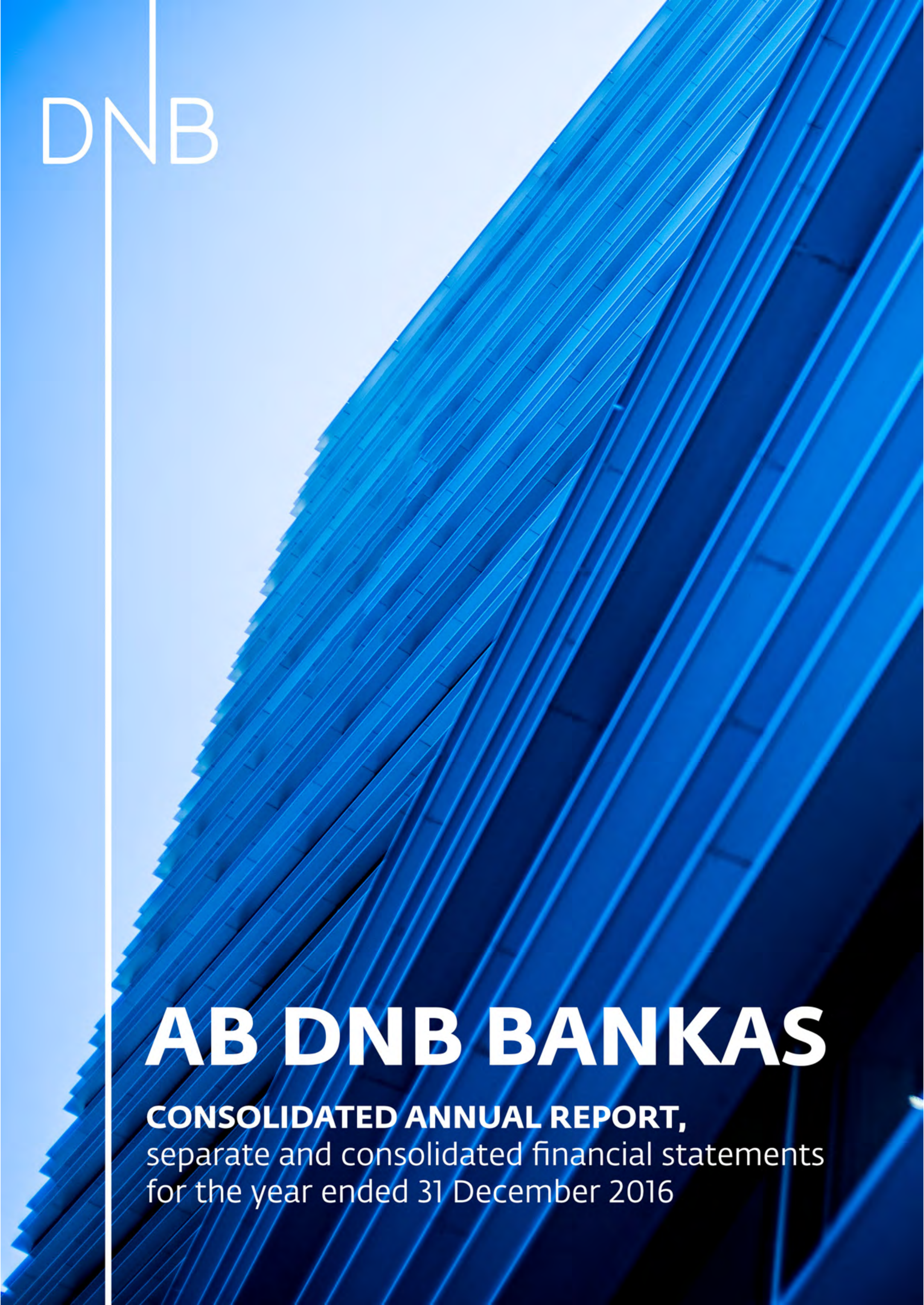

AB DNB BANKAS

CONSOLIDATED ANNUAL REPORT,

separate and consolidated financial statements
for the year ended 31 December 2016

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Building a better
working world

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VAT payer code LT108784411
Register of Legal Entities

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of AB DNB Bankas

Report on the audit of the Financial Statements

Opinion

We have audited the financial statements of AB DNB Bankas (hereinafter "the Bank"), and the consolidated financial statements of the Bank together with its subsidiaries (hereinafter the "Group"), which are presented on pages 23 - 106 and comprise the statements of financial position as at 31 December 2016, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at 31 December 2016 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.

Basis for Opinion

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

Emphasis of matter

We draw attention to Note 38 of the financial statements, which disclose the fact that the Bank and Group has significant irrevocable commitment in respect of IT services and systems used which are subject to possible optimization due to planned merger (as more described in Note 42). Management has prepared the financial statements on the basis that current IT services and systems will be used in the future and concluded that no provision should be recorded in the financial statements as at 31 December 2016. Our opinion is not qualified in respect of this matter

Other Information Included in the Group's Annual Report

Other information consists of the information included in the Group's Annual Report, other than the financial statements and our auditor's report thereon and presented in pages 6 - 22. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Banks's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Building a better working world

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.

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

Asta Štreimikienė
Auditor's licence
No. 000382
24 February 2017

AB DNB BANKAS' GROUP CONSOLIDATED 2016 ANNUAL REPORT

1. REPORTING PERIOD COVERED BY THIS REPORT

This annual consolidated report covers the period from 1 January 2016 to 31 December 2016.

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	Konstitucijos av. 21A, 03601 Vilnius, Republic of Lithuania
Telephone number	(+370 5) 239 34 44
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.

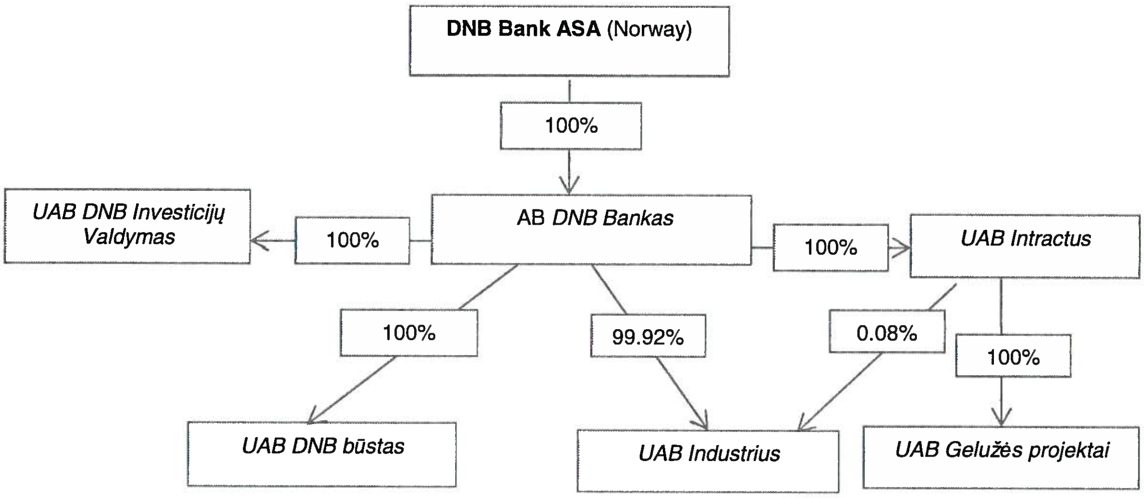
4. THE ORGANIZATIONAL STRUCTURE

On 31 December 2016 Norway's *DNB Bank ASA* was a sole direct shareholder of *AB DNB Bankas* that held 100 per cent direct ownership of the Bank's shares and voting rights.

In Lithuania *AB DNB Bankas' group* (hereinafter referred to as "the Group") 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 6 of this report.

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.

In November 2014 AB DNB Bankas, had acquired 36.47 per cent ordinary registered shares in AB "Informacinio verslo paslaugų įmonė" during recovery process. These shares were sold in March 2016.



AB DNB Bankas provided financial services to its customers in 38 branches across Lithuania as of 31 December 2016.

5. INFORMATION ON PERFORMANCE RESULTS

In 2016 the Group operated profitably. This resulted from the increased business volumes in main business segments as well as focus on operating efficiency and loan portfolio quality.

In 2016 the Group signed new credit contracts (including leasing) worth of EUR 885.2 million, i.e. EUR 93.0 million more than in 2015. The Group's consolidated net loan portfolio decreased by 0.2 per cent year-on-year to EUR 2.8 billion. In 2016 loans to individuals grew by 7.8 per cent to EUR 1.5 billion, meanwhile loans to business decreased by 8.8 per cent and in the end of 2016 stood at EUR 1.2 billion.

With funds held by private individuals and legal entities in their accounts at the Bank increasing, the deposit portfolio rose by 5.7 per cent year-on-year up to EUR 2.5 billion. In the end of December 2016 the Group was providing comprehensive range of financial services to 785 thousand customers.

The Group's assets rose by 2.0 per cent year-on-year and stood at EUR 4.0 billion as of 31 December 2016.

In 2016, the net income (net interest income, net fees and commission, net profit (loss) from operations with securities and derivatives and other income) of the group amounted to EUR 114.3 million. The largest relative weight – 59.2 per cent – of the operating income fell on the net interest income, which increased by 4.5 per cent year-on-year. The net fees and commission income increased by 5.2 per cent year-on-year to EUR 28.9 million.

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 6.4 per cent in 2016 year-on-year to EUR 67.3 million.

In 2016, the Group set aside EUR 20.3 million for impairment losses and provisions.

As a result the Group consolidated profit before taxes rose 22.7 per cent year-on-year to EUR 26.6 million and its net profit increased by 18.3 per cent up to EUR 22.8 million during the same period.

In 2016, the Group's return on equity (ROE) was 4.9 per cent and its cost/income ratio (CIR) made 58.9 per cent.

Year	2013		2014		2015		2016	
	Group	Bank	Group	Group	Bank	Group	Group	Bank
Return on equity (per cent)	3.2	4.0	3.9	1.5	4.3	4.5	4.9	4.9
Cost/income (per cent)	85.7	84.9	77.9	78.7	68.4	67.3	58.9	56.7

2016 was full of challenges for both the market and within the organization. In order to better adapt to the needs of modern society, DNB bank has re-organized its client service structure and made additional investments to create new solutions for the clients. At the same time DNB bank has moved to the new headquarters, has implemented various changes in pricing, product offering, branch structure, client feedback, etc.

In 2016 DNB bank continues consistently encouraged 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. Bank has reached more than 100,000 downloads in the end of year. Electronic tools are particularly relevant for customers by the fact that 99% of all users connects to the mobile bank at least once a month.

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 38 at the end of 2016. 13 per cent of the existing branch network operate as cash-less branches and are renamed as advisory centres. When moving in new headquarters in Vilnius, DNB bank has established brand new concept advisory centre, emphasizing simplicity and convenience of banking services.

In 2016 the Group's customers could use the country's largest ATM network that embraces more than 500 ATMs DNB and SEB in around 80 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 2,000 terminals of UAB "Perlo paslaugos", outlets of Lietuvos paštas and PayPost branches, IKI, MAXIMA, RIMI stores and other marked locations across the country. This variety of options was particularly convenient to customers in locations where there were no banking outlet, ATM or during off office hours.

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 2016.

In order to make daily banking more simple and understandable, DNB has changed pricing for retail customers and introduced banking baskets for different types of services. Every retail customer can choose from three different price baskets and to pay one fixed price per month instead of many separate fees for each operation. Banking baskets became very popular among customers – more than 100,000 of them have chosen banking baskets during the first two months.

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.

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 2016. 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 2016. *AB DNB bankas* also has 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

In 2016 *AB DNB Bankas* continued seeking its strategical target - to be the main bank for the largest Lithuanian companies. The most important attention working with existing corporate customers was paid for customer teams strengthen and better cross-selling. During 2016 credit process speed and efficiency were increased and optimisation of credit process for municipalities was reached.

Credit volumes to wholesale, retail, repair of vehicles and agriculture sectors increased the most during the year while lending volumes to manufacturing, public administration, defence and compulsory social security sectors transport and electricity, gas and water supply sectors was lower compared to the previous year.

While providing comprehensive range of financial services to large corporates in 2016 *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 2016, 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 3 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 more than 2,800 newly set companies have used the solution. 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. Due to the efforts as well as the option to open a cumulative banking account on-line, more than 30 per cent of the newly registered young businesses in Lithuania chose AB *DNB Bankas* as their financial partner in 2016.

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 2016 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, liquidity management, funding arrangement for the Bank and its subsidiaries, 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 2016, the main sources of investment banking income were foreign exchange and commission income from DNB Trade™ on-line platform. Foreign exchange turnover in 2016 exceeded EUR 5.68 billion and generated EUR 5.98 million income for the Bank.

The turnover through DNB Trade™ on-line platform was EUR 4.97 billion and generated EUR 0.6 million income. DNB Trade™ is an electronic real-time trading platform, which offers wide range of financial instruments worldwide including FOREX, equities (over 20 exchanges), CFDs and futures.

6. SUBSIDIARIES

On 31 December 2016 *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	Konstitucijos av. 21A, 03601 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 per cent owned subsidiary *UAB DNB Investicijų Valdymas* is engaged in management of pension funds. It is the country's third largest asset management company in terms of assets.

As of the end of 2016 *UAB DNB Investicijų Valdymas* managed three second pillar pension funds and five third pillar pension funds. During 2016 company has closed DNB fund of funds and now does not have any investment funds under management.

At the end of 2016 assets under management of *UAB DNB Investicijų Valdymas* made EUR 316.9 million (285.5 million in 2015). The company provided its services to 168.5 thousand customers.

Results of funds under management as at the end of 2016:

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%	0.42%	1.46%
DNB Pensija 2	Equity up to 25%	1.88%	3.29%
DNB Pensija 3	Equity up to 50%	3.00%	4.99%
Third pillar pension funds			
DNB papildoma konservatyvi pensija	Government debt securities, equity 0%	0.13%	1.46%
DNB Papildoma pensija	Equity up to 50%	3.00%	4.99%
DNB Papildoma pensija 100	Equity up to 100%	5.64%	10.28%
DNB papildoma darbuotojo pensija 25	Equity up to 25%	1.16%	3.23%
DNB papildoma darbuotojo pensija 50	Equity up to 50%	2.17%	4.99%

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 and actual office address	Konstitucijos av. 21A, 03601 Vilnius, Republic of Lithuania
Telephone number	+370 698 21703
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 2016, AB *DNB Bankas* owned 100 per cent of *UAB DNB Būstas* registered authorized capital of 399,096.36 EUR.

In 2016 *UAB DNB Būstas* carried out its activities in Vilnius, Kaunas, Klaipėda and the surrounding regions. At the end of the reporting period one real estate brokerage company and 49 individual brokers were providing real estate brokerage services under franchise agreements with *UAB DNB Būstas*. During the reporting period *UAB DNB Būstas* retained its position and was among the largest real estate brokerage companies in terms of sales and number of listings.

In 2016 *UAB DNB Būstas* earned 300 thousand EUR net profit compared to 197 thousand EUR in the same period a year ago. *UAB DNB Būstas'* brokers intermediated in real estate assets sales worth 84 million EUR during the reporting period.

Company has generated 1,122 mortgage referrals to the Bank in 2016

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 and actual office address	Konstitucijos av. 21A, 03601 Vilnius, Republic of Lithuania
E-mail Website	intractus@intractus.lt

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 2016 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 30.9 million as of 31 December 2016 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 2016 UAB *Intractus* owned 0.08 per cent 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 and actual office address	Konstitucijos av. 21A, 03601 Vilnius, Republic of Lithuania

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 2016 *UAB Industrius'* authorized capital was EUR 13,782,237.76 *AB DNB Bankas* owned 99.92 per cent of *UAB Industrius* ordinary registered shares and 0.08 per cent 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 4.6 million, including real estate like land plots, buildings and premises.

7. 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 the effective and efficient operations and prudent conduct of business, the compliance with laws and regulations, the adequate assessment and control of risks, as well as the reliability of financial and non-financial information and submission thereof in a timely manner.

The Group identifies, evaluates, accepts and manages the risks 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 the 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. The risk-related activity of the Bank and the Group is strictly restricted by applying the system of limits. The limitations are set and the 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. The 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 (business, reputational) risks it is exposed to in its activities. The credit risk is the dominant in the Bank's risk structure. The detailed information about financial risk assessment and management is provided in the section Financial Risk Management of *AB DNB Bankas'* 2016 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* and the whole financial system.

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 the prudential requirements:

31 December 2016 (per cent)

Ratio	**Bank**
Liquidity (LCR ratio)	178.59
Capital adequacy	17.76
Maximum exposure to one borrower (≤ 25 per cent or ≤ 150 million EUR)	11.29

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

By joining the euro area, Lithuania became the part of European banking union and joined the Single Supervisory Mechanism. The direct supervision of *AB DNB Bankas* – as the systemically important institution and one of the largest 3 banks in Lithuania - has been taken over by 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 the Bank. 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 the section 14. Information on the activities of the committees).

