

STATE COMPANY
'INDĖLIŲ IR INVESTICIJŲ DRAUDIMAS'

ACTIVITY REPORT
2018



CONTENT

| | | |
|--|--|----------|
| Foreword of the Director | | 3 |
| About the Company | | |
| 1. Main details of the Company | | 4 |
| 2. General information | | 4 |
| 3. Mission, vision, values and strategic goals of the Company | | 9 |
| 4. Review of the Company's activities in 2018 | | 11 |
| 4.1. Corporate events of 2018 | | 11 |
| 4.2. Key financial indicators of the Company | | 13 |
| About Funds administrated by the Company | | |
| 5. Activities of the Funds administrated by the Company | | 17 |
| 5.1. Key indicators of the administrated Funds | | 17 |
| 5.2. Participants of the administrated Funds, participant groups and insurance contributions | | 20 |
| 5.3. Insured events, insurance compensations and bankruptcy proceedings | | 24 |
| 5.4. Financial obligations | | 26 |
| 5.5. Investment of resources of the Funds administrated by the Company | | 27 |
| 5.6. Legal proceedings | | 29 |
| 5.7. Activity of monitoring of participants | | 30 |
| 5.8. Stress tests of the deposit insurance system | | 31 |
| Social responsibility | | |
| 6. Social and environmental aspect | | 33 |
| 6.1. Social activity | | 33 |
| 6.2. Environmental protection | | 35 |
| 7. Efficient and transparent operations | | 36 |

FOREWORD OF THE DIRECTOR



Dear All,

The Activity Report of SC 'Indėlių ir investicijų draudimas' is the presentation of results of implementation of our strategic goals to the founder of our Company – the Ministry of Finance, participants of systems of insurance of deposits and liabilities to investors, depositors and the general public.

In the context of continuing growth of the global economy, including the economy of Lithuania, we finished the year 2018 observing the increase in the amounts of insured deposits with credit institutions operating in Lithuania. Despite withdrawal of AB Luminor and AB Citadele from the insurance system of Lithuania at the beginning of 2019, the development is not unidirectional – the newly set up specialised banks will start joining the insurance system.

We live in a rapidly changing world in which the arrangements that were relevant yesterday might become irrelevant tomorrow; therefore, we are trying to keep changing and improving while participating in the activities of the European deposit insurance system, implementing effective, modern legal and technological measures for Lithuania's deposit insurance system participants and depositors paying due attention to the loyalty and engagement of employees.

The social responsibility policy created in the Company in 2018 is based on sustainable development covering the principles of the United Nations Global Compact and the United Nations Sustainable Development Goals. Consequently, this Report has been prepared taking account of the guidelines of the Global Reporting Initiative. We invite you to get to know how we succeeded in achieving our Company's and global goals while contributing to the stability of the financial system.

Aurelija Mažintienė
Director of SC 'Indėlių ir investicijų draudimas'

ABOUT THE COMPANY

1. MAIN DETAILS OF THE COMPANY

| | |
|---|--|
| Company name: | SC ‘Indėlių ir investicijų draudimas’ (hereinafter – the Company) |
| Authorised capital: | EUR 8,995,358 |
| Registration date: | 16 December 1996 |
| Corporate code: | 110069451 |
| Institution implementing rights and obligations of the owner: | Ministry of Finance of the Republic of Lithuania |
| Registered office address: | Algirdo g. 31, LT-03219, Vilnius |
| Legal form: | State Company |
| Date of registration of valid Articles of Association: | 1 March 2018 |
| Phone: | (8-5) 213 56 57 |
| E-mail address: | DIF@DIF.lt |
| Website: | www.iidraudimas.lt |

2. GENERAL INFORMATION

The Company is the only entity providing insurance of deposits of depositors and liabilities to investors in the Republic of Lithuania in accordance with the procedure established by the Law of the Republic of Lithuania on Insurance of Deposits and Liabilities to Investors (hereinafter – the Law) and other legal acts and performing other functions related to the implementation of the Law. The Company administrates the Deposit Insurance Fund, the Fund of Insurance of Liabilities to Investors and the Resolution Fund.

At present, the Lithuanian system of insurance of deposits and liabilities to investors is harmonised with the EU law and meets the main principles of the insurance of deposits and liabilities to investors of the European Union (hereinafter – the EU) Member States.

Management of the Company

The Company’s management bodies are the institution implementing rights and obligations of the owner of the Company (the Ministry of Finance of the Republic of Lithuania), the Council of the Company and a single-person management body – the Manager of the Company (Figure 1).

The Council of the Company was approved for the term of office of 4 years by Order No 1K-235 of the Minister of Finance of the Republic of Lithuania of 30 May 2016 on the appointment of members the Council of the State Company ‘Indėlių ir investicijų draudimas’ and approval of the composition of the Council of 30 May 2016. On 31 December 2018, the Council of the Company consisted of 5 members:

Chair of the Council – Sigitas Mitkus, Director of Financial Markets Policy Department of the Ministry of Finance;

Deputy Chair of the Council – Lina Frejutė, Deputy Head of Project Management Division of the Ministry of Finance;

Members of the Council – Audrutė Dziskienė, Senior Advisor of Financial Markets Policy Department of the Ministry of Finance; Gediminas Šimkus, Director of Economics and Financial Stability Service of the Bank of Lithuania; Renata Bagdonienė, Director of Financial Services and Markets Supervision Department of the Supervision Service of the Bank of Lithuania.

Council members do not receive remuneration for participation in the activities of the Council.

Director of the Company: Aurelija Mažintienė.

Table 1. Management of the Company

| Management body | Main functions |
|--|--|
| <p>Ministry of Finance of the Republic of Lithuania – the institution implementing rights and obligations of the owner of the Company</p> | <ul style="list-style-type: none"> - Approves the strategic plan of activities of the Company; - Approves annual income and expenditure estimates of the Company and Funds; - Establishes the structure of the Company; - Approves Articles of Association of the Company; - Takes a decision to change the head office of the Company; - Appoints and removes the Company’s Manager, establishes the terms and conditions of the employment contract with the Company’s Manager, concludes and terminates the employment contract with the Company’s Manager on behalf of the Company, approves the job description of the Company’s Manager; - Approves the Company’s Activity Report of the reporting financial year; - Approves annual financial statements of the Company and Funds and distribution of the Company’s profit (loss); - Further to receiving a conclusion of the Company’s Council, determines annual regular (ex ante) deposit insurance contributions and further to receiving a conclusion of the supervisory authority – the amount of special (ex post) deposit insurance contributions; - Further to receiving a conclusion of the supervisory authority, determines the methodology of calculation of the Resolution Fund’s administration contributions and approves the rate of the Resolution Fund’s administration contributions of the respective year; - Takes a decision on the borrowing by the Company from deposit insurance systems of other Member States or lending to other deposit insurance systems of other Member States in accordance with the procedure established by the Company’s Council; - Further to receiving a conclusion of the Company’s Council, takes a decision to participate in the financing of the transfer of assets, rights, transactions and obligations of the credit union according to the ways and conditions established by the Law; - Approves the description of reporting to the institution implementing rights and obligations of the owner of the Company and the Council of the Company the representation of the Company with bankrupt credit institutions; - Selects a certified auditor or an audit company for audit of annual financial statements of the Company. The audit of annual financial statements of the Funds is carried out by the National Audit Office of the Republic of Lithuania; - Takes a decision on resolution of the Company, excluding the cases provided for in the Law of the Republic of Lithuania on State and Municipal Enterprises; - Takes a decision on reorganisation of the Company; - Takes decisions on dissolution of the Company and on cancellation of its dissolution; |

| | |
|--|---|
| | <ul style="list-style-type: none"> - Appoints and dismisses the Company's liquidator; - Approves annual plans of acquisition and/or borrowing of the Company's assets; - Approves the methods and rates of calculation of depreciation of fixed asset established by the Company; - Approves the Company's equity capital investment procedure; - Submits to the Company the letter regarding expectations of the State; - Addresses other matters assigned to its competence by the Law, the Law of the Republic of Lithuania on State and Municipal Enterprises, other legal acts regulating the rights and obligations of the Company's owner and in the articles of association. |
| <p>Council of the Company (5 members)</p> | <ul style="list-style-type: none"> - Annually, not later than by 1 December, submits to the institution implementing rights and obligations of the owner of the Company conclusions, observations and proposals, if any, regarding the operating strategy of the Company; - Takes decisions on termination of insurance of deposits or liabilities to investors; - Approves legal acts the approval of which is attributed to its competence by the Law regulating: the procedure of supplementary deposit insurance; the procedure of calculation of deposit insurance compensations; the procedure of selection of the payment service provider (providers) through which insurance compensations will be disbursed; the procedure of admission to and withdrawal from the deposit insurance system of the Republic of Lithuania; the procedure of calculation and payment of regular (ex ante) and special (ex post) deposit insurance contributions and of the first (advance) insurance contributions; the procedure of calculation and payment of interest for the failure to pay a deposit insurance contribution in due time; the procedure of borrowing and lending to other deposit insurance systems of Member States; the procedure of supplementary insurance of liabilities to investors; the procedure of calculation and payment of the insurance contribution of liabilities to investors; the stress-test procedure of the deposit insurance system; the procedure of investment of resources of the Deposit Insurance Fund and the Fund of Insurance of Liabilities to Investors; the procedure of making available the information on deposit insurance at customer servicing branches, websites, contracts and statements of account; - Approves the estimates of administrative expenses of the Deposit Insurance Fund and the Fund of Insurance of Liabilities to Investors; - Submits to the institution implementing rights and obligations of the owner of the Company the report on activities of the Company's Council for the reporting financial year; - Performs other functions established by the Law. |
| <p>Director of the Company</p> | <ul style="list-style-type: none"> - Employs and dismisses employees, concludes and terminates employment contracts with them; - Establishes the methods and rates of calculation of depreciation of assets applied in the Company upon approval of the institution implementing rights and obligations of the owner of the Company; - Guarantees the functioning of the system of remuneration and incentives to the Company's employees in the Company; |

- Provides to the institution implementing rights and obligations of the owner of the Company the information about the forecasts and plans of the Company's operations specifying the amounts of resources required for the next financial year, as well as the information about events of material significance for the Company's activities;
- Concludes transactions on a sole basis, excluding transactions for which a prior approval of the institution implementing rights and obligations of the owner of the Company is necessary. Conclusion of transactions of the value exceeding EUR 30,000 is subject to the approval of the institution implementing rights and obligations of the owner of the Company, except for: investment of the Company's equity capital and/or resources of the Funds according to the approved rules; public purchase–sale contracts concluded with the winning supplier in accordance with the procedure established by the Law of the Republic of Lithuania on Public Procurement;
- Is responsible for the submission of annual financial statements of the Company and of the Funds for approval to the institution implementing rights and obligations of the owner of the Company not later than within 4 (four) months after the end of the financial year;
- Submits to the institution implementing rights and obligations of the owner of the Company the activity report of the reporting financial year of the Company and of Funds;
- Submits to the institution implementing rights and obligations of the owner of the Company the risk assessment report of the Company and of the Funds;
- Disposes assets of the Funds and of the Company in accordance with the procedure established by legal acts;
- Takes decisions on investment of resources of the Deposit Insurance Fund, the Fund of Insurance of Liabilities to Investors and of the Company's equity capital in observance of the rules for investment of resources of the Deposit Insurance Fund, the Fund of Insurance of Liabilities to Investors and of the Company's equity capital, selects financial intermediaries for implementation of investments;
- Takes decisions on investment of resources of the Resolution Fund in observance of the procedure of investment of resources established by the Resolution Authority, selects financial intermediaries for implementation of investments;
- Prepares and submits to the Council of the Company draft material and documents necessary for the performance of functions of the Company's Council;
- Provides to the institution implementing rights and obligations of the owner of the Company the information necessary for the performance of its functions;
- Establishes the procedure for determining the information which constitutes the Company's secret;
- Approves the rules regulating personal data processing in the Company;
- Is responsible for actions the duty for the performance of which is established for the Company's manager by the Law of the Republic of Lithuania on State and Municipal Enterprises, the Law, other legal acts regulating the Company manager's competence.

