAS 19 *Employee Benefits*;
- IAS 34 *Interim Financial Reporting*.

The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any impact on the financial position or performance of the Group.

The Group plans to adopt the above mentioned standards and interpretations on their effective date provided they are endorsed by the EU.

Use of judgements and estimates in the preparation of financial statements

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

Going concern

The Bank's and Group's management is fully convinced of stable and balanced performance going forward and based on that prepared these financial statements on the going concern basis.

***Impairment losses on loans* and lease receivables**

The Bank and the Group review their loan and finance lease receivable portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolios of loans and finance lease receivables before the decrease can be identified with an individual loan in those portfolios.

This evidence may include 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 loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when assessing its future cash flows. 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.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. For fair value of financial assets and liabilities refer to Notes 13-16.

Fair value of investment properties

Investment properties are stated at fair value, which for the major part of properties has been determined according to valuations performed by accredited independent valuers. The valuation model for the Group's investment properties was formed based on market comparable and income approaches.

For fair value of investment properties refer to the Note 23.

Deferred tax asset

Deferred tax asset is 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 asset that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. For carrying amounts see Note 9.

Investment in subsidiaries

The Bank assesses whether an impairment loss for subsidiaries should be recorded in the income statement at least once a year. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as there is any observable data indicating that there is a measurable changes in the estimated future cash flows, business growth and risk cost of subsidiaries.

ACCOUNTING POLICIES (continued)

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.

Investment funds and pension funds management
The Group assesed that it does not control Investment and pension funds it manages. This is because the Group has a narrow scope of decision making powers (within local laws and regulations the funds manager has a disrection about the assets in which to invest), remuneration is commensurate with the services provided, no obligation to funds losses.

Consolidation

Subsidiaries are all investees over which the Bank has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are de-consolidated from the date that control ceases.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Bank. Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated.

Combination of entities under common control and usage of the pooling of interest method
A combination of entities under common control is a transaction when the controlling parties before and after a business combination are the same and the control is not transitory. IFRS 3, 'Business combinations' is not applied to business combinations between entities under common control, therefore such business combinations are accounted for using the pooling of interest method of accounting.

According to the pooling of interest method the assets and liabilities of the combining entities are reflected at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination that would otherwise be done under the acquisition method. No 'new' goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid/transferred or investment cost and the equity 'acquired' is reflected within equity.

Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

The Group's investment into associate is accounted for using the equity method and initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the asssociate since the acquisition date. The statement of profit or loss reflects the Group's share of the results of operations of the associate. The financial statements of the associate are prepared for the same reporting period as the Group.

Once a year the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and then recognises the loss as share of profit of an associate in the statement of profit or loss.

Foreign currency translation

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

All monetary assets and liabilities denominated in foreign currencies are translated into EUR at the official rate of the Bank of Lithuania prevailing at the reporting period end. Gains and losses arising from this translation are included in the income statement for the period. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, whilst assets carried at fair value are translated at the exchange rate when the fair value was determined.

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

ACCOUNTING POLICIES (continued)

Recognition of income and expenses

Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.
Loan origination fees for loans and other credit related fees are deferred (together with any incremental costs) and accounted for as an adjustment to the effective interest rate calculation for each issued loan separately.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income and expense

Income and expense of fees and commissions are generally recognised on an accrual basis when the service has been provided.

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Other 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.

Dividend income

Dividends are recognised in the income statement when the entity's right to receive payments is established.

Taxation

Income tax

In accordance with the Lithuanian Law on Corporate Income Tax, 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.

Deferred income tax is provided using the balance sheet liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for the financial reporting purposes. Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that a taxable profit will be available against which the losses can be utilised. 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.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities. The losses from disposal of securities can be carried forward for 5 consecutive years. Starting with 1 January 2014 tax losses carried forward can be used to reduce the taxable income earned during the reporting year by maximum 70%.

Deferred tax related to fair value re-measurement of available-for-sale investments which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and subsequently recognised in the income statement together with the deferred gain or loss.

ACCOUNTING POLICIES (continued)

Other taxes

Other taxes are included in other expenses in the income statement.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the cash, other valuables, correspondent bank account balances, correspondent account and one night deposits with the Bank of Lithuania and short-term treasury bills with the original maturity term of less than three months. Required reserves in national currency in Central Bank are also treated as cash as readily available.

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.

Financial assets

Financial assets are classified into these groups: financial assets designated at fair value through profit or loss, loans and receivables, financial assets available for sale. Management determines the classification of its investments at initial recognition.

Financial assets designated at fair value through profit or loss

Securities designated at fair value through profit or loss

Securities classified in this category are designated at fair value through profit or loss on initial recognition when the following criterias are met:

- that type of classification eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as “an accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognizing gains or losses on them on different bases; or
- a group of securities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group of these assets is provided internally to Bank’s management.

Securities designated at fair value through profit or loss are recognized at settlement date, which is the date that an asset is delivered to or by the Group. They are initially recorded in the statement of financial position at fair value. Changes in fair value are recorded in net gain (loss) on operations with securities.

Trading securities

Trading securities are securities which were acquired either for generating a profit from short-term fluctuations in price or dealer’s margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at fair value, which is based on quoted bid prices. All related realised and unrealised gains and losses are included in net trading income or expenses. Dividends received are included in dividend income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention (‘regular way’ purchases and sales) are recognised at settlement date, which is the date that an asset is delivered to or by the Group**.**

Derivative financial instruments

Derivative financial instruments including foreign exchange forwards, swaps, options (both written and purchased) and other derivative financial instruments are initially recognised in the statement of financial position at their fair value. Fair values are determined according to the model, based on market observable inputs. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives held for trading are included in net trading income.

Certain derivatives embedded in other financial instruments, such as index linked options in bond issued or deposits, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

Certain derivative transactions, while providing effective economic hedges under the Group’s risk management policy, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in net trading income.

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

ACCOUNTING POLICIES (continued)

Available for sale financial assets

Available for sale financial assets at fair value through OCI include financial assets that are invested in equity shares. Available for sale financial assets are those intended to be held for an indefinite period of time.

Available for sale financial assets are initially recognised at fair value based on quoted bid prices or amounts derived from discounted cash flow models. Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised in other comprehensive income (OCI) except for impairment losses and foreign exchange gains or losses. When the financial asset is derecognised the cumulative gain or loss previously recognised in OCI is recognised in profit or loss. However interest calculated using the effective interest rate is recognised in profit or loss.

Interest earned whilst holding securities is reported as interest income. Dividends receivable are included separately in dividend income when the right of the payment has been established.

All regular way purchases and sales of securities are recognised at settlement date, which is the date that an asset is delivered to or by the Group. All other purchases and sales are recognised as derivative forward transactions until settlement.

Repurchase and reverse repurchase agreements

The securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction's economic substance as a loan to the Bank.

The securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. Reverse repurchase agreements are classified as loans and receivables to other banks or customers, and are accounted for using the amortised cost method. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Loans

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the bank upon initial recognition designates as at fair value through profit or loss; (b) those that the bank upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Loans are carried at amortised cost using the effective interest method.

Loans and advances are recognised at their settlement date, when cash is advanced to borrowers. From the date of signing a contractual agreement till the settlement date they are accounted for as off-balance sheet items.

Impairment losses on loans, finance lease receivables and other assets

Losses on loan, finance lease receivables and other assets impairment are established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the impairment losses is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, based on the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. 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.

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. The main criterias that the Group uses to determine whether there is objective evidence of an impairment include:

- Delinquency in contractual payments of principal or interest;
- Significant financial difficulties of the borrower or issuer;
- Due to economic or legal reasons pertaining to financial difficulties of the borrower the latter benefits from allowance, which otherwise would not be granted by the Bank;
- Initiation of bankruptcy or reorganisation process against the borrower or issuer;
- Cessation of the active market of debt securities caused by financial difficulties;
- Breach of loan conditions, infringement of other covenants related to loan issue;
- Default on obligations by persons related to the borrower;
- Suspension or revocation of the license held by the borrower or issuer engaged in licensed activity (production and sales of alcoholic beverages, trade in oil products, medical, educational and training practice, sale of electricity to independent consumers, etc.);
- Deterioration in the value of collateral.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually material, and individually for financial assets that are not above materiality thresholds. If the Group determines that no objective evidence of impairment exists for an individually assessed financial assets, whether material or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a

ACCOUNTING POLICIES (continued)

collective assessment of impairment. The Group also collectively assesses the impairment for the financial assets, when a loss event has occurred but it cannot be attributed either to particular type of assets or to the particular group of assets.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all necessary procedures have been completed and the amount of the loss has been determined.

If in a subsequent period the amount of the impairment loss decreases and that decrease can be related objectively to an event (such as an improvement in the debtor's credit rating) occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement as reducing the impairment charge for credit losses.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due.

Derecognition of financial assets and liabilities

<u>Financial assets</u>

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

Where the Bank and the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has 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 Bank and the Group'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 Bank and the Group 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 Bank's and the Group's continuing involvement is the amount of the transferred asset that the Bank and the Group 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 Bank's and the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

<u>Financial liabilities</u>

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.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any accumulated impairment losses. Finite life intangible assets are amortised using the straight-line method over their estimated useful life.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 3 to 5 years 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.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are 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 income statement 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 income statement in the period of derecognition.

ACCOUNTING POLICIES (continued)

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, plant and equipment up to the date of change in use.

Property, plant and equipment

Property, plant and equipment are held at historical cost less accumulated depreciation and any impairment in value. Depreciation is provided on a straight-line basis to write off proportionally the cost of each asset over its estimated useful life.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amount and are charged to the income statement. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Asset maintenance costs are charged to the income statement when they are incurred. Significant renewals of assets are capitalised and depreciated over the remaining useful life period of the improved asset.

Non – current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, management has committed to the sale and the sale is expected to be completed within one year from the date of classification.
Non – current assets classified as held for sale are not depreciated or amortised.

Fair values of the non-current assets held for sale are disclosed in Note 26.

Leases

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group is the lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of lease and included into other administrative expenses.

Group is the lessor

<u>Operating leases</u>

Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar owned assets. Rental income is recognised on a straight-line basis over the lease term.

<u>Finance leases</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 the net investment method (before tax), which reflects a constant periodic rate of return. Initial direct costs are included in the initial measurement of the lease receivables.

Assets / funds under management and related liabilities

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

The Bank's assets under management include loans that are managed by the Bank in the name of the Lithuanian Ministry of Finance and the Lithuanian Ministry of Agriculture. The Group's assets under management also include funds under management and are accounted for off-balance sheet.

Employee benefits

<u>Social security contributions</u>

The Group pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if

ACCOUNTING POLICIES (continued)

the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs. Social security contributions each year are allocated by the Fund for pension, health, sickness, maternity and unemployment payments.

Termination benefits

Termination benefits are payable when an employee's employment is terminated on initiative of employer or the employment is terminated by mutual employee's and employer's agreement. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after statement of financial position date are discounted to present value. Termination benefits are included within staff costs in the income statement and within other liabilities in the statement of financial position.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The expense relating to any provision is recognised in the income statement. If the effect of the time value of money is material, provisions are discounted using current pre-tax rate that reflects, where appropriate, 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.

Financial guarantees and credit-related commitments

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

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of the financial guarantee on the initial recognition does not include the gross receivable for future premiums not yet due. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee or the best estimate of the expenditure required to settle any financial obligation arising at the statement of financial position date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management. Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

Documentary and commercial letters of credit represent written undertakings by the Bank and the Group on behalf of a customer authorising a third party to draw drafts on the Bank and the Group up to a stipulated amount under specific terms and conditions.

Fair value of 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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. In the case of inactive markets the establishment of valuation techniques for measuring the fair value is provided.

Offsetting financial assets and financial liabilities

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

ACCOUNTING POLICIES (continued)

Off-balance sheet items

Off-balance sheet derivative transactions are marked to market at the reporting date and any arising profit or loss is recognised in the income statement for the period and treated as an asset or liability in the statement of financial position respectively.

All liabilities that might give rise to statement of financial position exposures are accounted for as off-balance sheet liabilities. This allows the Bank and the Group to assess capital requirement and to allocate funds required to cover those obligations.

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 of economic benefits is probable.

Earnings per share

Basic earnings per share amounts are calculated by dividing net result for the year attributable to ordinary equity holders of the parent by the weighted number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net result attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Subsequent events

Post-year-end events that provide additional information about the Bank’s position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

Prior year figures were corrected where needed in order to make them comparable to current year presentation.

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

FINANCIAL RISK MANAGEMENT

The Group analyses, evaluates, accepts and manages the risks or combinations of risks it is exposed to. Risk management at DNB Group aims at ensuring an acceptable profitability and return on equity following the adequate risk management policy. While implementing a sound risk management policy the Group focuses not only on minimising the potential risk but also on improving pricing and achieving efficient capital allocation. Risk management function of the DNB Group in Lithuania is part of the risk management system of the International DNB Group.

The most important types of risk the Group is exposed to are credit risk, market risk, liquidity risk, operational risk and business risk. Concentration risk is assessed as part of credit risk. Other types of concentration were assessed to be less material for the Group. Market risk includes currency risk, interest rate and equity price risk.

The main risk management principles are revealed in the Risk Management Strategy:

- risk management is based on the best practice of the institutions having similar complexity of the products, services and extent of the activities and follows uniform risk management principles of the International DNB Group;
- if the situation is unclear or if any doubts occur with respect to appropriate risk management the Group follows principles of precaution, conservatism and prudence;
- risk management is organised in such a way that any possible conflicts of interests among the personnel and/or between the structural units would be avoided. The principle is being taken into action by designing Bank's organisational structure, defining functions and responsibilities as well as subordinate relations. The Bank aims to design an organisational structure which would ensure effective and reliable governance both at the Bank and the Group level.

Risk management process in the Group includes:

- Risk identification. The identification of new risks is performed during internal risks self-assessment process.
- Quantitative evaluation of risks and internal capital calculation for their coverage. The major part of risks the Group is exposed to in its activities is evaluated quantitatively (credit, market, partly operational). Other risks, that depend on a variety factors and outcomes which cannot be reliably forecasted quantitatively, are evaluated qualitatively (operational risk). Internal capital is calculated taking into account possible outcomes for the Group due to realisation of risks.
- Consolidation (aggregation) of risks.
- Ex-ante control is performed by setting operations‘ limits, planning pricing, selecting suitable customers or segments of customers for the Group. Ex-ante control of risks also covers planning of crisis management and business continuity, stress testing.
- Risk monitoring. Continuous supervision and control should ensure that assumed risks are in line with the Group risk level and structure. Risk restricting limits set by the Group are monitored on a regular basis. Processes and compliance with quality requirements are monitored for non-quantifiable risks.
- Ex-post control. Internal reports play an important role in control of outcomes, that allows for timely evaluation of occurrence, dimension of risks and implementation of appropriate measures for avoiding the risk or mitigating it in the future. The Group deals with this type of control by hedging risk or part of risk, increasing capital, diversifying risks.

New types of activity or products as well as financial instruments are incorporated into the Group‘s activity after these conditions are met:

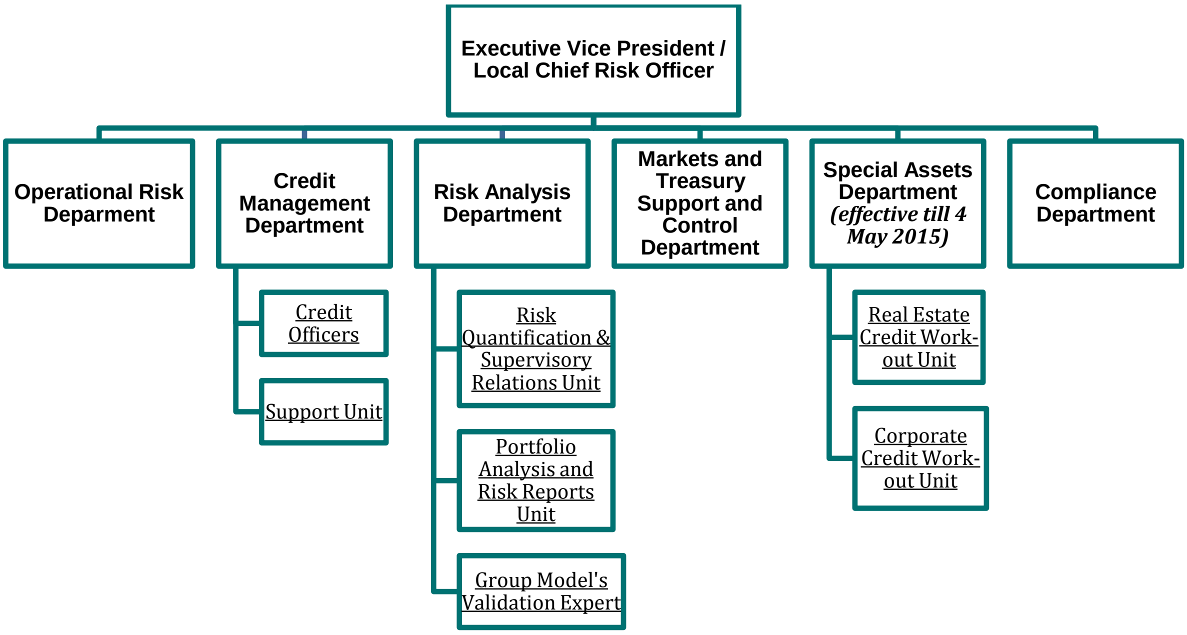
- the market analysis for the new product is done;
- the procedure for usage, evaluation and accounting of new type of activity, product or financial instrument is prepared;
- the risk, internal control, possible need of capital was evaluated and/or risk limits are approved.

In 2015 one of the risk management prevention tools - the Recovery plan - has been developed. The plan developed in accordance with "the Recovery and Resolution Directive" approved by the European parliament shall ensure restoration of the Groups solvency following situations of severe stress without any involvement by or support from the authorities or tax payers.

The risk management function of the Group is organised in such a way that ensures efficient risk management and facilitates the realisation of the tasks stipulated in the Risk Management Strategy. The management of separate risks of the Group is under responsibility of structural units within their competence limits. The function of all-type risk control is segregated from risk taking, i.e. from the front-office units.

FINANCIAL RISK MANAGEMENT (continued)

Risk division organisational structure:



The control function for the major material risk – credit risk – is under the responsibility of the Credit Management Department and Risk Analysis Department. In order to coordinate communication with regulatory authorities effectively and follow up / apply the newest regulatory standards related to Bank's risk area, in 2015 a new function of Supervisory relations was established in the Risk Division of the Bank. For the purpose of strengthening the control over operational risk management within the Group, the separate structural unit – Operational Risk Department - was established in the year 2012. In order to strengthen control and enhance support of DNB Markets value chain, the separate Markets and Treasury Support and Control Department was established in the same year. All four organizational units responsible for the control of financial risks – Credit Management Department, Risk Analysis Department, Operational Risk Department and Markets and Treasury Support and Control Department – report directly to the Chief Risk Officer, who is as well the member of a Management Board.

An independent Compliance Department identifies, assesses, advises, monitors, tests and reports on compliance risks with the aim to ensure that the Group business activities comply with the laws and other external rules and regulations. The Compliance Department is structurally subordinated to the Chief Risk Officer and functionally reports to the CEO of the Bank and to DNB Bank ASA Compliance Officer.

The internal control system aims to avoid mistakes, losses and various violations in the Group. The Management Board is responsible for creation and maintenance of effective internal control system in the Group.

Risk management processes and effectiveness of internal control are assessed by the Internal Audit Department.

The Management Board approves the procedures having significant impact on risk management and risk mitigation measures associated with the risk management. In certain cases when it is not prohibited by legal or regulatory requirements responsibility for approval is delegated to the Chief Risk Officer.

Non-structural unit of the Bank - Risk Committee has been established on 29 September 2015. It has replaced the Risk Management Committee since then. This committee is responsible for ensuring effective formation of optimal capital structure, risk management and control. Also it aims to optimize the Bank's asset and liability structure with regard to acceptable risk and return. Risk reports covering analysis of all the risks are presented to Risk Committee on regular basis.

