Additional information regarding the nature of capital and risk of Šiaulių Bankas AB

Hereby we provide additional 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

The document includes separate or consolidated information as of 31 December 2014. Two following key levels of consolidation are applied:

- the Bank, separately.
- the Financial Group which includes the bank and its subsidiary companies: Šiaulių Banko Lizingas UAB (activities –finance leases (leasing) and leases), Šiaulių Banko Investicijų Valdymas UAB (activities – investment management), Šiaulių Banko Turto Fondas UAB (activities – real estate management) and Ūkio Banko Lizingas UAB (activities – consumer funding).

Activity Risk Management

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

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

The Risk Management Policy approved by Board of the Bank as well as by the procedures to manage different types of risks prepared on its basis ensures the integrity of the risk management process in the Bank. The purpose of risk management policy is to define the risks as well as their management principles in the Bank's activities. Due to the fact that various risks experienced by the Bank are interdependent their management is centralized. Organization and coordination of the experienced risk management system is one of the main goals of the Bank's Risk Management Committee.

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

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

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

Capital Management

The capital of the Bank and Financial Group is calcu¬lated and allocated for the risk coverage following the requirement provided for in the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) No.575/2013.

At year-end a minimum capital requirement of 8 per cent was applicable.
An individual capital adequacy requirement was established neither for the Bank nor for Financial Group.

The capital management objectives are as follows:

1) to comply with the own funds requirements set by the European Parliament and the Council of the European as well as the higher target capital requirements set by the major shareholder;
2) to safeguard the Bank's and Financial 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 Bank and Financial Group's business with the help of the strong capital base.

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

The Bank shall at all times satisfy the following own funds requirements:

4) A Common Equity Tier 1 capital ratio of 4,5 %. The Common Equity Tier 1 capital ratio is the Common Equity Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount.
5) A Tier 1 capital ratio of 6 %. The Tier 1 capital ratio is the Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount.
6) A total capital ratio of 8 %. The total capital ratio is the own funds of the institution expressed as a percentage of the total risk exposure amount.

	BANK	FINANCIAL GROUP
Common equity tier 1 capital eligible as CET1 Capital		
Paid up capital instruments	270,000	270,000
Share premium	12,719	12,719
Previous year's retained earnings	33,482	41,797
Other reserves	2,611	2,611
Funds for general banking risk	4,403	5,003
Negative financial assets revaluation reserve	(-173)	(-173)
(-)Goodwill	-	(-48)
(-)Intangible assets	(-1,423)	(-1,864)
TIER 1 CAPITAL	321,619	330,045
Capital instruments and subordinated loans eligible as T2 Capital:		
Subordinated loan capital	69,056	69,056
TIER 2 CAPITAL	69,056	69,056
OWN FUNDS	390,675	399,101
Own funds requirements for:		
Risk weighted exposure amount for credit risk under the Standardized Approach	2,827,556	2,873,715
Traded debt instruments	160,013	57,838
Equity	770	770
Foreign exchange	6,754	8,560
Operational risk under the Basic Indicator Approach	278,199	316,472
Total risk exposure amount	3,273,292	3,257,355
CET1 Capital ratio, (4.5%)	9.83%	10.13%
T1 Capital ratio, (6%)	9.83%	10.13%
Total capital ratio, (8%)	11.94%	12.25%

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.

	BANK			FINANCIAL GROUP		
	Original exposure	RWA	Capital requirements	Original exposure	RWA	Capital requirements
Credit, counterparty credit risk	5,951,430	2,827,556	226,204	6,112,426	2,873,715	229,897
Central governments or central banks	1,567,189	2,226	178	1,567,189	2,226	178
Regional governments or local authorities	314,370	0	0	314,370	0	0
Public sector entities	140,700	70,579	5,646	140,715	70,594	5,648
Institutions	315,782	97,656	7,812	318,676	98,231	7,858
Corporates	1,371,712	1,165,324	93,226	1,133,977	932,505	74,600
of which subject to SME	568,780	478,317	38,265	568,780	478,317	38,265
Retail	523,119	260,301	20,824	795,301	462,558	37,005
of which subject to SME	374,833	189,640	15,171	378,158	191,540	15,323
Secured by mortgages on immovable property	788,254	446,708	35,737	788,254	446,708	35,737
of which subject to SME	511,046	253,117	20,249	511,046	253,117	20,249
Items associated with particular high risk	238,703	313,673	25,094	238,703	313,673	25,094
of which subject to SME	217,010	287,456	22,996	217,010	305,585	24,447
Exposures in default	243,356	132,179	10,574	280,738	146,607	11,729
of which subject to SME	228,227	118,528	9,482	228,227	118,528	9,482
Exposures in the form of units or shares in CIUs	432	432	35	432	432	35
Equity	103,892	147,392	11,791	65,691	109,191	8,735
Other items	343,921	191,087	15,287	468,380	290,991	23,279
Position, foreign exchange and commodities risks	216,501	167,537	13,403	118,095	67,168	5,374
Traded debt instruments	216,116	160,013	12,801	117,710	57,838	4,627
Equity	385	770	62	385	770	62
Foreign Exchange		6,754	540		8,560	685
Operational risk		278,199	22,256		316,472	25,318
Total amount	**6,167,931**	**3,273,292**	**261,864**	**6,230,521**	**3,257,355**	**260,589**

(LTL thousand)

Internal Capital Adequacy Assessment Process (ICAAP)

Sound and comprehensive ICAAP is vital part of a strong risk management policy. The purpose of the Bank's ICAAP is to implement the processes ensuring calculation of the Bank's capital requirement sufficient to cover the activity risks and to ensure the continuity of the performance, calculation of capital requirement and well as appropriate formation of the capital base.