Main legal acts regulating activities of the Company and of the Funds administrated by the Company

- Directives regulating the system of insurance of deposits and liabilities to investors in the European Union:
 - Directive 2014/49/EU of the European Parliament and of the Council on deposit guarantee schemes;
 - Directive 97/9/EC of the European Parliament and of the Council on investor-compensation schemes.
- The system of insurance of deposits and liabilities to investors in Lithuania is regulated by:
 - Law of the Republic of Lithuania on Insurance of Deposits and Liabilities to Investors (hereinafter – the Law);
 - Secondary legislation implementing the Law regulating payment of deposit insurance contributions, calculation and payment of interest, supplementary insurance, disbursement of insurance compensations, investment and borrowing.
- Legal acts regulating bankruptcy proceedings of participants in bankruptcy (bankrupt participants):
 - Law of the Republic of Lithuania on Enterprise Bankruptcy;
 - Law of the Republic of Lithuania on Banks;
 - Law of the Republic of Lithuania on Credit Unions;
 - Law of the Republic of Lithuania on Central Credit Unions;
 - Other applicable legal acts.

Principal functions of the Company directly related to the administration of the Funds

The purposes of the Company's activities (defined by the Law) are to insure, in accordance with the procedure established by the Law and other legal acts, the deposits of depositors and the liabilities to investors, to administrate the Deposit Insurance Fund, the Fund of Insurance of Liabilities to Investors and the Resolution Fund (these Funds are not legal persons and the Company is acting on their behalf), and to perform other functions specified by laws. In implementing the purposes defined by the Law, the Company performs the following principal functions:

- Calculates and collects *ex ante* and *ex post* deposit insurance contributions, contributions of insurance of liabilities to investors and contributions to the Resolution Fund and keeps them with the respective Fund administrated by it or uses for the purposes specified by the Law;
- Calculates and disburses deposit insurance compensations and compensations of insurance of liabilities to investors;
- Invests resources of the administrated Funds and the Company's equity capital;
- Handles the accounting of the administrated Funds, prepares financial statements, estimates of income and expenses and submits them for approval to the institution implementing rights and obligations of the owner of the Company;
- Supervises the adherence of participants of the deposit insurance system and of the insurance system of liabilities to investors to this Law and their compliance with requirements of its implementing legislation;
- Assesses the conditions of insurance (compensation) of deposits or liabilities to investors or other protection provided in third countries the credit institutions, financial brokerage firms or management companies of which set up their branches up in the Republic of Lithuania;
- Assesses the risk of the Company, the Deposit Insurance Fund and the Fund of Insurance of Liabilities to Investors;

- Cooperates and exchanges information with administrators of deposit insurance systems and supervisory authorities of other Member States and third countries, as well as with the European Banking Authority;
- Conducts stress tests of the deposit insurance system;
- Participates in the financing of reorganisation of a bank or a central credit union;
- Participates in the financing of the transfer of assets, rights, transactions and obligations of a credit union;
- Maintains the List of participants of the system of insurance of deposits and the List of participants of the system of insurance of liabilities to investors of the Republic of Lithuania;
- Performs other functions provided for by the Law related to the implementation of this Law and ensuring of the Company's activities.

All functions performed by the Company defined by the Law are attributed to special obligations, i.e. the administration of the Funds established by the Law. The Company does not perform any commercial functions within the meaning of the Recommendations on the establishment of special obligations for state-owned enterprises and provision of information approved by Order No 4-1100 of the Minister of Economy of the Republic of Lithuania of 20 December 2013 on approval of recommendations on the establishment of special obligations for state-owned enterprises and provision of information.

3. MISSION, VISION, VALUES AND STRATEGIC GOALS OF THE COMPANY

Mission of the Company

To ensure the protection of deposits and liabilities to investors in the cases of insolvency of financial institutions and to contribute this way to the stability of the financial market and to the increase of public trust in financial companies.

Vision of the Company

To be the Company that offers the most attractive insurance of deposits and liabilities to investors to financial institutions in the Baltic States.

Values of the State Company ‘Indēliu ir investiciju draudimas’

Openness – creating attractive, modern and innovative environment; maintaining smooth and close cooperation in the macro-environment of systems of insurance of deposits and liabilities to investors.

Effectiveness – achieving results that exceed the envisaged performance and within the period shorter than the established time limits.

Efficiency – improving the stability and soundness of the financial sector through our transparent and socially responsible activities.

Figure 1. Strategic Roadmap

| | | |
|-----------------------------|--|---|
| Mission | To ensure the protection of deposits and liabilities to investors in the cases of insolvency of financial institutions and to contribute this way to the stability of the financial market and to the increase of public trust in financial companies. | |
| Vision | To be a company that guarantees the most attractive insurance of deposits and liabilities to investors for financial institutions in the Baltic States | |
| Strategic directions | To contribute to the increase of stability and soundness of the financial sector | To manage resources effectively |
| Strategic goals | To increase the stability and soundness of the financial sector | To ensure the effectiveness of management of the Company’s activities and administrated Funds |
| Tasks | To ensure the supervision of participants of the systems of insurance of deposits and liabilities to investors | To ensure the effectiveness of the Company’s activities |
| | To ensure the awareness of the systems of insurance of deposits and liabilities to investors | To ensure the positive changes in the resources of the administrated Funds |
| | To ensure the achievement of the target level of the Deposit Insurance Fund | |

Strategic goals, their implementation measures and achievement are provided in Table 2.

Table 2. State Company 'Indėlių ir investicijų draudimas' performance assessment criteria and their implementation

| Strategic goal | Task | Measure | | Criterion | Criterion value | | Responsible |
|---|--|---|--|---|---|-------------------------------|---|
| | | | | | Plan of 2018 | Fact of 2018 | |
| 1. To increase the soundness of systems of insurance of deposits and liabilities to investors | Effect | | | Achievement of planned criteria values of the implementation of tasks of the strategic goal (%) | 100 | 100 | |
| | 1.1. To ensure the supervision of participants of the systems of insurance of deposits and liabilities to investors (hereinafter – participants) | Outcome | | Achievement of planned criteria values of the measures for implementation of the task (%) | 100 | 100 | |
| | | Stress testing of deposit insurance systems | Output | Conducted stress testing of the deposit insurance system | 1 | 1 | Policyholder Monitoring Division |
| | | Inspections of participants | Outcome | Inspections of the highest- and medium-risk level participants (%) | 100 | 100 | Policyholder Monitoring Division |
| | 1.2. To ensure the awareness of the systems of insurance of deposits and liabilities to investors | Outcome | | Awareness of insurance of deposits (%) | ≥ 60 | 54 | |
| | | Outcome | | Awareness of insurance of liabilities to investors (%) | ≥ 30 | 74 | |
| | | Public survey | Output | Conduct a public survey (units) | 1 | 1 | Business Organisation Division |
| | | Public awareness-raising | Outcome | Implement measures provided for in the plan of measures of public awareness-raising (%) | 100 | 100 | Business Organisation Division |
| | 1.3. To ensure the achievement of the target level of the Deposit Insurance Fund | Outcome | | Meetings with/direct consulting of the highest- and medium-risk level participants (%) | 100 | 100 | Policyholder Monitoring Division |
| | | Outcome | | Achievement of the target level of the Deposit Insurance Fund (% from insured deposits) | 0.1 | 0.4 | |
| | | Verification of data on eligible deposits provided by the deposit insurance system participants | Outcome | Verification of data on eligible deposits provided by all deposit insurance system participants as of 31 December (%) | 100 | 100 | Policyholder Monitoring Division |
| | 2. To ensure the effectiveness of management of the Company's activities and administrated Funds | Effect | | | Achievement of planned criteria values of the implementation of tasks of the strategic goal (%) | 100 | 100 |
| 2.1. To ensure the effectiveness of the Company's activities | | Outcome | | Achievement of planned criteria values of the measures for implementation of the task (%) | 100 | 100 | |
| | | To seek profitable operations | Outcome | EBIDTA (EUR thousand)* | ≥60 | ≥ 71 | Deputy Director/Funds Administration Division |
| | | To seek income from commercial activity | Outcome | Commercial activity income (%) in the total income of the Company | 6 | 6 | Deputy Director |
| Output | | | To assess the possibility to administrate loan portfolios from CIs in bankruptcy (study) | 1 | projection | Funds Administration Division | |
| 2.2. To ensure the positive changes in the resources of the administrated Funds | | Outcome | | Change of administrated Funds | positive | positive | |
| | | Output | | To update /improve the Description of the representation in bankruptcy proceedings | 1 | 1 | Process Administration Division |
| | | Outcome | | Average recovery of a credit claim from credit institutions in bankruptcy (%) | 50 | 60 | Process Administration Division |
| | | Outcome | | Receipts of the Deposit Insurance Fund (EUR million) | 43.6 | 44.5 | Process Administration Division / Funds Administration Division |
| Outcome | | Receipts of the Fund of Insurance of | 0.065 | 0.073 | Funds Administration | | |

| | | | | | | | |
|--|--|--|---------|--|------|------|-------------------------------|
| | | | | Liabilities to Investors (EUR thousand) | | | Division |
| | | | Outcome | Receipts of the Resolution Fund (EUR thousand) | 0.01 | 0.01 | Funds Administration Division |

*EBITDA – earnings before interest, taxes, depreciation and amortisation

4. REVIEW OF THE COMPANY'S ACTIVITIES IN 2018

4.1. Corporate events of 2018

Corporate events related to activities of the Company and of the Funds administered by the Company are provided below (Table 3).

Table 3. Corporate events of 2018

| | |
|----------|---|
| January | <ul style="list-style-type: none"> - On 16 January 2018, the insured event of deposits of the Credit Union Centro taupomoji kasa took effect. The Company disbursed deposit insurance compensations in the amount of EUR 10.56 million to 1,000 of depositors. - On 24 January 2018, upon expiration of the term of 5 years of payment of insurance compensations, the disbursement of insurance compensations to depositors of the Credit Union Švyturio taupomoji kasa and the Credit Union Nacionalinė kredito unija was finished. The total amount of insurance compensations not withdrawn by depositors of the Credit Union Švyturio taupomoji kasa totalled EUR 4.3 thousand or 0.09% of the calculated insurance compensations, and the amount of insurance compensations not withdrawn by depositors of the Credit Union Nacionalinė kredito unija accounted for EUR 18.2 thousand or 0.05% of the calculated insurance compensations. |
| February | <ul style="list-style-type: none"> - By ruling of 6 February 2018 in the Civil Case No B2-2973-262/2018 bankruptcy proceeding were initiated against the Credit Union Centro taupomoji kasa. - On 13 February 2018, the insured event of deposits of the Credit Union Taupkasė took effect. The Company disbursed deposit insurance compensations to depositors of the Credit Union Taupkasė in the amount of EUR 18.68 million to 2,572 depositors. - On 19 February 2018, Luminor Bank announced its intention to merge its operations in the Baltic States, withdraw from Lithuania's deposit insurance systems and become a participant of the Estonians deposit insurance system (from 2 January 2019). |
| March | <ul style="list-style-type: none"> - On 22 March 2018, the Court of Justice of the European Union (hereinafter – the CJEU) passed the preliminary ruling regarding inactive bonds and shares of BAB Bankas Snoras. The CJEU explained that the cases of shares and bonds which ultimately were not issued were attributable to both investor-compensation schemes and deposit-guarantee schemes. Where the national legislature has not directed such claims to one or other of those schemes, the court dealing with the case may not decide itself which scheme the holders of those claims may benefit from. In such a situation it falls to the holders of the claims to choose to be compensated by one or other of the schemes. The Supreme Court of Lithuania (hereinafter – the SCL) renewed the hearing of the suspended civil cases and fixed the date of hearing of the cases by written procedure – 6 June 2018. - In March, the audit of the Company's activities of 2017 was completed. The audit was carried out by the Internal Audit Division of the Ministry of Finance of the Republic of Lithuania. The Company's internal control of activities was assessed as <i>good</i>. - The financial audit of the Company's activities of 2017 was completed. The Auditor's qualified opinion was not issued. |
| May | <ul style="list-style-type: none"> - On 9 May 2018, upon expiry of the term of 5 years for payment of insurance compensations, the disbursement of insurance compensations to depositors of the Bankrupt LP CU Laikinosios sostinės kreditas was finished. The total amount of insurance compensations not withdrawn by depositors of the Bankrupt LP CU Laikinosios sostinės kreditas accounted for EUR 7.5 thousand or 0.11 % of the calculated insurance compensations. - By Order No 1K-190 2018 of the Minister of Finance of the Republic of Lithuania of 18 May 2018 deposit insurance contributions were established for the period between |