Credit Committee was founded for the improvement of overall credit risk management quality in the Group and for regular reporting to the Management Board on achievement of targets set in relation with credit risk management. The functions of the Credit Committee of respective authority level also include providing the recommendations on decisions related with risk of significant exposures. Assessment of impairment losses for the customers with the largest exposures is discussed and agreed at the Credit Committee.

1. Credit risk

Credit risk means the risk for the Group to incur losses due to the customers' failure to fulfil their financial obligations towards the Group. Credit exposures arise principally in lending activities and it is the most significant risk in the Group's business. Several years in a row the continuous decrease in clients' overdue and improvement of the risk level can be observed due to better clients' solvency situation.

FINANCIAL RISK MANAGEMENT (continued)

The key elements of credit risk management are Group Credit Policy, Credit strategy for business customers and Credit strategy for private individuals, that are based on the uniform International DNB Group guidelines for credit activity and its credit strategies. Practical aspects of the application of these documents' principles in credit activity and decision making processes are regulated in detail by Credit Manual.

According to the Group's Credit Policy and credit strategies, the credit activity principal objective is that the loan portfolio should have a quality and a composition which ensure profitability in the short and long term. The target loan portfolio should maintain the credit risk profile varying from low to moderate. The assessment of creditworthiness should be based on customer's ability to perform on its financial obligations as well as cash flows from customers' activities dedicated for loan payments should be clearly understandable and sustainable.

Credit risk arises as well from investment activities (e.g., debt securities), the Group's assets as well as from the off-balance sheet financial instruments, such as loan commitments, guarantees and letters of credit.

Credit risk management is an independent function from the front-office. Final approval of credits above a certain level is done together with the independent credit officers. In all cases the four-eyes principle must be followed (in cases of small credit card limits one pair of eyes may be replaced by rating).

The Group's management bodies are kept informed on level and developments of the assumed credit risk by means of regular reports.

1.1. Credit risk measurement

(a) Loans and advances

Credit risk is managed by carrying out a thorough analysis of the customer before issuing credits and by monitoring thereof after the credit disbursement. All credits granted to customers are classified by risk using the rating models every time a commitment is renewed or, unless otherwise decided, at least once a year.

The credit risk is assessed by using the customer / product segment specific rating models, which are used for homogeneous groups of customers:

- large corporates,
- small and medium-sized enterprises (SMEs),
- microbusiness (e.g., small single ownership companies),
- real estate projects of legal entities,
- individual customers.

The rating models are approved both at the International DNB Group level and by the Chief Risk Officer. These instruments are constantly improved based on the results of analysing the historical data on credit risk related losses and tested for reliability (validated).

In the year 2015 rating models and risk parameters, mainly for business customers, were subject to further amendment in order to reflect risk more precisely. The rating model for large corporates with annual sales exceeding 125 million euro was implemented in the beginning of 2015. Moreover, the process of review of rating models which are used to evaluate companies in microbusiness segment was started in 2015, and it is planned to finalize development of the new rating models and implementation into the credit processes in 2016.

The internal rating models are applied in decision making, pricing, monitoring and risk reporting as well as economic capital (risk-adjusted capital, hereinafter referred to as RAC) calculation. RAC is used for decision making with respect to strategic capital allocation, i.e. for determining the strategic segments in lending activity as well as capital planning for the Bank and the Group.

Whenever large business customers are provided with loans, in addition a risk-adjusted profitability for the Group is assessed at both an individual loan and customer level, i.e. a return on risk-adjusted capital (RORAC) is measured. For this purpose the advisory tool is implemented, which plays an important role in the pricing and decision making for business customers with exposure of more than 1 million euro. The same principles of RAC-based pricing as well as RORAC-based profitability assessment are also extended to the other segments of the loan portfolio through the standardized pricing tool or rules. The risk-based credit pricing tools for all customer / product segments are monitored regularly and updated, if needed.

In 2015 the Group focused on enhancing the principles and tools based on which RAC-based pricing decisions and ex post RORAC-based profitability measurement are made and on ensuring close alignment between them.

The Group considers building of competence of its employees as a prerequisite for creating a sound credit culture within the organization. Therefore it puts a special emphasis on internal training of its employees involved in credit activities on credit analysis, usage of rating models, understanding of risk parameters, which make an integral part of decision making, and risk-based pricing principles.

In 2015 relatively higher attention with respect to the previous years was dedicated to training of employees involved in credit activities on more in-depth understanding of risk based pricing principles, RORAC-based profitability measurement and relationship between them as well as risk data quality assurance issues.

FINANCIAL RISK MANAGEMENT (continued)

(b) Debt securities

Debt securities are in the region of 3 per cent of the total assets of the Group. The credit risk arising from them is considered as being immaterial. 69% of Bank owned debt securities are issued by the government of Lithuania, with an average duration of about 3.5 years. The rest 31% consists of one position, which was transferred into the Bank's book after unsettled transaction and will be disposed in the nearest future. Debt securities investments in the Bank portfolios are performed in accordance with the limits set by the Bank and the parent bank. Limit utilization is monitored daily.

1.2. Risk limit control and mitigation policies

(a) Concentration risk

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.

The Group's portfolio of the products bearing credit risk is well diversified with respect to lending to the groups of the connected borrowers and a single borrower.

Concentration risk of lending to the economic sectors is regarded as being material and is closely monitored and controlled. Complimentary to the Bank of Lithuania requirements to limit the large exposures to a single borrower or the group of related borrowers, the Group also sets limits to economic sectors, i.e. a possible concentration in certain economic sectors at the Group level is restricted by the internal lending limits. Percentage lending limits are set for individual industries according to the Credit strategy for business customers. Moreover, loans to certain industry sectors cannot be granted at the lowest level of competence and therefore should be elevated.

At the end of the year 2015, the loan portfolio of the Group was well diversified by economic sectors and none of the set limits were exceeded.

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

Concentration risk limits are set and monitored centrally at the Group level. These limits imposed on the loans issued are monitored on a regular basis and subject to a review, when deemed necessary.

Some other specific risk control and mitigation measures are outlined further on.

(b) Collateral

The Group prefers the customer's ability to repay the loan in the lending process, giving less importance to the pledged collateral measure.

The Group mitigates credit risk through taking of security for funds advances. Types of collateral considered by the Group as the most acceptable for securing loans and advances are the following:

- Property rights over financial instruments (debt securities, equities, cash);
- Guarantees.
- Real estate (mainly residential properties, commercial real estate);
- Business assets (equipment, inventory, transport vehicles);

The terms of the loans are taken into account when considering the type of collateral, a priority is given for long-term loans being covered by the long-term property, mainly residential properties.

Long-term financing and lending to business customers are generally secured. Revolving facilities and consumer loans to private individuals are usually unsecured. Debt securities, treasury and other eligible bills are generally unsecured. In order to minimise the credit loss the Group may seek for additional collateral from the counterparty as the impairment indicators for certain individual loans and advances are noticed.

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

(c) Derivative financial instruments

The credit risk arising from derivative instruments is managed daily by assessing the potential market value changes. Margining agreements are established with the clients. To manage credit risk of these financial instruments credit lines are granted, cash or securities collateral is less frequently used. In most cases deals are contracted in order to hedge client's cash flow.

(d) Credit-related commitments

Other credit-related commitments assumed by the Group include guarantees, letters of documentary credit, commitments to grant a credit which expose the Group to the same credit risk as the loans do. The key aim of these instruments is to ensure that funds are available to a customer as required. The aforementioned commitments are collateralised either by the funds in the Bank's account, by material assets (real estate being the preference) or other collaterals such as third party guarantees. With respect to credit risk arising from commitments to extend credit, the Group is 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 customer's ability to repay the loans already granted.

FINANCIAL RISK MANAGEMENT (continued)

1.3. Impairment 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 losses that have been incurred due to loss events that have taken place before the statement of financial position date based on objective evidence of impairment. By contrast, the Group employs expected loss concept for credit risk measurement in decision making, pricing, monitoring of credit risk related exposures and capital management.

All material exposures without loss events are reviewed every quarter to see whether loss event should be recognised. Impaired large exposures that are above materiality thresholds and with loss event are reviewed every quarter or more frequently when individual circumstances require. Valuation is updated when there are significant changes in cash flows otherwise it is performed at least once a year. The impairment losses for impaired large exposures are made based on individual valuation under the discounted cash flow method, where both future cash flows from borrower's operations and cash flows from collateral are taken into account. The amount of the impairment losses is the difference between the carrying amount and the recoverable amount, which is the present value of expected discounted cash flows, taking into account the costs incurred by the Group for the realisation of collateral. In more complicated cases two scenarios with certain probability weights are used and impairment losses are the result of calculations based on weighted future cash flows.

The impairment allowances for impaired small exposures are made distinguishing on customer type or product type: SMEs (including farmers), mortgages and consumer loans. The impairment rates are based on the historical data on actual losses and expert judgment. These methodologies enable an assessment of the incurred losses of a high number of the impaired small exposures and at the same time provide a possibility to focus on the individual assessment of the Bank's largest impaired borrowers under the discounted cash flow method.

The Group collectively assesses the remaining performing loans for which the impairment losses are not yet identified. This type of assessment methodology enables the Group to evaluate the possible impairment of loans and advances at an earlier stage. It relies on historical data on trends in default rates / payments' delinquencies and loan impairment losses analysed separately for private individuals and legal entities.

Valuation of finance lease receivables follows broadly the same concept as described above. Impairment indicators for finance lease receivables are the same as for loans.

The loans and advances are written off when the Group does not expect any significant cash flows neither from the borrowers' activities nor from the realisation of the collateral.

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

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

	Group		Bank	
	2015	**2014**	**2015**	**2014**
Credit risk exposures relating to on-balance sheet assets are as follows:				
Cash and balances with central banks	**108,054**	**396,110**	**108,054**	**396,110**
Due from banks and other credit institutions	**665,795**	**142,106**	**665,795**	**142,106**
Loans and advances to customers:	**2,756,987**	**2,737,217**	**2,780,334**	**2,881,918**
Loans and advances to financial institutions	**51**	**9**	**51**	**106,859**
Loans to individuals (retail):	**1,425,059**	**1,339,909**	**1,425,059**	**1,339,909**
- Consumer loans	68,899	63,763	68,899	63,763
- Mortgages	1,141,465	1,066,821	1,141,465	1,066,821
- Loans secured by equity linked bonds issued by Bank	2,324	2,863	2,324	2,863
- Other (credit cards, reverse repurchase agreements, other loans backed by securities, other)	212,371	206,462	212,371	206,462
Loans to business customers:	**1,331,877**	**1,397,299**	**1,355,224**	**1,435,150**
- Public authorities, state and municipal entities	286,818	312,739	286,818	312,739
- Large corporates	696,092	736,453	719,439	774,304
- SMEs	348,440	347,564	348,440	347,564
- Other	527	543	527	543
Finance lease receivables	**142,544**	**113,385**	**142,544**	**-**
- Individuals	38,113	29,031	38,113	-
- Business customers	104,431	84,354	104,431	-
Trading assets:	**32,800**	**24,660**	**32,800**	**24,660**
- Debt securities	32,800	24,660	32,800	24,660
Securities designated at fair value through profit or loss	**75,164**	**207,208**	**74,219**	**205,906**
- Debt securities	74,900	206,965	73,993	205,699
- Equity securities	264	243	226	207
Derivative financial instruments	**5,801**	**7,370**	**5,801**	**7,370**
Securities available for sale	**10,800**	**91**	**10,800**	**91**
- Equity securities	10,800	91	10,800	91
Credit risk exposures relating to off – balance sheet items are as follows:	**441,511**	**527,152**	**445,163**	**681,869**
- Financial guarantees	42,581	52,119	42,581	52,119
- Loan commitments and other credit related liabilities	398,930	475,033	402,582	629,750
December 31	**4,239,456**	**4,155,299**	**4,265,510**	**4,340,030**

The table above represents credit risk exposure at 31 December 2015 and 2014, without taking into account any credit risk mitigation techniques. On-balance sheet assets are reported above based on the net carrying amount as they appear in the statement of financial position.

Large corporates are legal entities with annual turnover higher than EUR 15 million, while SMEs are legal entities with annual turnover up to EUR 15 million.

Loans and advances to banks and customers account for 81% of the total maximum exposure of the Group (2014: 69%) and for 81% of the total maximum exposure of the Bank (2014: 70%).

Due to improved clients' risk profile as well as due to write-offs, positive trends in the quality of the portfolio of loans and advances to customers are noticeable: the ratio of impairment losses to the respective Group's portfolio in 2015 was 3.9% whereas in 2014 it stood at 4.7%.

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Possible credit risk losses are significantly reduced by collaterals: mortgage loans and 67% of loans and advances to business customers are secured by collateral (see paragraph 1.5(e) for more detailed information on collateralisation).

The Group pays special attention on determining proper and acceptable risk criteria (regarding financial status of the customer and currency of the contract) that are applicable in decision making on granting of loans as well as on monitoring process seeking to sustain optimal credit risk level.

1.5. Loans and advances

Loans and advances are summarized as follows:

Group

	31 December			
	2015		2014	
	Loans and advances to customers	Due from banks and other credit institutions	Loans and advances to customers	Due from banks and other credit institutions
Neither past due nor impaired	2,364,786	665,795	2,319,917	142,106
Past due but not impaired	255,036	-	264,176	-
Impaired	249,267	-	288,094	-
Gross	**2,869,089**	**665,795**	**2,872,187**	**142,106**
Less: allowance for impairment	(112,102)	-	(134,970)	-
Net	**2,756,987**	**665,795**	**2,737,217**	**142,106**

Bank

	31 December			
	2015		2014	
	Loans and advances to customers	Due from banks and other credit institutions	Loans and advances to customers	Due from banks and other credit institutions
Neither past due nor impaired	2,388,133	665,795	2,464,618	142,106
Past due but not impaired	255,036	-	264,176	-
Impaired	249,267	-	288,094	-
Gross	**2,892,436**	**665,795**	**3,016,888**	**142,106**
Less: allowance for impairment	(112,102)	-	(134,970)	-
Net	**2,780,334**	**665,795**	**2,881,918**	**142,106**

Past due but not impaired loans and advances mean loans and advances that are past due but have no individual allowances for impairment.

Impaired loans and advances mean loans and advances that have individual allowances for impairment.

In 2015 the Group's net amount of total loans and advances to customers increased by 0.7%. The Group's total impairment allowance for loans and advances is EUR 112,102 thousand (2014: EUR 134,970 thousand) and it accounts for 3.9% of the Group's respective portfolio (2014: 4.7%). The Group's impaired loans and advances to customers make 8.7% of the respective portfolio (2014: 10.0%). The reasons for the decrease are the improving creditworthiness of the existing customers, inflow of new solvent customers into the portfolio as well as write-offs.

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

a) Loans and advances neither past due nor impaired

Credit risk of lending to banks is assessed at International DNB Group level, that as well sets exposure limits for different credit risk related products based on the results of these assessments.

Loans to private individuals are assessed based on application scorings when decision is made. After the loans are granted they are monitored, the customer's status is periodically evaluated using the behavioural scoring tool.

Credit quality of loans to individual and business customers is disclosed in the tables below according to the masterscale, which is used in the whole International DNB Group.

Rating grades are linked with one year horizon probabilities of default, i.e. with probabilities that customer will become unable to perform on its financial obligations to the bank within one year after assignment of rating grade. Probability of default for low risk rating grades (1 to 4) is in the range from 0.00% to 0.75%, for moderate risk rating grades (5 to 7) it is from 0.75% to 3.00%, while it is more than 3.00% for high risk (from 8 to 12).

31 December 2015

	Bank loans to customers		
	Business customers	**Individual customers**	**Total**
Low risk	667,083	936,745	1,603,828
Moderate risk	478,303	230,014	708,317
High risk	36,813	39,175	75,988
Total	**1,182,199**	**1,205,934**	**2,388,133**

Total figures of the Group would be lower by EUR 23,347 thousand due to loans to subsidiary – UAB Intractus, which are assigned to low risk.

31 December 2014

	Bank loans to customers		
	Business customers	**Individual customers**	**Total**
Low risk	576,542	847,871	1,424,413
Moderate risk	682,561	218,334	900,895
High risk	95,856	43,454	139,310
Total	**1,354,959**	**1,109,659**	**2,464,618**

Total figures of the Group would be lower by EUR 144,701 thousand due to loans to subsidiaries – AB DNB Lizingas, UAB Intractus, UAB Industrius, which are assigned to low risk.

b) Loans and advances past due but not impaired

Gross amount of loans and advances are reported in the tables below. At 31 December 2015 and 2014 there were no past due but not impaired loans in category "Loans and advances to banks" either at the Bank or at the Group level.

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding types of collateral. In subsequent periods, the fair value of collateral is updated when the exposure becomes impaired or regular monitoring of material credit risk related exposures indicates a possibility of significant changes in collateral value (see more detailed explanation on recognition of collateral in paragraph 1.5(e)).

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

31 December 2015

	Group and Bank loans to customers		
	Business customers	**Individual customers**	**Total**
Past due up to 3 days	49,419	113,579	162,998
Past due 4 -30 days	1,180	21,884	23,064
Past due 31-60 days	8,891	28,117	37,008
Past due 61-90 days	5,608	1,182	6,790
Past due more than 90 days	12,853	12,323	25,176
Total	**77,951**	**177,085**	**255,036**
Value of risk mitigation measures	69,156	167,993	237,149

31 December 2014

	Group and Bank loans to customers		
	Business customers	**Individual customers**	**Total**
Past due up to 3 days	54,979	126,292	181,271
Past due 4 -30 days	3,905	3,861	7,766
Past due 31-60 days	14,658	23,958	38,616
Past due 61-90 days	3,216	7,245	10,461
Past due more than 90 days	8,026	18,036	26,062
Total	**84,784**	**179,392**	**264,176**
Value of risk mitigation measures	63,883	170,230	234,113

Major part of loans and advances reported as past due but not impaired are past due up to 3 days. It is explained by the fact that the repayments for customers were scheduled on the last working day of the year and payment settlement for part of customers was delayed because of non-working days.

c) Impaired loans and advances

Accrued interest income for individually impaired loans and advances to customers amount to EUR 19,764 thousand as of December 31, 2015 (2014: EUR 18,872 thousand).

There are no individually impaired loans and advances to banks and financial institutions either at the Bank or at the Group level as of December 31, 2015 and 2014.

The gross amount of individually impaired loans and advances by customer type is reported together with the value of related collateral held as security in the tables below.

Individually impaired loans and advances are most often secured by real estate and movable assets. Value for such collateral is equal to its market value (not liquidation value), which is updated shortly after identification of impairment.

The loans and advances which are not impaired individually are grouped and assessed for collective impairment. Loans and advances are grouped into private individuals and legal entities.

	Group and Bank loans		
	Business customers	**Individual customers**	**Total**
31 December 2015			
Individually assessed impaired loans	163,118	86,149	249,267
Fair value of collateral	106,891	51,102	157,993
31 December 2014			
Individually assessed impaired loans	186,882	101,212	288,094
Fair value of collateral	103,280	63,199	166,479

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

d) Renegotiated loans and advances

The renegotiation of the loans is performed at the different levels of competence taking into account significance and level of risk of these loans.

The table below discloses the volume of loans that were renegotiated in the years 2015 and 2014.

	Group and Bank loans	
	2015	**2014**
Loans to individuals (retail):	**4,883**	**9,096**
- Consumer loans	21	109
- Mortgages	928	2,909
- Loans secured by equity linked bonds issued by Bank	-	-
- Other (credit cards, reverse repurchase agreements, other loans backed by securities, other)	3,934	6,078
Loans to business customers:	**26,027**	**41,871**
- Large corporates	18,774	15,483
- SMEs	7,253	26,388
Total	**30,910**	**50,967**

e) Information about collaterals of loans

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding types of collateral. Market values (or purchase price, depending which is lower) are used for real estate and movable assets serving as collateral. In subsequent periods, the fair value of collateral is updated when exposure becomes individually impaired or results of regular credit risk monitoring indicate possibility of significant changes in collateral value. The value of residential real estate is recalculated periodically by applying an index, the value of which depends on the asset type, geographical location and the period when the last evaluation took place.

