REPORT ON RISK AND CAPITAL MANAGEMENT
PILLAR3 OF THE BASEL
FOR THE YEAR ENDED 31 DECEMBER 2016

CONTENTS

INTRODUCTION

Hereby we provide additional unaudited information following the chapter eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms. Information on risk, its management and capital of Šiaulių Bankas AB (hereinafter referred to as the Bank) is disclosed in the annual report of the Bank. This document includes additional information published together with the annual financial report.

The document contains the information on the Bank's own funds, internal capital ratios, key properties of the capital measures, provides justification of the risk management suitability and determines of the overall risk profile of the organization according to its business strategy.

REPRESENTATION REGARDING SUITABILITY OF RISK MANAGEMENT MEASURES

The risk management systems applicable by Šiaulių Bankas AB are appropriate taking into account the size, nature of activities and strategy of the Bank and its subsidiaries (the Group - together with the Bank).

This representation was approved by the Management Board of the Bank on 21 March 2016 and signed by the Chief Executive Officer on behalf of the Management Board.

Chief Executive Officer Vytautas Sinius

CONDENSED RISK REPORT

The condensed risk report is included in the consolidated annual report (see chapter 11, page 122).

ORGANIZATIONAL STRUCTURE

Šiaulių Bankas AB is registered as a limited liability public company in the Register of Legal Entities of the Republic of Lithuania on 04 February 1992. The Bank has a licence issued by the Bank of Lithuania to perform all banking operations specified in the Law on Banks of the Republic of Lithuania and in the Charter of the Bank.

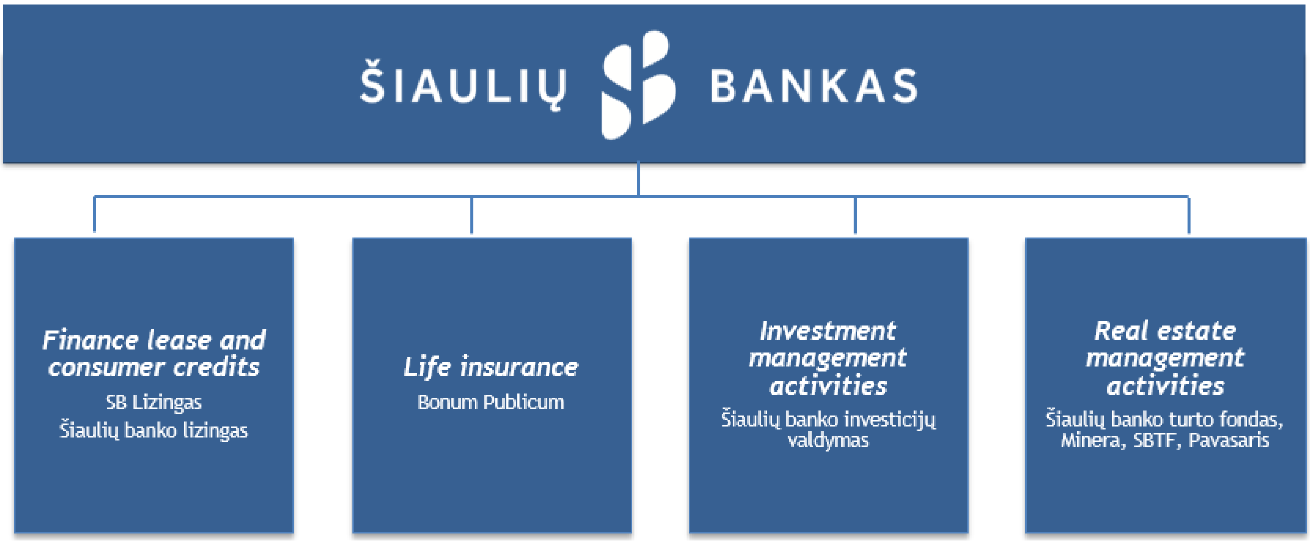

Figure 1 Šiaulių Bankas's Group structure

Organizational management structure, management bodies, structure and functions of the committees, etc. are disclosed in the Consolidated Annual Report for 2016:

- composition of the management bodies and principles of nomination of their members as well as information on competences of each member of the management body and positions held are disclosed in chapter 26 and 27 (pg. 143 - 150) of the Consolidated Annual Report for 2016;
- structure functions and composition of the committees are disclosed in chapter 25 (pg. 141 - 142) of the Consolidated Annual Report for 2016.

As a socially responsible employer, the Bank is guided by the principles of equality and diversity, it provides equal career opportunities without taking into account people's age, gender, ethnicity, religion and etc. (data on the Bank's employees are disclosed chapter 23 (pg. 134-136) of the Consolidated Annual Report for 2016.