8. RATINGS

When Norway's *DNB Bank ASA* became 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 the Bank starting from 21 March 2011. The full information on the 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 us – Financial Reports and Ratings – Ratings.

9. STRATEGY AND PLANS

DNB Bankas group will continue implementation 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 of DNB and its subsidiaries.

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.

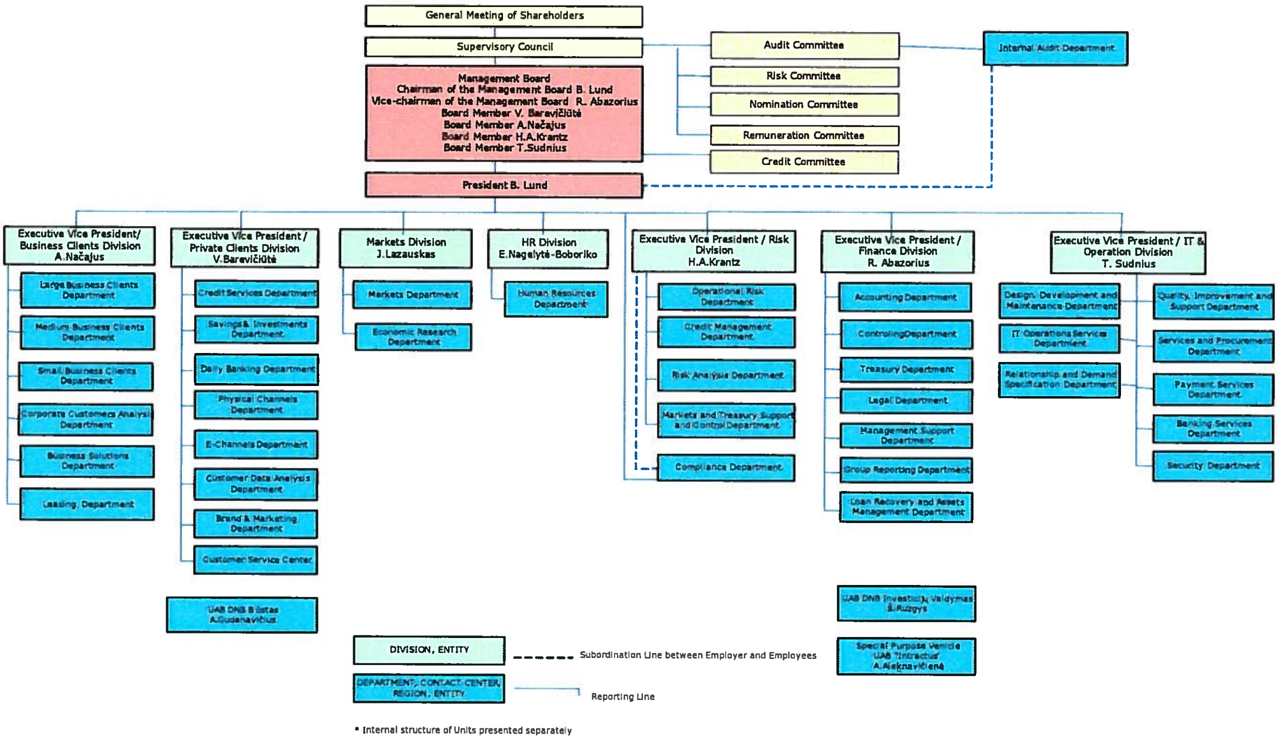
Furthermore *AB DNB Bankas* aims to contribute to maturing the Lithuanian financial market with clear stance on banking and economic issues, considering responsible banking and business ethics and promoting fundamentals of banking. To the Lithuanian society the bank aims to be perceived as transparent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

On 25 August 2016 DNB and Nordea announced an agreement to combine their operations in Estonia, Latvia and Lithuania to create a leading main bank in the Baltics with strong Nordic roots. The new bank will have scale, a stronger geographic presence and a broader product offering, making it well prepared to meet the future. The transaction is conditional upon regulatory approvals and conditions, and is expected to close around Q2 2017. The banks will operate independently until all necessary approvals have been received.

Upon closing of the transaction, the business of each Nordea branch in the Baltics should be transferred to the DNB banking entity operating in the same jurisdiction. The banks should be sufficiently capitalized and should meet all prudential requirements. After the closing of the transaction, the group is expected be reorganized through merger in order to maintain the headquarters and legal entity of the new combined bank in Estonia and continue serving customers of other Baltic jurisdictions through branches in Latvia and Lithuania.

10. ORGANIZATIONAL STRUCTURE

Organisational Management Structure of the AB DNB Bankas 01 01 2017



11. 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 management bodies of the Bank are following: Management Board and Chief Executive Officer (President).

The competence of General Meeting of Shareholders of the Bank is described in the Bylaws of AB DNB Bankas and laws of Republic of Lithuania.

The Supervisory Council of the Bank shall be a collegial supervisory body supervising the operation of the Bank. The General Meeting elects 6 Members of the Supervisory Council. The Supervisory Council shall be elected for the period of 4 years.

The Supervisory Council supervises the activity of the Management Board and the President, ensures the existence of the effective internal control system in the Bank and takes other rights and obligations, described in the Bylaws of AB DNB Bankas and laws of Republic of Lithuania.

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. Management Board manages the Bank and its affairs, represents it and bears the liability for the performance of financial services according to law.

The Management Board shall elect (appoint) and remove the President and the Executive Vice Presidents and takes other rights and obligations, described in the Bylaws of AB DNB Bankas and laws of Republic of Lithuania.

The President shall be a single person management body of the Bank. The President organises the daily operation of the Bank and takes other rights and obligations, described in the Bylaws of AB DNB Bankas and laws of Republic of Lithuania.

12. SUPERVISORY COUNCIL

According to the Bylaws the Supervisory Council of *AB DNB Bankas* consists of six members. As of 31 December 2016 the Supervisory Council consisted of five members.

On 4 March 2016 Olaf Tronsgaard was elected as a member of the Supervisory Council by the decision of the sole shareholder; he started his office on 24 March 2016 upon receipt of the permission of ECB.

On 2 May 2016 Ivars Kapitovičs was elected as a member of the Supervisory Council by the decision of the sole shareholder to replace Tony Samuelsen.

On 23 August 2016 Atle Nicolai Knai was elected as a member of the Supervisory Council by the decision of the sole shareholder. On 6 September he was elected as a chairman of the Supervisory Council and replaced Mats Wermelin in this position. Mats Wermelin resigned from the position of the member of the Supervisory Council on 29 September 2016.

Seventeen 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		
Atle Nicolai Knai	Chairman of the Supervisory Council	23 08 2016	24 03 2018	Norwegian School of Management, master of management	DnB NOR Bank ASA ICI Energy, Vice-president (2005-2006); London branch head of corporate banking, executive director (2006-2010); Head of International Energy, senior vice president (2010-2011); LCI, Baltic division, head of corporate banking (2011-2013); AS DNB Pank (Estonia) chairman of the Management Board and CEO (2013-2014); AS DNB Banka (Latvia) chairman of the Management Board and CEO (2015-2016); DNB LCI Head of Baltic Division (since 2016); DNB Estonia, Member of the Supervisory Council (since 07 03 2016), chairman (09 09 2016); DNB Latvia, member of the Supervisory Council (since 08 11 2016), chairman (since 01 12 2016)
Olaf Tronsgaard	Member of the Supervisory Council	24 03 2016	24 03 2018	Norwegian School of Management, master of business and economics	E.ON AG (1995-1997); DnB NOR Bank ASA, Energy Section, vice-president (1997-2009); Special and Work-out Finance Section, senior vice president (2009-2012); DNB Bank ASA Baltic Division, head of staff (since 2012); DNB Estonia, Member of the Supervisory Council (since 2012); DNB Latvia, member of the Supervisory Council (since 01 05 2016)
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); DNB Estonia, Member of the Supervisory Council (since 2012); DNB Latvia, member of the Supervisory Council (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 Audit Committees (since 2009),member of the Supervisory Council of DNB Poland (since 2010)
Ivars Kapitovičs	Member of the Supervisory Council	02 05 2016	24 03 2018	University of Latvia, bachelor degree in law; Banking Academy of Latvia, master in economics	DNB (Latvia) head of product development department (2005-2006); DNB branch in Estonia general manager (2005-2006); SIA DNB Lizings manager (2004-2006); DNB (Latvia) head of Retail and SME banking, member of the Management Board (2006-2015); AS DNB Pank (Estonia) chairman of the Management Board and CEO (since 2015); DNB Latvia, member of the Supervisory Council (since 01 05 2016).

13. MANAGEMENT BOARD

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

On 23 November 2015 the Supervisory Council elected Anders Krantz as a member of the Management Board; he started his office on 21 January 2016 upon receipt of the permission of ECB Anders Krantz was appointed as the executive vice-president on 26 January 2016.

On 1 February 2016 Dr. Šarūnas Nedzinskas resigned from the position of the member of the Management Board and Executive vice-president.

On 12 May 2016 the Supervisory Council elected Tadas Sudnius as a member of the Management Board. He started his office on 9 June 2016 upon receipt of the permission of ECB. Tadas Sudnius was appointed as the executive vice-president on 13 June 2016.

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); DNB Estonia, Member of the Supervisory Council (since 07 03 2016); DNB (Latvia), member of the Supervisory Council (since 01 05 2016)
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)
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)
Anders Krantz	Member of the Management Board, Executive Vice-president	21 01 2016	24 03 2018	University of Uppsala, bachelor degree	Danske bank a/s, Sweden branch, head of midmarket (2004-2006); DNB Bank ASA, Sweden branch, project manager leveraged finance (2008-2012); head of loan restructuring (2012-2013); senior account officer (2013-2015)
Tadas Sudnius	Member of the Management Board, Executive Vice-president	09 06 2016	24 03 2018	Vilnius university, bachelor of economics	Expert (2003-2005) and manager (2005-2007) of the Sales Control Unit of the Retail Banking Department, manager of N. Vilnia Customer Service Subbranch (2005), AB DnB NORD bankas; Manager of the Business Integration Department, AB DnB NORD bankas (2007-2010); member of the Management Board (2010-2011); adviser to the president (Todo project manager) (2011-2013; Head of the Business Development Division (2013-2016)

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.

14. INFORMATION ON THE ACTIVITIES OF THE COMMITTEES

In the reporting period Audit Committee, Risk, Remuneration, Nomination and Credit committees were operating in *AB DNB Bankas.*

Audit Committee

AB DNB Bankas 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.

The composition of the Audit Committee consists of three members:

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

Starting from 12 May 2016 Olaf Tronsgaard was appointed as a chairman of the Audit Committee replacing Tony Samuelsen.

Members of Audit Committee have no shareholdings in *AB DNB Bankas.*

In 2016 four meetings of the Audit Committee were held.

Risk committee

Risk committee is a non-structural unit of the Bank established by the resolution of the Supervisory Council. Risk committee is established and controlled by the Supervisory Council. New regulations of the Committee were approved on 29 September 2015.

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 composition of the Risk Committee was changed on 12 May 2016 and 22 September 2016 to reflect the changes in the composition of the Supervisory Council. The following changes were made: on 12 May 2016 Tony Samuelsen was recalled from the committee, and Olaf Tronsgaard and Ivars Kapitovičs were appointed as members of the committee; on 22 September 2016

Atle Knai was appointed as a member of the Risk Committee replacing Mats Wermelin. Eline Skramstad continued as a chairperson of the Risk committee.

Risk committee consists of five members:

Chairwoman	**Eline Skramstad**. Employer - *DNB Bank ASA*
Members	**Atle Knai**. Employer - *DNB Bank ASA* **Olaf Tronsgaard**. Employer - *DNB Bank ASA* **Ivars Kapitovičs**. Employer – AS DNB Pank **Leif Rene Hansen**, the independent member.

Risk committee held six meetings in 2016.

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:

Chairman	**Anders Krantz**, Executive Vice president of the Bank.
Members	**Bjornar Lund,** President of the Bank **Andrius Načajus**, Executive Vice-president of the Bank Representative from the Credit Management Department Representative from Loan recovery and asset management Department Representative from Business Clients Department

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 2016 seventy nine 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 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 2016 four meetings of the Remuneration Committee were held.

The composition of the Remuneration Committee was changed on 12 May 2016 and 22 September 2016 to reflect the changes in the composition of the Supervisory Council. The following changes were made: on 12 May 2016 Tony Samuelsen was recalled from the committee, and Olaf Tronsgaard and Ivars Kapitovičs were appointed as members of the committee; on 22 September 2016 Atle Knai was appointed as a chairman of the Remuneration Committee replacing Mats Wermelin.

The Bank's Remuneration committee consists of five members:

Chairman	***Atle Knai***
Members	Eline Skramstad Olaf Tronsgaard Ivars Kapitovičs Leif Rene Hansen

Nomination committee

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

In 2016 six meetings of the Nomination Committee were held.

The committee 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.

The composition of the Nomination Committee was changed on 12 May 2016 and 22 September 2016 to reflect the changes in the composition of the Supervisory Council. The following changes were made: on 12 May 2016 Tony Samuelsen was recalled from the committee, and Olaf Tronsgaard and Ivars Kapitovičs were appointed as members of the committee; on 22 September 2016 Atle Knai was appointed as a chairman of the Nomination Committee replacing Mats Wermelin.

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

Chairman	***Atle Knai***
Members	Eline Skramstad Olaf Tronsgaard Ivars Kapitovičs Leif Rene Hansen

15. 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 2016 the number of employees in the Group was 1,072 employees, 1,059 of them were employees of *AB DNB Bankas*. In the reporting year, the number of *AB DNB Bankas Group* employees averaged 1,013, in the AB DNB Bankas - 996.

Changes in the number of employees and salaries

	31 12 2013	**31 12 2014**	**31 12 2015**	**31 12 2016**
Number of staff in the Bank	1,221	1,127	1,040	1,059
Number of staff in the Group	1,252	1,158	1,056	1,072
Average monthly salary in the Group in Eur	1,265	1,332	1,372	1,390

As at 31 December 2016, the average monthly salary by main staff groups was as follows: EUR 3,012 to the administration (excluding members of the top management); Eur 1,240 to specialists; Eur 608 to clerical staff and workers.

The Group's staff by groups of positions as of 31 December 2016

	Number of employees	Staff structure by education		
		Higher	Specialised secondary (high)	Secondary
Administration	127	122	1	4
Specialists	863	733	78	52
Clerical staff and workers	82	6	1	75
Total	**1,072**	**861**	**80**	**131**

16. 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 acquire 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 parent bank Shares.

1/3 (one third) of the deferred portion of Variable Remuneration in cash and/or in the Shares 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 2016 is based on the data available on 31 December 2016. All amounts indicated are before taxes.

AB DNB Group	**Fixed remuneration (TEur)**	**Variable remuneration (TEur)**	**Number of employees received VR**
Bank administration and Risk Takers*	2,069	258	33
Employees	15,904	484	643
Total:	17,973	742	676

AB DNB Group	**Fixed remuneration (TEur)**	**Variable remuneration (TEur)**	**Number of employees received VR**
Management Board*	924	158	5
Retail*	374	37	7
Front office*	505	36	9
Back office*	266	27	12
Employees	15,904	484	643
Total:	17,973	742	676

*As of 31 December 2016 no payments for performance results of 2016 were made to the Bank employees. Variable remuneration was paid in 2016 for performance results of 2015. Front office – Corporate and Markets employees.

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 Group	Variable remuneration paid in cash (thousand EUR)	Allocated deferred variable remuneration in shares and cash (thousand EUR)	Non-allocated deferred variable remuneration in shares (thousand EUR)
Bank administration and Risk Takers	129	43	86
Employees	484	-	-
Total:	613	43	86

AB DNB Group	Variable remuneration paid in cash (thousand EUR)	Allocated deferred variable remuneration in shares and cash (thousand EUR)	Non-allocated deferred variable remuneration in shares (thousand EUR)
Management Board	79	26	53
Retail	19	6	13
Front office	17	6	11
Back office	14	5	9
Employees	484	-	-
Total:	613	43	86

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

In 2016 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 Group	Number of recipients	Severance payments amount (TEur)	Largest amount per person (TEur)
	83	1,011	208

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 Financier

In 2016 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 financial officer. 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 financier.	**1,014**
Under employment agreement	774
Employer's social insurance contributions	240
Other payments including the employer's social insurance contributions*	**158**
Average per executive and chief financier of the Bank.	**127**
Under employment agreement	97
Employer's social insurance contributions	30

*Expenses related with car rent, accommodation and settling.