1 July 2018 and 30 June 2019.

| | |
|--------|---|
| June | <ul style="list-style-type: none">- On 22 June 2018, the SCL, acting on the basis of the CJEU's ruling, passed the ruling in the Civil Case No 3K-3-232-969/2018 on recognising the right to the insurance compensation for applicants who had concluded with BAB bankas Snoras the bond purchase agreements according to which the funds for acquisition of securities were transferred to accounts opened in the bank's name, but due to its insolvency those persons did not become the holders of the bonds. The Company implemented the passed ruling according to which the amount of deposit insurance compensations calculated for 62 persons totalled EUR 855.53 thousand. |
| July | <ul style="list-style-type: none">- On 4 July 2018, the SCL, acting on the basis of the CJEU's ruling, passed the ruling in the Civil Case No 3K-3-213-687/2018 on recognising the right to the deposit insurance compensation for applicants who had made payments under the bank share subscription agreements, but the placement of shares has not taken place due to bankruptcy of BAB bankas Snoras. The Company implemented the passed ruling according to which the amount of deposit insurance compensations calculated for 257 persons totalled EUR 1.5 million.- On 11 July 2018, the SCL, acting on the basis of the CJEU's ruling, passed the ruling in the Civil Case No 3K-3-214-701/2018 on recognising the right to the insurance compensation for the applicant who had concluded with BAB bankas Snoras the bond purchase agreement according to which the funds for acquisition of securities were transferred to accounts opened in the bank's name, but due to its insolvency the persons did not become the holder of the bonds. The Company implemented the court's ruling and disbursed to the applicant the insurance compensation of EUR 1.2 thousand.- On 5 July 2018, the Board of Citadele Group passed the decision to reorganise operations of the bank in Lithuania – to merge AB Citadele bankas to AS Citadele banka in Latvia, to withdraw from Lithuania's deposit insurance system and to become a participant of the deposit insurance systems of Latvia (from 1 January 2019). |
| August | <ul style="list-style-type: none">- On 28 August 2018, the SCL, acting on the basis of the CJEU's ruling, passed the ruling in the Civil Case No 3K-3-233-219/2018 on recognising the right to the insurance compensation for the applicant who had concluded with BAB bankas Snoras the bond purchase agreement according to which the funds for acquisition of securities were transferred to accounts opened in the bank's name, but due to its insolvency the persons did not become the holder of the bonds.- On 29 August 2018, the Insurance Company acting on the basis of the CJEU's decision, the case law formulated by the SCL regarding inactive bonds and shares of BAB bankas Snoras and explanations of the European Law Department under the Ministry of Justice of the Republic of Lithuania paid insurance compensations to all holders of inactive bonds and shares of BAB bankas Snoras irrespective of whether or not the holders had brought actions with the national court. The total amount of insurance compensations planned to be disbursed to holders of inactive bonds and shares of BAB bankas Snoras is about EUR 10 million.- The Company has implemented the Application Management System which allows natural and legal persons, after identifying them, to submit to the Company the applications and information necessary for payment of insurance compensations, and to obtain various certificates and access other information. |

| | |
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| September | <ul style="list-style-type: none"> - By the ruling of the Court of Appeal of Lithuania of 13 September 2018 in the Civil Case No 2-1381-790/2018 the ruling of the Regional Court of Kaunas of 8 June 2018 in the Civil Case No B2-1596-555/2018 on initiating bankruptcy proceedings of the Credit Union Taupkasė was left unchanged. |
| October | <ul style="list-style-type: none"> - By the ruling of the Court of Appeal of Lithuania of 11 October 2018 in the Civil Case No 2-1661-823/2018 the Bankruptcy Administrator UAB Verslo konsultantai of the Bankrupt LP CU Vilniaus taupomoji kasa was dismissed. - In observance of the Guidelines of the European Banking Authority of 19 October 2016 on stress tests of deposit guarantee schemes under Directive 2014/49/EU (EBA/GL/2016/04) and Resolution No 05-02-4-10 of the Company's Council of 24 March 2017 the test programme was approved and in October 2018 the Company started performing stress tests of stage three of the selected bank. - On 5 October 2018, Credit Union Mano unija obtained a licence of a specialised bank and started the process of reorganisation into AB Mano bankas, which was finished on 2 January 2019. |
| November | <ul style="list-style-type: none"> - The inspection (monitoring) of insurance compensations to holders of inactive bonds and shares of BAB bankas Snoras was carried out. 100% of agreements on acquisition of those securities signed by the holders of inactive bonds and shares were checked. - Further to examining the Company's complaints, by Order No V4-318 of the Authority of Audit, Accounting, Property Valuation and Insolvency Management Further of 22 November 2018 on the imposition of penalty on the Bankruptcy Administrator UAB Verslo konsultantai the penalty was imposed – the warning was issued to the Bankruptcy Administrator UAB Verslo konsultantai. |
| December | <ul style="list-style-type: none"> - On 6 December 2018, Revolut Technologies UAB obtained a specialised banking license (until the end of the reporting period they had not filed the application for becoming a deposit insurance participant). - On 14 December 2018, European Merchant UAB obtained a specialised banking license (until the end of the reporting period they had not filed the application for becoming a deposit insurance participant). - On 20 December 2018, the SCL passed the ruling in the Civil Case No e3K-3-512-687/2018 further to the action of UAB Paysera LT – the SCL dismissed the applicant's requests to recognise the funds of the deposit opened with the Credit Union Amber in the name of UAB Paysera LT to be the customers' funds and to recognise the customers to be the depositors. This ruling formulates the case law in interpreting and applying the recast LIDLI. In the case at issue it was established that since the applicant has not disclosed the fact of acting by right of trust the contested deposit should not be considered to be the insurance object under the LIDLI. |

4.2. Key financial indicators of the Company:

The Company administrates three Funds: the Deposit insurance Fund, the Fund of Insurance of Liabilities to Investors and the Resolution Fund. The Funds administrated by the Company are not legal entities; they are administrated by the Company which acts on their behalf. Bookkeeping of the administrated Funds is conducted separately. The Company conducts its bookkeeping and prepares financial statements according to legal acts regulating financial accounting and reporting and in observance of the Business Accounting Standards (Article 45(1) of the Law). The bookkeeping of the administrated Funds is conducted by the Company for each Fund separately, preparing separate financial statements in accordance with the Law of the Republic of Lithuania on Public Sector Accountability (Article 45(2) of the Law).

Income and expenses of the Company

The structure of the Company's income and expenses is established by the Law (Article 44).

The Company's main income consists of the resources of the Deposit insurance Fund and of the Fund of Insurance of Liabilities to Investors for covering the costs of administration of these Funds; the contributions paid by participants of the Resolution Fund for administration of the Resolution Fund; the income from investment of equity capital of the Company. The main expenses of the Company consist of expenses of administration of the Funds (staff maintenance costs, administrative expenses, property use and maintenance costs, depreciation and amortisation costs), equity capital investment costs. Key audited indicators of the Company of 2018 and previous periods are provided in Table 4.

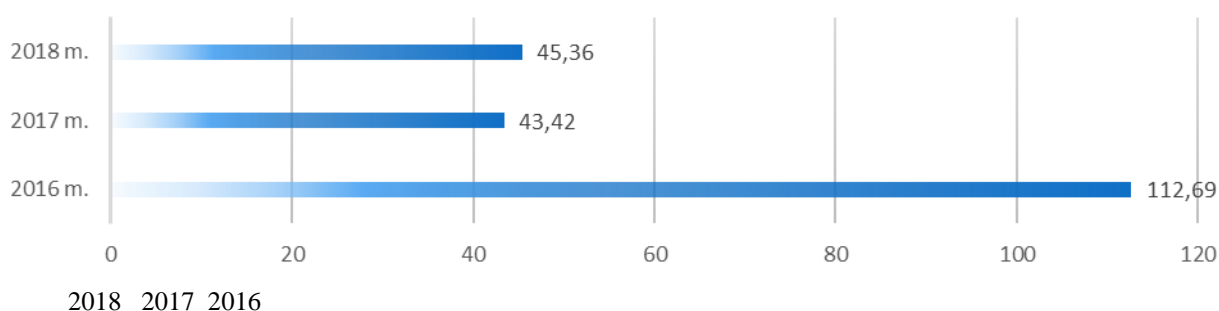
Table 4. Key financial indicators of the Company, EUR thousand

| | 2016 | 2017 | Plan of 2018 | Fact of 2018 |
|--|--------------|--------------|--------------|--------------|
| Key indicators of the Company | | | | |
| 1. Income, including: | 719.9 | 536.2 | 843.8 | 721.9 |
| 1. 1. Fee for administration of the Funds, total: | 605.6 | 492.0 | 808.8 | 675.5 |
| 1.1.1. Fee for administration of the Deposit Insurance Fund | 605.5 | 489.0 | 806.8 | 673.5 |
| 1.1.2. Fee for administration of the Fund of Insurance of Liabilities to Investors | 0.1 | 1.0 | 1.0 | 1.0 |
| 1.1.3. Contributions for administration of the Resolution Fund | - | 2.1 | 1.0 | 1.0 |
| 1.2. Financing and investing activity income | 114.3 | 44.2 | 35.0 | 39.9 |
| 1.3. Other operating income | - | - | - | 6.5 |
| 2. Expenses, including: | 607.2 | 492.8 | 812.8 | 676.5 |
| 2.1. Expenses of administration of Funds: | 605.6 | 492.0 | 808.8 | 675.5 |
| 2.1.1. Company staff maintenance costs | 408.4 | 373.5 | 535.0 | 513.2 |
| 2.1.3. Administrative expenses, property use and maintenance costs | 169.7 | 90.3 | 238.5 | 131.7 |
| 2.1.4. Property depreciation and amortisation costs | 23.0 | 28.2 | 31.0 | 26.1 |
| 2.1.5. Tax expenses | 4.5 | 4.5 | 4.5 | 4.5 |
| 2. 2. Financing and investing activity expenses | 1.6 | 0.8 | 4.0 | 1.0 |
| 3. Net profit (loss) | 112.7 | 43.4 | 31.0 | 45.4 |
| 4. EBITDA | 135.7 | 71.6 | 60.0 | 71.5 |
| 5. ROE | 0.7 | 0.3 | 0.2 | 0.3 |

During the reporting period, the Company's income from administration of the Funds totalled EUR 675.5 thousand, income from investing and other activities – EUR 46.40 thousand. *The Company's income from administration of the Funds is equal to expenses for administration of the Funds.*

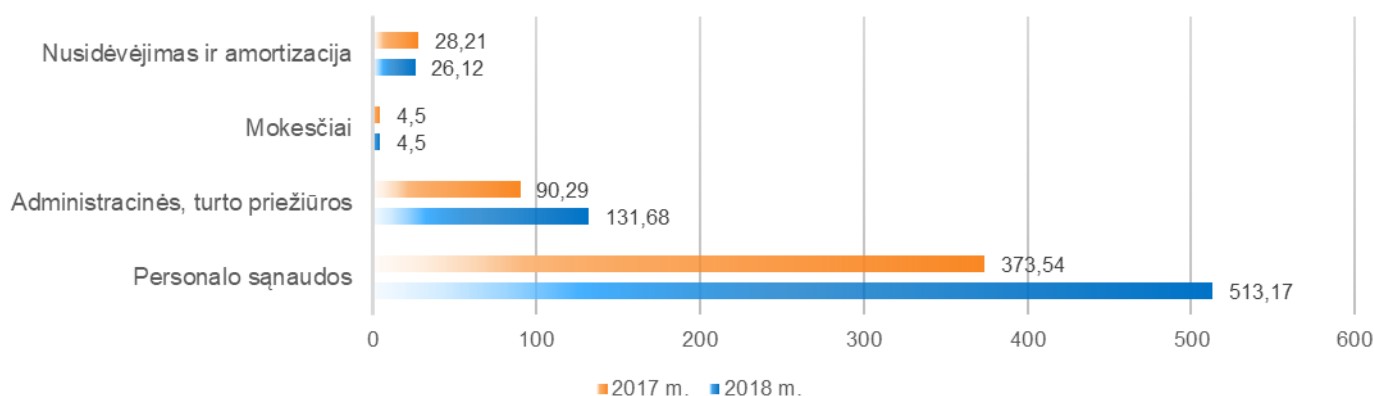
Notwithstanding the situation existing on financial markets where the yield of low-risk financial instruments is close to zero, the Company generates income from its equity capital and this allows the Company to guarantee profit (Figure 2). In 2018, the Company's profit was EUR 45.4 thousand and exceeded by ~4.4% the comparable figure of 2017. The Company's equity capital is invested in low-risk assets in observance of the Description of the procedure for investment of equity capital of SC 'Indėlių ir investicijų draudimas' approved by Order No 1K-257 of the Minister of Finance of the Republic of Lithuania of 23 June 2016 (As amended by No 1K- 437 Order of the Minister of Finance of the Republic of Lithuania of 14 December 2018) (hereinafter – the Description).