The Bank takes into account guarantees issued by the State, other parties issuing guarantees which are equivalent to the State guarantees (e.g., guarantees of Investicijų ir verslo garantijos UAB, Žemės ūkio paskolų garantijų fondas UAB), municipalities, banks as well as credit insurance provided by the company owned by the Ministry of Finance Būsto paskolų draudimas UAB in disclosing information on guarantees serving as collateral. Guarantees and warranties issued by other parties (private individuals, legal entities), although they mitigate the risk, are considered to be immaterial and are not disclosed here.

If exposure is secured by several different types of collateral, priority in recognition of a collateral is based on its liquidity. Securities, cash and guarantees are treated as types of collateral with highest liquidity followed by residential real estate and then other real estate. Movable assets like transport vehicles, equipment and other assets are treated as having lowest liquidity.

The most commonly used type of collateral is the residential real estate comprising 47% of the secured part of the Group's loan portfolio (2014: 47%).

Loans and advances to financial institutions are generally unsecured.

31 December 2015

	Group and Bank loans to individuals (retail)	%	**Group loans to business customers**	%	**Bank loans to business customers**	%
Unsecured loans	**127,633**	**9%**	**466,250**	**33%**	**489,597**	**34%**
Loans collateralized by:	**1,341,535**	**91%**	**933,620**	**67%**	**933,620**	**66%**
- residential real estate	1,026,579	70%	34,726	3%	34,726	3%
- other real estate	125,476	9%	669,553	48%	669,553	47%
- securities	77	0%	217	0%	217	0%
- guarantees	168,491	11%	32,504	2%	32,504	2%
- other assets	20,912	1%	196,620	14%	196,620	14%
Total	**1,469,168**	**100%**	**1,399,870**	**100%**	**1,423,217**	**100%**

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

31 December 2014

	Group and Bank loans to individuals (retail)	%	Group loans to business customers	%	Bank loans to business customers	%
Unsecured loans	**131,834**	**9%**	**675,294**	**46%**	**617,904**	**43%**
Loans collateralized by:	**1,258,428**	**91%**	**806,622**	**54%**	**806,622**	**57%**
- residential real estate	934,992	67%	36,040	2%	36,040	2%
- other real estate	123,807	9%	597,108	40%	597,108	42%
- securities	235	0%	10,466	1%	10,466	1%
- guarantees	179,582	13%	23,600	2%	23,600	2%
- other assets	19,812	2%	139,408	9%	139,408	10%
Total	**1,390,262**	**100%**	**1,481,916**	**100%**	**1,424,526**	**100%**

1.6. Finance lease receivables

Finance lease receivables are summarized as follows:

	2015			2014		
	Business customers	Individuals	Total	Business customers	Individuals	Total
Neither past due nor impaired	98,136	35,971	134,107	81,350	28,905	110,255
Past due but not impaired	4,110	2,050	6,160	563	12	575
Impaired	3,391	333	3,724	12,711	834	13,545
Gross	**105,637**	**38,354**	**143,991**	**94,624**	**29,751**	**124,375**
Less: allowance for impairment	(1,206)	(241)	(1,447)	(10,270)	(720)	(10,990)
Net	**104,431**	**38,113**	**142,544**	**84,354**	**29,031**	**113,385**

In 2015, finance lease receivables portfolio increased by 15.8%. Total impairment allowance for finance lease receivables is EUR 1,447 thousand (2014: EUR 10,990 thousand) and it accounts for 1.0% of the respective portfolio (2014: 8.8%).

1.7. Exposures rated by External Credit Assessment Institutions

Table below presents an analysis of debt securities and treasury bills by rating agency designation at 31 December 2015 based on Moody's ratings or their equivalent.

31 December 2015

Group

Rating	Trading securities		Securities available for sale		Securities designated at fair value through profit or loss		Total
	Bonds	T-Bills	Bonds	T-Bills	Bonds	T-Bills	
Aaa	-	-	-	-	-	-	-
From Aa3 to Aa1	-	-	-	-	10,007	-	10,007
From A3 to A1	13,864	1	-	-	64,893	-	78,758
From Baa1 to Ba3	1,222	-	-	-	-	-	1,222
From B1 to B3	223	-	-	-	-	-	223
NR	17,490	-	-	-	-	-	17, 490
Total	**32,799**	**1**	**-**	**-**	**74,900**	**-**	**107,700**

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

31 December 2015

Bank

Rating	Trading securities		Securities available for sale		Securities designated at fair value through profit or loss		Total
	Bonds	T-Bills	Bonds	T-Bills	Bonds	T-Bills	
Aaa	-	-	-	-	-	-	**-**
From Aa3 to Aa1	-	-	-	-	10,007	-	**10,007**
From A3 to A1	13,864	1	-	-	63,986	-	**77,851**
From Baa1 to Ba3	1,222	-	-	-	-	-	**1,222**
From B1 to B3	223	-	-	-	-	-	**223**
NR	17,490	-	-	-	-	-	**17,490**
Total	**32,799**	**1**	**-**	**-**	**73,993**	**-**	**106,793**

31 December 2014

Group

Rating	Trading securities		Securities available for sale		Securities designated at fair value through profit or loss		Total
	Bonds	T-Bills	Bonds	T-Bills	Bonds	T-Bills	
Aaa	-	-	-	-	-	-	**-**
From Aa3 to Aa1	-	-	-	-	-	-	**-**
From A3 to A1	15,595	909	-	-	33,311	115,730	**165,545**
From Baa1 to Ba3	7,098	263	-	-	39,042	18,882	**65,285**
From B1 to B3	794	-	-	-	-	-	**794**
NR	-	-	-	-	-	-	**-**
Total	**23,487**	**1,172**	**-**	**-**	**72,353**	**134,612**	**231,624**

31 December 2014

Bank

Rating	Trading securities		Securities available for sale		Securities designated at fair value through profit or loss		Total
	Bonds	T-Bills	Bonds	T-Bills	Bonds	T-Bills	
Aaa	-	-	-	-	-	-	**-**
From Aa3 to Aa1	-	-	-	-	-	-	**-**
From A3 to A1	15,595	909	-	-	32,654	115,730	**164,888**
From Baa1 to Ba3	7,098	263	-	-	38,433	18,882	**64,676**
From B1 to B3	794	-	-	-	-	-	**794**
NR	-	-	-	-	-	-	**-**
Total	**23,487**	**1,172**	**-**	**-**	**71,087**	**134,612**	**230,358**

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

1.8. Repossessed assets

The Group obtained assets by taking possession of collateral held as security, as follows:

	Gross amount			
	Group		Bank	
Nature of assets at gross values	**2015**	**2014**	**2015**	**2014**
Repossessed assets (investment properties, Note 23)	63,038	80,894	1,579	-
Other repossessed assets	-	3,866	-	3,866
Repossessed assets (non-current assets held for sale, Note 26)	5,537	3,790	29	270
Retrieved assets under cancelled lease contracts	2,790	4,913	2,790	-
Total	**71,365**	**93,463**	**4,398**	**4,136**

Other repossessed assets and retrieved assets under cancelled lease contracts (mainly vehicles and equipment) are accounted at the lower of cost and net realisable value and are classified in the statement of financial position within other assets.

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

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

Economic sectors

The following table breaks down the loans and finance lease receivables at their carrying amounts, as categorized by the economic sectors of our counterparties.

Group

	Financial intermediation	Agriculture, hunting, forestry, fishing	Manufacturing	Electricity, gas, water supply	Construction	Wholesale and retail trade	Transport, storage, communication	Real estate activities	Public sector	Other industries	Private individuals	Not attributed	**Total**
Neither past-due nor impaired	51	147,573	240,960	85,628	24,832	168,553	53,352	244,247	280,720	125,454	1,127,523	-	2,498,893
Past due but not impaired	-	25,205	14,053	404	2,282	14,475	3,453	29,453	550	9,210	162,111	-	261,196
Impaired	-	6,581	10,771	66	26,469	13,383	4,274	98,994	-	9,800	82,653	-	252,991
Value adjustments and provisions	-	(2,030)	(3,322)	(56)	(16,341)	(7,166)	(2,060)	(36,201)	(84)	(4,136)	(42,153)	-	(113,549)
Changes for value adjustments and provisions during the reporting period	-	(473)	5,996	47	2,510	4,378	(653)	1,797	224	1,738	5,838	19	21,421
Total at 31 December 2015	**51**	**177,329**	**262,462**	**86,042**	**37,242**	**189,245**	**59,019**	**336,493**	**281,186**	**140,328**	**1,330,134**	**-**	**2,899,531**
Total at 31 December 2014	**233**	**170,297**	**289,327**	**86,130**	**52,867**	**224,058**	**62,256**	**301,421**	**311,799**	**100,631**	**1,251,559**	**24**	**2,850,602**

Bank

	Financial intermediation	Agriculture, hunting, forestry, fishing	Manufacturing	Electricity, gas, water supply	Construction	Wholesale and retail trade	Transport, storage, communication	Real estate activities	Public sector	Other industries	Private individuals	Not attributed	**Total**
Neither past-due nor impaired	51	147,573	240,960	85,628	24,832	168,553	53,352	267,594	280,720	125,454	1,127,523	-	2,522,240
Past due but not impaired	-	25,205	14,053	404	2,282	14,475	3,453	29,453	550	9,210	162,111	-	261,196
Impaired	-	6,581	10,771	66	26,469	13,383	4,274	98,994	-	9,800	82,653	-	252,991
Value adjustments and provisions	-	(2,030)	(3,322)	(56)	(16,341)	(7,166)	(2,060)	(36,201)	(84)	(4,136)	(42,153)	-	(113,549)
Changes for value adjustments and provisions during the reporting period	-	(473)	5,996	47	2,510	4,378	(653)	1,797	224	1,738	5,838	19	21,421
Total at 31 December 2015	**51**	**177,329**	**262,462**	**86,042**	**37,242**	**189,245**	**59,019**	**359,840**	**281,186**	**140,328**	**1,330,134**	**-**	**2,922,878**
Total at 31 December 2014	**106,859**	**155,454**	**278,868**	**84,876**	**48,909**	**206,452**	**27,249**	**337,425**	**307,393**	**90,912**	**1,237,498**	**23**	**2,881,918**

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

2. Market risk

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

Interest rate risk is assessed by calculation of the Group's positions' sensitivity to interest rate change by 1 basis point, whereas the exchange rate risk is evaluated by calculation of open foreign exchange positions. The aforementioned calculations are performed daily and submitted to the Bank's Management Board, the members of Risk management committee and Markets department. The interest rate and foreign exchange risks are restricted by the limits determined by the shareholder and monitored daily by Markets&Treasury Support and Control department.

Regular reports on market risk exposures are submitted to the Bank's management board.

2.1 Market risk measurement techniques

There are several types of market risk calculated in the Group.

Interest rate risk is assessed as an impact of parallel shift of a yield curve on a present value of the gap between total liabilities and total assets. The risk is measured as 1 basis point value (bpv). 1 bpv discloses the amount which would impact Group's net result in case of the yield curve shift. Assets have longer maturity than liabilities, open interest rate position would create appropriate risk, therefore long term funding is attracted to decrease the discrepancy between long and short terms. Interest rate swaps are used to achieve and maintain an acceptable level of interest rate risk.

Foreign exchange (hereinafter referred to as FX) risk is assessed as an open position between assets and liabilities in a respective currency. This open position is restricted by the limits set by the DNB Markets Norway and monitored on a daily basis.

2.2. Foreign exchange risk

Note 36 reveals that the Group has exposure to EUR, exposures to other currencies are not significant. The Group follows a very conservative approach to foreign exchange risk and limits EUR position with the limit set by the DNB Markets Norway, regardless that this is a base currency for the Group.

Sensitivity of foreign exchange risk

Foreign exchange risk is limited by amounts of open FX positions. For calculation of sensitivity to FX risk all exposures shall be converted into possible loss – i.e. open FX position is multiplied by possible FX rate change. FX risk parameters for the Group and the Bank, which are set by the Bank, are provided in the table below:

Currency	Reasonable shift
PLN	5.8 %
DKK	0.2 %
USD	5.2 %
NOK	4.0 %
Other currencies	5.8 %

The presumable FX rate change creates acceptable impact on Bank's and Group's annual profit as well as equity and makes EUR 25 thousand in 2015 (EUR 6 thousand in 2014) impact on profit.

The Bank's exposure to foreign currency exchange rate risk is summarised in Note 36.

2.3. Interest rate risk

The Group has exposure to interest rate risk in EUR, interest rate risk in other currencies is not significant. In case of EUR it is mainly funding from parent bank covering the exposure from assets. Interest rate risk from single currency position is calculated and monitored on a daily basis, using the basis point value (bpv) analysis. As the Group follows a conservative approach in interest rate risk, separate currency position risk is restricted by the limits to 1 bpv set by the DNB Markets Norway.

1 bpv is calculated on a basis of interest rate gap report, which is the analysis of difference between assets and liabilities distributed by appropriate time buckets according to each currency.

The bpv reflect the impact of the parallel shift of the yield curve to the net profit before taxes.

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

The Bank's and Group's exposure to interest rate risk as of 31 December 2015 (basis point value):

Risk	Bank	DNB investiciju valdymas	Elimination effect	Consolidated
EUR	5.5	(0.1)	-	5.4
USD	(1.1)	-	-	(1.1)
PLN	0.0	-	-	0.0
NOK	0.0	-	-	0.0
Others	0.1	-	-	0.1

The Bank's and Group's exposure to interest rate risk as of 31 December 2014 (basis point value):

Risk	Bank	DNB lizingas	DNB investiciju valdymas	Elimination effect	Consolidated
LTL	0.9	(0.8)	(0.1)	0.2	0.2
EUR	(4.4)	2.8	(0.1)	-	(1.7)
USD	0.0	(0.1)	-	-	(0.1)
PLN	0.0	-	-	-	0.0
NOK	0.0	-	-	-	0.0
Others	0.1	-	-	-	0.1

The Bank's interest rate gap analysis is summarized in Note 37.

Sensitivity of interest rate risk

Interest rate risk exposure cannot exceed limits, therefore limit is the highest possible 1 bpv. Assuming a reasonable parallel shift of yield curve (interest rate risk parameters presented in table below), sensitivity of interest rate risk shall be calculated multiplying bpv limit usage by interest rate change. Reasonable interest rate shift by currencies (in basis points) are provided in the table below:

Reasonable shift in bp	LTL	EUR	USD
2015		68	82
2014	68	68	82

The shift of yield curve according to the above mentioned parameters creates acceptable impact on the Group's and the Bank's equity and P&L (see table below):

Impact on P&L and Equity:

Year	Equity		P&L	
	Group	Bank	Group	Bank
2015	468	473	2,555	2,550
2014	147	377	1,713	1,710

2.4 Equity risk

.
The shares of SWIFT and VISA are not held as an investment into securities due to the fact that this is rather treated as recognition of participation in these settlement systems than any kind of investment into shares.
The equity exposure also consists of small amount of investment fund's units held by DNB Investment Management. These investment fund units are held solely for supporting the liquidity and ensuring continuity of trading with company's clients and the Group is not seeking the profit from this position, therefore the risk rising from units of investment funds is not assessed.

3. Liquidity risk

Liquidity risk means the risk that the Bank is unable to meet its financial obligations in time or the risk to incur losses due to the sudden decrease in financial resources (eg. the financial crisis situations may result in the run on the bank and delay of incoming payments) as well as due to increase in price of the new resources designed for refinancing. The consequence of liquidity risk occurrence may be the failure to meet obligations to repay depositors and fulfil loan commitments. Liquidity is maintained on an DNB Group level and restricted by LCR (Liquidity Coverage Ratio), which came into force from beginning of 2015, and the liquidity limits set by the DNB Markets Norway.
Management of the Bank is constantly monitoring the liquidity situation on the financial markets. The Bank is ready in case liquidity situation becomes worse and business and funding contingency plans are in place and up to date.

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

3.1 Liquidity risk management process

Liquidity risk management is divided into the long-term (1 year) risk management, short-term (1 week to 3 months) risk management and intraday liquidity management. The aim of short-term liquidity is to meet the daily need for funds, to ensure the compliance with the reserve and liquidity requirements set by the ECB as well as the compliance with the internal liquidity limits. Short-term liquidity is maintained through daily monitoring of the liquidity status, day-to day funding and trading the appropriate financial instruments for liquidity purposes. Long-term liquidity risk management is supported by analysing the predicted future cash flows taking into account the deposit and loan portfolio growth as well as the possible refinancing sources.

For the purpose of the liquidity risk assessment the liquidity gap, taking into account the maturity of cash flows, and the funding ratio, are analysed. The liquidity risk is restricted by imposing the internal limits on liquidity gap and funding ratio. Utilization of these limits are subject to daily monitoring and regular reporting to the management bodies of the Group.

Liquidity gap is calculated by analysing the Group's net refinancing situation within one week, one month and three months applying a "business as usual" approach. Liquid assets and short term liabilities are included for liquidity gap calculation for respective terms (1 week to 3 months).

	31 December 2015			31 December 2014		
million EUR	1 week	1 month	3 months	1 week	1 month	3 months*
Liquidity gap (Group)	170.1	131.4	58.0	525.1	470.6	360.3
Limits	0	0	0	(400)	(400)	(400)

*estimated figure

Funding ratio shows how stable is the Group's situation in terms of funding. The limit of funding ratio is 0.85, which means that not less than 85% of all loans to customers should be funded with the long term liabilities and equity. The ratio shows the proportion by which loans to customers are covered by the long term funding. Since Lithuania is a member of EU, LCR (Liquidity coverage ratio) is applicable to the Bank as a Europe wide requirement. As a consequence of introduction of LCR for Lithuanian financial institutions, requirement to comply with Liquidity ratio set by BoL was canceled. LCR is intended to promote short-term resilience of a Bank's liquidity risk profile. The LCR requires banks to hold risk-free assets that may be easily liquidated on markets in order to meet required payments for outflows net of inflows during a thirty-day crisis period without central bank support.

	31 December 2015	31 December 2014
Funding ratio (Group)	1.17	1.21
Liquidity coverage ratio, valid from beginning of 2015 (LCR) (Group)	174%	-
Liquidity ratio, valid untill the beginning of 2015 (LCR) (Group)	-	38.29%

3.2. Funding approach

The bank has a possibility of attracting funding at minimum market cost. The parent Bank DNB (counterparty credit rating being Aa2/Stable/P-1 (Moody's) provided in December 2015) is the lender of last resort and provides the financing for the Bank in the cases of faltered liquidity. Shareholder and the Bank have signed multicurrency facility agreement where shareholder makes a commitment to provide funding to the Bank. In addition, the Bank has alternative high quality funding sources at attractive costs. The Bank is taking part in ECB Eurosystem open market operations. In particular the Bank is a user of ECB Targeted Long Term Refinancing Operations. Bank is also taking part in ECB programme for funding of SME loans.

3.3. Non – derivative cash flows

Undiscounted cash flows below describe liability side outflows which are represented by nominal contract amounts together with accrued interest till the end of the contract. Possible early repayments foreseen in the loan agreements are included into cash flows calculations.

Group

31 December 2015 **Liabilities**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Due to banks and other credit institutions	9,797	20,628	231,074	823,147	-	1,084,646
Due to customers	2,097,536	73,659	159,245	10,952	1,626	2,343,018
Other financial liabilities	10,083	1,713	2,996	512	54	15,358
Total liabilities (contractual maturity dates)	2,117,416	96,000	393,315	834,611	1,680	**3,443,022**

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Bank

31 December 2015 Liabilities	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Due to banks and other credit institutions	9,797	20,628	231,074	823,147	-	1,084,646
Due to customers	2,102,528	73,659	159,245	10,952	1,626	2,348,010
Other financial liabilities	8,769	1,657	3,085	512	54	14,077
Total liabilities (contractual maturity dates)	2,121,094	95,944	393,404	834,611	1,680	**3,446,733**

Due to banks and other credit institutions are reported based on evaluation of possible early repayment of TLTRO borrowing (see note 27).