17. 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 2016, *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 more than 7,000 participants in Vilnius. For the second time DNB Family Running, where children from different age groups could participate, was organized.

The bank also supports important initiatives of local community by contributing to the community life and cultural events in different towns.

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

	Notes	Group 2016	Group 2015	Bank 2016	Bank 2015
Interest income		79,117	78,424	79,185	76,024
Interest expense		(11,464)	(13,702)	(11,463)	(13,701)
Net interest income	1	**67,653**	**64,722**	**67,722**	**62,323**
Fee and commission income	2	37,551	35,931	34,507	34,697
Fee and commission expense	2	(8,625)	(8,433)	(8,298)	(8,212)
Net interest, fee and commission income		**96,579**	**92,220**	**93,931**	**88,808**
Net gain (loss) on operations with securities and derivative financial instruments and net foreign exchange result	3	9,125	7,907	10,777	8,582
Share of result of an associate	21	(114)	2	(143)	-
Impairment, change in fair value of investment property and provisions	4	(20,286)	(11,527)	(22,391)	(10,516)
Other income	5	8,554	4,917	8,228	3,399
Personnel expenses	6	(26,795)	(29,046)	(26,228)	(28,275)
Depreciation and amortisation	7	(3,958)	(4,300)	(3,433)	(3,775)
Other administrative expenses	8	(36,497)	(38,484)	(34,382)	(35,761)
Profit (loss) before income tax		**26,608**	**21,689**	**26,359**	**22,462**
Income tax	9	(3,797)	(2,409)	(3,755)	(2,394)
Net profit (loss) for the year		**22,811**	**19,280**	**22,604**	**20,068**
Profit (loss) attributable to:					
Equity holders of the parent		22,811	19,280	22,604	20,068
Earnings per share (in EUR per share)					
Basic	10	3.99	3.38		
Diluted	10	3.99	3.38		

These Financial Statements were signed on 24 February 2017:

B. Lund
President

J. Šaučiūnienė
Chief Accountant

The accounting policies and notes on pages 31 to 106 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	
	2016	2015	2016	2015
Profit (loss) for the year	**22,811**	**19,280**	**22,604**	**20,068**
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)	193	10,800	193	10,800
Reclassification adjustments to the income statement (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	**(10,607)**	**10,800**	**(10,607)**	**10,800**
Total comprehensive income (expenses) for the year, net of tax	**12,204**	**30,080**	**11,997**	**30,868**
Attributable to:				
Equity holders of the parent	12,204	30,080	11,997	30,868

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THE GROUP AND BANK STATEMENT OF FINANCIAL POSITION

		Group		Bank	
	Notes	31 December 2016	31 December 2015	31 December 2016	31 December 2015
ASSETS					
Cash and balances with central banks	11	134,149	108,054	134,149	108,054
Due from banks and other credit institutions	12	744,577	665,795	744,577	665,795
Financial assets held for trading	13	5,273	32,800	5,273	32,800
Financial assets designated at fair value through profit or loss	14	98,593	75,164	97,461	74,219
Derivative financial instruments	15	13,607	5,801	13,607	5,801
Available for sale financial assets	16	2,624	10,800	2,624	10,800
Loans and advances to customers	17	2,751,441	2,756,987	2,757,189	2,780,334
Finance lease receivables	19	160,600	142,544	160,600	142,544
Investments in subsidiaries	20	-	-	41,291	47,991
Investment in an associate	21	-	464	-	493
Investment property	23	30,015	63,038	-	1,579
Property, plant and equipment	22	15,644	22,184	15,640	22,177
Intangible assets	24	4,709	5,472	4,229	4,477
Deferred tax asset	9	4,807	5,017	4,807	5,017
Other assets	25	14,532	9,652	13,911	8,952
Non-current assets and disposal groups held for sale	26	7,994	5,537	29	29
Total assets		**3,988,565**	**3,909,309**	**3,995,387**	**3,911,062**
LIABILITIES AND EQUITY					
Due to banks and other credit institutions	27	1,012,291	1,084,261	1,012,291	1,084,261
Derivative financial instruments	15	9,378	5,550	9,378	5,550
Due to customers	28	2,475,696	2,342,734	2,486,137	2,347,725
Provisions	29	296	1,417	296	1,417
Current income tax liabilities		2,111	1,108	2,213	1,197
Other liabilities	30	15,183	12,833	13,626	11,463
Total liabilities		**3,514,955**	**3,447,903**	**3,523,941**	**3,451,613**
Equity attributable to equity holders of the Bank					
Ordinary shares	31	190,205	190,205	190,205	190,205
Share premium	31	81,942	81,942	81,942	81,942
Retained earnings		86,411	66,858	84,329	64,974
Reserves	32	115,052	122,401	114,970	122,328
Total equity		**473,610**	**461,406**	**471,446**	**459,449**
Total liabilities and equity		**3,988,565**	**3,909,309**	**3,995,387**	**3,911,062**

These Financial Statements were signed on 24 February 2017:

B. Lund
President

J. Šaučiūnienė
Chief Accountant

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(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 2015	**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**
Profit for the period	-	-		-	-	22,811	22,811
Other comprehensive income (Note 16)	-	-	(10,607)	-	-	-	(10,607)
Total comprehensive income (expenses) for the year, net of tax	**-**	**-**	**(10,607)**	**-**	**-**	**22,811**	**12,204**
Transfer to mandatory reserve	-	-	-	3,258	-	(3,258)	-
Balance at 31 December 2016	**190,205**	**81,942**	**193**	**9,118**	**105,741**	**86,411**	**473,610**

These Financial Statements were signed on 24 February 2017:

B. Lund
President

J. Šaučiūnienė
Chief Accountant

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(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 2015	**190,183**	**81,942**	**-**	**3,483**	**105,741**	**46,081**	**427,430**
Profit for the period	-	-	-	-	-	20,068	20,068
Other comprehensive income (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**
Profit for the period	-	-	-	-	-	22,604	22,604
Other comprehensive income (Note 16)	-	-	(10,607)	-	-	-	(10,607)
Total comprehensive income (expenses) for the year, net of tax	-	-	(10,607)	-	-	22,604	11,997
Transfer to mandatory reserve	-	-	-	3,249	-	(3,249)	-
Balance at 31 December 2016	**190,205**	**81,942**	**193**	**9,036**	**105,741**	**84,329**	**471,446**

These Financial Statements were signed on 24 February 2017:

B. Lund
President

J. Šaučiūnienė
Chief Accountant

The accounting policies and notes on pages 31 to 106 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 2016	Group 2015	Bank 2016	Bank 2015
Operating activities					
Interest receipt		76,261	72,575	76,326	67,918
Interest payments		(11,960)	(14,931)	(12,111)	(14,302)
Collected previously written-off loans		2,439	1,503	2,439	1,503
Net receipt from FX trading and operations in securities		11,719	17,582	11,719	17,582
Fee and commission receipt		37,530	35,931	34,507	34,697
Fee and commission payments		(8,630)	(8,433)	(8,298)	(8,212)
Salaries and related payments		(27,057)	(29,404)	(26,500)	(28,546)
Other payments		(27,917)	(34,066)	(26,154)	(32,448)
Net cash flows from operating activities before changes in operating assets and liabilities		**52,385**	**40,757**	**51,928**	**38,192**
(Increase) decrease in operating assets:					
(Increase) decrease in loans to credit and financial institutions		(184,223)	(452,202)	(184,223)	(474,702)
(Increase) decrease in loans granted, except loans to credit and financial institutions		(28,392)	(44,738)	(10,803)	(14,275)
(Increase) decrease in trading securities		17,941	(12,276)	17,941	(12,276)
(Increase) decrease in other assets		16,345	(596)	(7,961)	(18,546)
Change in operating assets		**(178,329)**	**(509,812)**	**(185,046)**	**(519,799)**
Increase (decrease) in liabilities:					
Increase (decrease) in liabilities to central bank		(42,700)	342,700	(42,700)	342,700
Increase (decrease) in liabilities to credit and financial institutions		(28,835)	(470,205)	(28,746)	(459,327)
Increase in deposits		133,136	244,058	138,497	246,073
Increase (decrease) in other liabilities		(1,688)	(110)	(1,841)	(951)
Change in operating liabilities		**59,913**	**116,443**	**65,210**	**128,495**
Income tax paid		**(2,513)**	**(943)**	**(2,463)**	**(884)**
Net cash flows from operating activities		**(68,544)**	**(353,555)**	**(70,371)**	**(353,996)**
Investing activities					
Acquisition of property, plant, equipment and intangible assets		(6,605)	(2,091)	(6,596)	(2,086)
Disposal of property, plant, equipment and intangible assets		11,489	496	11,485	496
(Increase) decrease in securities		(23,914)	129,880	(23,717)	129,658
Dividends received		24	35	1,665	737
Interest received		2,070	2,767	2,054	2,719
Disposal of associate		350	-	350	-
Net cash flows from investing activities		**(16,586)**	**131,087**	**(14,759)**	**131,524**

The accounting policies and notes on pages 31 to 106 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	2016	2015	2016	2015
Financing activities					
Own debt securities redemption		-	(60)	-	(60)
Interest paid		-	(2)	-	(2)
Net cash flows from financing activities		**-**	**(62)**	**-**	**(62)**
Net increase (decrease) in cash and cash equivalents		**(85,130)**	**(222,530)**	**(85,130)**	**(222,534)**
Net foreign exchange difference on cash and cash equivalents		2,607	5,968	2,607	5,972
Cash and cash equivalents at 1 January		**246,190**	**462,752**	**246,190**	**462,752**
Cash and cash equivalents at 31 December	35	**163,667**	**246,190**	**163,667**	**246,190**

These Financial Statements were signed on 24 February 2017:

B. Lund
President

J. Šaučiūnienė
Chief Accountant

The accounting policies and notes on pages 31 to 106 are an integral part of these financial statements.

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 2016 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 were excluded from the income statement for 2015 until the merger date. 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 2016 the Bank owned 100% of the share capital of UAB DNB Būstas, UAB DNB Investicijų Valdymas, UAB Intractus and 99.92% of the share capital of UAB Industrius. UAB DNB Intractus owned 100% of the share capital of UAB Gėlužės projektai and 0.08% of UAB Industrius.

The head offices of the Bank and its subsidiaries are located in Vilnius, Konstitucijos av. 21A.

At the end of the reporting period the Bank had 38 client service outlets (2015: 46 client service outlets). As at 31 December 2016 the Bank had 1,059 employees (2015: 1,040 employees). As at 31 December 2016 the Group had 1,072 employees (2015: 1,056 employees).

As at 31 December 2016 the authorized capital of the Bank is EUR 190,204,564 (2015: 190,204,564), which is divided into 5,710,134 (2015: 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 per cent 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 per cent 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 per cent 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 2016 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.

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

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2016:

- **Amendments to IAS 1 *Presentation of financial statements: Disclosure Initiative***
The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The amendments are effective for annual periods beginning on or after 1 January 2016. The implementation of this amendment had no impact on the financial statements of the Group.

- **Amendments to IAS 16 *Property, Plant & Equipment* and IAS 38 *Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization***
The amendment is effective for annual periods beginning on or after 1 January 2016 and 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 had no impact on the financial statements of the Group, as the Group does not use revenue-based depreciation and amortisation methods.

- **Amendments to IAS 19 *Employee Benefits***
The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment addresses accounting for the employee contributions to a defined benefit plan. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. Since the Group's employees do not make such contributions, the implementation of this amendment did not have any impact on the financial statements of the Group.

- **Amendments to IAS 27 *Equity method in separate financial statements***
The amendment is effective for annual periods 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 not applied this amendment.

- **Amendment to IFRS 11 *Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations***
The amendment is effective for annual periods 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 Group had no transactions in scope of this amendment.

The IASB has issued the **Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015.

- IFRS 2 *Share-based Payment*;
- IFRS 3 *Business Combinations*;
- IFRS 8 *Operating Segments;*
- IFRS 13 *Fair value Measurement;*
- IAS 16 *Property, Plant and Equipment*;
- IAS 24 *Related Party Disclosures;*
- IAS 38 *Intangible Assets.*

ACCOUNTING POLICIES (continued)

The IASB has issued the **Annual Improvements to IFRSs 2012 – 2014 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods 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 implementation of those amendments had no impact 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:

IFRS 9 *Financial Instruments*

Introduction
In July 2014, the IASB issued IFRS 9 *Financial Instruments*, the standard that will replace IAS 39 for annual periods on or after 1 January 2018, with early adoption permitted. In 2016 the Bank set up an implementation team ("the Team") with members from its' Credit Risk and Finance teams to prepare for IFRS 9 implementation ("the Project"). The Milestone plan of the projects was approved by the project Steering Group. This plan describes the process sequence and timeline required to achieve IFRS 9 implementation until January 1, 2018. Following the Milestone Plan, the Bank will be able to carry out implementation and adopt required changes on time.

Classification and measurement
From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI) and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

Based on the initial assessment:
• The majority of loans and advances to banks, loans and advances to customers that are classified as loans and receivables under IAS 39 are expected to be measured at amortised cost under IFRS 9.
• Financial assets and liabilities held for trading and financial assets at FVPL are expected to be continue to be measured at FVPL.
• The securities classified as available for sale under IAS 39 are expected to be measured FVOCI.

Impairment of financial assets
IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument. The work on the detailed impairment methodology is in progress. In comparison to IAS 39, the Bank expects the impairment charge under IFRS 9 to be more volatile than under IAS 39 and to result in an increase in the total level of current impairment allowances.

Capital management
The Bank is in the process of evaluating how the new expected loss approach model will impact the Bank's ongoing regulatory capital structure and further details will be provided once the assessment is complete. Based on the analysis to date, the Bank anticipates a negative effect on its regulatory capital.

IFRS 15 *Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2018)

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.

ACCOUNTING POLICIES (continued)

IFRS 15: *Revenue from Contracts with Customers (Clarifications)* (effective for annual periods beginning on or after 1 January 2018, once endorsed by the EU).

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. 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.

Amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative* (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments improve information provided to users of financial statements about an entity's financing activities. Entities are required to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, for example, by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The implementation of these amendments will not have any impact on the financial position or performance of the Group but may result in changes in disclosures.

Amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses* (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments clarify how to account for deferred tax assets for unrealized losses on debt instruments measured at fair value. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 2: *Classification and Measurement of Share based Payment Transactions (Amendments)* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. 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* (In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting)
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.

Amendments to IAS 40: Transfers to Investment Property (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The Group has not yet evaluated the impact of the implementation of this standard.

IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The Group has not yet evaluated the impact of the implementation of this interpretation.

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and

ACCOUNTING POLICIES (continued)

for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU.

- ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

The Group plans to adopt the above mentioned standards and interpretations on their effectiveness 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. Please refer to Note 42 which provides an additional information on the Bank's and the Group's activities in the future that do not impact management's assessment of going concern.

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 and (or) internal Group valuation specialists. 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.

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.

ACCOUNTING POLICIES (continued)

Significant accounting judgments

Intangible assets licensing agreements
Management of the Group has concluded that intangible asset licensing agreements where the Group and (or) the Bank is a licensee and the rights received under the licensing agreement are non-exclusive are out of scope of *IAS 17 Leases*. In addition, management considers that non-exclusive rights received under such licensing agreements do not give a control of underlying intangible assets. Therefore, no intangible assets should be recognized in the Group's and (or) the Bank's financial statements in accordance with *IAS 38 Intangible assets*. Finally, management considers that such licensing agreements should not be recognized as an intangible asset as it represent an executory contract as defined in *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* that are not recognized, unless are onerous. Fees paid according such licensing agreements are recognized as expenses when incurred.

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.

Investments into associates in the Bank's separate financial statements are carried at cost less impairment (if any).

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.

ACCOUNTING POLICIES (continued)

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.

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.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.

Available for sale financial assets

Available for sale financial assets at fair value through other comprehensive income 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.

ACCOUNTING POLICIES (continued)

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 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.

ACCOUNTING POLICIES (continued)

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

Financial assets

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

- the rights to receive cash flows from the asset have expired; or
- the 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.

Financial liabilities

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

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

Intangible assets

An intangible asset is recognised only when its cost can be measured reliably, it is controlled by the Group as a result of past events and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. The Group controls an asset if the Group has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses (if any).

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised using the straight–line method over the useful economic life. The amortisation period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end in order to reflect the pattern of consumption of such asset.

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

Operating leases

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.

Finance leases

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

ACCOUNTING POLICIES (continued)

Employee benefits

Social security contributions

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 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.

Onerous contracts provision

Onerous contracts provision is recognised when the Group has a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

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.

ACCOUNTING POLICIES (continued)

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.

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.

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, business risk, reputational 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 risk 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.