Figure 2. Change in the Company's profit, 2016-2018 (EUR thousand)



During the reporting period, actual costs of the Company accounted for EUR 676.52 thousand or 91% of the approved estimate of the Company's costs earmarked for administration of the Funds, comprising (Figure 3) the Company's staff maintenance costs of EUR 513.17 thousand, the administrative expenses, property use and maintenance costs of EUR 131.68, the property depreciation and amortisation costs of EUR 26.12 thousand, the tax expenses of EUR 4.50 thousand and the investing activity expenses of EUR 1.04 thousand. Total expenses during the reporting period were ~26.7% larger than in 2017.

Figure 3. Distribution and change of expenses of the Company in 2017-2018 (EUR thousand)



Depreciation and amortisation; Taxes; Administrative and property maintenance expenses; Staff costs
2017 2018

The reporting period's income and expenditure estimates and the preliminary implementation of the property acquisition plan approved by Order No 1K-390 of the Minister of Finance of the Republic of Lithuania of 20 November 2018 (As amended by Order No 1K-409 of 30 November 2018) are provided in Annex No 1 and Annex No 2.

Equity capital and assets of the Company

As at 31 December 2018, the Company's assets before audit totalled EUR 15,987.32 thousand; the equity capital amount according to preliminary data was EUR 15,924.03 thousand and increased by EUR 45.36 thousand or by 0.3% since the beginning of the year (Table 5). Increase in the Company's equity capital was influenced by the Company's profit earned from investing activities.

Table 5. Assets of the Company and of the Funds administrated by it in 2016-2018 (EUR thousand)

| | 2016 | 2017 | Fact of 2018 |
|----------------------------|------------------|-----------------|-----------------|
| 1. Company's assets | 15,899.9 | 15,920.4 | 15,987.3 |
| 2. Equity capital | 15,835.26 | 15,878.7 | 15,924.0 |
| 2.1. Owner's capital | 8,995.4 | 8,995.4 | 8,995.4 |

| | | | |
|---|------------------|------------------|------------------|
| 2.2. Reserves | 6,684.4 | 6,839.9 | 6,883.3 |
| 3. Assets of administrated Funds | 266,266.1 | 239,311.8 | 202,059.4 |
| 3.1. Deposit insurance Fund | 263,712.1 | 236,688.9 | 199,362.3 |
| 3.2. Fund of Insurance of Liabilities to Investors | 2,551.9 | 2,619.9 | 2,693.1 |
| 6.2.3. Resolution Fund | 2.0 | 3.0 | 4.0 |
| Total administrated assets | | | |
| Assets of the Company and of the Funds administrated by it | 282,165.9 | 255,232.2 | 218,046.7 |

The major part (~99%) of assets of the Company comprised financial assets (investments in GSs) and cash. As of 31 December 2018, carrying amount of the investment portfolio was EUR 7,675.90 thousand (Table 6). The Company's investment portfolio comprised euro denominated GSs of the Republic of Lithuania and of the Republic of Latvia. The other part of assets comprised funds with banks which totalled EUR 8,138.71 thousand at the end of the reporting period. The Company's equity capital is invested in observance of the Description of the procedure for investment of equity capital of SC 'Indėlių ir investicijų draudimas' approved by Order No 1K-257 of the Minister of Finance of the Republic of Lithuania of 23 June 2016 (As amended by No 1K- 437 Order of the Minister of Finance of the Republic of Lithuania of 14 December 2018).

Bookkeeping of the Funds is conducted separately.

Table 6. Investments of the Company in GSs, 31 December 2018 (EUR)

| ISIN No | Redemption date | Modified maturity | Yield % | Carrying amount (EUR thousand) | Portfolio share |
|------------------|-----------------|-------------------|-------------|--------------------------------|-----------------|
| LT0000610065 | 28 02 2023 | 4.12 | 2.91 | 590.49 | 7.7% |
| LV0000570125 | 21 11 2019 | 0.85 | 0.28 | 423.65 | 5.5% |
| LT0000607087 | 03 10 2020 | 1.58 | 0.27 | 1,290.28 | 16.8% |
| LT0000630022 | 30 03 2019 | 0.24 | 0.39 | 40.48 | 0.5% |
| LT0000630022 | 30 03 2019 | 0.24 | 0.20 | 30.25 | 0.4% |
| LT1000607010 | 28 08 2021 | 2.60 | 0.08 | 1,272.29 | 16.6% |
| LT0000610073 | 26 04 2027 | 8.66 | 1.05 | 403.15 | 5.3% |
| LT0000670028 | 23 08 2024 | 5.74 | 0.70 | 827.06 | 10.8% |
| LT0000630055 | 31 01 2021 | 2.09 | 0.03 | 2,798.25 | 36.5% |
| Portfolio | | 2.87 | 0.44 | 7,675.90 | 100% |

According to preliminary data, investing activity income during the reporting period totalled EUR 39.85 thousand and, compared with the respective period of the previous year, reduced by EUR 4.76 thousand or by 13.8% (Table 4). The decrease in investing activity income is related to the financial investment environment in which the yield of low-risk financial instruments is minimal or close to zero.

Obligations of the Company

During the reporting period and during the previous period, the Company had no debt obligations. Two loans taken on behalf of the Deposit Insurance Fund were fully repaid by the Company in the second quarter of 2017. These debt obligations are reflected in financial statements of the Deposit Insurance Fund of the respective period.

Audit of financial statements of the Company

In observance of subparagraph 14.14 of the Company's Articles of Association the Ministry of Finance of the Republic of Lithuania selects a certified auditor or an audit firm to audit financial statements of the Company. The audit of financial statements of the Funds is carried out by the National Audit Office of the Republic of Lithuania.

In 2018, financial statements of the Company were audited by UAB Naukonsa according to the signed agreement. The consideration fixed for the annual audit of financial statements provided for under the agreement was EUR 1,754.50.

Investment projects

During the reporting period, the Company did not implement any investment projects.

Taxes

In observance of Article 3(2)(5) of the Law of the Republic of Lithuania on Corporate Income Tax, the Company does not pay the corporate income tax. From 2005, the Company pays into the State Budget the tax on use of the State property by right of trust. The tax rate – 0.05% from the Company owner's capital or EUR 4.50 thousand each year (Article 5(1) of the Law of the Republic of Lithuania on the Tax on Use of State Property by Right of Trust).

ABOUT THE FUNDS ADMINSTRATED BY THE COMPANY

5. ACTIVITIES OF THE FUNDS ADMINSTRATED BY THE COMPANY

5.1. Key indicators of the administrated Funds

Table 7. Key indicators of the Deposit Insurance Fund, the Fund of Insurance of Liabilities to Investors and of the Resolution Fund, 2016-2018 (EUR thousand)

| General indicators of the Funds | 2016 | 2017 | Plan of 2018 | Fact of 2018 |
|--|---------|--------|--------------|--------------|
| 1. Receipts, total | 124 277 | 70 498 | 43 647 | 44 595 |
| 1.1. Insurance contributions | 32 534 | 22 049 | 12 042 | 12 465 |
| 1.2. Income from administrated events | 79 232 | 48 441 | 31 600 | 32 092 |
| 1.3. Other receipts (insurance compensations not withdrawn within 5 years) | 12 493 | - | 20 | 33 |
| 1.4. Investment income | 18 | 8 | 5 | 8 |
| 2. Expenses, total | 23 056 | 38 551 | 60 792 | 37 443 |
| 2.1. Compensations | 20 442 | 37 223 | 60 000 | 36 767 |
| 2.2. Funds administration | 606 | 490 | 808 | 675 |
| 2.3. Interest expenses (loans) | 2 008 | 838 | - | - |
| 3. Other indicators | | | | |
| 3.1. Loans (at the year-end) | 62 265 | - | - | - |
| 4. Resources accumulated by the Funds administrated Funds | | | | |
| 4.1. Administrated Funds (funds accumulated at the year-end) | 26 026 | 57 688 | 16 197 | 64 963 |
| Deposit Insurance Fund | | | | |
| 5. Receipts, total | 124 202 | 70 429 | 43 601 | 44 520 |
| 5.1. Insurance contributions | 32 472 | 21 987 | 11 981 | 12 396 |
| 5.2. Income from administrated events | 79 232 | 48 441 | 31 600 | 32 092 |
| 5.3. Other receipts (insurance compensations not withdrawn within 5 years) | 12 493 | - | 20 | 30 |
| 5.4. Investing activity result | 5 | 0,5 | - | 2,73 |
| 6. Expenses, total | 23 057 | 38 550 | 60 806 | 37 441 |
| 6.1. Insurance compensations, total | 20 442 | 37 223 | 60 000 | 36 767 |
| 6.2. Administrative expenses | 606 | 489 | 806 | 673 |
| 6.3. Interest expenses (loans) | 2 009 | 838 | - | - |
| 7. Other indicators | | | | |
| 7.1. Loan repayment (per year) | 20 525 | 62 265 | 0 | 0 |
| 7.2. Loan balance (year-end) | 62 265 | 0 | 0 | 0 |
| 7.3. Financial resources (end-of-period) | 23 472 | 55 066 | 13 508 | 62 266 |
| Fund of Insurance of Liabilities to Investors | | | | |
| 8. Receipts, total | 79 | 68 | 65 | 73,4 |
| 8.1. Collected insurance contributions | 61 | 61 | 60 | 67,8 |
| 8.2. Income from administrated events | - | - | - | - |
| 8.3. Investment income | 18 | 7 | 5 | 5,6 |
| 9. Expenses, total | 0,1 | 1,1 | 1 | 1,1 |
| 9.1. Compensations | - | - | - | - |
| 9.2. Expenses for administration of the Fund | 0,1 | 1 | 1 | 1,0 |
| 9.2. Financial costs of investing activity | 0,1 | 0,1 | 0,1 | 0,1 |
| 10. Other indicators | | | | |
| 10.1. Loans | - | - | - | - |
| 11. Resources accumulated by the FILI | | | | |
| 11.1. Financial resources (end-of-period) | 2 552 | 2 619 | 2 685 | 2 693 |
| Resolution Fund | | | | |
| 12. Receipts, total | 1 | 1 | 1 | 1 |
| 12.1. Collected insurance contributions | 1 | 1 | 1 | 1 |
| 13. Expenses, total | - | - | - | - |

| | | | | |
|---|---|---|---|---|
| 13.1. Expenses | - | - | - | - |
| 14. Accumulated resources (end-of-period) | 2 | 3 | 4 | 4 |
| 14.1. Financial resources | 2 | 3 | 4 | 4 |

Deposit Insurance Fund (DIF)

Deposit Insurance Fund is the fund in which resources are accumulated for disbursement of insurance compensations under the Law on Insurance of Deposits and Liabilities to Investors and for the financing of resolution tools of the financial sector entities according to the Law of the Republic of Lithuania on Financial Sustainability.