The document discloses either separate or consolidated information as of 31 December 2016. Two following key levels of consolidation shall apply

- the Bank, separately.
- the Financial Group which includes the Bank and its subsidiary companies: SB Lizingas UAB (nature of activities: finance lease, consumer credits), Šiaulių Banko Lizingas UAB (nature of activities: finance leases (leasing) and operating lease services), Šiaulių Banko Investicijų Valdymas UAB (nature of activities: investment management), and Šiaulių Banko Turto Fondas UAB (nature of activities: real estate management).
- Group which includes the Bank and its directly controlled subsidiaries: SB Lizingas UAB, Šiaulių Banko Lizingas UAB, Šiaulių Banko Investicijų Valdymas UAB, Šiaulių Banko Turto Fondas UAB SBTF UAB (nature of activities: management and administration of real estate), Minera UAB (nature of activities: real estate management), Pavasaris UAB (nature of activities: development of residential apartment area), life insurance Bonum Publicum UAB (nature of activities: life insurance), and indirectly controlled following subsidiaries: Sandworks UAB (nature of activities: real estate management) and Apželdinimas UAB (nature of activities: real estate management).

OPERATING RISK MANAGEMENT AND INTERNAL CONTROL

Risk management and internal control are two critical systems the proper functioning of which ensure the sustainable and successful Bank's performance.

Internal control

The Bank's internal control system is an integral and continuous process in day-to-day activities at the Bank arranged applying the three lines of defence approach. At the appropriate level each employee of the Bank is responsible of the Bank's internal control system processes and each employee is involved in the internal control system and may affect it.

The Internal control is a complex process implemented by the management and personnel and intended to identify risk factors as well as to ensure that the following general objectives are met: a transparent, cost-efficient and effective implementation of the activities; fulfilment of payment obligations; compliance with applicable laws and regulatory acts; protection of resources against loss, misuse and damage.

Operational risk management

The Group accepts, manages, analyses, and evaluates the risks arising from its activities. The purpose of risk management in the Group is to ensure the sufficient return on equity by managing risks in a conservative manner implementing the advanced risk management policy the Bank seeks not only to minimize the potential risks at maximum but also to ensure the optimal risk to profit ratio as well as the efficient allocation of the capital.

The risks faced by the Bank are managed efficiently following the requirements set by the European Union, the Bank of Lithuania and the Policy of Risk Management in Banking Activities approved by the Supervisory Council of the Bank. Creation of an appropriate risk management system, its on-going improvement and application of its measures in daily activities are one of the key assumptions ensuring the successful performance of the Bank in the long-term run.

Risk management is a structured, coordinated and continuous process taking place at all levels within the Bank and encompassing the following objectives: to harmonize business strategy and risk tolerance; to seek solutions for responding to risk; to reduce operating losses; to increase business opportunities; to identify the many overlapping risks, for separate or integrated assessment; to improve capital allocation.

The risks are assessed from bottom to top and from top to bottom throughout the entire management chain, in all activity lines within the Bank and its Group applying a consistent terminology and appropriate approaches. Seeking to avoid the conflict of interest, the Bank's units performing the risk management functions are separated from the units, the direct performance of which are related to the emergence of various types of the banking activity risks.

The Bank's risk management system consists of the following items:

- risk management strategy;
- remuneration policies that are consistent with and promote sound and effective risk management;
- identification of the significant risk types and development of their management measures;
- internal risk management control the key principles of which are set out in the Guidelines for Internal Control Arrangement;
- internal audit assessing efficiency of the risk management processes on regular basis.

Remuneration Policy. The Bank's Remuneration policy in and integral part of the risk management system. The Remuneration policy is consistent with the Bank's strategy, risk appetite, the Bank's objectives, values and long-term vision. It does not have to contradict the principles of risk management and has to discourage the Bank's employees from unreasonable risk-taking. The success of the Remuneration policy lies in compliance of the employees' personal interests with the long-term goals of the Bank. The role of employee groups and their functions differ, therefore, they are subject to different principles and forms of remuneration. The Remuneration policy is reviewed on regular basis and approved by the Bank's Supervisory Council as it is foreseen by the valid Remuneration Policy. The Remuneration policy is mainly implemented by the Management Board of the Bank.

ICAAP. One of the major absorbers of the likely loss is a strong capital base, therefore the Bank seeks to have an adequate capital reserve which would cover the assumed level of risks. Thorough and comprehensive internal capital adequacy assessment process (ICAAP) is a vital part of the risk management policy. The purpose of the Bank's ICAAP is to implement processes ensuring the calculation and accumulation of a capital base sufficient to cover the nature and level of the risks that arise or might arise from banking activities and to ensure business continuity. ICAAP includes the Bank's self-assessment, stress testing and establishment of the internal capital requirement. During the internal self-assessment the risk characteristics to the Bank's activities are identified and evaluated using chosen methods of assessment. The impact of the risk on the Bank's income and capital is assessed to determine the level of risk. The main goal of stress testing is to determine whether the Bank’s capital is sufficient to cover the possible losses that could be provoked by a deterioration of the Bank’s financial situation.

Additional capital requirement for risks identified as significant during the self-assessment process is determined periodically using stress testing and evaluation of the internal capital adequacy.