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

1. 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 as an integral part of the Bank's ICAAP.

The initial stages of the ICAAP include the risk identification and risk assessments which are realized during the Bank's self-assessment. During this process, types of risks typical to the Bank's activities are identified and evaluated under the chosen assessment approaches. During the Bank's self-assessment, a factual structure of the risks assumed by the Bank is reviewed and a level of individual risk types is evaluated. 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.

The capital adequacy ratio of the Bank and Financial Group under *Pillar 1* comprised 11.94 and 12.25 per cent respectively at the end of 2014. During the ICAAP the additional capital requirement of 2 per cent at the Bank and of 1.98 in the Financial Group under *Pillar 2* was calculated in order to ensure stable performance of the Bank and Financial Group and cover potential losses.

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

	BANK	FINANCIAL GROUP
Own funds	390,675	399,101
Capital adequacy ratio	11,94 %	12,25 %
Internal capital add-on as percentage points of capital adequacy ratio	2,00 %	1,98 %

Risks	*Pillar 1* capital requirement	*Pillar 2* Add-on	*Pillar 2* Internal capital	*Pillar 1* kapitalo poreikis	*Pillar 2* Add-on	*Pillar 2* Internal capital
Credit	226,204	20,976	247,181	229,897	20,976	250,874
Market	13,403	11,202	24,605	5,373	10,328	15,701
Operational	22,256	0	22,256	25,318	0	25,318
Other	0	33,136	33,136	0	33,332	33,332
Total	261,863	65,314	327,178	260,588	64,636	325,225

(LTL thousand)

Moreover, the Bank is preparing a Recovery Plan. This document is prepared following the Bank Recovery and Resolution Directive approved by the European Commission and foresees all likely assumptions for recovery of financial stability of the Bank in emergency cases.

Capital instruments' main features template

Capital instruments main features template (1).

1	Issuer	Šiaulių Bankas AB
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	LT0000102253
3	Governing law(s) of the instrument	Lithuania
Regulatory treatment		
4	Transitional CRR rules	Common equity tier 1
5	Post-transitional CRR rules	Common equity tier 1
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo and (Sub-)Consolidated
7	Instrument type (types to be specified by each jurisdiction)	
8	Amount recognized in regulatory capital (currency in million, as of most recent reporting date)	LTL 270 000 000
9	Nominal amount of instrument	LTL 1
9a	Issue price	Various
9b	Redemption price	Not applicable
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1994
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down features	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

(') Insert 'N/A' if the question is not applicable.

Own funds disclosure template

		Amount at disclosure date, thousands LTL	
		BANK	FINANCIAL GROUP
Common Equity Tier 1 (CET1) capital: Instruments and reserves			
1	Capital instruments and the related share premium accounts	282,719	282,719
	of which: Instrument type 1		
	of which: Instrument type 2		
	of which: Instrument type 3		
2	Retained earnings	33,482	41,797
3	Accumulated other comprehensive income (and other reserves)	2,438	2,438
3a	Funds for general banking risk	4,403	5,003
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 reviewed interim profits net of any foreseeable charge or dividend		
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	323,042	331,957

		Amount at disclosure date, thousands LTL BANK	FINANCIAL GROUP
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)		
8	Intangible assets (net of related tax liability) (negative amount)	(-1,423)	(-1,912)
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)		
11	Fair value reserves related to gains or losses on cash flow hedges		
12	Negative amounts resulting from the calculation of expected loss amounts		
13	Any increase in equity that results from securitised 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: securitisation 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)	(-1,423)	(-1,912)
29	Common Equity Tier 1 (CET1) capital	321,619	330,045
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		

		Amount at disclosure date, thousands LTL BANK	FINANCIAL GROUP
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)	321,619	330,045
Tier 2 (T2) capital: Instruments and provisions			
46	Capital instruments and the related share premium accounts	69,056	69,056
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	69,056	69,056
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 (T2) capital	69,056	69,056
59	Total capital (TC = T1 + T2)	390,675	399,101
60	Total risk weighted assets	3,273,292	3,257,355

		Amount at disclosure date, thousands LTL BANK	FINANCIAL GROUP
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	9.83%	10.13%
62	Tier 1 (as a percentage of total risk exposure amount)	9.83%	10.13%
63	Total capital (as a percentage of total risk exposure amount)	11.94%	12.25%
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)	4.50%	4.50%
65	of which: capital conservation buffer requirement		
66	of which: countercyclical buffer requirement		
67	of which: systemic risk buffer requirement		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (0-SII) buffer		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	5.33%	5.63%
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)		
Applicable caps on the Inclusion of provisions In Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to stan- dardised approach (prior to the application of the cap)		
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	2,827,556	2,873,715
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)		