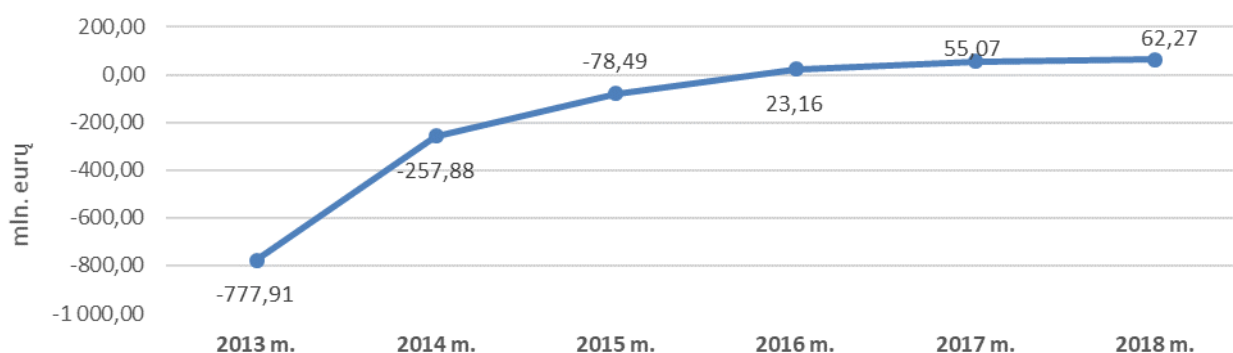
During the reporting period, the main income of the DIF comprised insurance contributions paid by participants – EUR 12.40 million; resources received from credit institutions in bankruptcy – EUR 32.09 million (see Table 7).

During the reporting period, the main expenses of the DIF comprised deposit insurance compensations – EUR 36.77 million, the administrative expenses of the DIF – EUR 673.47 thousand (see Table 7).

As of 31 December 2018, assets of the Deposit Insurance Fund totalled EUR 199.36 million consisting of cash of EUR 50.29 million, investments in GSs of EUR 11.98 million, and other assets of the Fund, including the calculated receivable credit claim (EUR 133.86 million). Compared with the end of 2017, the Deposit Insurance Fund's assets reduced by EUR 37.33 million or by 15.8% due to the deposit insurance compensations disbursed in 2018 and the recalculated receivable credit claim.

At the year-end, financial resources of the Deposit Insurance Fund amounted to EUR 62.27 million. Dynamics of financial resources of the Deposit Insurance Fund is provided in Figure 4.

Figure 4. Dynamics of financial resources of the Deposit Insurance Fund, 2013-2018 (EUR million)



EUR million; 2013 2014 2015 2016 2017 2018

Fund of Insurance of Liabilities to Investors (FIL)

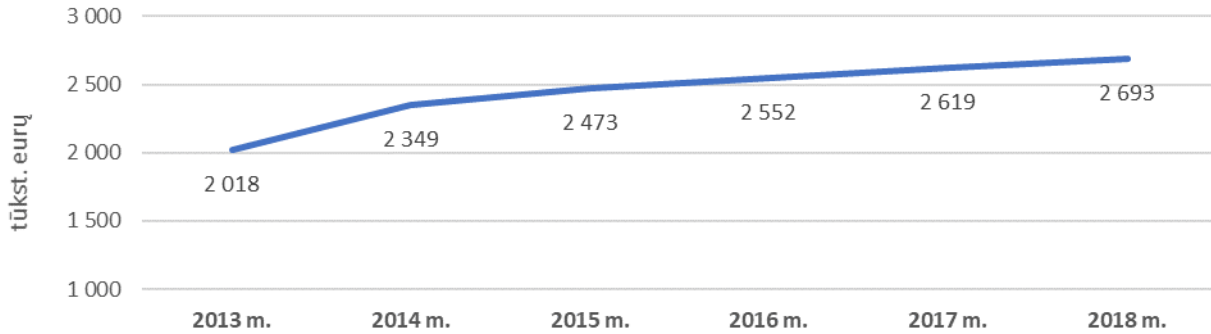
Fund of Insurance of Liabilities to Investors is the fund in which resources are accumulated for disbursement of insurance compensations under the Law on Insurance of Deposits and Liabilities to Investors.

During the reporting period, the main income of the FIL consisted of EUR 67.80 thousand of insurance contributions paid by participants and EUR 5.61 thousand of income from financing and investing activities (see Table 7).

During the reporting period, the main expenses of the FIL comprised the administrative expenses of the FIL of EUR 1.00 thousand (see Table 7).

As of 31 December 2018, assets of the Fund of Insurance of Liabilities to Investors amounted to EUR 2,693.14 million and comprised cash amounting to EUR 1.82 million and investments in GSs – to EUR 0.87 million. Compared with 2017, assets of the Fund of Insurance of Liabilities to Investors increased by 2.8% (Figure 5).

Figure 5. Dynamics of the size of the Fund of Insurance of Liabilities to Investors, 2013-2018



EUR thousand; 2013 2014 2015 2016 2017 2018

Resolution Fund (RF)

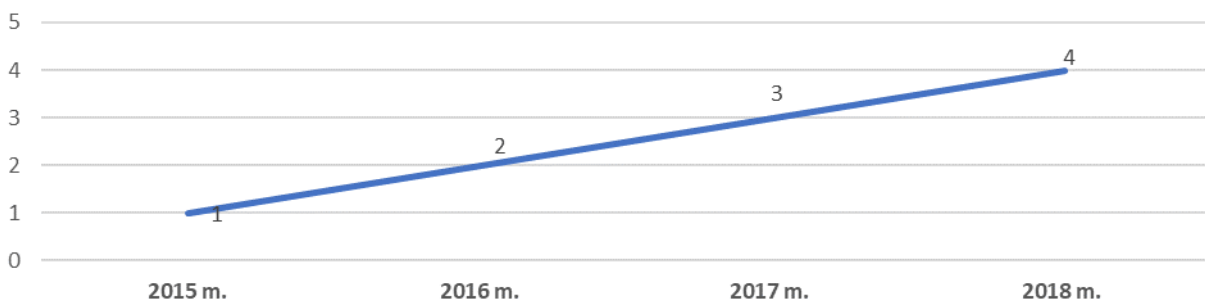
Resolution Fund is the fund in which resources are accumulated for resolution of problem participants of the Resolution Fund, i.e. for covering of expenses incurred for the purposes specified in Article 103 of the Law of the Republic of Lithuania on Financial Sustainability. A decision on the use of resources of the Resolution Fund is taken by the resolution authority (the Bank of Lithuania).

During the reporting period, the main income of the Resolution Fund comprised insurance contributions of participants – EUR 1.00 thousand. The Resolution Fund had no other income (see Table 7).

During the reporting period, the Resolution Fund did not incur any expenses (see Table 7).

As at 31 December 2018, assets of the Resolution Fund totalled EUR 4.00 thousand. All assets of the Fund consisted of monetary resources. Compared with 2017, assets of the Resolution Fund have increased (Figure 6).

Figure 6. Dynamics of assets accumulated by the Resolution Fund, 2015-2018 (EUR thousand).



2015 2016 2017 2018

5.2. Participants of the administrated Funds, participant groups and insurance contributions

Deposit insurance system participants and main covered deposits

As at 31 December 2018, deposits were insured by 6 commercial banks, 1 specialised bank and 67 credit unions (Table 8). Compared with the respective period of 2017, the number of policyholders reduced by 1 credit institution, i.e. the Bank of Lithuania revoked operating licences for the Credit Union Centro taupomoji kasa and the Credit Union Taupkasė; however, during the reporting period, the deposit insurance system was joined by the CCU Kreda. It should be noted that one of the credit unions was transformed into a specialised bank (AB Mano bankas).

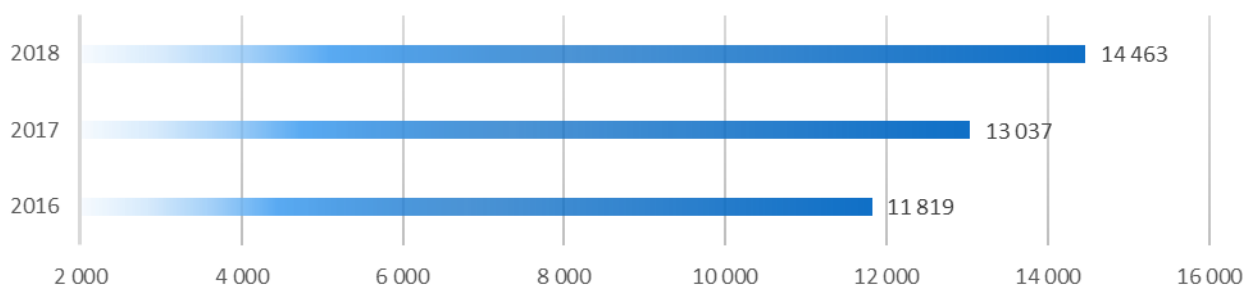
Table 8. Number of the deposit insurance system participants, year-end

| Deposit insurance system participants | 2016 | 2017 | 2018 |
|---------------------------------------|------|------|------|
| Banks | 6 | 6 | 6 |
| Specialised banks | - | - | 1 |
| Credit unions | 74 | 69 | 67 |

According to the data declared by credit institutions participating in the deposit insurance system of Lithuania, as at 31 December 2018, they had accumulated EUR 14,463.22 million of the amount of the main covered deposits, i.e. deposits that are eligible for insurance and their amount does not exceed EUR 100 thousand. The amount of the main covered deposits increased by 10.9%, compared with the same period of 2017 (Figure 7).

The increase in the main covered deposits with credit institutions was influenced by the general economic growth and growing lending volumes.

Figure 7. Main covered deposits with credit institutions, year-end (EUR million)



Considering the amount of the main covered deposits and financial resources accumulated by the Deposit Insurance Fund, below provided is the information about the achievement of the target level of the Deposit Insurance Fund (Table 9). The established minimum target level of the Deposit Insurance Fund's financial resources (hereinafter – the target level) is the amount of financial means not smaller than 0.8% of the amount of all main covered deposits of the deposit insurance system participants, taking account of debt liabilities of the Deposit Insurance Fund, which must be accumulated with the Deposit Insurance Fund by 3 July 2024.

Table 9. Financial resources and achieved target level of the DIF

| | 2016 | 2017 | 2018 | |
|--|-------|-------|-------|-------|
| | | | Plan | Fact |
| DIF financial resources (EUR million) | 23.5 | 55.1 | 13.5 | 62.3 |
| Achieved target level (%) | 0.20% | 0.42% | 0.10% | 0.43% |

By end-2018, financial resources of the Deposit Insurance Fund reached 0.43% of the amount of the main covered deposits with credit institutions or ~50% of the requirement (0.8%) established by the Law.

The major part of deposits are kept by legal and natural persons with commercial banks, i.e. by end-2018, EUR 13,837.68 or 95.7% of the amount of total main covered deposits were kept with banks operating in Lithuania (Table 10).

Table 10. Distribution of the main covered deposits with credit institutions, year-end (EUR million)

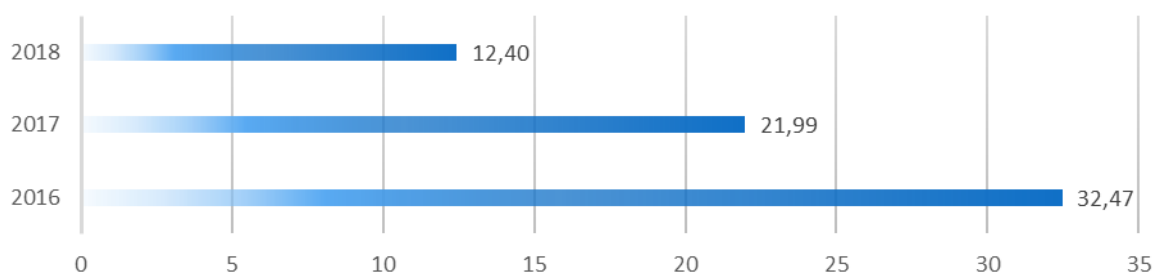
| Distribution of deposits of up to EUR 100.000 between credit institutions | 2016 | | 2017 | | 2018 | |
|--|--------|-----------|--------|-----------|--------|-----------|
| | % | amount | % | amount | % | amount |
| Banks | 95.15% | 11,245.57 | 95.44% | 12,442.97 | 95.68% | 13,837.68 |
| Specialised banks | - | - | - | - | 0.30% | 43.65 |
| Credit unions | 4.85% | 573.11 | 4.56% | 593.87 | 4.02% | 581.89 |

Dynamics of covered deposits directly depends on the number of credit institutions participating in the deposit insurance system of Lithuania. In 2019, decrease in the main covered deposits with credit institutions operating in Lithuania will be mostly influenced by withdrawal of 2 banks – Luminor bank AB and AB Citadele bankas – from the deposit insurance system of Lithuania. From 1 January 2019, AB Citadele bankas merged with the Latvian bank AS Citadele banka and became the Lithuanian Branch of AS Citadele banka; and from 2 January 2019, Luminor Bank AB operating in Lithuania merged with the Estonian bank Luminor Bank AS and became the Lithuanian Branch of the Estonian bank Luminor bank AS.