Risk appetite. Risk appetite is an integral part of the efficient risk management system indicating the amount and type of risk that the Bank is willing to take in order to meet its strategic objectives. Risk appetite determines the allocation of resources, optimization of the management structure and business processes and is of a significant priority identifying operational objectives.

Arrangement, coordination and control of the risks faced by the Bank and assurance of the risk level matching the risk tolerance/appetite acceptable to the Bank are the main objectives of the Bank’s Risk Management Committee. Strategic risk management issues are tackled by the Risk

Committee consisting of the members of the Supervisory Council. The functions and composition of the Risk Management Committee are provided for in chapter 25 of the Consolidated Annual Report for 2016 (pg. 141 of the Annual Financial Statements 2016).

CAPITAL MANAGEMENT

The Bank's and the financial group's capital is calculated and allocated to risks following the requirements laid down in the Capital Requirements Directive (CRD) EU and Capital Requirements Regulation (CRR) EU No 575/2013.

The capital management aims to:

1) to comply with capital adequacy requirements laid down by the European Parliament and the Council as well as with the higher targeted capital adequacy requirements set by the single shareholder;
2) to ensure continuity of the Bank's and the Group's business, returns for shareholders and profits for other interested parties;
3) to stimulate the Group's business development based on the strong capital base.

Following the requirements set forth in CRR/CRD IV information on capital adequacy is delivered to the supervisory authority on quarterly basis.

Minimum capital requirements for the Bank and the Financial Group

	Common equity tier 1 capital (CET1)	Tier 1 capital (CET1)	Tier 2 capital	Own funds requirements in total
Pillar 1				
Minimum own funds requirements	4.5	1.5	2.0	8.0
Capital conservation buffer	2.5			2.5
Other systematically important institution's buffer (O-SII)[1]	0.5			0.5
Institution's special countercyclical capital buffer[2]	0.0			0.0
Capital adequacy ratio	7.5	1.5	2.0	11.0
Pillar 2[3]				
adjustments due to interest-rate risk in banking book	0.3			
adjustments due to concentration risk in banking book	1.6			
Additional capital adequacy coefficient	1.9	0.0	0.0	1.9
Minimal own funds requirement	9.4	1.5	2.0	12.9

[1] On 17 December 2015 the Bank of Lithuania established the other systemically important institutions' buffer (O-SII) of 0.5 per cent from the total risk weighted exposure amount. The capital buffer must be accumulated before 31 December 2016.
[2] The Bank of Lithuania has defined that since 31 December 2016, a countercyclical capital buffer rate applicable in the Republic of Lithuania shall be equal to 0 per cent from the risk weighted exposure amounts used for buffer calculations.
[3] Additional requirements of Pillar 2 are laid down pursuant to data provided for in the SREP report as of 30 June 2016.

Capital adequacy

Eur thousand	THE BANK	FINANCIAL GROUP	GROUP
Common equity tier 1 capital instruments eligible as common equity tier 1 capital			
Paid up capital	109 472	109 472	109 472
Share premium	-	-	-
Previous years retained earnings	16 604	20 105	21 155
Independently verified interim profit minus any foreseeable taxes or dividends	27 176	25 724	24 811
Other reserves	756	756	756
Provisions for general banking risk	4 157	4 157	4 157
Part of financial assets revaluation reserve	166	187	187
(-) Goodwill	-	(14)	(2 752)
(-) Intangible assets	(1 210)	(1 361)	(1 428)
(-) Deferred tax assets that rely on future profitability	-	(87)	(87)
(-) Value adjustments due to requirements for prudent valuation	(52)	(54)	(67)
(-) Expenses for provisions for financial assets	(7 535)	(7 024)	(3 470)
TIER 1 CAPITAL	149 534	151 861	152 734
Capital instruments and subordinated loans eligible as Tier 2 Capital:			
Subordinated loan capital	20 000	20 000	20 000
Part of financial assets revaluation reserve	111	124	124
TIER 2 CAPITAL	20 111	20 124	20 124
OWN FUNDS	169 645	171 985	172 858
Own funds requirement:			
Risk weighted exposure amount for credit risk under the Standardized Approach	872 393	860 131	839 425
Traded debt instruments	20 928	20 928	30 924
Equity securities	890	890	890
Foreign exchange exposures	-	-	-
Operational risk under the Basic Indicator Approach	110 372	118 005	143 577
Other capital requirements (credit value adjustment risk)	63	63	63
Total risk exposure amount	1 004 647	1 000 018	1 014 879
CET1 Capital ratio (9.4 %)	14.88%	15.19%	15.05%
T1 Capital ratio (10.9%)	14.88%	15.19%	15.05%
Total capital ratio (12.9%)	16.89%	17.20%	17.03%

Countercyclical capital buffer calculation

Country	Total amount of own funds requirements, Eur thousand	Countercyclical capital buffer rate	Countercyclical capital buffer rate of the institution	Countercyclical capital requirement
Lithuania	66 704	0.00 per cent	0.00 per cent	-