Group

31 December 2014 Liabilities	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Due to banks and other credit institutions	8,252	4,495	1,132	1,201,133	-	1,215,012
Due to customers	1,740,778	108,638	236,044	13,791	1,503	2,100,754
Debt securities in issue	-	-	61	-	-	61
Other financial liabilities	5,275	638	3,689	575	1,802	11,979
Total liabilities (contractual maturity dates)	1,754,305	113,771	240,926	1,215,499	3,305	**3,327,806**

Bank

31 December 2014 Liabilities	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Due to banks and other credit institutions	8,252	4,495	1,132	1,201,133	-	1,215,012
Due to customers	1,744,126	108,638	236,044	13,791	1,503	2,104,102
Debt securities in issue	-	-	61	-	-	61
Other financial liabilities	14,600	638	3,698	1,461	1,802	22,199
Total liabilities (contractual maturity dates)	1,766,978	113,771	240,935	1,216,385	3,305	**3,341,374**

3.4. Derivative cash flows

Tables below analyse cash flows from derivative instruments. Commonly the Group has exposure to foreign exchange derivatives i.e. forwards, swaps; interest rate derivatives i.e. swaps and options on interest rates, and equity derivatives i.e. options on equity indices.

a) *Derivatives settled on a net basis*

31 December 2015	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Derivatives held for trading						
- Interest rate derivatives	9	144	314	369	(110)	725
Total	9	144	314	369	(110)	**725**

31 December 2014	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Derivatives held for trading						
- Interest rate derivatives	316	712	1,102	4,766	594	7,490
- Commodity derivatives	30	-	-	-	-	30
Total	346	712	1,102	4,766	594	**7,520**

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

b) Derivatives settled on a gross basis

31 December 2015

Derivatives held for trading	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
Foreign exchange derivatives					
Outflow	76,592	47,395	47,362	18,682	**190,031**
Inflow	76,898	47,073	47,835	18,617	**190,423**
Total outflow	76,592	47,395	47,362	18,682	**190,031**
Total inflow	76,898	47,073	47,835	18,617	**190,423**

31 December 2014

Derivatives held for trading	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
Foreign exchange derivatives					
Outflow	77,330	27,195	61,606	44,065	**210,196**
Inflow	77,071	27,714	61,246	44,117	**210,148**
Total outflow	77,330	27,195	61,606	44,065	**210,196**
Total inflow	77,071	27,714	61,246	44,117	**210,148**

3.5. Off - balance sheet items

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

Group

	Up to one year	**From 1 to 5 years**	**Over 5 years**	**Total**
At 31 December 2015				
Financial guarantees	27,674	14,540	367	42,581
Letters of credit	2,369	104	-	2,473
Commitments to grant loans	218,869	108,592	11,268	338,729
Commitments to grant finance leases	33	2,309	205	2,547
Capital commitments and other commitments to acquire assets	2,004	-	-	2,004
Other commitments	32,048	21,778	3,740	57,566
Total	**282,997**	**147,323**	**15,580**	**445,900**
At 31 December 2014				
Financial guarantees	37,919	14,080	120	52,119
Letters of credit	5,252	-	-	5,252
Commitments to grant loans	237,636	150,805	6,933	395,374
Commitments to grant finance leases	3,523	924	-	4,447
Capital commitments and other commitments to acquire assets	1,201	924	-	2,125
Other commitments	52,911	16,589	2,998	72,498
Total	**338,442**	**183,322**	**10,051**	**531,815**

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Bank

	Up to one year	From 1 to 5 years	Over 5 years	Total
At 31 December 2015				
Financial guarantees	27,674	14,540	367	42,581
Letters of credit	2,369	104	-	2,473
Commitments to grant loans	218,869	112,244	11,268	342,381
Commitments to grant finance leases	33	2,309	205	2,547
Capital commitments and other commitments to acquire assets	2,004	-	-	2,004
Other commitments	32,048	21,778	3,740	57,566
Total	**282,997**	**150,975**	**15,580**	**449,552**
At 31 December 2014				
Financial guarantees	37,919	14,080	120	52,119
Letters of credit	5,252	-	-	5,252
Commitments to grant loans	237,636	248,506	6,933	493,075
Capital commitments and other commitments to acquire assets	99	-	-	99
Other commitments	62,378	70,611	2,998	135,987
Total	**343,284**	**333,197**	**10,051**	**686,532**

4. Fair value of financial assets and liabilities

The table below summarizes the carrying amounts and fair values of financial assets and liabilities not presented on the Bank statement of financial position at their fair value. Fair values disclosed in the table below are categorised as level 3. The estimated fair value represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at the current market interest rates (LIBOR) plus or minus current margin for similar products to determine the fair value.

As at 31 December 2015	**Group**		**Bank**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Assets				
Due from banks and other credit institutions	665,795	666,169	665,795	666,169
Loans and advances to customers of which:	2,756,987	2,668,315	2,780,334	2,690,192
-Loans to individuals	1,425,059	1,379,363	1,425,059	1,379,132
-Loans to business customers	1,331,877	1,288,903	1,355,224	1,311,011
-Loans and advances to financial institutions	51	49	51	49
Finance lease receivables of which:	142,544	137,973	142,544	137,973
-Individuals	38,113	36,891	38,113	36,891
-Business customers	104,431	101,082	104,431	101,082
Liabilities				
Due to banks	1,084,261	1,067,892	1,084,261	1,067,892
Due to customers	2,342,734	2,342,920	2,347,725	2,347,912
Debt securities in issue	-	-	-	-

As at 31 December 2014	**Group**		**Bank**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Assets				
Due from banks and other credit institutions	142,106	140,708	142,106	140,708
Loans and advances to customers of which:	2,737,217	2,730,771	2,881,918	2,875,131
-Loans to individuals	1,339,909	1,336,753	1,339,909	1,336,753
-Loans to business customers	1,397,299	1,394,009	1,435,150	1,431,770
-Loans and advances to financial institutions	9	9	106,859	106,608
Finance lease receivables of which:	113,385	113,118	-	-
-Individuals	29,031	28,963	-	-
-Business customers	84,354	84,155	-	-
Liabilities				
Due to banks	1,210,752	1,211,884	1,210,752	1,211,884
Due to customers	2,100,196	2,100,279	2,103,543	2,103,626
Debt securities in issue	60	61	60	61

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Next tables below summarize the fair value measurement hierarchy of the Bank financial assets and liabilities accounted for at fair value. Financial instruments are distributed by 3 levels of fair value:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Fair value of all Bank contracted derivatives is defined as level 2. These are mainly interest rate swaps and FX derivatives which are valued using discounted cashflow or present value calculation method and revaluation of options is based on Black and Scholes model. In all cases pricing is based on market observable inputs. Debt securities priced in accordance to market quotes are defined as level 1.

There were no movements of financial instruments between the levels during 2015.

Valuation of all financial assets and liabilities measured at fair value was performed as at December 31, 2015.

Group

As at 31 December 2015	Level 1	Level 2	Level 3	Total
Derivative financial assets (Note 15):				
FX forwards, swaps, put, call options	-	1,777	-	1,777
Interest rate swaps, collars	-	4,024	-	4,024
	-	**5,801**	**-**	**5,801**
Financial assets held for trading (Note 13):				
Debt securities	15,310	-	17,490	32,800
	15,310	**-**	**17,490**	**32,800**
Financial assets designated at fair value through profit or loss (Note 14):				
Debt securities	74,900	-	-	74,900
Equity securities	38	-	226	264
	74,938	**-**	**226**	**75,164**
Available for sale financial assets (Note 16):				
Equity securities	-	-	10,800	10,800
	-	**-**	**10,800**	**10,800**
	90,248	**5,801**	**28,516**	**124,565**
Liabilities measured at fair value				
Derivative financial liabilities (Note 15):				
FX forwards, swaps, put, call options	-	2,439	-	2,439
Interest rate swaps, collars	-	3,111	-	3,111
	-	**5,550**	**-**	**5,550**

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Bank

As at 31 December 2015	Level 1	Level 2	Level 3	Total
Derivative financial assets (Note 15):				
FX forwards, swaps, put, call options	-	1,777	-	1,777
Interest rate swaps, collars	-	4,024	-	4,024
	-	**5,801**	**-**	**5,801**
Financial assets held-for-trading (Note 13):				
Debt securities	15,310	-	17,490	32,800
	15,310	**-**	**17,490**	**32,800**
Financial assets designated at fair value through profit or loss (Note 14):				
Debt securities	73,993	-	-	73,993
Equity securities	-	-	226	226
	73,993	**-**	**226**	**74,219**
Available for sale financial assets (Note 16):				
Equity securities	-	-	10,800	10,800
	-	**-**	**10,800**	**10,800**
	89,303	**5,801**	**28,516**	**123,620**
Liabilities measured at fair value:				
Derivative financial liabilities (Note 15):				
FX forwards, swaps, put, call options	-	2,439	-	2,439
Interest rate swaps, collars	-	3,111	-	3,111
	-	**5,550**	**-**	**5,550**

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Group

As at 31 December 2014	Level 1	Level 2	Level 3	Total
Derivative financial assets (Note 15):				
FX forwards, swaps, put, call options	-	3,704	-	3,704
Interest rate swaps, collars	-	3,636	-	3,636
Commodity related agreements	-	30	-	30
	-	**7,370**	**-**	**7,370**
Financial assets held for trading (Note 13):				
Debt securities	24,660	-	-	24,660
	24,660	**-**	**-**	**24,660**
Financial assets designated at fair value through profit or loss (Note 14):				
Government debt securities	206,965	-	-	206,965
Equity securities	36	-	207	243
	207,001	**-**	**207**	**207,208**
Available for sale financial assets (Note 16):				
Equity securities	-	-	91	91
	-	**-**	**91**	**91**
	231,661	**7,370**	**298**	**239,329**
Liabilities measured at fair value				
Derivative financial liabilities (Note 15):				
FX forwards, swaps, put, call options	-	3,962	-	3,962
Interest rate swaps, collars	-	2,570	-	2,570
Commodity related agreements	-	30	-	30
	-	**6,562**	**-**	**6,562**

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Bank

As at 31 December 2014	Level 1	Level 2	Level 3	Total
Financial assets (Note 15):				
FX forwards, swaps, put, call options	-	3,704	-	3,704
Interest rate swaps, collars	-	3,636	-	3,636
Commodity related agreements	-	30	-	30
	-	**7,370**	**-**	**7,370**
Financial assets held for trading (Note 13):				
Debt securities	24,660	-	-	24,660
	24,660	**-**	**-**	**24,660**
Financial assets designated at fair value through profit or loss (Note 14):				
Government debt securities	205,699	-	-	205,699
Other debt securities		-	207	207
	205,699	**-**	**207**	**205,906**
Available for sale financial assets (Note 16):				
Equity securities	-	-	91	91
	-	**-**	**91**	**91**
	230,359	**7,370**	**298**	**238,027**
Financial liabilities (Note 15):				
FX forwards, swaps, put, call options	-	3,962	-	3,962
Interest rate swaps, collars	-	2,570	-	2,570
Commodity related agreements	-	30	-	30
	-	**6,562**	**-**	**6,562**

5. Operational Risk

The Bank defines the operational risk as a risk to suffer direct or indirect losses due to improper or inefficient internal procedures or processes, technologies, employee actions or external factors. Operational risk includes compliance and legal risks.

The operational risk management in the Group is regulated by the Operational risk management policy setting minimum requirements for operational risk management and control, defining the methods for operational risk management, controlling process, and responsibility levels. Operational risk should be low, i.e. less than 1.5 per cent of Group's equity, and risk management should ensure that the risk of unwanted losses is reduced.

The operational risk management is decentralised in the Group, i.e. the managers of structural units are responsible for the operational risk management in their units.

The Group manages the operational risk by minimising it, i.e. insurance (the Group is worldwide covered under Comprehensive Crime and Professional Indemnity Insurance policy) and implementation of internal control measures, accepting it (in this case specific provisions are made for the operational risk upon evaluation of the anticipated losses due to the operational risk events), outsourcing and avoiding. The operational risk losses are quarterly reported to the Group's and Bank's management bodies.

The Bank has implemented three methods of operational risk management – declaration of operational risk events and losses, i.e. by registering all operational risk events and losses into centralized system, self-assessment and risk assessment – one of risk inventory methods to evaluate operational risk potential, and key risk indicators system for the early recognition of operational risk tendency.

The Bank dedicates much attention on ensuring business continuity; the disaster recovery and business continuity plans as well as the procedures of restoring of IT services are prepared and tested on a regular basis. Moreover, in order to ensure an uninterrupted functioning of the IT systems and data security, all critical IT components are duplicated.

In 2015 the Group continued to develop the operational risk management and control systems and to sustain internal operation's control function, focusing on follow-up systemic control to the most critical daily banking activities and AML. Effective operational risk management in the Group is based on each employee's risk perception and understanding. In this case the Group consistently sustained employees operational risk knowledge by organising trainings and meetings. As in previous years, in May - July 2015 the Bank, using DNB Group methodology, performed a comprehensive risk assessment, encompassing all of the main Bank's activities and the most significant potential risks and made measure plans. In addition to this, for a second time a separate operational risk assessment was made in IT and Operations area in October – November. The assessment was based on best practice methodology with the main focus on IT risk management and control and information security risk

FINANCIAL RISK MANAGEMENT (continued)

management and control. Risk minimization plans were made for high and medium risks. Moreover, in 2015 a separate threat assessment and annual compliance risk assessment has been made in the Bank. In December Continuity plan during crisis situation and contingency plan have been tested to ensure proper restoration of the main Bank's processes.

In 2015 the Bank was intensely preparing and after the year end successfully joined to the Single Euro Payments Area (SEPA).

In 2016 the Bank will continuously develop operational risk management system by improving existing internal controls, monitoring and spreading risk management culture within the DNB Group. The Bank will further give special attention to minimize the operational risk in activities, related to legal and compliance issues.

6. Stress tests

Besides the regular assessment of the risks and the capital requirement calculation the Group also performs stress tests for the credit, liquidity, market (interest rate and currency), business and operational risks and moreover the stress testing of the financial plan. The purpose of the stress-testing is to evaluate whether the Group's capital is sufficient to cover those extraordinary losses that might occur in the case when the testing scenario is realised as well as to prepare the contingency plan for the Group. In order to evaluate the losses caused by the aforesaid risks the realisations of the standard, possible and worst case scenarios are assumed. Liquidity risk is tested using the following scenarios: specific scenario, market scenario and combined scenario.

The results of the stress tests are submitted to the Group's management bodies at least once a year.

7. Capital management

The capital of the Group is calculated and allocated for the risk coverage following the regulations in a new capital requirements directive, CRD IV, and capital requirements regulation CRR, of European Union and the Bank of Lithuania legal acts. The Group's objectives when managing capital are:

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

Capital adequacy report is submitted to the supervising authority quarterly in accordance with European Union and the Bank of Lithuania regulations.

The Group's regulatory capital is divided into two tiers:
1) Tier 1/Common Equity Tier 1 (CET 1) capital consists of the ordinary shares, share premium, retained earnings of the previous financial year, accumulated other comprehensive income, other reserves, value adjustments due to requirements for prudent valuation and less the intangible assets and deferred tax assets.
2) Tier 2 capital consists of transitional adjustments related to accumulated other comprehensive income.

The risk-weighted assets are measured by means of risk weights classified according to the nature of each assets and counterparty, taking into account collaterals and guarantees eligible for risk mitigation. A similar treatment with some adjustments is adopted for the off-balance sheet exposures.

The table below summarizes the composition of regulatory capital and the ratios of the Bank and the Group for the years ended 31 December. According to the regulatory requirements 8% capital adequacy ratio is applicable to the Goup. In addition to that, new capital buffers have been introduced in 2015 that have to be preserved. In year-end 2015 the capital conservation buffer of 2.5% and countercyclical buffer of 0% were implemented for all banks in Lithuania. In year-end of 2016 other systemically important institution capital buffer (O-SII) requirement will come to effect.

(all amounts are in EUR thousand, if not otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

During 2015 and 2014, the Group complied with the capital requirements to which it is subject.

	Group		Bank	
	2015	2014	2015	2014
Tier 1/Common Equity Tier 1 (CET 1) capital	424,487	404,181	422,737	411,892
Tier 2 capital	6,624	193	6,624	193
Total own funds	**431,111**	**404,374**	**429,361**	**412,085**
Total risk exposure amount	**2,379,350**	**2,438,986**	**2,389,963**	**2,581,102**
Tier1/Common Equity Tier 1 (CET 1) capital ratio, %	17.84	16.57	17.69	15.96
Capital ratio, %	**18.12**	**16.58**	**17.97**	**15.97**

Capital requirements

The standardized approach is used for the regulatory capital requirements calculation for the credit, market and operational risks, risk exposure amount for credit valuation adjustment both at the Bank and the Group level. For credit risk capital requirement calculation the Bank uses the rating agencies' Fitch Ratings or Moody's ratings for counterparty risk assessment.

Breakdown of the exposures and eligible collaterals by exposure classes, which are used for calculation of capital requirement for credit risk:

	Group			Bank		
	Exposure net of value adjustments and provisions	Total exposure value covered by eligible collaterals	Total exposure value covered by guarantees	Exposure net of value adjustments and provisions	Total exposure value covered by eligible collaterals	Total exposure value covered by guarantees
Central governments or central banks	23,000	-	-	23,000	-	-
Regional governments or local authorities	202,028	-	-	202,028	-	-
Public sector entities	106,082	72	13,602	106,082	72	13,602
Institutions	677,372	292,428	-	677,372	292,428	-
Items associated with particularly high risk	54,263	-	-	81,263	-	-
Corporates	1,096,918	2,724	6,827	1,096,918	2,724	6,827
Retail	654,094	6,195	24,412	654,094	6,195	24,412
Secured by mortgage or immovable property	1,065,264	1,065,264	-	1,065,264	1,065,264	-
Exposures in default	162,223	8	2,843	162,223	8	2,843
Equity exposures	11,264	-	-	59,284	-	-
Other items	185,476	-	-	117,800	-	-
Total	**4,237,984**	**1,366,691**	**47,684**	**4,245,328**	**1,366,691**	**47,684**

The Group assesses the material risks it is exposed to and calculates the internal capital for the risks not covered or not fully covered by the Pillar I capital as part of the Internal Capital Adequacy Assessment Process (ICAAP).

The principles of ICAAP are uniform in the whole International DNB Group and implemented in the individual banks taking into account their specifics.

The concentration risk is assessed for asset classes exposed to credit risk, the risk level of different concentrations as well as the need of additional capital calculation is evaluated. Besides the imposed limits on lending the Group calculates the internal capital requirement for concentration risk according to the estimated risk level. The Bank calculates capital requirement due to occurrence of the residual risk that arises from credit risk mitigation techniques that can be less effective than it was expected.

As the regulatory capital requirement is calculated for the interest rate risk arising from the trading book, the Group additionally assesses and calculates the internal capital requirement for the interest rate risk arising from the banking book. The approach and the parameters used for this calculation are the same as the ones for evaluating the stress testing worst case scenario losses.

Additional internal capital requirement for operational risk is calculated based on the results of risk assessment and self-assessment and expert judgement.

The Group may set aside additional capital for such risks as business risk or reputational risk.

The Group calculates the total internal capital requirement as Pillar I capital according to regulatory requirements adjusted by the amounts evaluated for the risks identified during self-assessment and ICAAP.