Insurance contributions of the deposit insurance system participants

During the reporting period, insurance contributions paid by the deposit insurance system participants totalled EUR 12.40 million and, compared with the same period of 2017, reduced by 56.39% (Figure 8, Table 11). A noticeable drop in the insurance contributions was influenced by the tariff of insurance contributions which in the first half of 2017 accounted for 0.3% of the amount of the main covered deposits, and from the second half of 2017 – only for 0.1% of the amount of the main covered deposits. A minor decrease in the insurance contributions was also affected by insurance contributions unpaid by bankrupt credit unions during the reporting period which by rulings of bankruptcy courts of credit institutions are approved as a credit claim of line IV.

Figure 8. Dynamics of deposit insurance contributions, 2016-2018 (EUR million)



During the reporting period, insurance contributions of banks accounted for EUR 11.81 million or 95.2% of insurance contributions paid by all credit institutions; insurance contributions of credit

unions, respectively, accounted for EUR 0.59 million or 4.8% of insurance contributions paid by all credit institutions. Distribution of insurance contributions is provided in Table 11.

Table 11. Distribution of insurance contributions paid to the Deposit Insurance Fund by banks and credit unions, 2016-2018 (EUR million)

| Deposit Insurance Fund contributions | 2016 | | 2017 | | 2018 | |
|--------------------------------------|-------|--------|-------|--------|-------|--------|
| | % | amount | % | amount | % | amount |
| Banks | 94.1% | 30.55 | 94.3% | 20.74 | 95.2% | 11.81 |
| Credit unions | 5.9% | 1.92 | 5.7% | 1.25 | 4.8% | 0.59 |

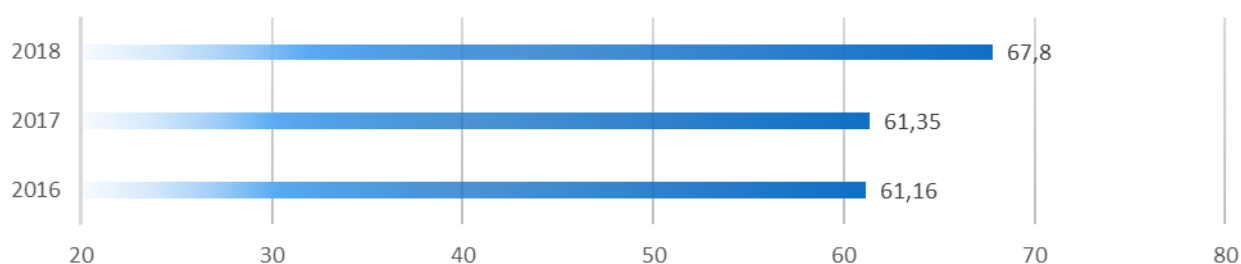
Given that from 1 January 2019 AB Citadele bankas merged with the Latvian bank AS Citadele banka and became a participant of the Latvian deposit insurance system, and from 2 January 2019 Luminor Bank AB merged with the Estonian bank Luminor Bank AS and became the Estonian deposit insurance system participant, in observance of Article 11(6) of the Law, the Deposit Insurance Fund will have to transfer the (*ex ante*) amount of deposit insurance contributions paid by the aforementioned credit institutions for the last 12 months to the deposit insurance systems of Latvia and Estonia (~ EUR 2.30 million).

Participants and insurance contributions of the Fund of Insurance of Liabilities to Investors

On 31 December 2018, liabilities to investors were insured by 6 commercial banks, the Lithuanian Central Credit Union, 7 financial brokerage firms and 9 management companies.

Participants of the Fund of Insurance of Liabilities to Investors pay insurance contributions once a year. The amount of insurance contributions paid by participants of the Fund of Insurance of Liabilities to Investors for 2018 totalled EUR 67.8 thousand; compared with 2017, the amount of insurance contributions increased by EUR 6.45 thousand or by 9.5%. Dynamics of contributions of participants of the FILI is presented in Figure 9.

Figure 9. Dynamics of insurance contributions paid to the Fund of Insurance of Liabilities to Investors, 2016-2018 (EUR thousand)



Insurance contributions paid by banks represent the largest share of insurance contributions or 46.6% of total insurance contributions paid to the Fund of Insurance of Liabilities to Investors. Distribution of insurance contributions paid by all financial institutions is presented in Table 12.

Table 12. Contributions paid to the Fund of Insurance of Liabilities to Investors by its participants, 2016-2018 (EUR thousand)

| Contributions of the Fund of Insurance of Liabilities to Investors | 2016 | | 2017 | | 2018 | |
|--|-------|--------|-------|--------|-------|--------|
| | % | amount | % | amount | % | amount |
| Banks | 48.3% | 29.49 | 49.9% | 30.59 | 46.6% | 31.61 |
| Lithuanian Central Credit Union | 4.7% | 2.90 | 4.7% | 2.9 | 4.3% | 2.9 |

| | | | | | | |
|---------------------------|-------|-------|-------|-------|-------|-------|
| Financial brokerage firms | 31.3% | 19.11 | 32.7% | 20.05 | 37.6% | 25.48 |
| Management companies | 15.7% | 9.6 | 12.7% | 7.8 | 11.5% | 7.81 |

Participants and insurance contributions of the Resolution Fund

During the reporting period, one participant of the Resolution Fund paid to the Fund the insurance contribution of EUR 1 thousand for 2018.

5.3. Insured events, insurance compensations and bankruptcy proceedings

Insured events and insurance compensations of the Deposit Insurance Fund

During the reporting period, there were 2 insured events of the Deposit Insurance Fund:

- By Resolution No 03-10 of the Board of the Bank of Lithuania of 16 January 2018 the Credit Union Centro taupomoji kasa was declared insolvent and its licence was permanently revoked. The Company disbursed to depositors of the Credit Union Centro taupomoji kasa deposit insurance compensations in the amount of EUR 10.56 million from the Deposit Insurance Fund. The insurance compensations were disbursed within 15 (fifteen) business days from the day of the insured event. By end-December, the depositors had already withdrawn 92.7% of all calculated insurance compensations. UAB Medicinos bankas was selected as the agent for payment of compensations of the Credit Union Centro taupomoji kasa.

- By Resolution No 03-23 of the Board of the Bank of Lithuania of 13 February 2018 the Credit Union Taupkasė was declared insolvent and its licence was permanently revoked. The Company disbursed to the depositors of the Credit Union Taupkasė the deposit insurance compensations in the amount of EUR 18.68 million from the Deposit Insurance Fund. The insurance compensations were disbursed within 8 business days from the day of the insured event. By end-December, the depositors already collected 96.3% of all calculated insurance compensations. AB Citadele bankas was selected as the agent for payment of compensations of the Credit Union Taupkasė.

By the end of the reporting period, the Company paid compensations to depositors of 10 bankrupt credit unions through the agents of payment of insurance compensations. By 31 December 2018, the total amount of insurance compensations not withdrawn by depositors of the aforementioned bankrupt credit unions totalled EUR 3,237.10 thousand (Table 13).

Table 13. Insurance compensations withdrawn/not withdrawn by depositors, 31 December 2018 (EUR thousand)

| No | Bankrupt credit union's name | Bank (payment agent) | Amount of insurance compensations transferred to banks, EUR thousand | Insurance compensations taken by depositors, EUR thousand | Insurance compensations taken by depositors | Insurance compensations not withdrawn by depositors, EUR thousand | Expiry of the deadline for payment of insurance compensations |
|----|------------------------------|-----------------------------------|--|---|---|---|---|
| 1 | Vilniaus taupomoji kasa | Danske Bank Lithuanian Branch A/S | 64 111.06 | 64 037.21 | 99.88% | 73.85 | 17 01 2019 |
| 2 | Naftininkų investicijos | AB Citadele bankas | 3 427.17 | 3 427.15 | 99.999% | 0.02 | 30 04 2019 |
| 3 | Amber | UAB Medicinos bankas | 19 966.68 | 19 700.89 | 98.67% | 265.79 | 20 09 2021 |
| 4 | Žemaitijos iždas | UAB Medicinos bankas | 1 634.62 | 1 630.65 | 99.76% | 3.97 | 07 03 2022 |
| 5 | Pajūrio | UAB Medicinos bankas | 2 147.88 | 2 125.87 | 98.98% | 22.01 | 17 03 2022 |
| 6 | Baltija | AB Šiaulių bankas | 11 529.48 | 11 334.07 | 98.31% | 195.41 | 25 09 2022 |

| | | | | | | | |
|--------------|-----------------------|----------------------|-------------------|-------------------|---------------|-----------------|------------|
| 7 | Namų | AB Šiaulių bankas | 1 381.27 | 1 310.53 | 94.88% | 70.74 | 25 09 2022 |
| 8 | Vilniaus kreditas | AB Citadele bankas | 20 358.95 | 19 205.01 | 94.33% | 1 153.94 | 10 11 2022 |
| 9 | Centro taupomoji kasa | UAB Medicinos bankas | 10 555.01 | 9 788.40 | 92.74% | 766.60 | 16 01 2023 |
| 10 | Taupkasė | AB Citadele bankas | 18 683.87 | 17 999.11 | 96.34% | 684.77 | 13 02 2023 |
| Total | | | 153 795.99 | 150 558.89 | 97.90% | 3 237.10 | |

In 2018, the total amount of EUR 36.77 million was disbursed from the Deposit Insurance Fund, and it was by EUR 0.46 million or only by 1.2% smaller than in 2017, although five 5 credit unions were declared insolvent in 2017. Insurance compensations from the Deposit Insurance Fund are specified in Table 14.

Table 14. Deposit insurance compensations from the Deposit Insurance Fund (EUR thousand)

| Insurance compensations from the Deposit insurance Fund | 2016 | 2017 | 2018 |
|---|--------|--------|--------|
| | 48 441 | 37 223 | 36 767 |

During the reporting period, deposit insurance compensations were disbursed due to insured events of 2018, including deposit insurance compensations paid on the basis of court orders according to which compensations of EUR 209.76 thousand were additionally disbursed to depositors of BAB bankas Snoras (*for deposits and deposit certificates*), BCU Vilniaus taupomoji kasa and BCU Baltija.

On 29 August 2018, the Company acting on the basis of the decision of the Court of Justice of the European Union, the case law formulated by the Supreme Court of Lithuania as regards inactive bonds and shares of BAB bankas Snoras and having regard to the explanations of the European Law Department under the Ministry of Justice of the Republic of Lithuania disbursed insurance compensations to all holders of inactive bonds and shares of BAB bankas Snoras irrespective of whether or not the holders had brought actions with the national court. The total amount of insurance compensations planned to be disbursed to the holders of inactive bonds and shares of BAB bankas Snoras totalled ~ EUR 9.89 million. In 2018, EUR 7.17 million or 72.5% of the amount earmarked for disbursement was disbursed.

Insurance compensations to the holders of inactive bonds and shares are paid by the Company. For convenience of depositors the Company has implemented the electronic Application Management System enabling natural and legal persons, after identifying them, to submit to the Company by electronic means the applications and information necessary for payment of insurance compensations, and to obtain various certificates and access other information.

Insured events of deposits according to which payment of insurance compensations was completed

During the reporting period, the total of EUR 30.00 thousand of insurance compensations not withdrawn by depositors were returned to the Deposit Insurance Fund:

- On 24 January 2018, at the end of the time limit of 5 years for disbursement of insurance compensations, the payment of insurance compensations was finished to depositors of the Credit Union Švyturio taupomoji kasa and to the Credit Union Nacionalinė kredito unija. Total amount of insurance compensations not withdrawn by depositors of the Credit Union and returned to the Deposit Insurance Fund accounted for EUR 4.3 thousand or 0.09% of calculated insurance compensations. Total amount of insurance compensations not withdrawn by depositors of the Credit Union Nacionalinė kredito unija accounted for EUR 18.2 thousand or 0.05% of calculated insurance compensations.