Geographical distribution of credit risk exposures for countercyclical buffer calculation

Country	Part of respective exposures	Buffer rate by country
Lithuania	94.4%	0.0%
Ireland	0.1%	0.0%
Austria	0.1%	0.0%
Belgium	0.0%	0.0%
The Czech Republic	0.1%	0.5%
Chile	0.2%	0.0%
Denmark	0.3%	0.0%
the United Kingdom	0.6%	0.0%
Italy	0.6%	0.0%
USA	1.1%	0.0%
Latvia	0.0%	0.0%
Malaysia	0.1%	0.0%
Mexico	0.3%	0.0%
Norway	0.0%	1.5%
Netherlands	0.3%	0.0%
France	0.8%	0.0%
Finland	0.3%	0.0%
Sweden	0.1%	1.5%
Switzerland	0.1%	0.0%
Germany	0.4%	0.0%
Turkey	0.1%	0.0%
Countercyclical capital buffer of the institution	100.0%	0.0%

Specifications for risk-weighted exposures and capital requirement

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

Eur thousand	The Bank		Financial group	
	Exposure by risk	Own funds requirement	Exposure by risk	Own funds requirement
Credit risk	872 393	69 791	860 131	68 811
Central governments or central banks' exposures	1 838	147	1 838	147
Regional governments or local authorities' exposures	-	-	10	1
Public sector entities' exposures	24 184	1 935	24 242	1 939
Multilateral development banks' exposures	-	-	-	-
Institutions' exposures	42 284	3 383	43 563	3 485
Corporates	328 022	26 242	261 290	20 903
of which subject to SME	85 772	6 862	85 424	6 834
Retail	95 452	7 636	136 905	10 952
of which subject to SME	66 892	5 351	70 666	5 653
Secured by mortgages on real estate	226 549	18 124	226 549	18 124
of which subject to SME	36 395	2 912	36 395	2 912
Exposures in default	16 577	1 326	23 470	1 878
of which subject to SME	3 931	314	3 931	314
Exposures associated with particular high risk	73 436	5 875	73 436	5 875
of which subject to SME	4 461	357	4 461	357
Collective investment entities' exposures (CIE)	2 970	238	3 910	313
Equity securities exposures	40 030	3 202	28 415	2 273
Other exposures	21 052	1 684	36 504	2 920
Exposure to market risks	21 818	1 745	21 818	1 745
Traded financial instruments	20 928	1 674	20 928	1 674
Equity securities	890	71	890	71
Foreign exchange position	-	-	-	-
Operational risk	110 372	8 830	118 005	9 440
Credit assessment adjustment	63	5	63	5
Total amount	1 004 647	80 372	1 000 018	80 001

Geographical distribution of exposures

Eur thousand	Lithuania	Ireland	Bulgaria	the United Kingdom	Spain	Italy	USA	Poland	Other	In total
Central governments or central banks' exposures	423 268	4 005	10 071	-	7 935	7 491	-	21 667	34 942	509 379
Regional governments or local authorities' exposures	113 821	-	-	-	-	-	-	-	-	113 821
Public sector entities' exposures	75 389	-	-	-	-	-	-	-	9 769	85 158
Multilateral development banks' exposures	0	-	-	-	-	-	-	-	2 027	2 027
Institutions' exposures	21 660	-	35	6 800	1 070	-	11 945	239	59 890	101 639
Corporates	333 470	-	-	681	-	4 308	9 133	-	36 687	384 279
Retail exposures	191 257	-	-	-	-	-	-	-	519	191 776
Secured by mortgages on real estate	418 607	-	-	46	-	-	-	-	15	418 668
Exposures in default	19 327	-	-	-	-	15	-	-	1	19 343
Exposures associated with particular high risk	48 957	-	-	-	-	-	-	-	-	48 957
Collective investment entities' exposures	2 885	-	-	-	-	-	-	-	85	2 970
Equity securities exposures	26 977	-	-	-	-	-	430	-	24	27 431
Other exposures	46 220	-	-	3 412	-	-	135	-	351	50 118
In total	1 721 837	4 005	10 106	10 939	9 005	11 814	21 643	21 906	144 311	1 955 566