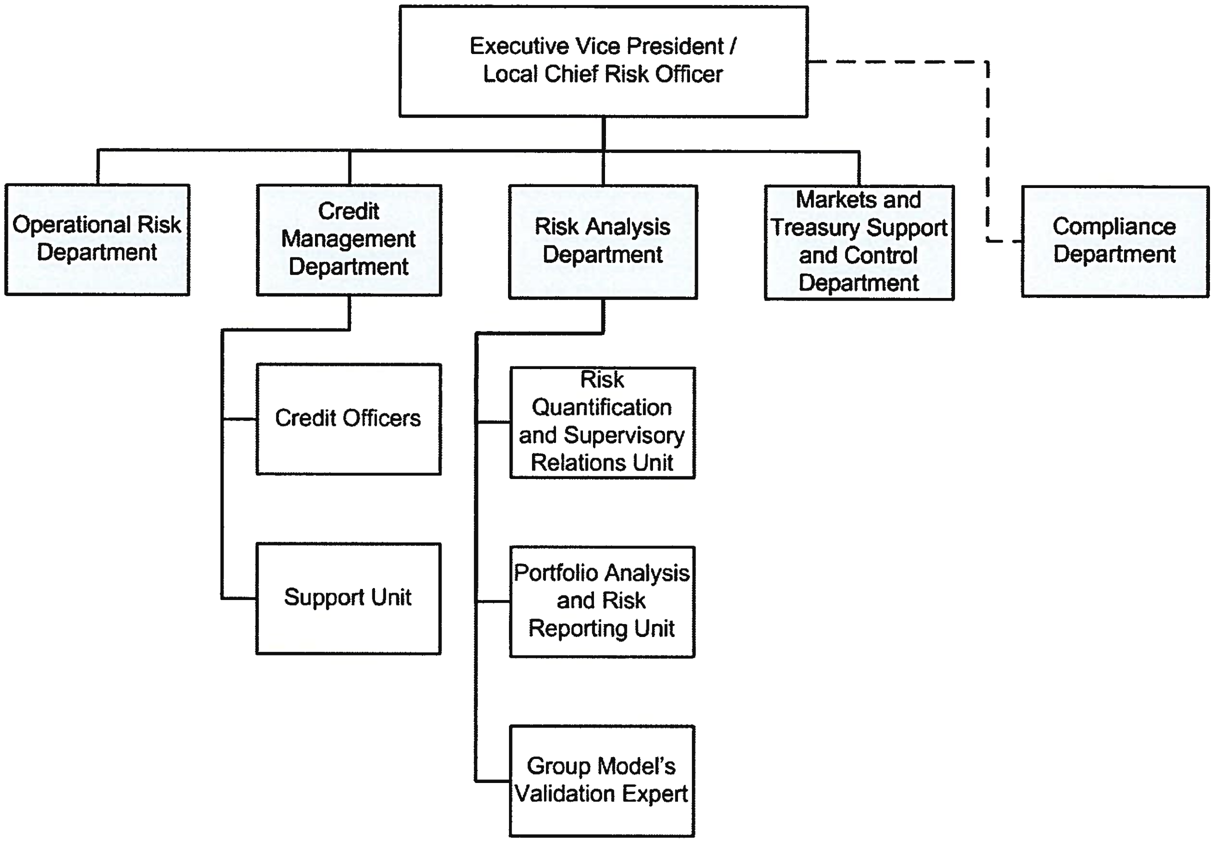
Since 2015 the Recovery plan has been implemented. The plan serves as one of the risk management prevention tools: developed in accordance with "the Recovery and Resolution Directive" approved by the European parliament the plan should ensure restoration of the Group's solvency following situations of 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.

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

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 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 risk ensuring compliance with the laws, rules and regulations applicable to the range of business activities. The Compliance Department functionally reports as dotted line to the Chief Risk Officer and to the Chief Executive Officer of the Bank and as a solid line to DNB Bank ASA Head of Compliance and Anti Money Laundering (AML).

In 2016 Compliance Department started AML Remediation project (hereinafter – the Project). The aim of the Project is to remediate the Bank's clients' database. The scope of the Project – all customers (independently from on-boarding data and money laundering and terrorist financing risk). Duration of the Project is May 2016 – March 2017. Additional necessary resources were approved for the Project and recruitment of new employees was organized. From January 2017 there are 90 FTEs working with the Project.

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 in 2015, which has replaced the Risk Management Committee. 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.

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

FINANCIAL RISK MANAGEMENT (continued)

Credit Committee is 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 the 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 the better clients' solvency situation.

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-eye principle must be followed (in cases of small credit card limits/ consumer credits 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

The credit risk is managed by carrying out a thorough analysis of the customer before issuing the 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 2016 rating models and risk parameters, mainly for business customers, were subject to further amendment in order to reflect the risk more precisely. The new rating model for small and medium-sized enterprises (SMEs) was implemented in July of 2016. Moreover, development of rating model for microbusiness segment was accomplished during 2016 and implementation process into the credit processes started in December 2016. LGD (*loss given default*) model for large corporates with annual sales exceeding 125 million euro was implemented in the second quarter of 2016. The process of review of LGD parameters for car leasing to private individuals and legal entities was started in 2015, and newly developed LGDs for car leasing were implemented into the credit processes in the third quarter of 2016. As well, LGD parameters for other (non-car) leasing segments were under review during 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

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

FINANCIAL RISK MANAGEMENT (continued)

assessment are also extended to the other segments of the loan portfolio through the standardized pricing tools or rules. The risk-based credit pricing tools for all customer / product segments are monitored regularly and updated, if needed.

In 2016 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. These amendments took into account as well the above mentioned changes to rating models and risk parameters.

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 2016 high attention was dedicated to training of employees involved in credit activities on more in-depth understanding of rating models and risk parameters, risk based pricing principles, RORAC-based profitability measurement and relationship between them as well as risk data quality assurance issues.

(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. 98 per cent of Bank owned debt securities are issued by the governments of Lithuania and Latvia or guaranteed by the governments of Belgium, France and Luxemburg. The average weighted duration of the portfolio is about 2.5 years. The remaining 2 per cent consist of unrated position. The debt securities investments in the Bank portfolios are performed in accordance with the limits set by the Bank and the parent bank. The 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 2016, 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. More information on collaterals, value assessments of collaterals, periodical review of collateral values is provided in 1.5.e).

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.

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

FINANCIAL RISK MANAGEMENT (continued)

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 are 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.

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.

Currently 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, the Group uses IBNR (incurred but not reported) method. 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. LIP (loss identification period) parameter used by the Group depends on periodic follow-up and is 12 months for immaterial exposures and 3 months for material exposures as material exposures are subject to quarterly monitoring of early warning signals and watch lists following the internal Credit Manual provisions, monitoring and watch list procedures so worsened financial situation or credit quality can be expeditiously identified.

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	
	2016	2015	2016	2015
Credit risk exposures relating to on-balance sheet assets are as follows:				
Cash and balances with central banks	**134,149**	**108,054**	**134,149**	**108,054**
Due from banks and other credit institutions	**744,577**	**665,795**	**744,577**	**665,795**
Loans and advances to customers:	**2,751,441**	**2,756,987**	**2,757,189**	**2,780,334**
Loans and advances to financial institutions	**11,817**	**51**	**11,817**	**51**
Loans to individuals (retail):	**1,536,251**	**1,425,059**	**1,536,251**	**1,425,059**
- Consumer loans	75,706	68,899	75,706	68,899
- Mortgages	1,243,739	1,141,465	1,243,739	1,141,465
- Loans secured by equity linked bonds issued by Bank	1,500	2,324	1,500	2,324
- Other (credit cards, reverse repurchase agreements, other loans backed by securities, other)	215,306	212,371	215,306	212,371
Loans to business customers:	**1,203,373**	**1,331,877**	**1,209,121**	**1,355,224**
- Public authorities, state and municipal entities	256,692	286,818	256,692	286,818
- Large corporates	633,573	696,092	639,321	719,439
- SMEs	312,343	348,440	312,343	348,440
- Other	765	527	765	527
Finance lease receivables	**160,600**	**142,544**	**160,600**	**142,544**
- Individuals	46,065	38,113	46,065	38,113
- Business customers	114,535	104,431	114,535	104,431
Trading assets:	**5,273**	**32,800**	**5,273**	**32,800**
- Debt securities	5,273	32,800	5,273	32,800
Securities designated at fair value through profit or loss	**98,593**	**75,164**	**97,461**	**74,219**
- Debt securities	98,575	74,900	97,443	73,993
- Equity securities	18	264	18	226
Derivative financial instruments	**13,607**	**5,801**	**13,607**	**5,801**
Securities available for sale	**2,624**	**10,800**	**2,624**	**10,800**
- Equity securities	2,624	10,800	2,624	10,800
Credit risk exposures relating to off – balance sheet items are as follows:	**511,280**	**441,511**	**515,132**	**445,163**
- Financial guarantees	40,575	42,581	40,575	42,581
- Loan commitments and other credit related liabilities	470,705	398,930	474,557	402,582
December 31	**4,422,144**	**4,239,456**	**4,430,612**	**4,265,510**

The table above represents credit risk exposure at 31 December 2016 and 2015, 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 25 million, while SMEs are legal entities with annual turnover up to EUR 25 million.

Loans and advances to banks and customers account for 79% of the total maximum exposure of the Group (2015: 81%) and for 79% of the total maximum exposure of the Bank (2015: 81%).

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 2016 was 3.5% whereas in 2015 it stood at 3.9%.

(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 70% 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			
	2016		2015	
	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	2,453,328	744,577	2,364,786	665,795
Past due but not impaired	184,992	-	255,036	-
Impaired	211,777	-	249,267	-
Gross	**2,850,097**	**744,577**	**2,869,089**	**665,795**
Less: allowance for impairment	(98,656)	-	(112,102)	-
Net	**2,751,441**	**744,577**	**2,756,987**	**665,795**

Bank

	31 December			
	2016		2015	
	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	2,459,076	744,577	2,388,133	665,795
Past due but not impaired	184,992	-	255,036	-
Impaired	211,777	-	249,267	-
Gross	**2,855,845**	**744,577**	**2,892,436**	**665,795**
Less: allowance for impairment	(98,656)	-	(112,102)	-
Net	**2,757,189**	**744,577**	**2,780,334**	**665,795**

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 2016 the Group's net amount of total loans and advances to customers decreased by 0.2%. The Group's total impairment allowance for loans and advances is EUR 98,656 thousand (2015: EUR 112,102 thousand) and it accounts for 3.5% of the Group's respective portfolio (2015: 3.9%). The Group's impaired loans and advances to customers make 7.4% of the respective portfolio (2015: 8.7%). 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 2016

	Bank loans to customers		
	Business customers	**Individual customers**	**Total**
Low risk	543,097	1,091,579	1,634,676
Moderate risk	465,533	277,958	743,491
High risk	23,475	57,434	80,909
Total	**1,032,105**	**1,426,971**	**2,459,076**

Total figures of the Group would be lower by EUR 5,748 thousand due to loans to subsidiary – UAB Intractus, that is assigned to low risk.

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, that is 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 2016 and 2015 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 2016

	Group and Bank loans to customers		
	Business customers	**Individual customers**	**Total**
Past due up to 3 days	37,243	9,339	46,582
Past due 4 -30 days	42,829	26,083	68,912
Past due 31-60 days	1,754	21,812	23,566
Past due 61-90 days	3,862	9,077	12,939
Past due more than 90 days	19,434	13,559	32,993
Total	**105,122**	**79,870**	**184,992**
Value of risk mitigation measures	65,740	76,168	141,908

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

More than half (62.4%) of loans and advances reported as past due but not impaired are past due up to one month, up to 30 days as at 31 December 2016 (2015: 72.9%).

c) Impaired loans and advances

Accrued interest income for individually impaired loans and advances to customers amount to EUR 17,352 thousand as of December 31, 2016 (2015: EUR 19,764 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, 2016 and 2015.

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 2016			
Individually assessed impaired loans	145,984	65,793	211,777
Fair value of collateral	95,315	38,015	133,330
31 December 2015			
Individually assessed impaired loans	163,118	86,149	249,267
Fair value of collateral	106,891	51,102	157,993

(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 2016 and 2015.

	Group and Bank loans	
	2016	**2015**
Loans to individuals (retail):	**14,553**	**4,883**
- Consumer loans	196	21
- Mortgages	5,985	928
- Loans secured by equity linked bonds issued by Bank	683	-
- Other (credit cards, reverse repurchase agreements, other loans backed by securities, other)	7,689	3,934
Loans to business customers:	**25,820**	**26,027**
- Large corporates	7,410	18,774
- SMEs	18,410	7,253
Total	**40,373**	**30,910**

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 50% of the secured part of the Group's loan portfolio (2015: 47%).

31 December 2016

	Group and Bank loans to individuals (retail)	%	Group loans to business customers	%	Bank loans to business customers	%
Unsecured loans	**111,596**	**7%**	**372,465**	**29%**	**378,213**	**30%**
Loans collateralized by:	**1,461,038**	**93%**	**893,181**	**71%**	**893,181**	**70%**
- residential real estate	1,141,192	73%	34,220	3%	34,220	3%
- other real estate	132,265	8%	656,363	52%	656,363	51%
- securities	5	0%	930	0%	930	0%
- guarantees	159,776	10%	53,962	4%	53,962	4%
- other assets	27,800	2%	147,706	12%	147,706	12%
Total	**1,572,634**	**100%**	**1,265,646**	**100%**	**1,271,394**	**100%**

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

FINANCIAL RISK MANAGEMENT (continued)

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%**

1.6. Finance lease receivables

Finance lease receivables are summarized as follows:

	2016			2015		
	Business customers	Individuals	Total	Business customers	Individuals	Total
Neither past due nor impaired	108,887	44,016	152,903	98,136	35,971	134,107
Past due but not impaired	2,944	1,952	4,896	4,110	2,050	6,160
Impaired	5,205	244	5,449	3,391	333	3,724
Gross	**117,036**	**46,212**	**163,248**	**105,637**	**38,354**	**143,991**
Less: allowance for impairment	(2,501)	(147)	(2,648)	(1,206)	(241)	(1,447)
Net	**114,535**	**46,065**	**160,600**	**104,431**	**38,113**	**142,544**

In 2016, finance lease receivables portfolio increased by 13.4%. Total impairment allowance for finance lease receivables is EUR 2,648 thousand (2015: EUR 1,447 thousand) and it accounts for 1.6% of the respective portfolio (2015: 1.0%).

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 2016 based on Moody's ratings or their equivalent.

31 December 2016

Group

Rating	Trading securities		Securities designated at fair value through profit or loss		Total
	Bonds	T-Bills	Bonds	T-Bills	
Aaa	-	-	-	-	-
From Aa3 to Aa1	-	-	10,007	-	**10,007**
From A3 to A1	2,935	-	88,568	-	**91,503**
From Baa1 to Ba3	193	-	-	-	**193**
From B1 to B3	-	-	-	-	-
NR	2,145	-	-	-	**2,145**
Total	**5,273**	**-**	**98,575**	**-**	**103,848**

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

FINANCIAL RISK MANAGEMENT (continued)

31 December 2016

Bank

Rating	Trading securities		Securities designated at fair value through profit or loss		Total
	Bonds	T-Bills	Bonds	T-Bills	
Aaa	-	-	-	-	-
From Aa3 to Aa1	-	-	10,007	-	**10,007**
From A3 to A1	2,935	-	87,436	-	**90,371**
From Baa1 to Ba3	193	-	-	-	**193**
From B1 to B3	-	-	-	-	-
NR	2,145	-	-	-	**2,145**
Total	**5,273**	**-**	**97,443**	**-**	**102,716**

31 December 2015

Group

Rating	Trading securities		Securities designated at fair value through profit or loss		Total
	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**

31 December 2015

Bank

Rating	Trading securities		Securities designated at fair value through profit or loss		Total
	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**

(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	**2016**	**2015**	**2016**	**2015**
Repossessed assets (investment properties, Note 23)	30,015	63,038	-	1,579
Repossessed assets (non-current assets held for sale, Note 26)	7,994	5,537	29	29
Retrieved assets under cancelled lease contracts (Note 25)	1,726	2,790	1,726	2,790
Total	**39,735**	**71,365**	**1,755**	**4,398**

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	Total
Neither past due nor impaired	463	170,924	188,686	41,788	33,820	198,744	50,167	236,525	254,505	98,770	1,331,839	2,606,231
Past due but not impaired	-	13,675	10,500	403	2,336	17,614	2,423	58,942	16	12,512	71,467	189,888
Impaired	-	6,903	17,786	-	16,735	13,377	3,279	87,494	-	8,977	62,675	217,226
Value adjustments and provisions	(12)	(2,309)	(6,733)	(52)	(12,064)	(7,624)	(2,355)	(31,639)	(230)	(3,683)	(34,603)	(101,304)
Changes for value adjustments and provisions during the reporting period	(12)	(279)	(3,411)	4	4,277	(458)	(295)	4,562	(146)	453	7,550	12,245
Total at 31 December 2016	**451**	**189,193**	**210,239**	**42,139**	**40,827**	**222,111**	**53,514**	**351,322**	**254,291**	**116,576**	**1,431,378**	**2,912,041**
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**

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	Total
Neither past due nor impaired	463	170,924	188,686	41,788	33,820	198,744	50,167	242,273	254,505	98,770	1,331,839	2,611,979
Past due but not impaired	-	13,675	10,500	403	2,336	17,614	2,423	58,942	16	12,512	71,467	189,888
Impaired	-	6,903	17,786	-	16,735	13,377	3,279	87,494	-	8,977	62,675	217,226
Value adjustments and provisions	(12)	(2,309)	(6,733)	(52)	(12,064)	(7,624)	(2,355)	(31,639)	(230)	(3,683)	(34,603)	(101,304)
Changes for value adjustments and provisions during the reporting period	(12)	(279)	(3,411)	4	4,277	(458)	(295)	4,562	(146)	453	7,550	12,245
Total at 31 December 2016	**451**	**189,193**	**210,239**	**42,139**	**40,827**	**222,111**	**53,514**	**357,070**	**254,291**	**116,576**	**1,431,378**	**2,917,789**
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**

*Real estate activities include counterparties reported under loans and advances to financial institutions in Financial risk management note 1.4.