- On 9 May 2018, at the end of the time limit of 5 years for disbursement of insurance compensations, the payment of insurance compensations was finished to depositors of the Bankrupt LP CU Laikinosios sostinės kreditas. Total amount of insurance compensations not withdrawn by depositors of the Bankrupt LP CU Laikinosios sostinės kreditas and returned to the Deposit Insurance Fund accounted for EUR 7.5 thousand or 0.11% of calculated insurance compensations.

Administrated bankruptcy proceedings

At the end of the reporting period, the Company, as the largest creditor representing the Deposit Insurance Fund, participated in bankruptcy proceedings of 14 credit institutions. During the reporting period, the Company attended 126 sittings/committee meetings of creditors of bankrupt credit institutions on the credit institutions' bankruptcy administration matters.

During the reporting period, bankrupt credit institutions transferred EUR 32.09 million for satisfaction of claims of the second line creditors of the Company. Information on resources recovered from each of the administrated bankruptcy proceedings of credit institutions is presented in Table 15.

Table 15. Monetary resources of the Deposit Insurance Fund received from bankrupt credit institutions (EUR thousand)

| BCI and date of the insured event | Actually disbursed amount | Received, total | 2013-2016 | 2017 | Plan of 2018 | Fact of 2018 | Credit claim cover |
|---|---------------------------|-----------------|----------------|---------------|---------------|---------------|--------------------|
| Snoras 24 11 2011 | 1 190 380.45 | 831 971 | 808 721 | 19 150 | 10 800 | 4 100 | 70% |
| Ūkio bankas 18 02 2013 | 269 252.94 | 51 758 | 45 108 | 6 350 | 1 100 | 300 | 19% |
| Nacionalinė kredito unija 24 01 2013 | 34 834.59 | 19 011 | 15 036 | 2 500 | - | 1 475 | 55% |
| Švyturio taupomoji kasa 24 01 2013 | 5 043.18 | 3 298 | 2 918 | 70 | - | 310 | 65% |
| Laikinosios sostinės kreditas 09 05 2013 | 6 663.96 | 2 204 | 2 091 | - | - | 113 | 33% |
| Naftininkų investicijos 30 04 2014 | 3 427.17 | 1 368 | 1 002 | 366 | 300 | - | 40% |
| Vilniaus taupomoji kasa 17 01 2014 | 64 111.06 | 41 725 | 23 825 | 9 450 | 2 100 | 8 450 | 65% |
| Amber 20 09 2016 | 19 966.68 | 11 750 | - | 10 000 | 5 000 | 1 750 | 59% |
| Žemaitijos išdas 07 03 2017 | 1 634.62 | 965 | - | 555 | 100 | 410 | 59% |
| Pajūrio kredito unija 17 03 2017 | 2 147.88 | 400 | - | - | 200 | 400 | 19% |
| Baltija 25 09 2017 | 11 529.48 | 3 462 | - | - | - | 3 462 | 30% |
| Namų kredito unija 25 09 2017 | 1 381.27 | 420 | - | - | - | 420 | 30% |
| Vilniaus kreditas 10 11 2017 | 20 358.95 | 5 800 | - | - | 12 000 | 5 800 | 28% |
| Centro taupomoji kasa 16 01 2018 | 10 555.01 | 5 100 | - | - | - | 5 100 | 48% |
| Taupkasė 13 02 2018 | 18 683.87 | - | - | - | - | - | 0% |
| Total: | 1 659 971.11 | 979 232 | 898 701 | 48 441 | 31 600 | 32 090 | 59% |

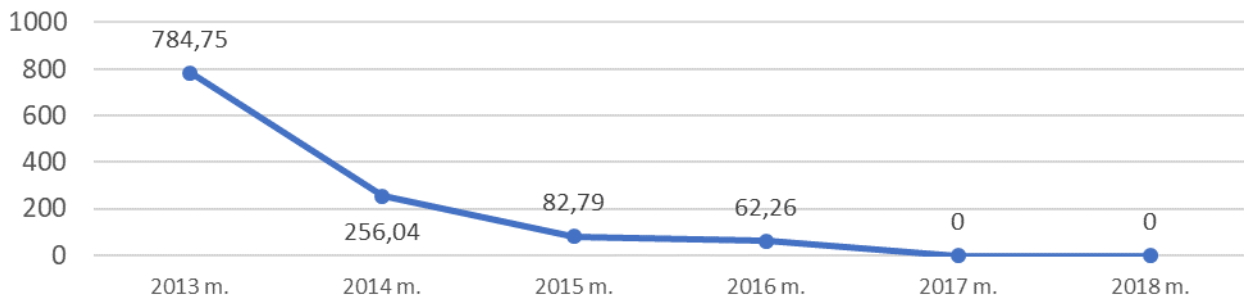
There were no insured events in respect of participants of the Fund of Insurance of Liabilities to Investors and of the Resolution Fund.

5.4. Financial obligations

At the end of the reporting period, the Deposit Insurance Fund, the Fund of Insurance of Liabilities to Investors and the Resolution Fund had no debt obligations.

Debt obligations assumed on behalf of the Deposit Insurance Fund were completely fulfilled in the second quarter of 2017. Dynamics of loans of the Deposit Insurance Fund is provided below (Figure 10).

Figure 10. Dynamics of debt obligations of the Deposit Insurance Fund of 2013-2018, year-end (EUR million)



2013 2014 2015 2016 2017 2018

5.5. Investment of resources of the Funds administrated by the Company

Investment of resources of the Deposit Insurance Fund (DIF)

During the reporting period, considering potential obligations of the DIF, a part of the DIF's resources was invested in government securities of the Republic of Lithuania (hereinafter – GSs): as at 31 December 2018, the carrying amount of the investment portfolio of GSs of the DIF was EUR 11.98 million (Table 16), and the remaining part of resources – EUR 50.3 million – was held with banks assigned the long-term investment rating not lower than: Moody's – Baa1, Standard & Poor's – BBB+, Fitch Ratings – BBB+. Investment of the Fund's resources is regulated by the Rules on investment of resources of the Deposit Insurance Fund and the Fund of Insurance of Liabilities to Investors approved by Resolution No 02-5-2.1 of the Company's Council of 4 April 2016 (as amended by Resolution No 02-26-7 of 20 December 2018).

During the reporting period, income of the DIF from investing activities totalled EUR 2.72 thousand, and in 2017 resources of the DIF proceeds were not invested and the financing and investing activity result was (–) EUR 837.03 thousand due to payment of loan interest.

Table 16. Investment portfolio of the Deposit Insurance Fund, 31 December 2018

| ISIN No | Redemption date | Modified maturity | Yield % | Carrying amount (EUR thousand) | Portfolio share |
|------------------|-----------------|-------------------|-------------|--------------------------------|-----------------|
| LT0000630055 | 31 01 2021 | 2.09 | 0.03 | 5,996.24 | 50% |
| LT0000630055 | 16 08 2023 | 4.68 | 0.49 | 5,984.37 | 50% |
| Portfolio | | 3.38 | 0.26 | 11,980. 61 | 100 % |

Investment of proceeds of the Fund of Insurance of Liabilities to Investors (FILI)

As at 31 December 2018, the carrying amount of the investment portfolio of the government debt securities of the FILI administrated by the Company was EUR 0.87 million (Table 17), and cash in the amount of EUR 182 million was held with banks assigned the long-term investment rating not lower than: Moody's – Baa1, Standard & Poor's – BBB+, Fitch Ratings – BBB+.

During the reporting period, income of the FILI from investing activities totalled EUR 5.61 thousand and, compared with the respective period of the previous year, reduced by EUR 1.49 thousand. The decrease in investment income is related to the financial investment environment where yield of instruments eligible for investment of the Funds' proceeds at present is minimal or close to zero, and of short-term instruments – negative. Investment of the Fund's resources is regulated by the Rules on investment of resources of the Deposit Insurance Fund and the Fund of Insurance of Liabilities to Investors approved by Resolution No 02-5-2.1 of the Company's Council of 4 April 2016 (as amended by Resolution No 02-26-7 of 20 December 2018).

Table 17. Portfolio of GSs of the Fund of Insurance of Liabilities to Investors, 31 December 2018

| ISIN No | Redemption date | Modified maturity | Yield % | Carrying amount (EUR thousand) | Portfolio share |
|------------------|-----------------|-------------------|-------------|--------------------------------|-----------------|
| LT0000610065 | 28 02 2023 | 4.12 | 2.91 | 93.05 | 10.7% |
| LV0000570125 | 21 11 2019 | 0.85 | 0.28 | 67.05 | 7.7% |
| LT0000607087 | 03 10 2020 | 1.58 | 0.27 | 203.32 | 23.3% |
| LT0000630022 | 30 03 2019 | 0.24 | 0.39 | 6.32 | 0.7% |
| LT0000630022 | 30 03 2019 | 0.24 | 0.32 | 4.72 | 0.5% |
| LT0000630055 | 31 01 2021 | 2.09 | 0.03 | 199.87 | 22.9% |
| LT0000650046 | 16 08 2023 | 4.68 | 0.49 | 299.22 | 34.2% |
| Portfolio | | 2.92 | 0.48 | 873.57 | 100 % |

Investment of the Resolution Fund

During the reporting period, resources accumulated in the Resolution Fund (EUR 4.00 thousand) were held with the bank the long-term investment rating assigned to which was as follows: Moody's – Aa3, Standard & Poor's – AA-, Fitch Ratings – AA. Investment of the Fund's resources is regulated by the Rules on investment of resources of the Resolution Fund approved by Resolution No 03-217 of the Board of the Bank of Lithuania of 31 December 2015.

5.6. Legal proceedings

According to the data of 31 December 2018, the Company as a defendant or third party has participated in 101 pending legal disputes the amount of claims on which totals EUR 13.05 million. In performing its functions, the Company, participates in legal disputes regarding claims brought to the Deposit Insurance Fund for disbursement of insurance compensations for bonds issued by BAB bankas SNORAS and/or 5% annual interest on insurance compensations for deposit certificates and inactive bonds and shares of BAB bankas SNORAS, the disbursement of which, in the opinion of applicants, was overdue.

Dynamics of legal disputes of 2016-2018, in which the Company has been involved, is presented in Table 18.

Table 18. Dynamics of legal disputes, 2016-2018

| | End-2016 | End-2017 | End-2018 |
|--------------------------------|-----------------|-----------------|-----------------|
| Number of legal disputes | 224 | 166 | 101 |
| Amount of claims (EUR million) | 15.5 | 18.2 | 13.05 |

According to the data of 31 December 2018, a part (70%) of legal proceedings comprised cases concerning bonds (including those that had been active and inactive before the bank's bankruptcy) issued by BAB bankas SNORAS and inactive shares and ordering of procedural interest on insurance compensations for the aforementioned securities the disbursement of which, in the opinion of applicants, was overdue.

The following case law developed during legal proceedings regarding inactive bonds and shares of BAB bankas SNORAS in 2018 had a decisive influence on the legal disputes:

- On 22 March 2018, the Court of Justice of the European Union passed the decision in the case regarding inactive bonds and shares of BAB bankas SNORAS. The Court recognised the right of holders of inactive bonds and shares (at their choice) to the insurance compensation for a deposit or liabilities to investors.

- the Supreme Court of Lithuania (hereinafter – the SCL) passed the ruling of 22 June 2018 in the Civil Case No 3K-3-232-969/2018, the ruling of 11 July 2018 in the Civil Case No 3K-3-214-701/2018 and the ruling of 28 August 2018 in the Civil Case No 3K-3-233-219/2018 on recognising the right of holders of inactive bonds and shares of BAB bankas SNORAS to the deposit insurance compensation.

- The SCL passed the ruling of 4 July 2018 in Case No 3K-3-213-687/2018 on recognising the right of holders of inactive shares of BAB bankas SNORAS to the deposit insurance compensation. Considering the established case law of the CJEU and the SCL, the cases were heard and the decisions were taken by the court of the first instance and the courts of appeal that had also examined the analogous cases.