(all amounts are in EUR thousand, if not otherwise stated)

OTHER NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 NET INTEREST INCOME

	Group		Bank	
	2015	2014	2015	2014
Interest income:				
on loans(including finance lease) and advances to customers, banks and other credit institutions	76,989	82,346	74,621	80,343
of wich on liabilities	408	-	408	-
on financial assets held for trading	339	444	339	444
on financial assets designated at fair value through profit or loss	1,096	1,631	1,064	1,581
Total interest income	**78,424**	**84,421**	**76,024**	**82,368**
Interest expense				
on deposits and other repayable funds	4,669	9,969	4,669	9,969
of wich on assets	697	-	697	-
fees for compulsory insurance of deposits and for resolution fund	9,033	8,721	9,032	8,720
Total interest expense	**13,702**	**18,690**	**13,701**	**18,689**
Net interest income	**64,722**	**65,731**	**62,323**	**63,679**

NOTE 2 NET FEE AND COMMISSION INCOME

	Group		Bank	
	2015	2014	2015	2014
Fee and commission income:				
money transfer operations	25,478	27,619	25,482	27,626
securities operations	1,185	812	1,185	812
trust and other fiduciary activities	3,109	2,366	218	224
guarantee commissions	1,250	1,516	1,688	2,218
other	4,909	4,762	6,124	5,804
Total fee and commission income	**35,931**	**37,075**	**34,697**	**36,684**
Fee and commission expense:				
money transfer operations	7,058	7,638	7,058	7,645
guarantee commissions	51	122	51	122
trust and other fiduciary activities	174	181	174	181
other	1,150	773	929	534
Total fee and commission expense	**8,433**	**8,714**	**8,212**	**8,482**
Net fee and commission income	**27,498**	**28,361**	**26,485**	**28,202**

.

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 3 NET GAIN (LOSS) ON OPERATIONS WITH SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS AND NET FOREIGN EXCHANGE RESULT

	Group		Bank	
	2015	**2014**	**2015**	**2014**
Debt securities	-	(9)	-	(9)
Debt securities issued	-	15	-	15
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**-**	**6**	**-**	**6**
Debt securities	(1,394)	2,189	(1,394)	2,189
Derivative financial instruments	7,864	4,628	7,864	4,628
Gains or (-) losses on financial assets and liabilities held for trading, net	**6,470**	**6,817**	**6,470**	**6,817**
Equity instruments	3,088	-	3,088	-
Gains or (-) losses on financial assets and liabilities available for sale, net	**3,088**	**-**	**3,088**	**-**
Debt securities	(146)	1,002	(125)	994
Gains or (-) losses of financial assets and liabilities designated at fair value through profit or loss, net	**(146)**	**1,002**	**(125)**	**994**
Net foreign exchange result	(1,538)	2,382	(1,588)	2,326
Received dividends	33	17	737	17
Total	**7,907**	**10,224**	**8,582**	**10,160**

NOTE 4 IMPAIRMENT, CHANGE IN FAIR VALUE OF INVESTMENT PROPERTY AND PROVISIONS

	Group		Bank	
	2015	**2014**	**2015**	**2014**
Impairment losses on loans:				
Increase of impairment losses, net	6,295	9,994	6,295	9,994
Recovered previously written off loans	(1,503)	(2,342)	(1,503)	(2,342)
Total impairment losses on loans	4,792	7,652	4,792	7,652
Impairment losses (reversals) on finance lease receivables (Note 19)	(298)	(2,224)	881	-
Impairment losses for other assets	3,723	931	3,660	931
Changes in fair value of investment property	2,882	174	-	-
Impairment losses for investments in subsidiares	-	-	1,815	8,399
Expenses (reversals) for provisions on guarantees	-	(835)	(1,060)	(3,497)
Other provisions	428	39	428	130
Total	**11,527**	**5,737**	**10,516**	**13,615**

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 5 OTHER INCOME

	Group		Bank	
	2015	**2014**	**2015**	**2014**
Net gain (loss) on sale of property and other security	630	2,800	104	366
On rent of property	1,056	1,048	123	175
VAT receivable	1,105	410	1,105	410
Other	2,126	2,073	2,067	1,190
Total	**4,917**	**6,331**	**3,399**	**2,141**

NOTE 6 PERSONNEL EXPENSES

	Group		Bank	
	2015	**2014**	**2015**	**2014**
Salaries	19,006	19,014	18,413	18,281
Social insurance	6,602	6,451	6,424	6,219
Other	3,438	3,464	3,438	3,464
Total	**29,046**	**28,929**	**28,275**	**27,964**

NOTE 7 DEPRECIATION AND AMORTISATION

	Group		Bank	
	2015	**2014**	**2015**	**2014**
Amortisation of intangible assets	1,493	799	972	748
Depreciation of property, plant and equipment	2,807	2,848	2,803	2,842
Total	**4,300**	**3,647**	**3,775**	**3,590**

NOTE 8 OTHER ADMINISTRATIVE EXPENSES

	Group		Bank	
	2015	**2014**	**2015**	**2014**
Office equipment and maintenance expenses	14,834	26,195	14,790	26,061
Taxes other than income tax	6,627	8,515	5,980	7,938
Other expenses	6,164	6,390	4,490	4,449
Rent of premises and maintenance expenses	3,277	3,631	3,259	3,566
Cash collection, consultancy and other services expenses	3,080	3,240	2,949	3,116
Transportation, post and communications expenses	2,606	2,806	2,495	2,627
Advertising and marketing expenses	1,018	1,502	936	1,415
Training and business trip expenses	675	823	659	799
Foreclosed assets expenses	203	550	203	517
Total	**38,484**	**53,652**	**35,761**	**50,488**

Office equipment and maintenance expenses decrease during 2015 was mainly caused by decrease of IT expenses from EUR 22,236 thousand as at 31 December 2014 to EUR 11,515 thousand as at 31 December 2015.

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 9 INCOME TAX

	Group		Bank	
	2015	**2014**	**2015**	**2014**
Current tax for the year	2,182	129	2,167	-
Change of deferred tax asset (see below)	227	2,230	227	2,230
Total	**2,409**	**2,359**	**2,394**	**2,230**

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

	Group		Bank	
	2015	**2014**	**2015**	**2014**
Profit (loss) before income tax	21,689	18,729	22,462	8,525
Tax calculated at a tax rate of 15%	3,253	2,809	3,369	1,279
Income not subject to tax	(1,426)	(1,210)	(1,390)	(636)
Expenses not deductible for tax purposes	1,989	2,752	1,515	2,332
Change in unrecognised deferred tax asset	(1,374)	(1,992)	(1,080)	(745)
Tax exemption	(33)	-	(20)	-
Income tax charge	2,409	2,359	2,394	2,230

Movement in deferred tax asset

	Group 2015	Group 2014	Bank 2015	Bank 2014
At the beginning of the year	5,244	7,474	5,244	7,474
Income statement credit (charge)	(227)	(2,230)	(227)	(2,230)
At the end of the year	**5,017**	**5,244**	**5,017**	**5,244**

15% tax rate was used to calculate deferred income taxes in 2015 and 2014.

The movement in deferred tax assets and liabilities of the Group during the period is as follows:

Group – deferred tax liabilities

	VAT on long term assets	**Valuation of securities**	**Total**
As at 1 January 2014	870	135	1,005
Charged/ (credited) in income statement	150	144	294
As at 1 January 2015	1,020	279	1,299
Charged/ (credited) in income statement	12	1,554	1,566
As at 31 December 2015	**1,032**	**1,833**	**2,865**

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 9 INCOME TAX (continued)

Group – deferred income tax asset

	Depreciation of long-term assets	Valuation of securities	Tax losses	Accrued expenses/ deferred income	Total
As at 1 January 2014	499	38	7,768	174	8,479
(Charged)/ credited in income statement	76	20	(2,230)	198	(1,936)
As at 1 January 2015	575	58	5,538	372	6,543
(Charged)/ credited in income statement	83	371	1,165	(280)	1,339
As at 31 December 2015	**658**	**429**	**6,703**	**92**	**7,882**

Deferred income tax assets are recognized for tax loss carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. The deferred tax assets recognised at 31 December 2015 in respect of tax losses have been based on profitability assumptions over three year horizon. The expected future taxable profits are based on business plan assumptions taking into consideration uncertainties arising from the current economic environment. If the business plan earnings and assumptions in following quarters substantially deviate from the current assumptions, the amount of existing deferred tax assets may need to be adjusted.

As at 31 December 2015 the Group has EUR 52 million of unused tax losses which have no expiry date (unused tax losses with no expiry date as at 31 December 2014 were equal to EUR 59 million and unused tax losses which expired in 2015 - EUR 4 million). As at 31 December 2015 the Group has EUR 0.3 million a temporary difference (EUR 0.2 million as at 31 December 2014) resulting from revaluation of investment property and property held for sale to fair value for which no deferred tax has been recognised.

The movement in deferred income tax assets and liabilities of the Bank (prior to offsetting of balances) during the period is as follows:

Bank – deferred income tax liability

	VAT on long term assets	Valuation of securities	Total
As at 1 January 2014	870	135	1,005
Charged/ (credited) in income statement	150	144	294
As at 1 January 2015	1,020	279	1,299
Charged/ (credited) in income statement	12	1,554	1,566
As at 31 December 2015	**1,032**	**1,833**	**2,865**

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 9 INCOME TAX (continued)

Bank – deferred income tax asset

	Depreciation of long-term assets	Valuation of securities	Tax losses	Accrued expenses/ deferred income	Total
As at 1 January 2014	499	38	7,768	174	8,479
(Charged)/ credited in income statement	76	20	(2,230)	198	(1,936)
As at 1 January 2015	575	58	5,538	372	6,543
(Charged)/ credited in income statement	83	371	1,165	(280)	1,339
As at 31 December 2015	**658**	**429**	**6,703**	**92**	**7,882**

As at 31 December 2015 the Bank has EUR 44 million of unused tax losses to carry forward which has no expiry date (EUR 39 million as at 31 December 2014).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. The Bank's and Group's deferred tax assets and liabilities as shown in the statement of financial position are:

	Group		Bank	
	2015	**2014**	**2015**	**2014**
Deferred income tax assets	7,882	6,543	7,882	6,543
Deferred income tax liabilities	(2,865)	(1,299)	(2,865)	(1,299)
As presented in statement of financial position	**5,017**	**5,244**	**5,017**	**5,244**

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 10 EARNINGS PER SHARE

Earnings per share were calculated by dividing the Group's net profit for the period by the weighted average number of ordinary registered shares in issue during the period.

Calculation of weighted average for 2015	Note	Number of shares	Par value	Issued/ 365 (days)	Weighted average
Shares issued as of 31 December 2014		5,710,134	33.31	365/365	5,710,134
Shares issued as of 31 December 2015	31	**5,710,134**	**33.31**	**365/365**	**5,710,134**

Calculation of weighted average for 2014	Note	Number of shares	Par value	Issued/ 365(days)	Weighted average
Shares issued as of 31 December 2013		5,710,134	33.31	365/365	5,710,134
Shares issued as of 31 December 2014	31	**5,710,134**	**33.31**	**365/365**	**5,710,134**

	Group 2015	Group 2014
Profit attributed to equity holders of the parent	19,280	16,370
Weighted average number of issued shares (units)	5,710,134	5,710,134
Earnings per share (EUR per share)	3.38	2.87

The 2015 and 2014 diluted earnings per share ratios are the same as basic earnings per share.

NOTE 11 CASH AND BALANCES WITH CENTRAL BANKS

	Group		Bank	
	2015	**2014**	**2015**	**2014**
Cash and other valuables	85,054	83,320	85,054	83,320
Placements with Central Bank:				
Correspondent account with central bank	-	254,295	-	254,295
Compulsory reserves in national currency	23,000	58,496	23,000	58,496
Total	**108,054**	**396,111**	**108,054**	**396,111**

Required reserves held with the Bank of Lithuania are calculated according to reserve maintenance calendar announced by ECB. For all Bank's liabilities subject to required reserves 1% required reserves rate is applied. All required reserves are held only in EUR. The Bank of Lithuania doesn't pay interest for the required reserves.

NOTE 12 DUE FROM BANKS AND OTHER CREDIT INSTITUTIONS

	Group		Bank	
	2015	**2014**	**2015**	**2014**
Due from banks and other credit institutions				
Demand deposits	138,136	67,991	138,136	67,991
of which funds to secure the derivatives deals	-	1,350	-	1,350
Term deposits	234,015	60,001	234,015	60,001
Short term loans	293,644	14,114	293,644	14,114
Total	**665,795**	**142,106**	**665,795**	**142,106**

There were no allowances for impairment against due from banks neither at Bank nor at the Group level as of end of 2015 and 2014. Respectively, there were no changes in allowance for loan impairment and write-offs for such due and allowances in 2015 and 2014.

As at 31 December 2015 short term loans of thousand 293,644 EUR include reverse repurchase agreements collaterised by securities with fair value of EUR 325,500 thousand and corresponds fair value level 1.

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 13 FINANCIAL ASSETS HELD FOR TRADING

GROUP (BANK)

	2015			2014		
Debt securities	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Government bonds and treasury bills of the Republic of Lithuania	10,378	-	-	21,292	-	-
Government bonds of foreign issuers	3,487	-	-	1,459	-	-
Debt securities of foreign entities	1,445	-	17,490	1,909	-	-
Total	**15,310**	**-**	**17,490**	**24,660**	**-**	-

The significant unobservable inputs used in the fair value measurement of bonds on level 3 are as follows:

	2015	**2014**
Indicated fair value of bonds*	18,096	-
Cash value adjustment	(221)	-
Investment value adjustment	(385)	-
Fair value as at December 31, 2015	17,490	-

*indicated fair value is determined by quote in Bloomberg system.

Generally, a change in the input used for the valuation multiple assumptions is accompanied by change in cash value adjustment and investment value adjustment. Management believes that reasonably possible changes to other unobservable inputs would not result in a significant change in the estimated fair value.

The table below shows the changes in fair value of bonds from a 10% increase or decrease respectively in cash haircut and investment value, all other inputs being constant.

	Impact of change of cash value		**Impact of change of investment value**	
	Haircut increase +10%	**Haircut decrease -10%**	**Value increase +10%**	**Value decrease -10%**
Increase / (decrease) in fair value as at December 31, 2015	(374)	374	145	(145)

There were no movement of securities between fair value levels during 2015 and 2014.

NOTE 14 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

GROUP

	2015			2014		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Debt securities						
Government bonds and treasury bills of the Republic of Lithuania	64,893	-	-	206,965	-	-
Debt securities of foreign banks	10,007	-	-	-	-	-
Equity securities						
Units of funds	38	-	-	36	-	-
Other	-	-	226	-	-	207
Total	**74,938**	**-**	**226**	**207,001**	**-**	**207**

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 14 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

BANK

	2015			2014		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Debt securities						
Government bonds and treasury bills of the Republic of Lithuania	63,986	-	-	205,699	-	-
Debt securities of foreign banks	10,007	-	-	-	-	-
Equity securities						
Other	-	-	226	-	-	207
Total	**73,993**	**-**	**226**	**205,699**	**-**	**207**

The shares of SWIFT and VISA Inc. are treated as recognition of participation in these settlement systems. These shares are not quoted in the market, therefore they were reclasified to level 3. No additional disclosures are made on level 3 financial assets since amount of such assets is immaterial to total balance.

Weighted yields and duration till maturity of debt securities are as follows:

Group	2015		2014	
	%	**Maturity (in years)**	**%**	**Maturity (in years)**
Government bonds of the Republic of Lithuania	0.41	2.71	0.61	0.73
Debt securities of foreign banks	(0.05)	1.24	-	-

Bank	2015		2014	
	%	**Maturity (in years)**	**%**	**Maturity (in years)**
Government bonds of the Republic of Lithuania	0.42	2.74	0.62	0.74
Debt securities of foreign banks	(0.05)	1.24	-	-

NOTE 15 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial instruments predominantly used for hedging against risks under the Group's risk management positions. The Group and the Bank enters into transactions involving the following derivative instruments:

- Forward, future, swap, CFD and option transactions in currencies, interest rates, indexes, stocks, bonds and commodities and (or) any combinations of those.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates, commodity or equity prices relative to their terms.

Aggregate amounts of derivative contracts can fluctuate within the risk ratio limits set by the Group. Fair values of derivative financial assets and liabilities may fluctuate significantly subject to market development.

The fair values of derivative financial instruments are set out in the following table.

	Notional amounts	**Fair values**	
		Assets	**Liabilities**
As at 31 December 2015			
FX forwards, swaps, put, call options	190,031	1,777	2,439
Interest rate swaps, collars	580,702	4,024	3,111
Commodity related agreements	4,559	-	-
Total	**775,292**	**5,801**	**5,550**
As at 31 December 2014			
FX forwards, swaps, put, call options	210,148	3,704	3,962
Interest rate swaps, collars	585,428	3,636	2,570
Commodity related agreements	463	30	30
Total	**796,039**	**7,370**	**6,562**

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 16 AVAILABLE FOR SALE FINANCIAL ASSETS

GROUP (BANK)

	2015			2014		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Equity securities						
Shares	-	-	10,800	-	-	91
Total	**-**	**-**	**10,800**	**-**	**-**	**91**

Total amount of available for sale securities are unimpaired assets. There were no movement of securities between levels during 2015 and 2014.

In November 2015, VISA Inc. announced the agreement to acquire all shares in VISA Europe Ltd. The Bank has a direct ownership interest in VISA Europe activities. The updated valuation of the holding in VISA Europe at year end 2015 was recognised in other comprehensive income.

The significant unobservable inputs used in the fair value measurement of shares on level 3 are as follows:

Exchange rate USD/EUR as of 2015 12 31

Share price for Visa Inc. as of 2015 12 31

Liquidity premium of 30%

80% probability for the transaction to be executed according to the plan.

Generally, a change in the input used for the valuation multiple assumptions is accompanied by change in liquidity premium and probability for the transaction to be executed according to the plan. Management believes that reasonably possible changes to other unobservable inputs would not result in a significant change in the estimated fair value. The table below shows the changes in fair value of bonds from a 10% increase or decrease respectively in liquidity premium and probability, all other inputs being constant.

	Impact of change of liquidity premium		**Impact of change of probability**	
	increase	**decrease**	**increase**	**decrease**
	+10%	**-10%**	**+10%**	**-10%**
Increase / (decrease) in fair value as at December 31, 2015	(240)	270	170	(150)

The movement of available for sale securities (level 3) during 2015:

	Group	**Bank**
Beginning balance	91	91
Transfers in and/or out of level 3	-	-
Disposals	(91)	(91)
Unrealised gains/losses for assets held at the end of the reporting period	10,800	10,800
Closing balance	10,800	10,800

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 17 LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2015	2014	2015	2014
Loans and advances to financial institutions	**51**	**9**	**51**	**106,859**
Loans to business customers:				
- Public authorities, state and municipal entities	286,904	313,052	286,904	313,052
- Large corporates	730,139	774,469	753,486	812,320
- SMEs	382,219	393,796	382,219	393,796
- Other	608	598	608	598
Total loans to business customers	**1,399,870**	**1,481,915**	**1,423,217**	**1,519,766**
Loans to individuals (retail):				
- Consumer loans	69,726	64,684	69,726	64,684
- Mortgages	1,151,436	1,080,450	1,151,436	1,080,450
- Loans secured by equity linked bonds issued by Bank	5,036	5,797	5,036	5,797
- Other	242,970	239,332	242,970	239,332
Total loans to individuals (retail)	**1,469,168**	**1,390,263**	**1,469,168**	**1,390,263**
Total gross loans granted	**2,869,089**	**2,872,187**	**2,892,436**	**3,016,888**
Total allowance for impairment:	(112,102)	(134,970)	(112,102)	(134,970)
to financial institutions	-	-	-	-
to business customers	(67,992)	(84,617)	(67,992)	(84,617)
to individuals	(44,110)	(50,353)	(44,110)	(50,353)
Total net loans and advances to customers	**2,756,987**	**2,737,217**	**2,780,334**	**2,881,918**

Other loans include credit cards, reverse repurchase agreements, other loans backed by securities and other.