(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, Markets and other related departments. 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 13 thousand in 2016 (EUR 25 thousand in 2015) 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 2016 (basis point value in TEUR):

Risk	Bank	DNB investiciju valdymas	Elimination effect	Consolidated
EUR	(6.9)	(0.3)	-	(7.1)
USD	0.6	-	-	0.6
PLN	0.0	-	-	0.0
NOK	0.0	-	-	0.0
Others	0.0	-	-	0.0

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

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 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	EUR	USD
2016	119	160
2015	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 Equity and P&L:

	Equity		P&L	
Year	Group	Bank	Group	Bank
2016	957	925	2,085	2,054
2015	468	473	2,555	2,550

2.4 Equity risk

The Group does not engage in proprietary stock trading. The shares of SWIFT and VISA are not considered as an investment into equities due to the fact that this is recognized as participation in these settlement systems rather than any kind of investment into shares.

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 (e.g. 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 DNB Group level and restricted by LCR (Liquidity Coverage Ratio) and the liquidity limits set by the DNB Markets Norway.

Bank's Management is constantly monitoring the liquidity situation on the financial markets. The Bank is ready to act in case liquidity situation becomes worse and business and funding contingency plans are in place and up to date.

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

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

FINANCIAL RISK MANAGEMENT (continued)

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). The Liquidity gap of the Bank does not materialy differ from the Group.

	31 December 2016			31 December 2015		
million EUR	1 week	1 month	3 months	1 week	1 month	3 months
Liquidity gap (Group)	194.8	164.8	113.9	170.1	131.4	58.0
Limits	0	0	0	0	0	0

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 is applicable to the Bank as a Europe wide requirement. Minimum requirement of LCR is 100%, however Bank has substantial buffer and maintains higher ratio. LCR is intended to promote short-term resilience of a Bank's liquidity risk profile and 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. The Funding ratio and LCR ratio of the Bank does not materialy differ from the Group.

	31 December 2016	31 December 2015
Funding ratio (Group)	1.27	1.17
LCR (Group)	181%	174%

3.2. Funding approach

The bank has a possibility of attracting funding at minimum market cost. The parent Bank DNB (counterparty credit rating according to Moody's being P-1/Aa2/Negative provided in October 2016) 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.

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 2016 **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	23,418	15,750	13,994	956,285	-	**1,009,447**
Due to customers	2,283,819	51,039	130,483	8,287	2,152	**2,475,780**
Other financial liabilities	12,995	1,527	2,483	533	52	**17,590**
Total liabilities (contractual maturity dates)	**2,320,232**	**68,316**	**146,960**	**965,105**	**2,204**	**3,502,817**

Bank

31 December 2016 **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	23,418	15,750	13,994	956,285	-	**1,009,447**
Due to customers	2,294,260	51,039	130,483	8,287	2,152	**2,486,221**
Other financial liabilities	11,663	1,425	2,462	533	52	**16,135**
Total liabilities (contractual maturity dates)	**2,329,341**	**68,214**	**146,939**	**965,105**	**2,204**	**3,511,803**

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

FINANCIAL RISK MANAGEMENT (continued)

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**

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**

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 2016	**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	25	3	(100)	(166)	(104)	**(342)**
- Commodity derivatives	6	13	68	6	-	**93**
Total	**31**	**16**	**(32)**	**(160)**	**(104)**	**(249)**

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)	**726**
Total	**9**	**144**	**314**	**369**	**(110)**	**726**

b) *Derivatives settled on a gross basis*

31 December 2016

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	50,748	43,987	118,731	833	214,299
Inflow	52,311	45,892	119,774	839	218,816
Total outflow	**50,748**	**43,987**	**118,731**	**833**	**214,299**
Total inflow	**52,311**	**45,892**	**119,774**	**839**	**218,816**

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

FINANCIAL RISK MANAGEMENT (continued)

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**

3.5. Off - balance sheet items

Analysis of nominal 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 2016				
Financial guarantees	25,914	14,239	422	40,575
Letters of credit	1,794	-	-	1,794
Commitments to grant loans	273,992	143,084	4,306	421,382
Commitments to grant finance leases	25	1,986	50	2,061
Capital commitments and other commitments to acquire assets	546	-	-	546
Other commitments	33,806	14,438	2,386	50,630
Total	**336,077**	**173,747**	**7,164**	**516,988**
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**

Bank

	Up to one year	From 1 to 5 years	Over 5 years	Total
At 31 December 2016				
Financial guarantees	25,914	14,239	422	40,575
Letters of credit	1,794	-	-	1,794
Commitments to grant loans	273,992	146,936	4,306	425,234
Commitments to grant finance leases	25	1,986	50	2,061
Capital commitments and other commitments to acquire assets	546	-	-	546
Other commitments	33,806	14,438	2,386	50,630
Total	**336,077**	**177,599**	**7,164**	**520,840**
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**

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

FINANCIAL RISK MANAGEMENT (continued)

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 Group and 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 2016	**Group**		**Bank**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Assets				
Due from banks and other credit institutions	744,577	744,587	744,577	744,587
Loans and advances to customers of which:	2,751,441	2,712,724	2,757,189	2,718,391
-Loans to individuals	1,536,251	1,514,633	1,536,251	1,514,633
-Loans to business customers	1,203,373	1,186,440	1,209,121	1,192,107
-Loans and advances to financial institutions	11,817	11,651	11,817	11,651
Finance lease receivables of which:	160,600	158,340	160,600	158,340
-Individuals	46,065	45,417	46,065	45,417
-Business customers	114,535	112,923	114,535	112,923
Liabilities				
Due to banks	1,012,291	998,835	1,012,291	998,835
Due to customers	2,475,696	2,475,704	2,486,137	2,486,145

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

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.

Carying value of accrued expenses as disclosed in Note 30 represents the fair value.

There were no movements of financial instruments between the levels during 2016 and 2015.

Valuation of all financial assets and liabilities measured at fair value was performed as at December 31, 2016.

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

FINANCIAL RISK MANAGEMENT (continued)

Group

As at 31 December 2016	Level 1	Level 2	Level 3	Total
Derivative financial assets (Note 15):				
FX forwards, swaps, put, call options	-	6,093	-	6,093
Interest rate swaps, collars	-	4,369	-	4,369
Commodity swaps	-	3,145	-	3,145
	-	**13,607**	**-**	**13,607**
Financial assets held for trading (Note 13):				
Debt securities	3,128	-	2,145	5,273
	3,128	**-**	**2,145**	**5,273**
Financial assets designated at fair value through profit or loss (Note 14):				
Debt securities	98,575	-	-	98,575
Equity securities	-	-	18	18
	98,575	**-**	**18**	**98,593**
Available for sale financial assets (Note 16):				
Equity securities	-	-	2,624	2,624
	-	**-**	**2,624**	**2,624**
	101,703	**13,607**	**4,787**	**120,097**
Liabilities measured at fair value				
Derivative financial liabilities (Note 15):				
FX forwards, swaps, put, call options	-	2,011	-	2,011
Interest rate swaps, collars	-	4,314	-	4,314
Commodity swaps	-	3,053	-	3,053
	-	**9,378**	**-**	**9,378**

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

FINANCIAL RISK MANAGEMENT (continued)

Bank

As at 31 December 2016	Level 1	Level 2	Level 3	Total
Derivative financial assets (Note 15):				
FX forwards, swaps, put, call options	-	6,093	-	6,093
Interest rate swaps, collars	-	4,369	-	4,369
Commodity swaps	-	3,145	-	3,145
	-	**13,607**	**-**	**13,607**
Financial assets held-for-trading (Note 13):				
Debt securities	3,128	-	2,145	5,273
	3,128	**-**	**2,145**	**5,273**
Financial assets designated at fair value through profit or loss (Note 14):				
Debt securities	97,443	-	-	97,443
Equity securities	-	-	18	18
	97,443	**-**	**18**	**97,461**
Available for sale financial assets (Note 16):				
Equity securities	-	-	2,624	2,624
	-	**-**	**2,624**	**2,624**
	100,571	**13,607**	**4,787**	**118,965**
Liabilities measured at fair value:				
Derivative financial liabilities (Note 15):				
FX forwards, swaps, put, call options	-	2,011	-	2,011
Interest rate swaps, collars	-	4,314	-	4,314
Commodity swaps	-	3,053	-	3,053
	-	**9,378**	**-**	**9,378**

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

FINANCIAL RISK MANAGEMENT (continued)

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):				
Government 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**

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):				
Government debt securities	73,993	-	-	73,993
Other debt 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**
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)

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.

On 25th of August 2016 it was publically announced about DNB and Nordea plan to joint forces in the Baltics. During the transitional period the Bank may face new risks, which could affect daily operations and would not emerge in standard situation. Therefore in September 2016 a special risk assessment was held with Management Board members and Risk Area's managers in order to identify emerging risk drivers during the transitional period. Transition period risks' status is reported periodically to the Management Board.

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. In 2016 business continuity and contingency management plans were fully reviewed and updated because of the change of new HQ. Moreover, in order to ensure an uninterrupted functioning of the IT systems and data security, all critical IT components are duplicated.

In 2016 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. In 2016 new operational risk management training programme was prepared and implemented. As in previous years, in July – September 2016 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, a separate operational risk assessment was made in IT and Operations area in November - December. The assessment was based on best practice methodology with the main focus on IT risk management and control and information security risk management and control. Risk minimization plans were made for high and medium risks. Moreover, in 2016 a separate AML/CFT risk and annual compliance risk assessment has been made in the Bank. The reputation risk assessment project was initiated in June 2016 by the Group initiative. During the project all products and services were evaluated and rated according to influence on reputation risk.

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 foreign exchange), operational risks and the stress testing of the financial plan (business risk). 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.

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

FINANCIAL RISK MANAGEMENT (continued)

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, deferred tax assets and other deductions.
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 2016 other systematically important institutions capital buffer of 2% was implemented for four lithuanian banks, i.g. for AB DNB Bankas.

During 2016 and 2015, the Group complied with the capital requirements to which it is subject.

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Tier 1/Common Equity Tier 1 (CET 1) capital	426,010	424,487	424,533	422,737
Tier 2 capital	77	6,624	77	6,624
Total own funds	**426,087**	**431,111**	**424,610**	**429,361**
Total risk exposure amount	**2,382,424**	**2,379,350**	**2,391,166**	**2,389,963**
Tier1/Common Equity Tier 1 (CET 1) capital ratio, %	17.88	17.84	17.75	17.69
Capital ratio, %	**17.88**	**18.12**	**17.76**	**17.97**

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, Standard & Poor's 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**	**guarantees**	**Exposure net of value adjustments and provisions**	**Total exposure value covered by eligible collaterals**	**guarantees**
Central governments or central banks	41,006	-	-	41,006	-	-
Regional governments or local authorities	194,610	-	-	194,610	-	-
Public sector entities	77,273	103	36,606	77,273	103	36,606
Institutions	778,143	141,695	65	778,143	141,695	65
Items associated with particularly high risk	41,316	-	-	50,916	-	-
Corporates	1,104,017	4,560	7,757	1,104,017	4,560	7,757
Retail	658,617	6,204	25,143	658,617	6,204	25,143
Secured by mortgage or immovable property	1,190,111	1,190,111	-	1,190,111	1,190,111	-
Exposures in default	147,494	8	2,573	147,494	8	2,573
Equity exposures	2,624	-	-	43,915	-	-
Other items	161,333	-	-	122,728	-	-
Total	**4,396,544**	**1,342,681**	**72,144**	**4,408,830**	**1,342,681**	**72,144**

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.

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

FINANCIAL RISK MANAGEMENT (continued)

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 - if it is assessed during self-assessment that residual risk is material.

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 possible scenario losses.

In order to have sufficient capital charge for the foreign exchange risk, the Bank allocates additional capital based on the results of stress testing possible 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	
	2016	2015	2016	2015
Interest income:				
on loans(including finance lease) and advances to customers, banks and other credit institutions	77,177	76,989	77,268	74,621
of wich on liabilities	1,801	408	1,801	408
on financial assets held for trading	944	339	944	339
on financial assets designated at fair value through profit or loss	996	1,096	973	1,064
Total interest income	**79,117**	**78,424**	**79,185**	**76,024**
Interest expense				
on deposits and other repayable funds	4,474	4,669	4,474	4,669
of wich on assets	2,171	697	2,171	697
fees for compulsory insurance of deposits and for resolution fund	6,990	9,033	6,989	9,032
Total interest expense	**11,464**	**13,702**	**11,463**	**13,701**
Net interest income	**67,653**	**64,722**	**67,722**	**62,323**

NOTE 2 NET FEE AND COMMISSION INCOME

	Group		Bank	
	2016	2015	2016	2015
Fee and commission income:				
money transfer operations	26,715	25,478	26,715	25,482
securities operations	973	1,185	973	1,185
trust and other fiduciary activities	3,268	3,109	199	218
guarantee commissions	1,036	1,250	1,036	1,688
other	5,559	4,909	5,584	6,124
Total fee and commission income	**37,551**	**35,931**	**34,507**	**34,697**
Fee and commission expense:				
money transfer operations	7,214	7,058	7,214	7,058
guarantee commissions	50	51	50	51
trust and other fiduciary activities	186	174	186	174
other	1,175	1,150	848	929
Total fee and commission expense	**8,625**	**8,433**	**8,298**	**8,212**
Net fee and commission income	**28,926**	**27,498**	**26,209**	**26,485**

(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	
	2016	2015	2016	2015
Debt securities (Note 13)	(8,336)	(1,394)	(8,336)	(1,394)
Derivative financial instruments	4,223	7,864	4,223	7,864
Gains or (-) losses on financial assets and liabilities held for trading, net	**(4,113)**	**6,470**	**(4,113)**	**6,470**
Equity instruments (Note 16)	12,042	3,088	12,042	3,088
Gains or (-) losses on financial assets and liabilities available for sale, net	**12,042**	**3,088**	**12,042**	**3,088**
Debt securities	(371)	(146)	(360)	(125)
Gains or (-) losses of financial assets and liabilities designated at fair value through profit or loss, net	**(371)**	**(146)**	**(360)**	**(125)**
Net foreign exchange result	1,543	(1,538)	1,543	(1,588)
Received dividends	24	33	1,665	737
Total	**9,125**	**7,907**	**10,777**	**8,582**

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

	Group		Bank	
	2016	2015	2016	2015
Impairment losses on loans:				
Increase of impairment losses, net	15,782	6,295	15,782	6,295
Recovered previously written off loans	(2,439)	(1,503)	(2,439)	(1,503)
Total impairment losses on loans	13,343	4,792	13,343	4,792
Impairment losses (reversals) on finance lease receivables (Note 19)	1,201	(298)	1,201	881
Impairment losses for other assets	1,020	3,723	1,365	3,660
Changes in fair value of investment property	4,940	2,882	-	-
Impairment losses for investments in subsidiares	-	-	6,700	1,815
Expenses (reversals) for provisions on guarantees	-	-	-	(1,060)
Other provisions	(218)	428	(218)	428
Total	**20,286**	**11,527**	**22,391**	**10,516**

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

NOTE 5 OTHER INCOME

	Group		Bank	
	2016	2015	2016	2015
Net gain (loss) on sale of property and other security	2,462	630	2,270	104
On rent of property	638	1,056	145	123
Deductible VAT	2,874	1,105	2,874	1,105
Other	2,580	2,126	2,938	2,067
Total	**8,554**	**4,917**	**8,228**	**3,399**

NOTE 6 PERSONNEL EXPENSES

	Group		Bank	
	2016	2015	2016	2015
Salaries	18,103	19,006	17,680	18,413
Social insurance	5,913	6,602	5,791	6,424
Other	2,779	3,438	2,757	3,438
Total	**26,795**	**29,046**	**26,228**	**28,275**

NOTE 7 DEPRECIATION AND AMORTISATION

	Group		Bank	
	2016	2015	2016	2015
Amortisation of intangible assets	1,794	1,493	1,272	972
Depreciation of property, plant and equipment	2,164	2,807	2,161	2,803
Total	**3,958**	**4,300**	**3,433**	**3,775**

NOTE 8 OTHER ADMINISTRATIVE EXPENSES

	Group		Bank	
	2016	2015	2016	2015
Office equipment and maintenance expenses*	14,828	14,834	14,583	14,790
Taxes other than income tax	5,668	6,627	4,364	5,980
Other expenses	6,000	6,164	5,765	4,490
Rent of premises and maintenance expenses	3,680	3,277	3,666	3,259
Cash collection, consultancy and other services expenses	1,374	3,080	1,258	2,949
Transportation, post and communications expenses	2,526	2,606	2,438	2,495
Advertising and marketing expenses	1,137	1,018	1,043	936
Training and business trip expenses	556	675	537	659
Foreclosed assets expenses	728	203	728	203
Total	**36,497**	**38,484**	**34,382**	**35,761**

*Major part of office equipment and maintenance expenses comprise of IT expenses from related party as disclosed in Note 38.