Exposure by business type

Eur thousand	Agriculture, forestry and fishing	Processing industry	Construc-tions	Whole sail and retail trade	Financial and insurance activities	Real estate activities	Public manage-ment and defence	Other	Private persons	In total
Central governments or central banks' exposures	-	-	-	-	509 379	-	-	-	-	509 379
Regional governments or local authorities' exposures	-	-	-	-	-	-	113 821	-	-	113 821
Public sector entities' exposures	-	-	42	-	-	-	29 999	55 117		85 158
Multilateral development banks' exposures	-	-	-	-	2 027	-	-	-	-	2 027
Institutions' exposures	-	-	-	-	101 639	-	-	-	-	101 639
Corporates	35 071	44 779	35 656	65 832	60 029	27 623	-	115 289	-	384 279
Retail exposures	55 789	16 056	11 537	29 955	3 106	4 318	331	34 126	36 558	191 776
Secured by mortgages on real estate	25 361	56 199	28 246	85 095	1 387	95 963	300	92 678	33 439	418 668
Exposures in default	2 098	3 734	2 100	2 486	286	80	-	6 239	2 320	19 343
Exposures associated with particular high risk	-	-	42 039	-	-	6 918	-	-	-	48 957
Collective investment entities' exposures	-	-	-	-	2 970	-	-	-	-	2 970
Equity securities exposures	-	-	6 457	-	18 075	2 577	-	322	-	27 431
Other exposures	-	-	-	-	-	-	-	50 118	-	50 118
Memo item: specific provisions for the impairment of financial assets	*(896)*	*(8 973)*	*(8 630)*	*(5 106)*	*(21)*	*(3 090)*	-	*(2 915)*	*(2 034)*	*(31 665)*
In total	118 319	120 768	126 077	183 368	698 898	137 479	144 451	353 889	72 317	1 955 566

Leverage ratio

Both the common equity changes as well as changes in the exposure amount used to calculate the leverage ratio had a significant impact on the leverage ratio in 2016. Recognition of H2 2015 profit in retained earnings and inclusion of H1 2016 profit had the largest impact on the common equity, the exposure amount used in calculating the leverage ratio increased mainly due to increased asset exposures. Both the numerator and the denominator changes led to the leverage ratio growth from 7.16 per cent to 8.03 per cent.

ECAI used

Assessing exposures subject to external credit rating, the Bank uses the following well-known external credit assessment institutions (ECAI):

- Standarts&Poor's
- Moody's Investors Service
- Fitch Ratings

Exposures of debt securities and institutions are subject to the external credit rating which, assessing the credit risk under the standardized method, are classified according to the issuer, issue or rating held by the institution itself. If an individual exposure has been rated by two assessment institutions then less the favourable assessment shall apply, in case three ratings are provided - two most favourable shall apply, in case two most favourable ratings do not coincide - then less favourable shall apply.

Credit risk and effect of its mitigation

	Exposure before risk mitigation measures and conversion factors		Exposure after risk mitigation measures and conversion factors		Exposure measured by risk	
Exposure	Balance sheet exposure	Off-balance sheet exposure	Balance sheet exposure	Off-balance sheet exposure	RWA	RWA density
Central governments or central banks	509 379	-	509 379	-	1 838	0%
Regional or local authorities	106 025	7 796	106 025	3 336	-	0%
Public sector entities	76 716	8 442	135 226	1 914	24 184	18%
Multilateral development banks	1 284	743	1 284	372	-	0%
International organisations	-	-	-	-	-	-
Institutions	100 165	1 361	100 165	681	42 261	42%
Corporate	318 928	65 331	314 554	24 725	328 002	97%
Retail	155 483	34 253	140 148	14 192	94 805	61%
Secured by mortgages on real estate	372 673	45 995	341 156	21 040	226 549	63%
Exposures in the event of failure to fulfil obligations	19 343	-	12 059	-	16 577	137%
Associated with particular high risk	48 957	-	48 957	-	73 436	150%
Covered bonds	-	-	-	-	-	-
Institutions and companies subject to short-term credit risk assessment	-	-	-	-	-	-
Collective investment entities	107	-	107	-	107	100%
Equity securities	27 431	-	27 431	-	40 030	146%
Others	50 118	-	50 118	-	21 052	42%
In total	1 786 609	163 921	1 786 609	66 258		-

Exposures after application of credit risk mitigation procedures following each credit quality step

Exposure	Risk size								Settlements from own funds	In total	among which unrated
	0%	20%	35%	50%	75%	100%	150%	Others			
Central governments or central banks	504 715	3 532	-	-	-	1 132	-	-	-	509 379	88 624
Regional or local authorities	109 361	-	-	-	-	-	-	-	-	109 361	109 361
Public sector entities	88 481	483	-	48 176	-	-	-	-	-	137 140	131 305
Multilateral development banks	1 656	-	-	-	-	-	-	-	-	1 656	1 656
International organisations	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	47 097	-	41 813	-	11 936	-	-	-	100 846	4 761
Corporate	-	963	-	21 012	-	317 304	-	-	-	339 279	285 577
Retail	-	-	-	-	154 340	-	-	-	-	154 340	154 340
Secured by mortgages on real estate	-	-	29 806	232 546	-	99 844	-	-	-	362 196	362 196
Exposures in the event of failure to fulfil obligations	-	-	-	-	-	3 024	9 035	-	-	12 059	12 059
Associated with particular high risk	-	-	-	-	-	-	48 957		-	48 957	48 957
Covered bonds	-	-	-	-	-	-	-	-	-	-	-
Institutions and companies subject to short-term credit risk assessment	-	-	-	-	-	-	-	-	-	-	-
Collective investment entities	-	-	-	-	-	107	-	-	-	107	107
Equity securities	-	-	-	-	-	19 032	-	8 399	-	27 431	27 431
Others	29 066	-	-	-	-	21 052	-	-	-	50 118	50 118
In total	733 279	52 075	29 806	343 546	154 340	473 430	57 992	8 399	-	1 852 867	1 276 490

Internal capital adequacy assessment process (ICAAP)

Sound and comprehensive ICAAP is vital part of the strong risk management policy. The purpose of the Bank's ICAAP is to implement processes ensuring the calculation and accumulation of a capital base sufficient to cover the nature and level of the risks that arise or might arise from banking activities and to ensure business continuity.