Allowance for impairment

Reconciliation of allowance account for losses on loans and advances by class is as follows:

31 December 2015

	Group and Bank loans to individuals (retail)	Group and Bank loans to business customers
Balance as at 1 January 2015	**50,353**	**84,617**
Change in allowance for loan impairment	2,270	4,295
Loans written off during the year as uncollectible	(8,513)	(20,920)
As at 31 December 2015	**44,110**	**67,992**
Individual impairment	43,009	67,570
Collective impairment	1,101	422
	44,110	**67,992**
Gross amount of loans, individually determined to be impaired, before deducting the individually assessed impairment allowance	86,149	163,118

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 17 LOANS AND ADVANCES TO CUSTOMERS (continued)

31 December 2014

	Group and Bank loans to individuals (retail)	Group and Bank loans to business customers
Balance as at 1 January 2014	**67,548**	**105,070**
Change in allowance for loan impairment	6,435	3,834
Loans written off during the year as uncollectible	(23,630)	(24,287)
As at 31 December 2014	**50,353**	**84,617**
Individual impairment	47,826	83,378
Collective impairment	2,527	1,239
	50,353	**84,617**
Gross amount of loans, individually determined to be impaired, before deducting the individually assessed impairment allowance	94,002	192,357

Net change in allowance for loan impairment accounts for EUR 6,565 thousand in the year ended 31 December, 2015 (2014: EUR 10,269 thousand).

There was no allowance for impairment against loans and advances to financial institutions either at the Bank or at the Group level as of the end of 2015. Respectively, there were no changes in allowance for loan impairment and write-offs for such loans and allowances in 2014.

NOTE 18 OFFSETTING

As at 31 December 2015	Gross carrying amount	Amounts offset in the statement of financial position	Carrying amount	Collateralized by securities	Amounts after possible netting
ASSETS					
Loans and advances to customers[1]	293,727	-	293,727	293,727	-
Derivative financial instruments[2]	119	1	118	-	118
LIABILITIES					
Derivative financial instruments[2]	101	-	101	-	101

As at 31 December 2014	Gross carrying amount	Amounts offset in the statement of financial position	Carrying amount	Collateralized by securities	Amounts after possible netting
ASSETS					
Loans and advances to customers[1]	24,457	-	24,457	24,457	-
Derivative financial instruments[2]	182	19	163	-	163
LIABILITIES					
Derivative financial instruments[2]	139	23	116	-	116

1) Includes reverse repurchase agreements.
2) Includes derivative financial instruments which are settled on a net basis.

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 19 FINANCE LEASE RECEIVABLES

	Up to one year	From 1 to 5 years	Over 5 years	Total
Gross investments in leasing				
Balance as at 31 December 2014	51,613	74,785	4,473	130,871
Change during 2015	1,978	19,477	(1,207)	20,248
Balance as at 31 December 2015	**53,591**	**94,262**	**3,266**	**151,119**
Unearned finance income on finance leases				
Balance as at 31 December 2014	2,725	3,485	287	6,497
Change during 2015	341	401	(111)	631
Balance as at 31 December 2015	**3,066**	**3,886**	**176**	**7,128**
Net investments in finance leases before impairment				
31 December 2014	48,888	71,300	4,186	124,374
31 December 2015	50,525	90,376	3,090	143,991
Changes in impairment				
Balance as at 31 December 2013	10,139	4,240	30	14,409
Increase (decrease) in impairment (Note 4)	(543)	(1,680)	(1)	(2,224)
Lease receivables written-off during the year as uncollectible	-	(1,196)	-	(1,196)
Balance as at 31 December 2014	**9,596**	**1,364**	**29**	**10,989**
Increase (decrease) in impairment (Note 4)	(228)	(798)	728	(298)
Lease receivables written-off during the year as uncollectible	(9,160)	(84)	-	(9,244)
Balance as at 31 December 2015	**208**	**482**	**757**	**1,447**
Net investments in finance leases after impairment				
31 December 2014	39,295	69,936	4,157	113,385
31 December 2015	**50,317**	**89,894**	**2,333**	**142,544**

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 20 INVESTMENTS IN SUBSIDIARIES

	2015				2014
	Share	Nominal value	Accumulated impairment losses	Carrying value	Carrying value
Investments in consolidated subsidiaries					
AB DNB Lizingas	-		-	-	19,500
UAB DNB Investicijų Valdymas	100%	1,158	-	1,158	1,158
UAB DNB Būstas	100%	1,260	(368)	892	794
UAB Intractus	100%	44,569	(11,241)	33,328	36,198
UAB Industrius	99.92%	13,771	(1,158)	12,613	12,504
Total			**(12,767)**	**47,991**	**70,154**

In 2015 based on estimated expected future cash flows, business growth and risk costs of subsidiaries the Bank recorded impairment losses amounting to EUR 4 million to investment in UAB Intractus. The recoverable amount was measured at fair value less costs to sell which is categorised within level 3.

In October 2015, AB DNB Lizingas, wholly owned by AB DNB Bankas, was merged to AB DNB Bankas. At the end of the reorganization process the Bank has taken over the rights and obligations of AB DNB Lizingas. The last financial statements (dated 23 October 2015) of AB DNB Lizingas are provided in Note 41.

During the reported period the Bank did not sell its own shares or the shares of its subsidiaries to third parties.

NOTE 21 INVESTMENT IN AN ASSOCIATE

	2015				2014
	Share	Nominal value	Impairment losses	Carrying value	Carrying value
Investments in an associate					
AB Informacinio verslo paslaugų įmonė	36.47%	592	(128)	464	592
Total			**(128)**	**464**	**592**

On 18th of November 2014 the Bank acquired 36.47 percent of shares of AB Informacinio verslo paslaugų įmonė. The assets were foreclosed with the aim to secure Bank‘s as the creditor‘s interest.

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 22 PROPERTY, PLANT AND EQUIPMENT

Group	Buildings and premises	Equipment and other fixed assets	Total
Cost:			
At 1 January 2014	28,564	23,445	52,009
Acquisitions	-	5,585	5,585
Disposals and write-offs	-	(3,385)	(3,385)
At 31 December 2014	**28,564**	**25,645**	**54,209**
Acquisitions	140	736	876
Reclassification from repossessed assets	7,195	-	7,195
Reclassification to Investment property (Note 23)	(2,291)	-	(2,291)
Disposals and write-offs	(2,313)	(6,677)	(8,990)
At 31 December 2015	**31,295**	**19,704**	**50,999**
Depreciation and impairment:			
At 1 January 2014	9,253	18,064	27,317
Disposals and write-offs	-	(3,270)	(3,270)
Depreciation charge for year	626	2,222	2,848
Impairment	-	931	931
At 31 December 2014	**9,879**	**17,947**	**27,826**
Disposals and write-offs	(289)	(6,275)	(6,564)
Depreciation charge for year	587	2,220	2,807
Reclassification from repossessed assets	1,534		1,534
Reclassification to Investment property (Note 23)	(712)	-	(712)
Impairment	2,895	763	3,658
Other adjustments	266	-	266
At 31 December 2015	**14,160**	**14,655**	**28,815**
Net book value:			
At 1 January 2014	**19,311**	**5,381**	**24,692**
At 31 December 2014	**18,685**	**7,698**	**26,383**
At 31 December 2015	**17,135**	**5,049**	**22,184**
Economic life (in years)	50	3-10	-

The cost of fully depreciated property, plant and equipment that is still in use:

31 December 2014	1,984	11,235
31 December 2015	1,917	9,565

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 22 PROPERTY, PLANT AND EQUIPMENT (continued)

Bank	**Buildings and premises**	**Equipment and other fixed assets**	**Total**
Cost:			
At 1 January 2014	**28,564**	**23,259**	**51,823**
Acquisitions	-	5,583	5,583
Disposals and write-offs	-	(3,325)	(3,325)
At 31 December 2014	**28,564**	**25,517**	**54,081**
Acquisitions	140	734	874
Reorganization (Note 41)	3,329	11	3,340
Reclassification from repossessed assets	3,866	-	3,866
Reclassification to Investment property (Note 23)	(2,291)	-	(2,291)
Disposals and write-offs	(2,313)	(6,581)	(8,894)
At 31 December 2015	**31,295**	**19,681**	**50,976**
Depreciation and impairment:			
At 1 January 2014	**9,253**	**17,957**	**27,210**
Disposals and write-offs	-	(3,225)	(3,225)
Depreciation charge for year	626	2,216	2,842
Impairment	-	931	931
At 31 December 2014	**9,879**	**17,879**	**27,758**
Disposals and write-offs	(289)	(6,230)	(6,519)
Depreciation charge for year	587	2,216	2,803
Reorganization (Note 41)	1,534	11	1,545
Reclassification to Investment property (Note 23)	(712)	-	(712)
Impairment	2,895	763	3,658
Other adjustments	266	-	266
At 31 December 2015	**14,160**	**14,639**	**28,799**
Net book value:			
At 1 January 2014	**19,311**	**5,302**	**24,613**
At 31 December 2014	**18,685**	**7,638**	**26,323**
At 31 December 2015	**17,135**	**5,042**	**22,177**
Economic life (in years)	50	3-10	-

Due to expected changes to the manner in which assets are used the recoverable amount on buildings was estimated and in 2015 the Bank recorded impairment losses amounting to EUR 2.9 million. The recoverable amount was measured at fair value less costs to sell.

No assets were pledged to a third party as at 31 December 2015 and 31 December 2014.

The Bank (Group) had ownership title to all of the property and equipment as at 31 December 2015 and 31 December 2014.

The cost of fully depreciated property, plant and equipment that is still in use:

31 December 2014	1,984	11,122
31 December 2015	1,917	9,559

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 23 INVESTMENT PROPERTY

Group

	Land plots		Buildings						
	Other Level 2	**Other Level 3**	**Commer-cial Level 2**	**Residen-tial Level 2**	**Commer-cial Level 3**	**Residen-tial Level 3**	**Other Level 3**	**Total 2015**	**Total 2014**
Book value as at 1 January	**9,536**	**16,967**	**569**	**13,260**	**28,666**	**11,652**	**244**	**80,894**	**65,973**
Acquisitions	-	598	-	-	978	-	-	1,576	21,596
Additions, capitalised investments	1	15	5	30	56	2	-	109	338
Additions (movement from held for sale)	689	810		-	617	63	-	2,179	8,159
Reclassifications from repossessed assets	-	-	1,579	-	-	-	-	1,579	-
Reclassifications from other Level	4,515	170	10,627	3,254	-	-	-	18,566	-
Disposals (sale)	(1,355)	(926)	(315)	(4,079)	(3,544)	(4,644)	(47)	(14,910)	(12,481)
Classified as held for sale	(940)	(1,783)	-	(351)	(2,433)	-	-	(5,507)	(2,518)
Reclassifications as other Level	(170)	(4,515)	-	-	(10,627)	(3,254)	-	(18,566)	-
Net gains resulting from adjustment to fair value	(26)	243	(783)	(1,479)	(837)	-	-	(2,882)	(173)
Book value as at 31 December	**12,250**	**11,579**	**11,682**	**10,635**	**12,876**	**3,819**	**197**	**63,038**	**80,894**

As at 31 December 2015 and 2014 there was no temporary restriction of disposal rights applied to the property owned by the Group.

The movement of income/expenses related to investment properties were as follows:

	Level 1	**Level 2**	**Level 3**	**Total 2015**	**Total 2014**
Rental income from investment properties	-	-	954	954	873
Direct expenses (including repairs and maintenance) related to investment properties generating rental income	-	-	212	212	94
Direct expenses (including repairs and maintenance) related to investment properties not generating rental income	-	-	605	605	1,031

Investment properties are stated at fair value, which for the major part of properties has been determined according to valuations performed by accredited independent valuers.

The Group's management determines the policies and procedures for fair value measurement. External valuers are involved for valuation of significant assets. Involvement of external valuers is decided upon annually. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case. The management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies at least once a year. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The management, in conjunction with the Group's external valuers, also compares each of the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

NOTE 23 INVESTMENT PROPERTY (continued)

The valuation model for the Group's investment properties was formed based on market comparable approach and also income approach was used for some objects. Valuations of investment property were performed as at 31 December 2015. There were reclassifications of investment property made between levels during 2015 and 2014. All investment property that was revalued using the comparable approach method with no significant adjustments to observable prices is clasified as level 2, the rest of the investment property is clasified as level 3.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Under the market comparable approach, a property's fair value is estimated based on comparable transactions. The market comparable approach is based upon the principle of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. The unit of comparison applied by the Group is the price per square metre (sqm).

Within the income approach to valuation the DCF method was used. Under the DCF method, a property's fair value is estimated using net operating income. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. The series of periodic net operating incomes, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted. An appropriate discount rate is then applied to the cash flow.

The main unobservable inputs used in the fair value measurement categorised within level 3 of the fair value hierarchy are:
- Rent price (0.3 - 15 EUR price per sqm per month)
- Exit yield (capitalization rate) (5.0-15%)
- Discount rate (7-15%)

The Group's management doesn't expect significant changes of unobservable inputs used in the nearest future. But in case of significant increases (decreases) in estimated rent price and rent growth in isolation, it would result in a significantly higher (lower) fair value measurement. Significant decrease (increase) in Occupancy level and increase (decrease) in discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption made for the estimated rent price is accompanied by a directionally:
- Similar change in the rent growth and discount rate (and exit yield)
- Opposite change in the Occupancy level

The average prices of land plots and buildings used in determining the fair value according to their purpose were as follows:

Land plots	Average prices per are in 2015, in EUR thousand	Average prices per are in 2014, in EUR thousand
Residential	0.04 – 28.69	0.58 – 34.75
Other	0.04 – 11.32	0.03 – 34.75

Buildings	Average prices per sq.m. in 2015, in EUR thousand	Average prices per sq.m. in 2014, in EUR thousand
Commercial	0.02 – 1.42	0.14– 2.90
Residential	0.05 – 2.10	0.14 – 2.90
Other	0.02 – 0.41	0.14 – 1.74

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 24 INTANGIBLE ASSETS

Cost	**Group**	**Bank**
As at 1 January 2014	8,721	8,317
Acquisitions	2,650	1,101
Disposals and write-offs	(1,723)	(1,650)
At 31 December 2014	**9,648**	**7,768**
Acquisitions	1,699	1,692
Disposals and write-offs	(125)	(89)
Reorganization (Note 41)	-	253
At 31 December 2015	**11,222**	**9,624**
Amortisation and impairment		
At 1 January 2014	5,303	4,911
Disposals	(1,723)	(1,650)
Amortisation	799	748
At 31 December 2014	**4,379**	**4,009**
Disposals	(122)	(87)
Amortisation	1,493	972
Reorganization	-	253
At 31 December 2015	**5,750**	**5,147**
Net book value:		
At 1 January 2014	3,418	3,406
At 31 December 2014	**5,269**	**3,759**
At 31 December 2015	**5,472**	**4,477**
Economic life (in years)	3-5	5

No assets were pledged to a third party as at 31 December 2015 and 31 December 2014. Intangible assets include purchased computer software and software licences.

The cost of fully amortised intangible assets that are still in use:

31 December 2014	3,035	2,724
31 December 2015	3,179	3,148

NOTE 25 OTHER ASSETS

	Group		**Bank**	
	2015	**2014**	**2015**	**2014**
Accrued income and deferred expenses	3,004	2,247	2,966	2,170
Repossessed assets	-	3,866	-	3,866
Assets bought for leasing activities	449	396	449	-
Prepayments and receivables	4,343	4,304	3,693	1,298
Other assets	1,647	1,987	1,635	798
Retrieved assets under cancelled lease contracts	2,790	4,913	2,790	-
Gross	**12,233**	**17,713**	**11,533**	**8,132**
Less: allowance for impairment of retrieved assets under cancelled lease contracts	(2,541)	(2,615)	(2,541)	-
allowance for impairment of other assets	(40)	(54)	(40)	(40)
Total	**9,652**	**15,044**	**8,952**	**8,092**

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 26 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

Movements on non-current assets and disposal groups held for sale by class were as follows:

Group

	Land plots								
	Other Level 2	**Other Level 3**	**Commer-cial Level 2**	**Residen-tial Level 2**	**Commer-cial Level 3**	**Residen-tial Level 3**	**Other Level 3**	**Total 2015**	**Total 2014**
Book value as at 1 January	**918**	**1,115**	**-**	**270**	**1,179**	**308**	**-**	**3,790**	**11,651**
Acquisitions	-	-	-	-	-	-		-	205
Additions, capitalised investments	-	-	-	-	-	-	-	-	57
Additions (movement from investment property)	940	1,783	351	-	2,433	-	-	5,507	2,518
Reclassifications from other Level	(940)	940	-	-	-	-	-	-	-
Disposals (sale)	(229)	(305)	-	(241)	(561)	(245)	-	(1,581)	(2,681)
Disposals (movement to investment property)	(689)	(810)	-	-	(617)	(63)	-	(2,179)	(8,159)
Net gains resulting from adjustment to fair value	-	-	-	-	-	-	-	-	199
Book value as at 31 December	**-**	**2,723**	**351**	**29**	**2,434**	**-**	**-**	**5,537**	**3,790**

During the year, the Group took possession of a real estate with a carrying value of EUR 5,537 thousand at the year end (in 2014 EUR 3,790 thousand), which the Group is in the process of selling and which is included in non-current assets held for sale. There is no cumulative income or expenses in other comprehensive income relating to assets held for sale. Valuations of non-current assets and disposal groups held for sale were performed as at 31 December 2015. There were reclasifications of assets between levels during 2015 and 2014. Non-current assets held for sale that were revalued using the comparable approach method with no significant adjustments to observable prices are clasified as level 2, the rest are clasified as level 3. For more details on fair value measurement refer to Note 23.

NOTE 27 DUE TO BANKS AND OTHER CREDIT INSTITUTIONS

	Group		**Bank**	
	2015	**2014**	**2015**	**2014**
Funds of Central bank	342,834	1,675	342,834	1,675
<u>Funds of banks and other credit institutions:</u>				
Demand deposits	9,797	7,135	9,797	7,135
Term deposits	51,026	34,192	51,026	34,192
Loans	680,604	1,167,750	680,604	1,167,750
Total	**1,084,261**	**1,210,752**	**1,084,261**	**1,210,752**

As at 31 December 2015 Funds of Central bank (EUR 342,834 thousand) contains proceeds from ECB under targeted longer-term refinancing operations (TLTROs). Carrying amount of encumbered assets under this agreement amounted to EUR 380,611 thousand. Management made an assumption that it is possible that a partial early repayment of TLTRO borrowing amounting to 223 million EUR will be done in September 2016. Liquidity risk disclosures in Financial risk management part 3.3 include possible early repayment of TLTRO borrowing.

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 28 DUE TO CUSTOMERS

	Group		Bank	
	2015	**2014**	**2015**	**2014**
Demand deposits				
of public authorities	203,449	156,025	203,449	156,025
of financial institutions	6,590	6,923	7,885	8,589
of private entities	844,701	666,715	848,397	668,396
of individuals	992,284	836,185	992,284	836,185
Total demand deposits	**2,047,024**	**1,665,848**	**2,052,015**	**1,669,195**
Term deposits				
of public authorities	4,296	9,073	4,296	9,073
of financial institutions	145	2,028	145	2,028
of private entities	19,127	43,192	19,127	43,192
of individuals	271,388	378,693	271,388	378,693
Total term deposits	**294,956**	**432,986**	**294,956**	**432,986**
Term loan	754	1,362	754	1,362
Total	**2,342,734**	**2,100,196**	**2,347,725**	**2,103,543**

As at 31 December 2015 the Group's deposits of EUR 9,502 thousand (2014: EUR 15,569 thousand) and Bank's deposits of EUR 9,502 thousand (2014: EUR 15,625 thousand) held as collateral for irrevocable commitments under import letter of credit, guarantees and loans were included in customer accounts.