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

NOTE 9 INCOME TAX

	Group		Bank	
	2016	2015	2016	2015
Current tax for the year	4,549	1,878	4,509	1,863
Adjustments in respect of current income tax of previous years	(962)	304	(964)	304
Change of deferred tax asset (see below)	210	227	210	227
Total	**3,797**	**2,409**	**3,755**	**2,394**

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	
	2016	2015	2016	2015
Profit (loss) before income tax	26,608	21,689	26,359	22,462
Tax calculated at a tax rate of 15%	3,991	3,253	3,954	3,369
Income not subject to tax	(347)	(1,558)	(585)	(1,669)
Adjustments in respect of current income tax of previous years	(962)	304	(964)	304
Expenses not deductible for tax purposes	1,195	443	1,371	410
Tax exemption	(80)	(33)	(21)	(20)
Income tax charge	3,797	2,409	3,755	2,394

Movement in deferred tax asset

	Group 2016	Group 2015	Bank 2016	Bank 2015
At the beginning of the year	5,017	5,244	5,017	5,244
Income statement credit (charge)	(210)	(227)	(210)	(227)
At the end of the year	**4,807**	**5,017**	**4,807**	**5,017**

15% tax rate was used to calculate deferred income taxes in 2016 and 2015.

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

Group and Bank – deferred tax liabilities

	VAT on long term assets	Valuation of securities	Total
As at 1 January 2015	1,020	279	1,299
Charged/ (credited) in income statement	12	1,554	1,566
As at 1 January 2016	1,032	1,833	2,865
Charged/ (credited) in income statement	144	(1,653)	(1,509)
As at 31 December 2016	**1,176**	**180**	**1,356**

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

NOTE 9 INCOME TAX (continued)

Group and Bank – deferred income tax asset

	Depreciation of long-term assets	Valuation of securities	Tax losses	Accrued expenses/ deferred income	Total
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 1 January 2016	658	429	6,703	92	7,882
(Charged)/ credited in income statement	188	1,344	(3,159)	(92)	(1,719)
As at 31 December 2016	**846**	**1,773**	**3,544**	**-**	**6,163**

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 2016 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 2016 the Bank has EUR 24 million of unused tax losses to carry forward which has no expiry date (EUR 44 million as at 31 December 2015).

As at 31 December 2016 the Group has EUR 36 million of unused tax losses which have no expiry date (unused tax losses with no expiry date as at 31 December 2015 were equal to EUR 52 million). As at 31 December 2016 the Group has EUR 1.5 million a temporary difference (EUR 0.3 million as at 31 December 2015) resulting from revaluation of investment property and property held for sale to fair value for which no deferred tax has been recognised.

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	
	2016	**2015**	**2016**	**2015**
Deferred income tax assets	6,163	7,882	6,163	7,882
Deferred income tax liabilities	(1,356)	(2,865)	(1,356)	(2,865)
As presented in statement of financial position	**4,807**	**5,017**	**4,807**	**5,017**

(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 2016	Note	Number of shares	Par value	Issued/ 366 (days)	Weighted average
Shares issued as of 31 December 2016		5,710,134	33.31	366/366	5,710,134
Shares issued as of 31 December 2016	31	**5,710,134**	**33.31**	**366/366**	**5,710,134**

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

	Group 2016	Group 2015
Profit attributed to equity holders of the parent	22,811	19,280
Weighted average number of issued shares (units)	5,710,134	5,710,134
Earnings per share (EUR per share)	3.99	3.38

The 2016 and 2015 diluted earnings per share ratios are the same as basic earnings per share.

NOTE 11 CASH AND BALANCES WITH CENTRAL BANKS

	Group		Bank	
	2016	2015	2016	2015
Cash and other valuables	93,144	85,054	93,144	85,054
Placements with Central Bank:				
Correspondent account with central bank	15,823	-	15,823	-
Compulsory reserves in national currency	25,182	23,000	25,182	23,000
Total	**134,149**	**108,054**	**134,149**	**108,054**

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	
	2016	2015	2016	2015
Due from banks and other credit institutions				
Demand deposits	30,865	138,136	30,865	138,136
of which funds to secure the derivatives deals	1,347	-	1,347	-
Term deposits	572,017	234,015	572,017	234,015
Short term loans	141,695	293,644	141,695	293,644
Total	**744,577**	**665,795**	**744,577**	**665,795**

There were no allowances for impairment against due from banks neither at Bank nor at the Group level as of end of 2016 and 2015. Respectively, there were no changes in allowance for loan impairment and write-offs for such due and allowances in 2016 and 2015.

As at 31 December 2016 short term loans of thousand 141,695 EUR include reverse repurchase agreements collaterised by securities with fair value of EUR 161,919 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 and Bank

	2016			2015		
Debt securities	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Government bonds and treasury bills of the Republic of Lithuania	2,433	-	-	10,378	-	-
Government bonds of foreign issuers	393	-	-	3,487	-	-
Debt securities of foreign entities	302	-	2,145	1,445	-	17,490
Total	**3,128**	**-**	**2,145**	**15,310**	**-**	**17,490**

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

	2016	2015
Indicated value of bonds*	7,560	18,096
Cash value adjustment	(4,226)	(221)
Investment value adjustment	(1,189)	(385)
Fair value as at December 31	2,145	17,490

*indicated value is determined by quote in Bloomberg system multiplied by nominal amount.

Generally, a change in the input used for the valuation multiple assumptions is accompanied by change in cash value adjustment and investment value adjustment. Since the Bank might own the bonds till maturity, it is assumed, that the remaining cash in the fund will be invested in accordance with the investment strategy. It is conservatively expected that the value of all future investments shall correspond to the value of current investments, i.e. 0% of the initially invested amount. Management believes that reasonably possible changes to other unobservable inputs would not result in a significant change in the estimated fair value. Unrealised losses recognised during 2016 for assets held at the end of the reporting period were EUR 8,545 thousand (Note 3).

The table below shows the changes in fair value of bonds from a 10% increase or decrease respectively in cash haircut.

	Impact of change of cash value	
	Haircut increase +10%	**Haircut decrease -10%**
Increase / (decrease) in fair value as at December 31, 2016	(736)	736

There were no movement of securities between fair value levels during 2016 and 2015.

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

GROUP

	2016			2015		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Debt securities						
Government bonds and treasury bills of the Republic of Lithuania	88,568	-	-	64,893	-	-
Debt securities of foreign banks	10,007	-	-	10,007	-	-
Equity securities						
Units of funds	-	-	-	38	-	-
Other	-	-	18	-	-	226
Total	**98,575**	**-**	**18**	**74,938**	**-**	**226**

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

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

BANK

	2016			2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Debt securities						
Government bonds and treasury bills of the Republic of Lithuania	87,436	-	-	63,986	-	-
Debt securities of foreign banks	10,007	-	-	10,007	-	-
Equity securities						
Other	-	-	18	-	-	226
Total	**97,443**	**-**	**18**	**73,993**	**-**	**226**

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

	2016		2015	
	%	Maturity (in years)	%	Maturity (in years)
Government bonds of the Republic of Lithuania	0.13	2.77	0.41	2.71
Debt securities of foreign banks	(0.27)	0.24	(0.05)	1.24

Bank

	2016		2015	
	%	Maturity (in years)	%	Maturity (in years)
Government bonds of the Republic of Lithuania	0.13	2.77	0.42	2.74
Debt securities of foreign banks	(0.27)	0.24	(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, 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 2016			
FX forwards, swaps, put, call options	218,817	6,093	2,011
Interest rate swaps, collars	630,849	4,369	4,314
Commodity related agreements	41,044	3,145	3,053
Total	**890,710**	**13,607**	**9,378**
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**

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

NOTE 16 AVAILABLE FOR SALE FINANCIAL ASSETS

Group and Bank

	2016			2015		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Equity securities						
Shares	-	-	2,624	-	-	10,800
Total	**-**	**-**	**2,624**	**-**	**-**	**10,800**

Total amount of available for sale securities are unimpaired assets. There were no movement of securities between levels during 2016 and 2015.

In November 2015, VISA Inc. announced the agreement to acquire all shares in VISA Europe Ltd. The Bank had a direct ownership interest in VISA Europe activities. During 2016 the acquisition of VISA Europe was completed. The cumulative gain previously recognised in other comprehensive income during 2016 was recognised in income statement (Note 3).

Carrying amount of shares as at 31 December 2016 consists of Visa Inc. shares with fair value changes recognised in other comprehensive income.

The significant unobservable inputs used in the fair value measurement of shares on level 3 are as follows: conversion rate, average trading price, liquidity discount.

Generally, a change in the input used for the valuation multiple assumptions is accompanied by change in liquidity discount. 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 securities from a 10% increase or decrease respectively in liquidity discount, all other inputs being constant.

	Impact of change of liquidity discount	
	increase	**decrease**
	+10%	**-10%**
Increase / (decrease) in fair value as at December 31, 2016	(361)	361

The movement of available for sale securities (level 3) during 2016:

	Group	**Bank**
Beginning balance	10,800	10,800
Additions	2,431	2,431
Disposals	(10,800)	(10,800)
Unrealised gains/losses for assets held at the end of the reporting period	193	193
Closing balance	2,624	2,624

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

NOTE 17 LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2016	2015	2016	2015
Loans and advances to financial institutions	**11,829**	**51**	**11,829**	**51**
Loans to business customers:				
- Public authorities, state and municipal entities	256,923	286,904	256,923	286,904
- Large corporates	673,156	730,139	678,904	753,486
- SMEs	334,704	382,219	334,704	382,219
- Other	850	608	850	608
Total loans to business customers	**1,265,633**	**1,399,870**	**1,271,381**	**1,423,217**
Loans to individuals (retail):				
- Consumer loans	76,023	69,726	76,023	69,726
- Mortgages	1,250,171	1,151,436	1,250,171	1,151,436
- Loans secured by equity linked bonds issued by Bank	3,105	5,036	3,105	5,036
- Other	243,336	242,970	243,336	242,970
Total loans to individuals (retail)	**1,572,635**	**1,469,168**	**1,572,635**	**1,469,168**
Total gross loans granted	**2,850,097**	**2,869,089**	**2,855,845**	**2,892,436**
Total allowance for impairment:	(98,656)	(112,102)	(98,656)	(112,102)
to financial institutions	(11)	-	(11)	-
to business customers	(62,262)	(67,992)	(62,262)	(67,992)
to individuals	(36,383)	(44,110)	(36,383)	(44,110)
Total net loans and advances to customers	**2,751,441**	**2,756,987**	**2,757,189**	**2,780,334**

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 2016

	Group and Bank loans to individuals (retail)	Group and Bank loans to business customers
Balance as at 1 January 2016	**44,110**	**67,992**
Change in allowance for loan impairment	6,403	9,437
Loans written off during the year as uncollectible	(14,130)	(15,167)
As at 31 December 2016	**36,383**	**62,262**
Individual impairment	35,180	60,975
Collective impairment	1,203	1,287
	36,383	**62,262**
Gross amount of loans, individually determined to be impaired, before deducting the individually assessed impairment allowance	65,793	145,984

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

NOTE 17 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

Net change in allowance for loan impairment accounts for EUR 15,840 thousand in the year ended 31 December, 2016 (2015: EUR 6,565 thousand).

NOTE 18 OFFSETTING

As at 31 December 2016	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]	141,702	-	141,702	141,702	-
Derivative financial instruments[2]	125	1	124	-	124
LIABILITIES					
Derivative financial instruments[2]	232	65	167	-	167

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

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

Group and Bank

	Up to one year	From 1 to 5 years	Over 5 years	Total
Gross investments in leasing				
Balance as at 31 December 2015	53,591	94,262	3,266	151,119
Change during 2016	(38,533)	55,247	2,586	19,300
Balance as at 31 December 2016	**15,058**	**149,509**	**5,852**	**170,419**
Unearned finance income on finance leases				
Balance as at 31 December 2015	3,066	3,886	176	7,128
Change during 2016	221	(49)	(129)	43
Balance as at 31 December 2016	**3,287**	**3,837**	**47**	**7,171**
Net investments in finance leases before impairment				
31 December 2015	50,525	90,376	3,090	143,991
31 December 2016	11,771	145,672	5,805	163,248
Changes in impairment				
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**
Increase (decrease) in impairment (Note 4)	319	1,231	(349)	1,201
Lease receivables written-off during the year as uncollectible	-	-	-	-
Balance as at 31 December 2016	**527**	**1,713**	**408**	**2,648**
Net investments in finance leases after impairment				
31 December 2015	50,317	89,894	2,333	142,544
31 December 2016	**11,244**	**143,959**	**5,397**	**160,600**

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

NOTE 20 INVESTMENTS IN SUBSIDIARIES

	2016				2015
	Share	Nominal value	Accumulated impairment losses	Carrying value	Carrying value
Investments in consolidated subsidiaries					
UAB DNB Investicijų Valdymas	100%	1,158	-	1,158	1,158
UAB DNB Būstas	100%	1,260	(368)	892	892
UAB Intractus	100%	44,569	(16,740)	27,829	33,328
UAB Industrius	99.92%	13,770	(2,358)	11,412	12,613
Total			**(19,466)**	**41,291**	**47,991**

In 2016 based on estimated expected future cash flows, business growth and risk costs of subsidiaries the Bank recorded impairment losses amounting to EUR 5.5 million to investment in UAB Intractus and to EUR 1.2 milion to UAB Industrius. 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

		2016				2015
	Share	Nominal value	Share of result	Disposal	Carrying value	Carrying value
Investments in an associate						
AB Informacinio verslo paslaugų įmonė	36.47%	464	(114)	(350)	-	464
Total		**464**	**(114)**	**(350)**	**-**	**464**

In November 2014 AB DNB Bankas, had acquired 36.47 per cent ordinary registered shares in AB "Informacinio verslo paslaugų įmonė" during recovery process. Investment into associates in the Bank are accounted at cost less impairment. These shares were sold in March 2016.

(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 2015	**28,564**	**25,645**	**54,209**
Acquisitions	140	736	876
Reclassification from repossessed assets	7,195	-	7,195
Reclassification to Investment property (Note23)	(2,291)	-	(2,291)
Disposals and write-offs	(2,313)	(6,677)	(8,990)
At 31 December 2015	**31,295**	**19,704**	**50,999**
Acquisitions	1,008	4,566	5,574
Disposals and write-offs	(16,646)	(3,354)	(20,000)
At 31 December 2016	**15,657**	**20,916**	**36,573**
Depreciation and impairment:			
At 1 January 2015	**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**
Disposals and write-offs	(8,319)	(3,082)	(11,401)
Depreciation charge for year	391	1,773	2,164
Impairment	1,351	-	1,351
At 31 December 2016	**7,583**	**13,346**	**20,929**
Net book value:			
At 1 January 2015	**18,685**	**7,698**	**26,383**
At 31 December 2015	**17,135**	**5,049**	**22,184**
At 31 December 2016	**8,074**	**7,570**	**15,644**
Economic life (in years)	50	3-10	-

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

31 December 2015	1,917	9,565
31 December 2016	1,288	8,239

(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 2015	**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**
Acquisitions	1,008	4,564	5,572
Disposals and write-offs	(16,646)	(3,346)	(19,992)
At 31 December 2016	**15,657**	**20,899**	**36,556**
Depreciation and impairment:			
At 1 January 2015	**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**
Disposals and write-offs	(8,319)	(3,076)	(11,395)
Depreciation charge for year	391	1,770	2,161
Impairment	1,351	-	1,351
At 31 December 2016	**7,583**	**13,333**	**20,916**
Net book value:			
At 1 January 2015	**18,685**	**7,638**	**26,323**
At 31 December 2015	**17,135**	**5,042**	**22,177**
At 31 December 2016	**8,074**	**7,566**	**15,640**
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 2016 the Bank recorded impairment losses amounting to EUR 1.4 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 2016 and 31 December 2015.