The ICCAP goal is to ensure an efficient mechanism functioning within the Bank to measure the internal capital requirement covering the following areas:

1) the functional and efficient Bank's management measures, including the Bank's clear organizational structure with well-defined, transparent and consistent lines of responsibility;
2) efficient processes of establishment, management and monitoring of risks faced by the Bank or which may be faced by the Bank as well as process of delivery of information on such risks;
3) appropriate internal control mechanisms including reliable management and accounting procedures;
4) stress testing which is an integral part of the Bank's ICAAP.

The initial stages of the ICAAP include the risk identification and risk assessment and are realized through the Bank's self-assessment. This process the Bank identifies risks inherent in banking activities and evaluates them according to the selected assessment methods. During the Bank's self-assessment the Bank revises the factual structure of the risks assumed by the Bank and identifies levels of individual risk types. An impact of risk on the Bank's income and capital is assessed while determining the level of risk.

Stress testing is an integral part of the ICCAP used to assess the internal capital requirement. The major goal of the stress testing is to establish if the Bank's capital is adequate to cover the likely loss which could be incurred from the deterioration of the Bank's financial status. In order to determine the capital requirement necessary for management of individual risk types as well as total risk incurred by the Bank, various scenarios of the stress testing are applied.

In December 2016, the Board of the Bank of Lithuania, until the next supervisory inspection of the Bank and consideration of the assessment findings, established the size of additional capital requirement reaching 1.9 per cent of the total risk-weighted exposure amounts.

Results of internal capital adequacy assessment are provided in the table below:

Eur thousand	ŠIAULIŲ BANKAS AB (according to the consolidated information). 30/06/2016)
Own funds	153 827
Capital adequacy ratio	15.99%
Internal capital premium to capital adequacy ratio	1.90%

Risk	Pillar 1 capital requirement	Pillar 2	
		Additional capital requirement	
		Eur thousand	Percentage points
Credit	66 633	-	0.00
Markets	1 598	390	0.00
Operational	8 737	-	0.00
Interest rate risk in the banking book	-	2 800	0.29
Concentration	-	15 437	1.60
TOTAL	76 968	18 627	1.90

Besides, the Bank is preparing a Recovery Plan which foresees all likely assumptions for recovery of financial stability of the Financial Group in emergency cases without additional states' aids as well as assurance of execution of critical and systematically important functions.

ANNEX 1 CAPITAL INSTRUMENTS' MAIN FEATURES TEMPLATE

Information on main features if Common Equity Tier 1

1	Issuer	Šiaulių Bankas AB
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg's identifier for non-public distribution)	LT0000102253
3	Legislation treatment	The Republic of Lithuania
	Regulatory treatment	
4	Transitional CRR rules	Common equity tier 1 capital
5	Post-transitional CRR rules	Common equity tier 1 capital
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated Consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary registered shares
8	Amount recognized in regulatory capital (currency in million, as of most recent reporting date)	EUR 109.471.65833
9	Nominal amount of instrument	EUR 029
9	Issue price	Various
9	Redemption price	N/A
1	Accounting classification	Equity
1	Original date of issuance	1994
1	Perpetual or dated	Perpetual
1	Original maturity date	No maturity
1	Issuer call subject to prior supervisory approval	No
1	Optional call date, contingent call dates and redemption amount	N/A
1	Subsequent call dates, if applicable	N/A
	Coupons and/or dividends	
1	Fixed or floating dividend/coupon	Floating
1	Coupon rate and any related index	N/A
1	Existence of a dividend stopper	No
2	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary
2	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary
2	Existence of step up or other incentive to redeem	N/A
2	Noncumulative or cumulative	Noncumulative
2	Convertible or non-convertible	Non-convertible
2	If convertible, conversion trigger(s)	N/A
2	If convertible, fully or partially	N/A
2	If convertible, conversion rate	N/A
2	If convertible, mandatory or optional conversion	N/A
2	If convertible, specify instrument type convertible into	N/A
2	If convertible, specify issuer of instrument it converts into	N/A
3	Write-down features	No
3	If write-down, write-down trigger(s)	N/A
3	If write-down, full or partial	N/A
3	If write-down, permanent or temporary	N/A
3	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
3	Non-compliant transitioned features	No
3	If yes, specify non-compliant features	N/A
(1) Putr N/A if the issue is not applicable		