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 29 PROVISIONS

The movement of provisions was as follows:

	Group				Bank			
	Loan commitments and guarantees	Pending legal issues	Restruc-turing	Other	Loan commitments and guarantees	Pending legal issues	Restruc-turing	Other
As at 1 January 2015	**14**	**507**	**843**	**-**	**10,234**	**507**	**843**	**-**
Increase in provisions	-	454	618	5	-	454	618	5
Utilised	-	(192)	(800)	-	(9,160)	(192)	(800)	-
Unused amounts reversed	(1)	(31)	-	-	(1,060)	(31)	-	-
Changes due to exchange rates	-	-	-	-	(1)	-	-	-
As at 31 December 2015	**13**	**738**	**661**	**5**	**13**	**738**	**661**	**5**
Current (less than one year)	13	637	661	5	13	637	661	5
Non-current (more than one year)	-	101	-	-	-	101	-	-
As at 31 December 2015	**13**	**738**	**661**	**5**	**13**	**738**	**661**	**5**
As at 1 January 2014	**18**	**173**	**1,177**	**-**	**12,898**	**133**	**1,177**	**-**
Increase in provisions	12	407	571	-	12	407	571	-
Utilised	-	(33)	(871)	-	-	(33)	(871)	-
Unused amounts reversed	(42)	(40)	(34)	-	(2,702)	-	(34)	-
Changes due to exchange rates	26	-	-	-	26	-	-	-
As at 31 December 2014	**14**	**507**	**843**	**-**	**10,234**	**507**	**843**	**-**
Current (less than one year)	12	101	843	-	10,233	101	843	-
Non-current (more than one year)	2	406	-		1	406	-	-
As at 31 December 2014	**14**	**507**	**843**	**-**	**10,234**	**507**	**843**	**-**

Legal claims. As at 31 December 2015, contingent liabilities that may arise as a result of pending court proceedings in which the Bank would appear as a respondent amounted to EUR 14,893 thousand (2014: EUR 16,719 thousand), of which EUR 3,703 thousand (2014: EUR 7,804 thousand) for legal claims related to index linked bonds. The Bank established a provision of EUR 738 thousand (2014: EUR 507 thousand) against potential losses in relation to the outcome of legal claims.

NOTE 30 OTHER LIABILITIES

	Group		Bank	
	2015	2014	2015	2014
Accrued expenses and deferred income	6,409	8,527	6,323	7,886
Transit accounts (for payments of loans)	547	1,520	547	1,520
Liabilities to suppliers	1,047	1,052	920	441
Payables	1,719	1,359	1,443	1,208
Advance payment	1,828	967	1,029	-
Other liabilities	1,283	1,745	1,201	1,608
Total	**12,833**	**15,170**	**11,463**	**12,663**

NOTE 31 SHARE CAPITAL

Share premium amounted to EUR 81,942 thousand as at 31 December 2015 (as at 31 December 2014 – EUR 81,942 thousand).

Information about shareholder of the Bank is listed in the table below:

	2015			2014		
	Number of shares	**Nominal value, EUR thousand**	**%**	**Number of shares**	**Nominal value, EUR thousand**	**%**
DNB Bank ASA	5,710,134	190,205	100.00	5,710,134	190,183	100.00
Total	**5,710,134**	**190,205**	**100.00**	**5,710,134**	**190,183**	**100.00**

NOTE 32 RESERVES

	Group		Bank	
	2015	**2014**	**2015**	**2014**
Mandatory reserve	5,860	3,547	5,787	3,483
Financial assets revaluation reserve (Note 16)	10,800	-	10,800	-
Other reserves	241	241	241	241
Reserve capital	105,500	105,500	105,500	105,500
Total	**122,401**	**109,288**	**122,328**	**109,224**

According to the Law of the Republic of Lithuania on Banks, allocations to the mandatory reserve shall be compulsory and may not be less than 1/20 of the profit. The mandatory reserve may, by a decision of the annual or extraordinary general meeting of the shareholders, be used only to cover losses of the activities.

Other reserves contain fixed assets revaluation reserve which relates to the revaluation of tangible fixed assets. The reserve capital of a bank is formed by the additional contributions of the bank’s shareholders.

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 33 ASSETS / FUNDS UNDER MANAGEMENT

Assets under management and related liabilities are accounted for off-balance sheet.

Assets under management totalling to EUR 6,714 thousand as at 31 December 2015 (2014: EUR 7,300 thousand) consist of loans granted to legal entities and individuals, including farmers and house building associations and other companies. These loans were granted from the Lithuanian Agricultural Support Fund, the Farmers' Support Fund, the Agricultural Support Fund (proceeds from sale of grain received from the USA) and the Common Mortgage Support Fund, the BoL Mortgage Support Fund.

The Bank manages these loans on behalf of the Lithuanian Ministry of Finance and the Lithuanian Ministry of Agriculture. The Bank's credit risk in respect these loans is limited to the customer's failure to pay the accrued interest margin. The Bank is not subject to any interest or currency risk on these loans.

Subsidiary DNB Investicijų Valdymas UAB manages the following funds:

	2015 (Unaudited)	2014 (Unaudited)
Investment funds:		
DNB Liquidity fund	-	8,210
DNB Equity Fund of funds	3,210	2,704
2rd pillar pension funds:		
DNB pensija 1	29,663	14,473
DNB pensija 2	90,227	79,919
DNB pensija 3	124,032	72,717
ERGO Konservatyvusis	-	13,983
ERGO Balans	-	38,479
3rd pillar pension fund:		
DNB papildoma pensija	18,042	13,720
DNB papildoma pensija 100	2,376	1,666
DNB papildoma konservatyvi pensija	2,931	1,167
DNB papildoma darbuotojo pensija 50	368	0
DNB papildoma darbuotojo pensija 25	485	2
Assets under management of institutionals portfolios	14,158	12,293
Total	**285,492**	**259,333**

NOTE 34 CONTINGENT LIABILITIES AND COMMITMENTS

Guarantees, letters of credit, commitments to grant loans and other commitments

	Group		Bank	
	2015	2014	2015	2014
Financial guarantees	42,581	52,119	42,581	52,119
Letters of credit	2,473	5,252	2,473	5,252
Commitments to grant loans	338,729	395,374	342,381	493,075
Commitments to grant finance leases	2,547	4,447	2,547	-
Capital commitments and other commitments to acquire assets	2,004	2,125	2,004	99
Other commitments	57,566	72,498	57,566	135,987
Total	**445,900**	**531,815**	**449,552**	**686,532**

The management of the Bank considers the level of provisions to be sufficient to cover the potential losses that may arise out of the above items.

NOTE 35 CASH AND CASH EQUIVALENTS

	Group		Bank	
	2015	2014	2015	2014
Cash (Note 11)	85,054	83,320	85,054	83,320
Correspondent accounts with other banks	58,136	66,641	58,136	66,641
Overnight deposits	80,000	-	80,000	-
Required reserves in national currency in Central Bank (Note 11)	23,000	58,496	23,000	58,496
Correspondent account with Central bank	-	254,295	-	254,295
Total	**246,190**	**462,752**	**246,190**	**462,752**

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 36 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS

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

	USD	GBP	NOK	Other curren-cies	Total currencies	EUR	Total
Assets							
Cash and balances with central banks	2,880	1,548	1,931	5,237	11,596	96,458	108,054
Due from banks and other credit institutions	4,446	5,447	149	4,700	14,742	651,053	665,795
Financial assets held for trading	5,338	-	-	-	5,338	27,462	32,800
Financial assets designated at fair value throught profit or loss	195	-	-	-	195	74,969	75,164
Derivative financial instruments	2	-	-	-	2	5,799	5,801
Available for sale financial assets	-	-	-	-	-	10,800	10,800
Loans and advances to customers	12,405	-	-	-	12,405	2,744,582	2,756,987
Finance lease receivables	811	-	-	-	811	141,733	142,544
Investment in an associate	-	-	-	-	-	464	464
Investment property	-	-	-	-	-	63,038	63,038
Property, plant and equipment	-	-	-	-	-	22,184	22,184
Intangible assets	-	-	-	-	-	5,472	5,472
Deferred income tax asset	-	-	-	-	-	5,017	5,017
Other assets	76	8	3	64	151	9,501	9,652
Non-curent assets and disposal groups held for sale	-	-	-	-	-	5,537	5,537
Total assets	**26,153**	**7,003**	**2,083**	**10,001**	**45,240**	**3,864,069**	**3,909,309**
Liabilities and equity							
Due to banks and other credit institutions	1,856	1	6	11	1,874	1,082,387	1,084,261
Derivative financial instruments	1	-	-	-	1	5,549	5,550
Due to customers	89,294	6,714	35,044	7,901	138,953	2,203,781	2,342,734
Provisions	-	-	-	-	-	1,417	1,417
Current income tax liabilities	-	-	-	-	-	1,108	1,108
Other liabilities	10	6	117	8	141	12,692	12,833
Total equity	-	-	-	-	-	461,406	461,406
Total liabilities and equity	**91,161**	**6,721**	**35,167**	**7,920**	**140,969**	**3,768,340**	**3,909,309**
Net balance sheet position	**(65,008)**	**282**	**(33,084)**	**2,081**	**(95,729)**	**95,729**	**-**
Off-balance sheet position	**64,645**	**(271)**	**33,078**	**(1,921)**	**95,531**	**(95,937)**	**(406)**
Net open position	**(363)**	**11**	**(6)**	**160**	**(198)**	**(208)**	**(406)**

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 36 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS (continued)

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

	USD	EUR	GBP	NOK	Other curren-cies	Total currencies	LTL	Total
Assets								
Cash and balances with central banks	2,730	15,611	2,397	2,851	4,630	28,219	367,891	396,110
Due from banks and other credit institutions	5,625	115,499	2,547	540	4,974	129,185	12,921	142,106
Financial assets held for trading	3,008	10,089	-	-	-	13,097	11,563	24,660
Financial assets designated at fair value throught profit or loss	176	314	-	-	-	490	206,718	207,208
Derivative financial instruments	5	3,661	-	-	-	3,666	3,704	7,370
Available for sale financial assets	91	-	-	-	-	91	-	91
Loans and advances to customers	14,276	1,911,029	-	-	-	1,925,305	811,912	2,737,217
Finance lease receivables	758	97,472	-	-	-	98,230	15,155	113,385
Investment in an associate	-	-	-	-	-	-	638	638
Investment property	-	-	-	-	-	-	80,894	80,894
Property, plant and equipment	-	-	-	-	-	-	26,382	26,382
Intangible assets	-	-	-	-	-	-	5,269	5,269
Deferred income tax asset	-	-	-	-	-	-	5,243	5,243
Other assets	72	581	16	252	56	977	14,068	15,045
Non-curent assets and disposal groups held for sale	-	-	-	-	-	-	3,790	3,790
Total assets	**26,741**	**2,154,256**	**4,960**	**3,643**	**9,660**	**2,199,260**	**1,566,148**	**3,765,408**
Liabilities and equity								
Due to banks and other credit institutions	872	1,205,766	6	35	72	1,206,751	4,001	1,210,752
Derivative financial instruments	3	2,597	-	-	-	2,600	3,962	6,562
Due to customers	95,644	418,669	4,606	37,128	7,359	563,406	1,536,789	2,100,195
Debt securities in issue	-	-	-	-	-	-	60	60
Provisions	2	11	-	-	-	13	1,351	1,364
Other liabilities	48	429	2	238	3	720	14,451	15,171
Total equity	-	-	-	-	-	-	431,304	431,304
Total liabilities and equity	**96,569**	**1,627,472**	**4,614**	**37,401**	**7,434**	**1,773,490**	**1,991,918**	**3,765,408**
Net balance sheet position	**(69,828)**	**526,784**	**346**	**(33,758)**	**2,226**	**425,770**	**(425,770)**	**-**
Off-balance sheet position	**69,990**	**(135,758)**	**(370)**	**33,770**	**(2,179)**	**(34,547)**	**32,775**	**(1,772)**
Net open position	**162**	**391,026**	**(24)**	**12**	**47**	**391,223**	**(392,995)**	**(1,772)**

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 36 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS (continued)

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

	USD	GBP	NOK	Other curren-cies	Total currencies	EUR	Total
Assets							
Cash and balances with central banks	2,880	1,548	1,931	5,237	11,596	96,458	108,054
Due from banks and other credit institutions	4,446	5,447	149	4,700	14,742	651,053	665,795
Financial assets held for trading	5,338	-	-	-	5,338	27,462	32,800
Financial assets designated at fair value throught profit or loss	195	-	-	-	195	74,024	74,219
Derivative financial instruments	2	-	-	-	2	5,799	5,801
Available for sale financial assets	-	-	-	-	-	10,800	10,800
Loans and advances to customers	12,405	-	-	-	12,405	2,767,929	2,780,334
Finance lease receivables	811	-	-	-	811	141,733	142,544
Investments in subsidiaries	-	-	-	-	-	47,991	47,991
Investment in an associate	-	-	-	-	-	493	493
Investment property	-	-	-	-	-	1,579	1,579
Property, plant and equipment	-	-	-	-	-	22,177	22,177
Intangible assets	-	-	-	-	-	4,477	4,477
Deferred income tax asset	-	-	-	-	-	5,017	5,017
Other assets	76	8	3	64	151	8,801	8,952
Non-curent assets and disposal groups held for sale	-	-	-	-	-	29	29
Total assets	**26,153**	**7,003**	**2,083**	**10,001**	**45,240**	**3,865,822**	**3,911,062**
Liabilities and equity							
Due to banks and other credit institutions	1,856	1	6	11	1,874	1,082,387	1,084,261
Derivative financial instruments	1	-	-	-	1	5,549	5,550
Due to customers	89,294	6,714	35,044	7,901	138,953	2,208,772	2,347,725
Provisions	-	-	-	-	-	1,417	1,417
Current income tax liabilities	-	-	-	-	-	1,197	1,197
Other liabilities	10	6	117	8	141	11,322	11,463
Total equity	-	-	-	-	-	459,449	459,449
Total liabilities and equity	**91,161**	**6,721**	**35,167**	**7,920**	**140,969**	**3,770,093**	**3,911,062**
Net balance sheet position	**(65,008)**	**282**	**(33,084)**	**2,081**	**(95,729)**	**95,729**	**-**
Off-balance sheet position	**64,645**	**(271)**	**33,078**	**(1,921)**	**95,531**	**(95,937)**	**(406)**
Net open position	**(363)**	**11**	**(6)**	**160**	**(198)**	**(208)**	**(406)**

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 36 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS (continued)

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

	USD	EUR	GBP	NOK	Other curren-cies	Total currencies	LTL	Total
Assets								
Cash and balances with central banks	2,730	15,611	2,397	2,851	4,630	28,219	367,891	396,110
Due from banks and other credit institutions	5,625	115,499	2,547	540	4,974	129,185	12,921	142,106
Financial assets held for trading	3,008	10,089	-	-	-	13,097	11,563	24,660
Financial assets designated at fair value throught profit or loss	176	31	-	-	-	207	205,699	205,906
Derivative financial instruments	5	3,661	-	-	-	3,666	3,704	7,370
Available for sale financial assets	91	-	-	-	-	91	-	91
Loans and advances to customers	14,276	2,055,730	-	-	-	2,070,006	811,912	2,881,918
Investments in subsidiaries	-	-	-	-	-	-	70,154	70,154
Investment in an associate	-	-	-	-	-	-	592	592
Property, plant and equipment	-	-	-	-	-	-	26,324	26,324
Intangible assets	-	-	-	-	-	-	3,759	3,759
Deferred income tax asset	-	-	-	-	-	-	5,243	5,243
Other assets	72	563	16	252	56	959	7,133	8,092
Non-curent assets and disposal groups held for sale	-	-	-	-	-	-	270	270
Total assets	**25,983**	**2,201,184**	**4,960**	**3,643**	**9,660**	**2,245,430**	**1,527,165**	**3,772,595**
Liabilities and equity								
Due to banks and other credit institutions	872	1,205,766	6	35	72	1,206,751	4,001	1,210,752
Derivative financial instruments	3	2,597	-	-	-	2,600	3,962	6,562
Due to customers	95,644	419,083	4,606	37,128	7,359	563,820	1,539,723	2,103,543
Debt securities in issue	-	-	-	-	-	-	60	60
Provisions	269	227	-	-	-	496	11,088	11,584
Other liabilities	48	429	2	238	3	720	11,944	12,664
Total equity	-	-	-	-	-	-	427,430	427,430
Total liabilities and equity	**96,836**	**1,628,102**	**4,614**	**37,401**	**7,434**	**1,774,387**	**1,998,208**	**3,772,595**
Net balance sheet position	**(70,853)**	**573,082**	**346**	**(33,758)**	**2,226**	**471,043**	**(471,043)**	**-**
Off-balance sheet position	**69,233**	**(137,718)**	**(370)**	**33,770**	**(2,179)**	**(37,264)**	**32,202**	**(5,062)**
Net open position	**(1,620)**	**435,364**	**(24)**	**12**	**47**	**433,779**	**(438,841)**	**(5,062)**

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 37 INTEREST RATE RISK

The table below summarises the Group's interest rate risks as at 31 December 2015. Assets and liabilities are shown at their carrying amounts categorised by the earlier of contractual repricing or maturity dates.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Non interest bearing	Total
Assets								
Cash and balances with central banks	108,054	-	-	-	-	-	-	108,054
Due from banks and other credit institutions	322,135	343,660	-	-	-	-	-	665,795
Financial assets held for trading	61	420	39	27	160	32,093	-	32,800
Financial assets designated at fair value throught profit or loss	359	10,526	106	9,085	29,517	25,306	265	75,164
Derivative financial instruments	22	98	9	261	567	3,067	1,777	5,801
Available for sale financial assets	-	-	-	-	-	-	10,800	10,800
Loans and advances to customers	390,001	1,033,001	971,373	148,603	69,152	144,857	-	2,756,987
Finance lease receivables	35,705	73,934	25,829	1,417	3,994	1,665	-	142,544
Investment in an associate							464	464
Investment property	-	-	-	-	-	-	63,038	63,038
Property, plant and equipment	-	-	-	-	-	-	22,184	22,184
Intangible assets	-	-	-	-	-	-	5,472	5,472
Deferred income tax asset	-	-	-	-	-	-	5,017	5,017
Other assets	-	-	-	-	-	-	9,652	9,652
Non-curent assets and disposal groups held for sale	-	-	-	-	-	-	5,537	5,537
Total assets	**856,337**	**1,461,639**	**997,356**	**159,393**	**103,390**	**206,988**	**124,206**	**3,909,309**
Liabilities and shareholders' equity								
Due to banks and other credit institutions	42,797	20,682	597,596	223,265	149,921	50,000	-	1,084,261
Derivative financial instruments	44	58	8	18	345	2,638	2,439	5,550
Due to customers	2,097,602	73,725	75,637	83,777	9,067	2,926	-	2,342,734
Provisions	-	-	-	-	-	-	1,417	1,417
Current income tax liabilities	-	-	-	-	-	-	1,108	1,108
Other liabilities	-	-	-	-	-	-	12,833	12,833
Shareholders' equity	-	-	-	-	-	-	461,406	461,406
Total liabilities and shareholders' equity	**2,140,443**	**94,465**	**673,241**	**307,060**	**159,333**	**55,564**	**479,203**	**3,909,309**
Interest rate sensitivity gap	**(1,284,106)**	**1,367,174**	**324,115**	**(147,667)**	**(55,943)**	**151,424**	**(354,997)**	**-**

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 37 INTEREST RATE RISK (continued)

The Group's interest rate risk as at 31 December 2014 was as follows:

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Non interest bearing	Total
Assets								
Cash and balances with central banks	396,110	-	-	-	-	-	-	396,110
Due from banks and other credit institutions	142,106	-	-	-	-	-	-	142,106
Financial assets held for trading	331	1,075	667	521	7,618	14,448	-	24,660
Financial assets designated at fair value throught profit or loss	56,998	13,597	83,799	19,003	11,961	21,607	243	207,208
Derivative financial instruments	30	128	193	-	545	2,741	3,733	7,370
Available for sale financial assets	-	-	-	-	-	-	91	91
Loans and advances to customers	466,901	948,655	930,505	121,896	80,361	188,899	-	2,737,217
Finance lease receivables	36,650	53,460	18,698	1,272	2,189	1,116	-	113,385
Investment property	-	-	-	-	-	-	80,894	80,894
Investment in an associate	-	-	-	-	-	-	638	638
Property, plant and equipment	-	-	-	-	-	-	26,383	26,383
Intangible assets	-	-	-	-	-	-	5,269	5,269
Deferred income tax asset	-	-	-	-	-	-	5,243	5,243
Other assets	-	-	-	-	-	-	15,044	15,044
Non-curent assets and disposal groups held for sale	-	-	-	-	-	-	3,790	3,790
Total assets	**1,099,126**	**1,016,915**	**1,033,862**	**142,692**	**102,674**	**228,811**	**141,328**	**3,765,408**
Liabilities and shareholders' equity								
Due to banks and other credit institutions	141,828	353,875	610,203	40,346	64,500	-	-	1,210,752
Derivative financial instruments	25	87	172	-	454	1,833	3,991	6,562
Due to customers	1,742,171	105,592	114,868	122,191	12,161	3,213	-	2,100,196
Debt securities in issue	-	-	60	-	-	-	-	60
Provisions	-	-	-	-	-	-	1,364	1,364
Other liabilities	-	-	-	-	-	-	15,170	15,170
Shareholders' equity	-	-	-	-	-	-	431,304	431,304
Total liabilities and shareholders' equity	**1,884,024**	**459,554**	**725,303**	**162,537**	**77,115**	**5,046**	**451,829**	**3,765,408**
Interest rate sensitivity gap	**(784,898)**	**557,361**	**308,559**	**(19,845)**	**25,559**	**223,765**	**(310,501)**	**-**

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 37 INTEREST RATE RISK (continued)

The Bank's interest rate risk as at 31 December 2015 is as follows:

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Non interest bearing	Total
Assets								
Cash and balances with central banks	108,054	-	-	-	-	-	-	108,054
Due from banks and other credit institutions	332,135	343,660	-	-	-	-	-	665,795
Financial assets held for trading	61	420	39	27	160	32,093	-	32,800
Financial assets designated at fair value throught profit or loss	-	10,475	106	8,588	29,517	25,306	227	74,219
Derivative financial instruments	22	98	9	261	567	3,067	1,777	5,801
Available for sale financial assets	-	-	-	-	-	-	10,800	10,800
Loans and advances to customers	390,001	1,033,001	971,373	148,603	69,152	168,204	-	2,780,334
Finance lease receivables	35,705	73,934	25,829	1,417	3,994	1,665	-	142,544
Investments in subsidiaries	-	-	-	-	-	-	47,991	47,991
Investment in an associate							493	493
Investment property	-	-	-	-	-	-	1,579	1,579
Property, plant and equipment	-	-	-	-	-	-	22,177	22,177
Intangible assets	-	-	-	-	-	-	4,477	4,477
Deferred income tax asset	-	-	-	-	-	-	5,017	5,017
Other assets	-	-	-	-	-	-	8,952	8,952
Non-curent assets and disposal groups held for sale	-	-	-	-	-	-	29	29
Total assets	**855,978**	**1,461,588**	**997,356**	**158,896**	**103,390**	**230,335**	**103,519**	**3,911,062**
Liabilities and shareholders' equity								
Due to banks and other credit institutions	42,797	20,682	597,596	223,265	149,921	50,000	-	1,084,261
Derivative financial instruments	44	58	8	18	345	2,638	2,439	5,550
Due to customers	2,102,593	73,725	75,637	83,777	9,067	2,926	-	2,347,725
Provisions	-	-	-	-	-	-	1,417	1,417
Current income tax liabilities	-	-	-	-	-	-	1,197	1,197
Other liabilities	-	-	-	-	-	-	11,463	11,463
Shareholders' equity	-	-	-	-	-	-	459,449	459,449
Total liabilities and shareholders' equity	**2,145,434**	**94,465**	**673,241**	**307,060**	**159,333**	**55,564**	**475,965**	**3,911,062**
Interest rate sensitivity gap	**(1,289,456)**	**1,367,123**	**324,115**	**(148,164)**	**(55,943)**	**174,771**	**(372,446)**	**-**

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 37 INTEREST RATE RISK (continued)

The Bank's interest rate risk as at 31 December 2014 was as follows:

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Non interest bearing	Total
Assets								
Cash and balances with central banks	396,110	-	-	-	-	-	-	396,110
Due from banks and other credit institutions	142,106	-	-	-	-	-	-	142,106
Financial assets held for trading	331	1,075	667	521	7,618	14,448	-	24,660
Financial assets designated at fair value throught profit or loss	56,991	13,594	83,459	18,999	11,205	21,452	206	205,906
Derivative financial instruments	30	128	193	-	545	2,741	3,733	7,370
Available for sale financial assets	-	-	-	-	-	-	91	91
Loans and advances to customers	466,903	986,505	1,037,353	121,896	80,361	188,900	-	2,881,918
Investments in subsidiaries	-	-	-	-	-	-	70,154	70,154
Investment in an associate	-	-	-	-	-	-	592	592
Property, plant and equipment	-	-	-	-	-	-	26,323	26,323
Intangible assets	-	-	-	-	-	-	3,759	3,759
Deferred income tax asset	-	-	-	-	-	-	5,243	5,243
Other assets	-	-	-	-	-	-	8,092	8,092
Non-curent assets and disposal groups held for sale	-	-	-	-	-	-	270	270
Total assets	**1,062,471**	**1,001,302**	**1,121,672**	**141,416**	**99,729**	**227,541**	**118,463**	**3,772,594**
Liabilities and shareholders' equity								
Due to banks and other credit institutions	141,828	353,875	610,203	40,346	64,500	-	-	1,210,752
Derivative financial instruments	25	87	172	-	454	1,833	3,991	6,562
Due to customers	1,745,518	105,592	114,868	122,191	12,161	3,213	-	2,103,543
Debt securities in issue	-	-	60	-	-	-	-	60
Provisions	-	-	-	-	-	-	11,584	11,584
Other liabilities	-	-	-	-	-	-	12,663	12,663
Shareholders' equity	-	-	-	-	-	-	427,430	427,430
Total liabilities and shareholders' equity	**1,887,371**	**459,554**	**725,303**	**162,537**	**77,115**	**5,046**	**455,668**	**3,772,594**
Interest rate sensitivity gap	**(824,900)**	**541,748**	**396,369**	**(21,121)**	**22,614**	**222,495**	**(337,205)**	**-**

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 38 RELATED PARTY TRANSACTIONS

The balances of loans granted by the Group to management and close family members, deposits accepted as at the end of the period are as follows:

	Balances of deposits		Principal of loans outstanding	
	2015	2014	2015	2014
Management of the Group and close family members of management	754	511	993	1,141

In 2015 the total compensations for the Group management approximated EUR 1,132 thousand (in 2014 – EUR 1,174 thousand). In 2015 the total compensations for the Bank's management approximated EUR 845 thousand (in 2014 – EUR 847 thousand). Key management personnel remuneration mainly consists of short term employee benefits.

The following balances were outstanding with the parent company:

Assets	**2015**	**2014**
Correspondent bank accounts	44,518	50,037
Overnight deposits	80,000	-
Term deposits	234,014	60,001
Reverse repurchase agreements	284,984	-
Derivative financial instruments	2,274	3,030
Other assets	16	255
Receivable	-	2
Liabilities		
Correspondent bank accounts	47	356
Term deposits	51,026	31,029
Derivative financial instruments	4,637	5,671
Loans	672,936	1,160,083
Payable	236	363
Other liabilities	114	2

Income	**2015**	**2014**
Interest	433	514
Fee and commission	205	166
Net gain (loss) on operations with securities and derivative financial instruments and net foreign exchange result	4,393	(106)
Other	-	1
Expenses		
Interest	3,093	7,216
Fee and commission	31	122
Other	1,285	993

NOTE 38 RELATED PARTY TRANSACTIONS (continued)

The following balances were outstanding with DNB ASA Group companies:

Assets	**2015**	**2014**
Correspondent bank accounts	1,434	988
Receivable	815	-
Other assets	1	1
Liabilities		
Correspondent bank accounts	770	752
Payable	837	-

Income	**2015**	**2014**
Fee and commission	24	4
Net gain (loss) on operations with securities and derivative financial instruments and net foreign exchange result	1	8
Other	814	-
Expenses		
Interest	0	2
Fee and commission	415	309
Other	7,893	13,169

From the total other expenses amount stated above the expenses related to the upgrade of the Bank's core IT systems under long term agreement with DnB Baltic IT company as at 31 December 2015 amounted to EUR 7,067 thousand (2014: EUR 13,169 thousand).

The following balances were outstanding on the Bank statement of financial position with subsidiaries:

Assets	**2015**	**2014**
Loans	23,347	144,701
Equity securities	47,991	70,154
Other assets	28	265
Liabilities		
Demand deposits	4,991	3,347
Other liabilities	28	208

The main income/expenses of the Bank from transactions with subsidiaries are as follows:

Income	**2015**	**2014**
Interest	924	2,005
Fee and commission	2,012	2,212
Dividends	704	-
Other	296	88
Expenses		
Fee and commission	20	-
Other	82	67
Impairment	1,815	8,399

As at 31 December 2015 the main off-balance sheet commitments (guarantees, commitments to grant loans) with subsidiaries amounted to EUR 3,653 thousand (2014: EUR 161,191 thousand). Decrease is related to Bank merger with AB DNB Lizingas.

Terms and conditions of transactions with related parties

The above mentioned outstanding balances arose from the ordinary course of business. The interest charged to and by related parties are at arm's length rates.

NOTE 39 CONCENTRATION EXPOSURE

According to the regulations approved by the Bank of Lithuania, maximum exposure per one borrower may not exceed 25 per cent of bank's calculated capital or 150 mio EUR. In 2014 and 2015 the Bank complied with the maximum exposure to one borrower requirements set by the Bank of Lithuania. As at 31 December 2015, the largest single exposure comprising loans to several related borrowers treated as a single borrower, not secured by Government guarantees, is 11.70 % of the Bank's calculated capital (2014: 14.75 % respectively).

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 40 COMPLIANCE WITH REGULATORY REQUIREMENTS

According to local legislation the Bank is required to prepare financial group consolidated financial information. Financial group includes the Bank and subsidiaries engaged in financial service activities, that is UAB DNB Investicijų Valdymas, UAB Intractus, UAB Gelužės projektai and UAB Industrius (in 2014 Financial Group consisted of the Bank and AB DNB Lizingas, UAB DNB Investicijų Valdymas, UAB Intractus, UAB Gelužės projektai and UAB Industrius). In 2015 Financial group complied with all prudential ratios set by the Bank of Lithuania. Financial group consolidated income statement, statements of comprehensive income, financial position, changes in shareholder's equity and cash flows are presented in this note below:

FINANCIAL GROUP INCOME STATEMENT

	Financial Group	
	2015	**2014**
Interest income	78,424	84,419
Interest expense	(13,702)	(18,690)
Net interest income	**64,722**	**65,729**
Fee and commission income	35,581	36,627
Fee and commission expense	(8,263)	(8,529)
Net interest, fee and commission income	**92,040**	**93,827**
Net gain on operations with securities and derivative financial instruments and net foreign exchange gain	7,985	10,224
Impairment, change in fair value of investment property and provisions	(11,527)	(5,737)
Other income	4,914	6,211
Personnel expenses	(28,856)	(28,711)
Depreciation and amortisation	(4,294)	(3,640)
Other administrative expenses	(38,710)	(53,697)
Profit (loss) before income tax	**21,552**	**18,477**
Income tax	(2,393)	(2,327)
Net profit (loss) for the year	**19,159**	**16,150**
Profit (loss) attributable to:		
Equity holders of the parent	19,159	16,150

THE FINANCIAL GROUP STATEMENT OF OTHER COMPREHENSIVE INCOME

	Financial Group	
	2015	**2014**
Profit (loss) for the year	**19,159**	**16,150**
Other comprehensive income (expenses) to be reclassified to profit or loss in subsequent periods:	10,800	-
Net gain on available for sale financial assets		
Other comprehensive income (expenses) not to be reclassified to profit or loss in subsequent periods:	-	-
Total other comprehensive income (expenses)	**10,800**	**-**
Total comprehensive income (expenses) for the year, net of tax	**29,959**	**16,150**
Atributable to:		
Equity holders of the parent	29,959	16,150

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 40 COMPLIANCE WITH REGULATORY REQUIREMENTS (continued)

FINANCIAL GROUP STATEMENT OF FINANCIAL POSITION

	Financial Group	
	31 December 2015	**31 December 2014**
ASSETS		
Cash and balances with central banks	108,054	396,110
Due from banks and other credit institutions	665,795	142,106
Financial assets held for trading	32,800	24,660
Financial assets designated at fair value through profit or loss	75,164	207,208
Derivative financial instruments	5,801	7,370
Available for sale financial assets	10,800	91
Loans and advances to customers	2,756,987	2,737,217
Finance lease receivables	142,544	113,385
Investments in subsidiaries	892	892
Investment in an associate	493	592
Investment property	63,038	80,894
Property, plant and equipment	22,179	26,374
Intangible assets	5,463	5,263
Deferred income tax asset	5,017	5,243
Other assets	9,571	14,995
Non-curent assets and disposal groups held for sale	5,537	3,790
Total assets	**3,910,135**	**3,766,190**
LIABILITIES AND EQUITY		
Due to banks and other credit institutions	1,084,261	1,210,752
Derivative financial instruments	5,550	6,562
Due to customers	2,343,727	2,100,949
Debt securities in issue	-	60
Provisions	1,417	1,364
Current income tax liabilities	1,094	-
Other liabilities	12,646	15,044
Total liabilities	**3,448,695**	**3,334,731**
Equity attributable to equity holders of parent		
Ordinary shares	190,205	190,183
Share premium	81,942	81,942
Retained earnings	66,907	50,052
Reserves	122,386	109,282
Total equity	**461,440**	**431,459**
Total liabilities and equity	**3,910,135**	**3,766,190**

.

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 40 COMPLIANCE WITH REGULATORY REQUIREMENTS (continued)

FINANCIAL GROUP STATEMENT OF CHANGES IN EQUITY

	Issued shares	Share premium	Available for sale financial assets revaluation reserve	Manda-tory reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2014	**190,183**	**81,942**	-	**1,447**	**105,741**	**35,996**	**415,309**
Total comprehensive income (expenses) for the year, net of tax	**-**	**-**	-	-	-	16,150	16,150
Transfer to mandatory reserve	-	-	-	2,094	-	(2,094)	-
Balance at 31 December 2014	**190,183**	**81,942**	-	**3,541**	**105,741**	**50,052**	**431,459**
Profit for the period	-	-	-	-	-	19,159	19,159
Net gain on available for sale financial assets (note 16)	-	-	10,800	-	-	-	10,800
Total comprehensive income (expenses) for the year, net of tax	-	-	10,800	-	-	19,159	29,959
Transfer to mandatory reserve	-	-	-	2,304	-	(2,304)	-
Conversion of the share capital	22	-	-	-	-	-	22
Balance at 31 December 2015	**190,205**	**81,942**	**10,800**	**5,845**	**105,741**	**66,907**	**461,440**

.

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 40 COMPLIANCE WITH REGULATORY REQUIREMENTS (continued)

FINANCIAL GROUP STATEMENT OF CASH FLOWS

	Financial Group	
	31 December 2015	**31 December 2014**
Operating activities		
Interest receipts	71,708	76,634
Interest payments	(14,917)	(16,995)
Collected previously written-off loans	1,503	2,342
Net receipt from FX trading and operations in securities	17,582	9,805
Fee and commission receipt	35,581	36,627
Fee and commission payments	(8,263)	(8,529)
Salaries and related payments	(29,219)	(29,521)
Other payments	(34,296)	(46,671)
Net cash flow from operating activities before changes in operating assets and liabilities	**39,679**	**23,692**
(Increase) decrease in operating assets:		
(Increase) decrease in loans to credit and financial institutions	(452,202)	104,344
(Increase) decrease in loans granted	(44,738)	(163,894)
(Increase) in trading securities	(12,276)	(8,086)
(Increase) decrease in other assets	196	(17,777)
Change in operating assets	**(509,020)**	**(85,413)**
Increase (decrease) in operating liabilities:		
Increase (decrease) in liabilities to central bank	342,700	
Increase (decrease) in liabilities to credit and financial institutions	(470,205)	(6,142)
Increase in deposits	244,298	290,394
Increase (decrease) in other liabilities	(193)	(1,018)
Change in operating liabilities	**116,600**	**283,234**
Income tax paid	**(897)**	**(110)**
Net cash flows from operating activities	**(353,638)**	**221,403**
Investing activities		
Acquisition of property, plant , equipment and intangible assets	(2,084)	(8,236)
Disposal of property, plant, equipment and intangible assets	496	3
Decrease in securities	129,880	32,909
Dividends received	111	17
Interest received	2,767	1,080
Net cash flows from investing activities	**131,170**	**25,773**
Financing activities		
Own debt securities redemption	(60)	(3 474)
Interest paid	(2)	(90)
Net cash flows from financing activities	**(62)**	**(3,564)**
Net increase in cash and cash equivalents	**(222,530)**	**243,612**
Net foreign exchange difference on cash and cash equivalents	5,968	3,231
Cash and cash equivalents at 1 January	**462,752**	**215,909**
Cash and cash equivalents as at 31 December	**246,190**	**462,752**

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 41 AB DNB LIZINGAS FINANCIAL STATEMENTS

In October 2015, AB DNB Lizingas, wholly owned by AB DNB Bankas, was merged to AB DNB Bankas. At the end of the reorganization process the Bank has taken over the rights and obligations of AB DNB Lizingas. The last financial statements (dated 23 October 2015) of AB DNB Lizingas are presented below:

INCOME STATEMENT

	23 October 2015	31 December 2014
Interest income	3,294	4,010
Interest expense	(690)	(1,206)
Net interest income	**2,604**	**2,804**
Fee and commission income	-	-
Fee and commission expense	(1,244)	(1,394)
Net interest, fee and commission income	**1,360**	**1,410**
Net gain on operations with securities and derivative financial instruments and net foreign exchange gain	46	56
Impairment losses and provisions	56	(546)
Other income	318	457
Personnel expenses	(8)	(12)
Depreciation and amortisation	-	-
Other administrative expenses	(643)	(1,018)
Profit (loss) before income tax	**1,129**	**347**
Income tax	-	-
Net profit (loss) for the year	**1,129**	**347**
Profit (loss) attributable to:		
Equity holders of the parent	1,129	347

(all amounts are in EUR thousand, if not otherwise stated)

NOTE 41 AB DNB LIZINGAS FINANCIAL STATEMENTS (continued)

STATEMENT OF FINANCIAL POSITION

	23 October 2015	31 December 2014
ASSETS		
Cash and balances with central banks	11,249	1,507
Finance lease receivables	138,822	123,651
Investments in subsidiaries	98	98
Property, plant and equipment	1,795	1,874
Other assets	1,616	3,004
Total assets	**153,580**	**130,134**
LIABILITIES AND EQUITY		
Due to banks	129,348	106,850
Other liabilities	1,368	1,599
Total liabilities	**130,716**	**108,449**
Equity attributable to equity holders of parent		
Ordinary shares	37,744	37,694
Retained earnings	(16,009)	(16,356)
Profit for the year	1,129	347
Total equity	**22,864**	**21,685**
Total liabilities and equity	**153,580**	**130,134**

As at 23 October 2015 AB DNB Lizingas total equity amounted to EUR 22,864 thousand and the carrying value of the investment into subsidiary accounted in the Bank amounted to EUR 21,735 thousand. The difference amounting to EUR 1,129 thousand is accounted for in the financial statements of the Bank as an increase of equity (see the Bank statement of changes in equity).

NOTE 42 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

There were no material subsequent events after the date of statement of financial position at the Group and the Bank.