The Bank (Group) had ownership title to all of the property and equipment as at 31 December 2016 and 31 December 2015.

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

31 December 2015	1,917	9,559
31 December 2016	1,288	8,231

(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 2016	Total 2015
Book value as at 1 January	**12,250**	**11,579**	**11,682**	**10,635**	**12,876**	**3,819**	**197**	**63,038**	**80,894**
Acquisitions	-	96	-	-	-	-	-	96	1,576
Additions, capitalised investments	-	31	-	91	-	-	-	122	109
Additions (movement from held for sale)	-	-	-	-	-	-	-	-	2,179
Reclassifications from repossessed assets	-	-	-	-	-	-	-	-	1,579
Reclassifications from/to other Level	(9,317)	9,462	(818)	(5,675)	818	5,530	-	-	-
Disposals (sale)	(1,978)	(1,929)	(6,798)	(4,309)	(4,622)	(700)	-	(20,336)	(14,910)
Classified as held for sale	(786)	(153)	(3,500)	(115)	(3,205)	(206)	-	(7,965)	(5,507)
Net gains (loss) resulting from adjustment to fair value	(169)	(1,432)	(566)	(627)	(1,479)	(610)	(57)	(4,940)	(2,882)
Book value as at 31 December	**-**	**17,654**	**-**	**-**	**4,388**	**7,833**	**140**	**30,015**	**63,038**

As at 31 December 2016 and 2015 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 2016	Total 2015
Rental income from investment properties	-	-	493	493	954
Direct expenses (including repairs and maintenance) related to investment properties generating rental income	-	-	167	167	212
Direct expenses (including repairs and maintenance) related to investment properties not generating rental income	-	-	227	227	605

Investment properties are stated at fair value. The Group's management determines the policies and procedures for fair value measurement. External valuators are involved for significant valuations. Involvement of external valuers is decided upon annually. 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 internal and 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.

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.

NOTE 23 INVESTMENT PROPERTY (continued)

The valuation model for the Group's investment properties was formed based on market comparable and income approach. Valuations of investment property were performed as at 31 December 2016. There were reclassifications of investment property made between levels during 2016. 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 that was revalued using the comparable approach method with significant adjustments to observable prices and income approach is clasified as level 3.

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).

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 2016, in EUR thousand**	**Average prices per are in 2015, in EUR thousand**
Residential	0.03 – 23.60	0.04 – 28.69
Other	0.01 – 6.97	0.04 – 11.32
Buildings	**Average prices per sq.m. in 2016, in EUR thousand**	**Average prices per sq.m. in 2015, in EUR thousand**
Commercial	0.01 – 0.82	0.02 – 1.42
Residential	0.06 – 1.32	0.05 – 2.10
Other	0.43 - 0.58	0.02 – 0.41

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

NOTE 24 INTANGIBLE ASSETS

Cost	Group	Bank
As at 1 January 2015	**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**
Acquisitions	1,031	1,024
Disposals and write-offs	(207)	(196)
At 31 December 2016	**12,046**	**10,452**
Amortisation and impairment		
At 1 January 2015	**4,379**	**4,009**
Disposals	(122)	(87)
Amortisation	1,493	972
Reorganization (Note 41)	-	253
At 31 December 2015	**5,750**	**5,147**
Disposals	(207)	(196)
Amortisation	1,794	1,272
At 31 December 2016	**7,337**	**6,223**
Net book value:		
At 1 January 2015	**5,269**	**3,759**
At 31 December 2015	**5,472**	**4,477**
At 31 December 2016	**4,709**	**4,229**
Economic life (in years)	3-5	5

No assets were pledged to a third party as at 31 December 2016 and 31 December 2015. Intangible assets include purchased computer software.

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

31 December 2015	3,179	3,148
31 December 2016	3,008	3,002

NOTE 25 OTHER ASSETS

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Accrued income and deferred expenses	3,412	3,004	3,400	2,966
Assets bought for leasing activities	527	449	527	449
Prepayments and receivables	4,732	1,944	4,267	1,294
Taxes owerpayment	4,752	2,399	4,752	2,399
Other assets	723	1,647	579	1,635
Retrieved assets under cancelled lease contracts	1,726	2,790	1,726	2,790
Gross	**15,872**	**12,233**	**15,251**	**11,533**
Less: allowance for impairment of retrieved assets under cancelled lease contracts	(1,340)	(2,541)	(1,340)	(2,541)
allowance for impairment of other assets	-	(40)	-	(40)
Total	**14,532**	**9,652**	**13,911**	**8,952**

(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		Buildings					
	Other Level 2	Other Level 3	Commercial Level 2	Residential Level 2	Commercial Level 3	Residential Level 3	Total 2016	Total 2015
Book value as at 1 January	-	**2,723**	**351**	**29**	**2,434**	-	**5,537**	**3,790**
Acquisitions	-	-	-	-	-	-	-	-
Additions (movement from investment property)	-	940	3,500	-	3,205	320	7,965	5,507
Disposals (sale)	-	(2,723)	(351)	-	(2,434)	-	(5,508)	(1,581)
Disposals (movement to investment property)	-	-	-	-	-	-	-	(2,179)
Book value as at 31 December	-	**940**	**3,500**	**29**	**3,205**	**320**	**7,994**	**5,537**

During the year, the Group took possession of a real estate with a carrying value of EUR 7,994 thousand at the year end (in 2015 EUR 5,537 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 2016. There were no reclasifications of assets between levels during 2016 and 2015. 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	
	2016	2015	2016	2015
Funds of Central bank	300,000	342,834	300,000	342,834
Funds of banks and other credit institutions:				
Demand deposits	23,418	9,797	23,418	9,797
Term deposits	31,032	51,026	31,032	51,026
Loans	657,841	680,604	657,841	680,604
Total	**1,012,291**	**1,084,261**	**1,012,291**	**1,084,261**

As at 31 December 2016 Funds of Central bank (EUR 300,000 thousand) contains proceeds from ECB under targeted longer-term refinancing operations (TLTROs). Carrying amount of pledged assets under this agreement amounted to EUR 350,796 thousand (EUR 188,877 thousand loans granted to governental insitutions and EUR 161,919 thousand bonds, acquired under REPO agreement with parent bank).

NOTE 28 DUE TO CUSTOMERS

	Group		Bank	
	2016	2015	2016	2015
Demand deposits				
of public authorities	290,415	203,449	290,415	203,449
of financial institutions	12,953	6,590	14,337	7,885
of private entities	803,616	844,701	812,673	848,397
of individuals	1,139,142	992,284	1,139,142	992,284
Total demand deposits	**2,246,126**	**2,047,024**	**2,256,567**	**2,052,015**
Term deposits				
of public authorities	5,149	4,296	5,149	4,296
of financial institutions	145	145	145	145
of private entities	11,943	19,127	11,943	19,127
of individuals	211,999	271,388	211,999	271,388
Total term deposits	**229,236**	**294,956**	**229,236**	**294,956**
Term loan	334	754	334	754
Total	**2,475,696**	**2,342,734**	**2,486,137**	**2,347,725**

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

As at 31 December 2016 the Group's deposits of EUR 11,232 thousand (2015: EUR 9,502 thousand) and Bank's deposits of EUR 11,232 thousand (2015: EUR 9,502 thousand) held as collateral for irrevocable commitments under import letter of credit, guarantees and loans were included in customer accounts.

NOTE 29 PROVISIONS

The movement of provisions was as follows:

	Group				Bank			
	Loan commitment s and guarantees	**Pending legal issues**	**Restruc-turing**	**Other**	**Loan commitments and guarantees**	**Pending legal issues**	**Restruc-turing**	**Other**
As at 1 January 2016	**13**	**738**	**661**	**5**	**13**	**738**	**661**	**5**
Increase in provisions	-	-	-		-	-	-	-
Utilised	-	(275)	(43)	-	(13)	(275)	(43)	-
Unused amounts reversed	(13)	(172)	(618)	-	-	(172)	(618)	-
Changes due to exchange rates	-	-	-	-	-	-	-	-
As at 31 December 2016	**-**	**291**	**-**	**5**	**-**	**291**	**-**	**5**
Current (less than one year)	-	275	-	5	-	275	-	5
Non-current (more than one year)	-	16	-	-	-	16	-	-
As at 31 December 2016	**-**	**291**	**-**	**5**	**-**	**291**	**-**	**5**
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**

Legal claims. As at 31 December 2016, contingent liabilities that may arise as a result of pending court proceedings in which the Bank would appear as a respondent amounted to EUR 10,885 thousand (2015: EUR 14,893 thousand), of which EUR 8,983 thousand (2015: EUR 8 983 thousand) for legal claims related to group of borrowers which right to construction is investigated, the Bank does not see the need for provisions for this case as the risk is remote and EUR 1,682 thousand (2015: EUR 3,703 thousand) for legal claims related to index linked bonds. The Bank established a provision of EUR 291 thousand (2015: EUR 738 thousand) against potential losses in relation to the outcome of legal claims.

NOTE 30 OTHER LIABILITIES

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Accrued expenses and deferred income	6,132	6,409	6,012	6,323
Transit accounts (for payments of loans)	1,078	547	1,078	547
Payables	4,615	2,766	4,502	2,363
Advance payment	1,405	1,828	1,405	1,029
Other liabilities	1,953	1,283	629	1,201
Total	**15,183**	**12,833**	**13,626**	**11,463**

NOTE 31 SHARE CAPITAL

Share premium amounted to EUR 81,942 thousand as at 31 December 2016 (as at 31 December 2015 – EUR 81,942 thousand).

Information about share capital of the Bank is listed in the table below:

	2016			2015		
	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	190,205	100.00
Total	**5,710,134**	**190,205**	**100.00**	**5,710,134**	**190,205**	**100.00**

NOTE 32 RESERVES

	Group		Bank	
	2016	2015	2016	2015
Mandatory reserve	9,118	5,860	9,036	5,787
Financial assets revaluation reserve (Note 16)	193	10,800	193	10,800
Other reserves	241	241	241	241
Reserve capital	105,500	105,500	105,500	105,500
Total	**115,052**	**122,401**	**114,970**	**122,328**

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 net profit. The mandatory reserve may, by a decision of the annual or extraordinary general meeting of the shareholders, be used only to cover losses from operations.

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 4,417 thousand as at 31 December 2016 (2015: EUR 6,714 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:

	2016 (Unaudited)	2015 (Unaudited)
Investment funds:		
DNB Liquidity fund	-	-
DNB Equity Fund of funds	-	3,210
2rd pillar pension funds:		
DNB pensija 1	31,257	29,663
DNB pensija 2	101,783	90,227
DNB pensija 3	141,516	124,032
ERGO Konservatyvusis	-	-
ERGO Balans	-	-
3rd pillar pension fund:		
DNB papildoma pensija	22,886	18,042
DNB papildoma pensija 100	3,181	2,376
DNB papildoma konservatyvi pensija	6,187	2,931
DNB papildoma darbuotojo pensija 25	495	368
DNB papildoma darbuotojo pensija 50	890	485
Assets under management of institutionals portfolios	8,963	14,158
Total	**317,158**	**285,492**

NOTE 34 CONTINGENT LIABILITIES AND COMMITMENTS

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

	Group		Bank	
	2016	2015	2016	2015
Financial guarantees	40,575	42,581	40,575	42,581
Letters of credit	1,794	2,473	1,794	2,473
Commitments to grant loans	421,382	338,729	425,234	342,381
Commitments to grant finance leases	2,061	2,547	2,061	2,547
Capital commitments and other commitments to acquire assets	546	2,004	546	2,004
Other commitments	50,630	57,566	50,630	57,566
Total	**516,988**	**445,900**	**520,840**	**449,552**

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. Additional commitments to related parties are disclosed in Note 38.

NOTE 35 CASH AND CASH EQUIVALENTS

	Group		Bank	
	2016	2015	2016	2015
Cash (Note 11)	93,144	85,054	93,144	85,054
Correspondent accounts with other banks	29,518	58,136	29,518	58,136
Overnight deposits	-	80,000	-	80,000
Required reserves in national currency in Central Bank (Note 11)	25,182	23,000	25,182	23,000
Correspondent account with Central bank (Note 11)	15,823	-	15,823	-
Total	**163,667**	**246,190**	**163,667**	**246,190**

(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 2016 were as follows:

	USD	GBP	NOK	Other currencies	Total currencies	EUR	Total
Assets							
Cash and balances with central banks	2,206	1,485	1,723	3,396	8,810	125,339	134,149
Due from banks and other credit institutions	1,974	4,774	285	7,656	14,689	729,888	744,577
Financial assets held for trading	718	-	-	-	718	4,555	5,273
Financial assets designated at fair value throught profit or loss	-	-	-	-	-	98,593	98,593
Derivative financial instruments	292	-	2,853	-	3,145	10,462	13,607
Available for sale financial assets	2,624	-	-	-	2,624	-	2,624
Loans and advances to customers	14,663	-	-	-	14,663	2,736,778	2,751,441
Finance lease receivables	391	-	-	-	391	160,209	160,600
Investments in subsidiaries	-	-	-	-	-	-	-
Investment property	-	-	-	-	-	30,015	30,015
Property, plant and equipment	-	-	-	-	-	15,644	15,644
Intangible assets	-	-	-	-	-	4,709	4,709
Deferred income tax asset	-	-	-	-	-	4,807	4,807
Other assets	79	5	8	5	97	14,435	14,532
Non-curent assets and disposal groups held for sale	-	-	-	-	-	7,994	7,994
Total assets	**22,947**	**6,264**	**4,869**	**11,057**	**45,137**	**3,943,428**	**3,988,565**
Liabilities and equity							
Due to banks and other credit institutions	514	1,018	1,340	1,466	4,338	1,007,953	1,012,291
Derivative financial instruments	274	-	2,779	-	3,053	6,325	9,378
Due to customers	94,912	7,286	34,005	10,102	146,305	2,329,391	2,475,696
Provisions	-	-	-	-	-	296	296
Current income tax liabilities	-	-	-	-	-	2,111	2,111
Other liabilities	235	5	9	13	262	14,921	15,183
Total equity	-	-	-	-	-	473,610	473,610
Total liabilities and equity	**95,935**	**8,309**	**38,133**	**11,581**	**153,958**	**3,834,607**	**3,988,565**
Net balance sheet position	**(72,988)**	**(2,045)**	**(33,264)**	**(524)**	**(108,821)**	**108,821**	**-**
Off-balance sheet position	**72,973**	**2,027**	**33,242**	**555**	**108,797**	**(104,377)**	**4,420**
Net open position	**(15)**	**(18)**	**(22)**	**31**	**(24)**	**4,444**	**4,420**

(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 2015 were as follows:

	USD	GBP	NOK	Other currencies	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 Bank's open positions of prevailing currencies as at 31 December 2016 were as follows:

	USD	GBP	NOK	Other curren-cies	Total currencies	EUR	Total
Assets							
Cash and balances with central banks	2,206	1,485	1,723	3,396	8,810	125,339	134,149
Due from banks and other credit institutions	1,974	4,774	285	7,656	14,689	729,888	744,577
Financial assets held for trading	718	-	-	-	718	4,555	5,273
Financial assets designated at fair value throught profit or loss	-	-	-	-	-	97,461	97,461
Derivative financial instruments	292	-	2,853	-	3,145	10,462	13,607
Available for sale financial assets	2,624	-	-	-	2,624	-	2,624
Loans and advances to customers	14,663	-	-	-	14,663	2,742,526	2,757,189
Finance lease receivables	391	-	-	-	391	160,209	160,600
Investments in subsidiaries	-	-	-	-	-	41,291	41,291
Investment property	-	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	15,640	15,640
Intangible assets	-	-	-	-	-	4,229	4,229
Deferred income tax asset	-	-	-	-	-	4,807	4,807
Other assets	79	5	8	5	97	13,814	13,911
Non-curent assets and disposal groups held for sale	-	-	-	-	-	29	29
Total assets	**22,947**	**6,264**	**4,869**	**11,057**	**45,137**	**3,950,250**	**3,995,387**
Liabilities and equity							
Due to banks and other credit institutions	514	1,018	1,340	1,466	4,338	1,007,953	1,012,291
Derivative financial instruments	274	-	2,779	-	3,053	6,325	9,378
Due to customers	94,912	7,286	34,005	10,102	146,305	2,339,832	2,486,137
Provisions	-	-	-	-	-	296	296
Current income tax liabilities	-	-	-	-	-	2,213	2,213
Other liabilities	235	5	9	13	262	13,364	13,626
Total equity	-	-	-	-	-	471,446	471,446
Total liabilities and equity	**95,935**	**8,309**	**38,133**	**11,581**	**153,958**	**3,841,429**	**3,995,387**
Net balance sheet position	**(72,988)**	**(2,045)**	**(33,264)**	**(524)**	**(108,821)**	**108,821**	**-**
Off-balance sheet position	**72,973**	**2,027**	**33,242**	**555**	**108,797**	**(104,377)**	**4,420**
Net open position	**(15)**	**(18)**	**(22)**	**31**	**(24)**	**4,444**	**4,420**