Information on key features of the Bank's received subordinate loan included into Tier 2 capital is disclosed in note 30 (pg. 104) to annual financial statements of Šiaulių Bankas AB

ANNEX 2 OWN FUNDS DISCLOSURE TEMPLATE

Common Equity Tier 1 (CET1) capital: Instruments and reserves		Amount at disclosure date, EUR thousands		
		The Bank	Financial group	Group
1	Capital instruments and the related share premium accounts	109 472	109 472	109 472
	of which: Instrument type 1			
	of which: Instrument type 2			
	of which: Instrument type 3			
2	Retained earnings	16 604	20 105	21 155
3	Accumulated other comprehensive income (and other reserves)	922	943	943
3a	Provisions for general banking risk	4 157	4 157	4 157
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1			
5	Minority interests (amount allowed in consolidated CET1)			
5a	Independently verified interim profit minus any foreseeable taxes or dividends	27 176	25 724	24 811
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	158 331	160 401	160 538
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	(52)	(54)	(67)
8	Intangible assets (net of related tax liability) (negative amount)	(1 210)	(1 375)	(4 180)
9	Empty set in the EU			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		(87)	(87)
11	Fair value reserves related to gains or losses on cash flow hedges			
12	Negative amounts resulting from the calculation of expected loss amounts	(7 535)	(7 024)	(3 470)
13	Any increase in equity that results from securitized assets (negative amount)			
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing			
15	Defined-benefit pension fund assets (negative amount)			
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)			
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)			
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)			
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)			
20	Empty set in the EU			
20a	Exposure amount of the following items which qualify for a RW of 1250 %, where the institution opts for the deduction alternative			
20b	of which: qualifying holdings outside the financial sector (negative amount)			
20c	of which: securitization positions (negative amount)			
20d	of which: free deliveries (negative amount)			
21	Deferred tax assets arising from temporary differences (amount above 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)			
22	Amount exceeding the 15 % threshold (negative amount)			

23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities			
24	Empty set in the EU			
25	of which: deferred tax assets arising from temporary differences			
25a	Losses for the current financial year (negative amount)			
25b	Foreseeable tax charges relating to CET1 items (negative amount)			
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)			
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(8 797)	(8 540)	(7 804)
29	Common equity tier 1 capital (CET1)	149 534	151 861	152 734
Additional Tier 1 (AT1) capital: Instruments				
30	Capital instruments and the related share premium accounts			
31	of which: classified as equity under applicable accounting standards			
32	of which: classified as liabilities under applicable accounting standards			
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1			
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties			
35	of which: instruments issued by subsidiaries subject to phase out			
36	Additional Tier 1 (AT1) capital before regulatory adjustments			
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)			
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)			
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)			
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)			
41	Empty set in the EU			
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)			
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital			
44	Additional Tier 1 (AT1) capital			
45	Tier 1 capital (T1 = CET1 + AT1)	149 534	151 861	152 734
Tier 2 (T2) capital: Instruments and provisions				
46	Capital instruments and the related share premium accounts	20 111	20 124	20 124
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2			
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties			
49	of which: instruments issued by subsidiaries subject to phase out			
50	Credit risk adjustments			
51	Tier 2 (T2) capital before regulatory adjustments	20 111	20 124	20 124
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)			
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)			
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those			

	entities (amount above 10 % threshold and net of eligible short positions) (negative amount)			
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)			
56	Empty set in the EU			
57	Total regulatory adjustments to Tier 2 (T2) capital			
58	Tier 2 capital (T2)	20 111	20 124	20 124
59	Total capital (TC = T1 + T2)	169 645	171 985	172 858
60	Total risk weighted assets	1 004 647	1 000 018	1 014 879
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.88%	15.19%	15.05%
62	Tier 1 (as a percentage of total risk exposure amount)	14.88%	15.19%	15.05%
63	Total capital (as a percentage of total risk exposure amount)	16.89%	17.20%	17.03%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	9.40%	9.40%	9.40%
65	of which: capital conservation buffer requirement	2.50%	2.50%	2.50%
66	of which: countercyclical buffer requirement			
67	of which: systemic risk buffer requirement	0.50%	0.50%	0.50%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer			
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	5.48%	5.79%	5.65%
69	[non relevant in EU regulation]			
70	[non relevant in EU regulation]			
71	[non relevant in EU regulation]			
Amounts below the thresholds for deduction (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)			
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)			
74	Empty set in the EU			
75	Deferred tax assets arising from temporary differences (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-	493	665
Applicable caps on the Inclusion of provisions In Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)			
77	Cap on inclusion of credit risk adjustments in T2 under standardized approach	872 393	860 131	839 425
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)			
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach			
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)				
80	Current cap on CET1 instruments subject to phase out arrangements			
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)			
82	Current cap on AT1 instruments subject to phase out arrangements			
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)			
84	Current cap on T2 instruments subject to phase out arrangements			
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)			