(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 37 INTEREST RATE RISK

The table below summarises the Group's interest rate risks as at 31 December 2016. 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	134,149	-	-	-	-	-	-	134,149
Due from banks and other credit institutions	645,388	99,189	-	-	-	-	-	744,577
Financial assets held for trading	2	339	34	678	2,562	1,658	-	5,273
Financial assets designated at fair value throught profit or loss	-	10,523	1,835	864	47,740	37,613	18	98,593
Derivative financial instruments	49	94	31	6	1,739	2,449	9,239	13,607
Available for sale financial assets	-	-	-	-	-	-	2,624	2,624
Loans and advances to customers	317,673	1,087,402	967,618	135,323	92,711	150,714	-	2,751,441
Finance lease receivables	36,687	71,622	43,137	1,885	5,317	1,952	-	160,600
Investment in an associate							-	-
Investment property	-	-	-	-	-	-	30,015	30,015
Property, plant and equipment	-	-	-	-	-	-	15,644	15,644
Intangible assets	-	-	-	-	-	-	4,709	4,709
Deferred income tax asset	-	-	-	-	-	-	4,807	4,807
Other assets	-	-	-	-	-	-	14,532	14,532
Non-curent assets and disposal groups held for sale	-	-	-	-	-	-	7,994	7,994
Total assets	**1,133,948**	**1,269,169**	**1,012,655**	**138,756**	**150,069**	**194,386**	**89,582**	**3,988,565**
Liabilities and shareholders' equity								
Due to banks and other credit institutions	23,418	33,681	589,838	15,354	330,000	20,000	-	1,012,291
Derivative financial instruments	73	111	28	5	1,833	2,265	5,063	9,378
Due to customers	2,283,895	51,485	62,650	67,732	6,974	2,960	-	2,475,696
Provisions	-	-	-	-	-	-	296	296
Current income tax liabilities	-	-	-	-	-	-	2,111	2,111
Other liabilities	-	-	-	-	-	-	15,183	15,183
Shareholders' equity	-	-	-	-	-	-	473,610	473,610
Total liabilities and shareholders' equity	**2,307,386**	**85,277**	**652,516**	**83,091**	**338,807**	**25,225**	**496,263**	**3,988,565**
Interest rate sensitivity gap	**(1,173,438)**	**1,183,892**	**360,139**	**55,665**	**(188,738)**	**169,161**	**(406,681)**	**-**

(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 2015 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	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 Bank's interest rate risk as at 31 December 2016 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	134,149	-	-	-	-	-	-	134,149
Due from banks and other credit institutions	645,388	99,189	-	-	-	-	-	744,577
Financial assets held for trading	2	339	34	678	2,562	1,658	-	5,273
Financial assets designated at fair value throught profit or loss	-	10,516	1,834	653	47,190	37,250	18	97,461
Derivative financial instruments	49	94	31	6	1,739	2,449	9,239	13,607
Available for sale financial assets	-	-	-	-	-	-	2,624	2,624
Loans and advances to customers	317,673	1,087,402	967,618	135,323	92,711	156,462	-	2,757,189
Finance lease receivables	36,687	71,622	43,137	1,885	5,317	1,952	-	160,600
Investments in subsidiaries	-	-	-	-	-	-	41,291	41,291
Investment in an associate							-	-
Investment property	-	-	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	-	15,640	15,640
Intangible assets	-	-	-	-	-	-	4,229	4,229
Deferred income tax asset	-	-	-	-	-	-	4,807	4,807
Other assets	-	-	-	-	-	-	13,911	13,911
Non-curent assets and disposal groups held for sale	-	-	-	-	-	-	29	29
Total assets	**1,133,948**	**1,269,162**	**1,012,654**	**138,545**	**149,519**	**199,771**	**91,788**	**3,995,387**
Liabilities and shareholders' equity								
Due to banks and other credit institutions	23,418	33,681	589,838	15,354	330,000	20,000	-	1,012,291
Derivative financial instruments	73	111	28	5	1,833	2,265	5,063	9,378
Due to customers	2,294,336	51,485	62,650	67,732	6,974	2,960	-	2,486,137
Provisions	-	-	-	-	-	-	296	296
Current income tax liabilities	-	-	-	-	-	-	2,213	2,213
Other liabilities	-	-	-	-	-	-	13,626	13,626
Shareholders' equity	-	-	-	-	-	-	471,446	471,446
Total liabilities and shareholders' equity	**2,317,827**	**85,277**	**652,516**	**83,091**	**338,807**	**25,225**	**492,644**	**3,995,387**
Interest rate sensitivity gap	**(1,183,879)**	**1,183,885**	**360,138**	**55,454**	**(189,288)**	**174,546**	**(400,856)**	**-**

(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 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	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	-	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 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	
	2016	2015	2016	2015
Management of the Group and close family members of management	699	754	913	993

In 2016 the total compensations for the Group management approximated EUR 1,428 thousand (in 2015 – EUR 1,132 thousand). In 2016 the total compensations for the Bank's management approximated EUR 1,244 thousand (in 2015 – EUR 845 thousand). Key management personnel remuneration mainly consists of short term employee benefits.

The following balances were outstanding with the parent company:

Assets	2016	2015
Correspondent bank accounts	18,342	44,518
Overnight deposits	-	80,000
Term deposits	572,017	234,014
Reverse repurchase agreements	141,695	284,984
Derivative financial instruments	9,920	2,274
Other assets	27	16
Receivable	-	-
Liabilities		
Correspondent bank accounts	5,597	47
Term deposits	31,032	51,026
Derivative financial instruments	4,795	4,637
Loans	657,841	672,936
Payable	138	236
Other liabilities	-	114

Income	2016	2015
Interest	2,316	433
Fee and commission	262	205
Net gain (loss) on operations with securities and derivative financial instruments and net foreign exchange result	8,904	4,393
Other	-	-
Expenses		
Interest	3,885	3,093
Fee and commission	242	31
Other	451	1,285

NOTE 38 RELATED PARTY TRANSACTIONS (continued)

The following balances were outstanding with DNB ASA Group companies:

Assets	**2016**	**2015**
Correspondent bank accounts	1,485	1,434
Receivable	646	815
Other assets	5	1
Liabilities		
Correspondent bank accounts	315	770
Payable	1,013	837

Income	**2016**	**2015**
Fee and commission	12	24
Net gain (loss) on operations with securities and derivative financial instruments and net foreign exchange result	28	1
Other	644	814
Expenses		
Fee and commission	129	415
Other	7,261	7,893

From the total other expenses amount stated above the expenses related to the IT services and upgrade of the Bank's core IT systems under long term agreement with DNB Invest Denmark AS company as at 31 December 2016 amounted to EUR 6,357 thousand (2015: EUR 7,067 thousand). The Bank has an irrevocable agreement signed with DNB Invest Denmark AS regarding the usage of IT services and sytems. The commitment outstanding as of 2016 12 31 is 110 MEUR. Although possible optimization of IT systems is being discussed in the light of merger (as more described in Note 42) no decisions are taken by the Bank regarding the future usage of the existing IT services and systems. Therefore these financial statements are prepared on the basis that current IT services and systems will be used in accordance with the mentioned agreement. Accordingly, the Management of the Bank has the opinion that no provision for onerous contracts is needed in these financial statements.

The following balances were outstanding on the Bank statement of financial position with subsidiaries:

Assets	**2016**	**2015**
Loans	5,748	23,347
Equity securities	41,291	47,991
Other assets	19	28
Liabilities		
Demand deposits	10,441	4,991
Other liabilities	19	28

The main income/expenses of the Bank from transactions with subsidiaries are as follows:

Income	**2016**	**2015**
Interest	91	924
Fee and commission	929	2,012
Dividends	1,641	704
Other	46	296
Expenses		
Fee and commission	-	20
Other	210	82
Impairment	6,700	1,815

As at 31 December 2016 the main off-balance sheet commitments (guarantees, commitments to grant loans) with subsidiaries amounted to EUR 3,852 thousand (2015: EUR 3,653 thousand).

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 2015 and 2016 the Bank complied with the maximum exposure to one borrower requirements set by the Bank of Lithuania. As at 31 December 2016, the largest single exposure comprising loans to several related borrowers treated as a single borrower, not secured by Government guarantees, is 11.29 % of the Bank's calculated capital (2015 - 11.70 % 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 2015 and 2016 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	
	2016	**2015**
Interest income	79,117	78,424
Interest expense	(11,464)	(13,702)
Net interest income	**67,653**	**64,722**
Fee and commission income	37,029	35,581
Fee and commission expense	(8,302)	(8,263)
Net interest, fee and commission income	**96,380**	**92,040**
Net gain on operations with securities and derivative financial instruments and net foreign exchange gain	9,125	7,985
Share of profit of an associate	(143)	-
Impairment, change in fair value of investment property and provisions	(20,286)	(11,527)
Other income	8,576	4,914
Personnel expenses	(26,587)	(28,856)
Depreciation and amortisation	(3,949)	(4,294)
Other administrative expenses	(36,890)	(38,710)
Profit (loss) before income tax	**26,226**	**21,552**
Income tax	(3,743)	(2,393)
Net profit (loss) for the year	**22,483**	**19,159**
Profit (loss) attributable to:		
Equity holders of the parent	22,483	19,159

THE FINANCIAL GROUP STATEMENT OF OTHER COMPREHENSIVE INCOME

	Financial Group	
	2016	**2015**
Profit (loss) for the year	**22,483**	**19,159**
Other comprehensive income (expenses) to be reclassified to profit or loss in subsequent periods: Net gain on available for sale financial assets	193	10,800
Reclassification adjustments to the income statement	(10,800)	-
Other comprehensive income (expenses) not to be reclassified to profit or loss in subsequent periods:	-	-
Total other comprehensive income (expenses)	**(10,607)**	**10,800**
Total comprehensive income (expenses) for the year, net of tax	**11,876**	**29,959**
Atributable to:		
Equity holders of the parent	11,876	29,959

(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 2016	**31 December 2015**
ASSETS		
Cash and balances with central banks	134,149	108,054
Due from banks and other credit institutions	744,577	665,795
Financial assets held for trading	5,273	32,800
Financial assets designated at fair value through profit or loss	98,593	75,164
Derivative financial instruments	13,607	5,801
Available for sale financial assets	2,624	10,800
Loans and advances to customers	2,751,441	2,756,987
Finance lease receivables	160,600	142,544
Investments in subsidiaries	892	892
Investment in an associate	-	493
Investment property	30,015	63,038
Property, plant and equipment	15,641	22,179
Intangible assets	4,699	5,463
Deferred income tax asset	4,807	5,017
Other assets	14,435	9,571
Non-curent assets and disposal groups held for sale	7,994	5,537
Total assets	**3,989,347**	**3,910,135**
LIABILITIES AND EQUITY		
Due to banks and other credit institutions	1,012,291	1,084,261
Derivative financial instruments	9,378	5,550
Due to customers	2,476,895	2,343,727
Provisions	296	1,417
Current income tax liabilities	2,090	1,094
Other liabilities	15,081	12,646
Total liabilities	**3,516,031**	**3,448,695**
Equity attributable to equity holders of parent		
Ordinary shares	190,205	190,205
Share premium	81,942	81,942
Retained earnings	86,141	66,907
Reserves	115,028	122,386
Total equity	**473,316**	**461,440**
Total liabilities and equity	**3,989,347**	**3,910,135**

(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	Mandatory reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2015	**190,183**	**81,942**	**-**	**3,541**	**105,741**	**50,052**	**431,459**
Profit for the period	-	-	-	-	-	19,159	19,159
Other comprehensive income (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**
Profit for the period	-	-	-	-	-	22,483	22,483
Other comprehensive income (Note 16)	-	-	(10,607)	-	-	-	(10,607)
Total comprehensive income (expenses) for the year, net of tax	**-**	**-**	**(10,607)**	**-**	**-**	**22,483**	**11,876**
Transfer to mandatory reserve	-	-	-	3,249	-	(3,249)	-
Balance at 31 December 2016	**190,205**	**81,942**	**193**	**9,094**	**105,741**	**86,141**	**473,316**

(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 2016	**31 December 2015**
Operating activities		
Interest receipts	76,261	71,708
Interest payments	(11,939)	(14,917)
Collected previously written-off loans	2,439	1,503
Net receipt from FX trading and operations in securities	11,719	17,582
Fee and commission receipt	37,034	35,581
Fee and commission payments	(8,307)	(8,263)
Salaries and related payments	(26,850)	(29,219)
Other payments	(28,314)	(34,296)
Net cash flow from operating activities before changes in operating assets and liabilities	**52,043**	**39,679**
(Increase) decrease in operating assets:		
(Increase) decrease in loans to credit and financial institutions	(184,223)	(452,202)
(Increase) decrease in loans granted	(28,392)	(44,738)
(Increase) decrease in trading securities	17,941	(12,276)
(Increase) decrease in other assets	16,330	196
Change in operating assets	**(178,344)**	**(509,020)**
Increase (decrease) in operating liabilities:		
Increase (decrease) in liabilities to central bank	(42,700)	342,700
Increase (decrease) in liabilities to credit and financial institutions	(28,835)	(470,205)
Increase in deposits	133,342	244,298
Increase (decrease) in other liabilities	(1,589)	(193)
Change in operating liabilities	**60,218**	**116,600**
Income tax paid	**(2,466)**	**(897)**
Net cash flows from operating activities	**(68,549)**	**(353,638)**
Investing activities		
Acquisition of property, plant , equipment and intangible assets	(6,596)	(2,084)
Disposal of property, plant, equipment and intangible assets	11,485	496
(Increase) decrease in securities	(23,914)	129,880
Dividends received	24	111
Interest received	2,070	2,767
Disposal of associate	350	-
Net cash flows from investing activities	**(16,581)**	**131,170**
Financing activities		
Own debt securities redemption	-	(60)
Interest paid	-	(2)
Net cash flows from financing activities	**-**	**(62)**
Net increase in cash and cash equivalents	**(85,130)**	**(222,530)**
Net foreign exchange difference on cash and cash equivalents	2,607	5,968
Cash and cash equivalents at 1 January	**246,190**	**462,752**
Cash and cash equivalents as at 31 December	**163,667**	**246,190**

(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
Interest income	3,294
Interest expense	(690)
Net interest income	**2,604**
Fee and commission income	-
Fee and commission expense	(1,244)
Net interest, fee and commission income	**1,360**
Net gain on operations with securities and derivative financial instruments and net foreign exchange gain	46
Impairment losses and provisions	56
Other income	318
Personnel expenses	(8)
Depreciation and amortisation	-
Other administrative expenses	(643)
Profit (loss) before income tax	**1,129**
Income tax	-
Net profit (loss) for the year	**1,129**
Profit (loss) attributable to:	
Equity holders of the parent	1,129

(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
ASSETS	
Cash and balances with central banks	11,249
Finance lease receivables	138,822
Investments in subsidiaries	98
Property, plant and equipment	1,795
Other assets	1,616
Total assets	**153,580**
LIABILITIES AND EQUITY	
Due to banks	129,348
Other liabilities	1,368
Total liabilities	**130,716**
Equity attributable to equity holders of parent	
Ordinary shares	37,744
Retained earnings	(16,009)
Profit for the year	1,129
Total equity	**22,864**
Total liabilities and equity	**153,580**

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

On 25 August 2016 DNB and Nordea announced an agreement to combine their operations in Estonia, Latvia and Lithuania to create a leading main bank in the Baltics with strong Nordic roots. The new bank will have scale, a stronger geographic presence and a broader product offering, making it well prepared to meet the future. The transaction is conditional upon regulatory approvals and conditions, and is expected to close around Q2 2017. The banks will operate independently until all necessary approvals have been received. Upon closing of the transaction, the business of each Nordea branch in the Baltics shall be transferred to the DNB banking entity operating in the same jurisdiction. The banks will be sufficiently capitalized and will meet all prudential requirements. After the closing of the transaction, the group will be reorganized through merger in order to maintain the headquarters and legal entity of the new combined bank in Estonia and continue serving customers of other Baltic jurisdictions through branches in Latvia and Lithuania.