ANNEX 3 CRR LEVERAGE RATIO — DISCLOSURE TEMPLATE

Reference date	31/12/2016		
Entity name	Bank	Financial group	Group
Level of application	Individual	Consolidated	Consolidated

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable Amount		
1	Total assets as per published financial statements	1 823 639	1 832 296	1 861 278
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-	-	-
3	(Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	-	-	-
4	Adjustments for derivative financial instruments	728	728	728
5	Adjustment for securities financing transactions (SFTs)	(974)	(974)	(974)
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	163 921	141 050	139 841
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-	-	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	-	-	-
7	Other adjustments	(1 210)	(1 462)	(4 267)
8	Leverage ratio total exposure measure	1 986 104	1 971 638	1 996 606

Table LRCom: Leverage ratio common disclosure

		CRR leverage ratio exposures		
	On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1 813 922	1 822 283	1 851 265
2	(Asset amounts deducted in determining Tier 1 capital)	(1 210)	(1 462)	(4 267)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	1 812 712	1 820 821	1 846 998
	Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	3 280	3 280	3 280
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	728	728	728
EU-5a	Exposure determined under Original Exposure Method	-	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-	-
11	Total derivatives exposures (sum of lines 4 to 10)	4 008	4 008	4 008

	SFT exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1 030	1 030	1 030
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(974)	(974)	(974)
14	Counterparty credit risk exposure for SFT assets	-	-	-
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	-	-	-
15	Agent transaction exposures	-	-	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-	-	-
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	56	56	56
	Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	163 921	141 050	139 841
18	(Adjustments for conversion to credit equivalent amounts)	(118 699)	(100 462)	(99 501)
19	Other off-balance sheet exposures (sum of lines 17 and 18)	45 222	40 588	40 340
	Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)			
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-	-
	Capital and total exposure measure			
20	Tier 1 capital	149 534	151 861	152 734
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	1 861 999	1 865 474	1 891 402
	Leverage ratio			
20	Leverage ratio	8.03%	8.14%	8.08%
	Choice on transitional arrangements and amount of derecognised fiduciary items			
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional	Transitional	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-	-	-

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		CRR leverage ratio exposures		
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	1 812 712	1 820 821	1 846 998
EU-2	Trading book exposures	26 103	26 103	57 427
EU-3	Banking book exposures, of which:	1 786 609	1 794 718	1 789 571
EU-4	Covered bonds	-	-	-
EU-5	Exposures treated as sovereigns	693 404	693 680	693 680
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-	-	-
EU-7	Institutions	100 165	102 864	103 880
EU-8	Secured by mortgages of immovable properties	421 630	421 630	416 468
EU-9	Retail exposures	155 483	212 326	212 326
EU-10	Corporates	318 928	256 830	239 439
EU-11	Exposures in default	19 343	25 410	26 256
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	77 656	81 978	97 522

CRR Leverage Ratio — Disclosure Template

Table LRQua: Free format text boxes for disclosure on qualitative items

		Column
		Free format
Row		
1	Description of the processes used to manage the risk of excessive leverage	In 2016, the Bank worked to improve leverage risk management system which includes risk assessment procedures and provides processes which are intended for responding to changes in the leverage ratio.
2	Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers	The Bank's leverage ratio grew by 1.13 p.p. in 2016 The change in ratio was affected by increased Tier 1 capital (EUR 33.1 million) and leverage ratio total exposure measure (EUR 168.4 million).

ANNEX 4 DISCLOSURE ON ASSET ENCUMBRANCE

Bank 31.12.2016

Template A Assets

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	Assets of the reporting institution	27.509		1,796,130	
030	Equity instruments	0	0	1.318	1.318
040	Debt securities	21.068	21.749	545.275	569.651
120	Other assets	0		82.193	

Template B Collateral received

		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	Collateral received by the reporting institution	0	0
150	Equity instruments	0	0
160	Debt securities	0	0
230	Other collateral received	0	0
240	Own debt securities issued other than own covered bonds or ABSs	0	0

Template C Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	Carrying amount of selected financial liabilities	1.734	29.747

D - Information on importance of encumbrance

Encumbrance is not important to Šiaulių Bankas because its volumes are relatively low.

Financial group, 31/12/2016.

Template A Assets

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	Assets of the reporting institution	27.509		1,804,787	
030	Equity instruments	0	0	2.377	2.377
040	Debt securities	21.068	21.749	545.678	569.651
120	Other assets	0		85.965	

Template B Collateral received

		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	Collateral received by the reporting institution	0	0
150	Equity instruments	0	0
160	Debt securities	0	0
230	Other collateral received	0	0
240	Own debt securities issued other than own covered bonds or ABSs	0	0

Template C Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	Carrying amount of selected financial liabilities	1.734	29.747

D - Information on importance of encumbrance

Encumbrance is not important to Financial group of Šiaulių Bankas because its volumes are relatively low.