Considering explanations of the courts in the cases regarding inactive bonds and shares of BAB bankas SNORAS and seeking to save the resources, the Company initiated the signature of peaceful settlement agreements in analogous cases. According to the data of 31 December 2018, 44 peaceful settlement agreements were concluded with holders of inactive bonds and shares of BAB bankas SNORAS.

By ruling of 20 December 2018 in the Civil Case No e3K-3-512-687/2018 the SCL dismissed the action of UAB Paysera LT – the applicant requests to conclude that the funds of the deposit opened on behalf of UAB Paysera LT with the Credit Union Amber were the customers' funds and that the customers where the depositors. This ruling formulates the case law in interpreting and

applying the recast LIDLI. In the case at issue it was concluded that as a result of the applicant's failure to disclose the fact of acting by right of trust, the contested deposit should not be considered to be eligible to the deposit insurance within the meaning of the LIDLI.

According to the data of 31 December 2018, the Company also participated in legal disputes regarding the renewal of validity of the overdue term of the right to the insurance compensation (in the case of BAB bankas SNORAS).

In 2018, the court passed the ruling in favour of the Company regarding the dismissal of the Bankruptcy Administrator of the credit union. By ruling of the Court of Appeal of Lithuania of 11 October 2018 in the Civil Case No 2-1661-823/2018 the Bankruptcy Administrator UAB Verslo konsultantai of the Bankrupt LP CU Vilniaus taupomoji kasa was dismissed. In addition, in 2018, the court passed the rulings unfavourable to the Company regarding refusal to remove the Bankruptcy Administrator UAB Verslo konsultantai of the Bankrupt LP CU Švyturio taupomoji kasa, the Bankrupt LP CU Nacionalinė kredito unija and the Bankrupt LP CU Laikinosios sostinės kreditas. In the case of the Bankrupt LP CU Nacionalinė kredito unija and the Bankrupt LP CU Laikinosios sostinės kreditas, the Court of Appeal of Lithuania left unchanged the parts of rulings of the first instance courts by which the Bankruptcy Administrator UAB Verslo konsultantai was obligated to repay the disbursed amounts which were larger than the amounts approved by resolutions of the meeting of creditors.

During the reporting period, the Company participated in 4 legal disputes further to the complaints of the Bankruptcy Administrator UAB Verslo konsultantai regarding the challenging of the resolutions creditors/committee meetings by which the estimates of credit union administrative expenses and actual costs were approved. The Court of Appeal of Lithuania passed three rulings unfavourable to the Company by which complaints of UAB Verslo konsultantai were upheld regarding cancellation of resolutions of the creditor meetings on approval of actual costs of credit unions. The Company brought appeals in cassation regarding the passed rulings, but the appeals in cassation were dismissed specifying in the rulings of the SCL that the grounds for cassation did not exist.

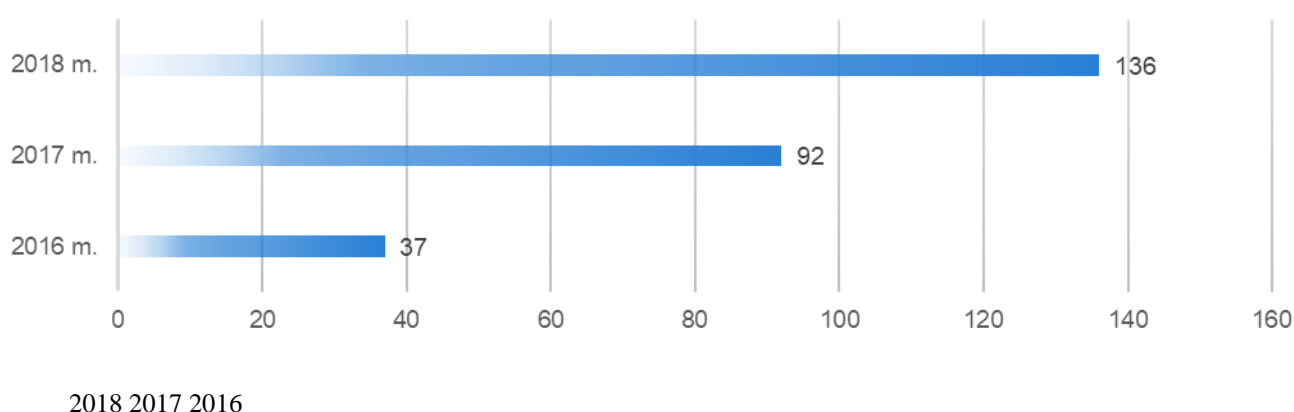
Compared with the same period of the previous year, the number of pending cases reduced by 40% – from 166 to 101. As of the end of the reporting period, 96% of all court cases were handled by the Company's employees.

5.7. Activity of monitoring of participants

Having regard to the results of monitoring of participants of the deposit insurance system and of participants of the system of insurance of liabilities to investors conducted during the previous periods (2016–2017), since 2018, the Company has integrated a new element in the system of monitoring of participants of the deposit insurance system and of participants of the system of insurance of liabilities to investors – routine checks:

The scheme of the monitoring cycle is shown below:

Figure 12. Checks of participants, 2016-2018 (units)



With a view to minimising infringements by participants of the system of insurance of deposits and liabilities to investors as regards the implementation of provisions of the Law, during 2018, the Company organised and carried out planned meetings (workshops) with the participants of the system of insurance of deposits and liabilities to investors. During the meetings (workshops), the participants were familiarised with theoretical and practical aspects of application of provisions of the Law of the Republic of Lithuania on Insurance of Deposits and Liabilities to Investors and presented their practice of application of provisions of the Law. 25 representatives of the system participants attended two organised meetings (workshops).

5.8. Stress tests of the deposit insurance system

In observance of the Guidelines of the European Banking Authority of 19 October 2016 on stress tests of deposit guarantee schemes under Directive 2014/49/EU (EBA/GL/2016/04) (hereinafter – the Guidelines), deposit insurance systems, including the deposit insurance system of the Republic of Lithuania, by 3 July 2019, should perform the stress tests of the deposit insurance system specified in the Guidelines (hereinafter – testing) according to the spheres and intervention scenario types of testing (paragraph 96 of the Guidelines). According to provisions of the Guidelines, the first cycle of tests should be completed by 3 July 2019.

By Resolution No 05-02-4-10 of the Company’s Council of 24 March 2017, the Programme of the first cycle of testing of the deposit insurance system for 2017–2019 (hereinafter – the Testing Programme) was approved. The Testing Programme is divided into three stages (the first, the second and the third stage). According to the approved Testing Programme, the first stage conducted in 2017 covered the assessment in two test areas:

- 1) *Single Customer View (hereinafter – SCV) file test;*
- 2) *Operational capability test.*

According to the Testing Programme, the second stage of testing was carried out in 2018 applying the selected bank’s reorganisation scenario type. The testing covered to spheres:

- 1) *Operational capability test.*
- 2) *Funding capability test.*

Summary test conclusions are presented in Tables 19 and 20.

Table 19. Operational capability test indicators, their values and test result (assessment)

| Tested indicator | Indicator type | Possible indicator values | Test result (assessment) |
|--|-------------------|---------------------------|--------------------------|
| Qualitative assessment (qualitative) of the arrangements in place (at the resolution | Qualitative score | Optimal Fair | Fair |

| | | | |
|---|--------------------|--------------------------------------|--|
| authority, the Ministry of Finance and the IID) according to which the amount of resolution funding means is determined | | Poor Very poor | |
| Time required for determining the amount of resolution funding means | Quantitative score | Number of days | 27 calendar days |
| Access to data | | | |
| Adequacy of the existing staff, budget and other resource that would be available in a real-life scenario | Qualitative score | Optimal Fair Poor Very poor | Optimal |
| Adequacy of extra staff, budget and other resources that would be available at short notice when needed | Qualitative score | Optimal Fair Poor Very poor | Optimal |
| Repayment and contribution periods | | | |
| Time from the moment when the resolution authority requests the payment of the contribution (quantitative) | Qualitative score | Period | Test results have shown that 2 months might be necessary for the IID to be ready to transfer the full amount of the resolution funding means. |

Table 20. Funding capability test indicators, their values and test result (assessment)

| Tested indicator | Indicator type | Possible indicator values | Test result (assessment) |
|---|-------------------|--|--|
| Adequacy of ex ante funds to cover the funding need (shortfall in absolute value and as a share of the need) | Qualitative score | Adequacy or shortfall of funds | Amounts of availability and shortfall of funds were determined |
| Qualitative assessment of the DGS's ability to liquidate assets invested as part of the available financial means within the deadline | Qualitative score | Optimal Fair Poor Very poor | Optimal |
| Adequacy of ex post and alternative funding means to cover the funding needs not covered by ex ante funds | Qualitative score | Where after use of ex post and alternative funding means there is still a shortfall of funds | Amounts of availability and shortfall of funds were determined |

In the fourth quarter of 2018, the testing of stage three of the first cycle of the deposit insurance system stress testing programme of 2017–2019 was launched applying the payment scenario type and testing two areas:

- 1) *Single Customer View (hereinafter – SCV) file test;*
- 2) *Operational capability test.*

One of the banks operating in Lithuania was selected for the testing.

SOCIAL RESPONSIBILITY

The Company is a socially responsible entity acting in observance of Resolution No 1160 of the Government of the Republic of Lithuania of 11 September 2003 on approval and implementation of the national strategy for sustainable development (Official Gazette, 2003, No 89-4029), the Guidelines of the Organisation for Economic Cooperation and Development (OECD), the principles of the United Nations Global Compact and the United Nations Sustainable Development Goals.

6. SOCIAL AND ENVIRONMENTAL ASPECTS



6.1. Social activities

Personnel

In 2018, with a view to improving efficiency of the Company's activities and considering the expectations of the State set out in Order No 1K-193 of the Minister of Finance of 22 May 2017, which *inter alia* contains the expectation to attract the top quality specialists, the Company optimised the existing organisational structure by reducing the number of employees and revising their remuneration. As at 31 December 2018, the Company had approved 22 job positions, 17 actually working employees and 3 employees who were on a childcare leave.

ACTIVITIES OF THE COMPANY ARE ORGANISED THROUGH 4 DIVISIONS:

- Policyholder Monitoring Division
- Funds Administration Division
- Process Administration Division
- Business Organisation Division

The Company aims at continuously improving relationships with employees and investing in the development of their competences. The personnel organisation policy implemented in the Company provides for the appropriate employee incentives and the programme of adaptation of the newly recruited employees is in place. Each year, annual performance development interviews with employees are carried out and works are planned for the next year. Considering the results of annual interviews the issues of skills upgrading and career possibilities of the employee as well as the application of incentives in the Company are discussed. Employees are encouraged to keep improving not only in the

100 % employees of the Company have higher education

professional sphere, but also to develop their professional qualities; therefore, professional training/workshops are organised for employees.

In 2018, the approved wage fund amounted to EUR 535.00 thousand, the actual use of wages, according to preliminary data, was EUR 513.17 thousand. The data on wages are provided in Table 21.

During the reporting period, the Company's employees actively participated in professional training and workshops related to the prevention of corruption, personnel management, public procurement, including development of managerial skills and improvement of other competences.

Table 21. Data on average wage (in EUR)

| Wage | 2017 | 2018 |
|---------------------------------|------|------|
| Director | 3953 | 4259 |
| Deputy Director | 3411 | 3556 |
| Division Head | 1655 | 2064 |
| Senior specialist | 1001 | 1408 |
| Specialists and other employees | 821 | 1046 |

The Company's specialists are competent in their professional area and all employees of the Company have higher education.

The Company guarantees equal rights and equal opportunities irrespective of the employee's gender, age, ethnical origin or attribution to other groups. The Company recruits employees on the basis of the objective criteria.

According to the data of 31 December 2018, the average age of employees in the Company – 39 years. Women accounted for 83% and men – for 17%.

The Company takes care of health of its employees: ensures occupational safety requirements, creates respectable working conditions with working hours, weekly rest, vacations, protection of maternity and paternity, etc. As a means of stimulating motivation and loyalty, employees are provided with supplementary health insurance, various financial (such as bonuses, premiums, participation in conferences, workshops) and non-financial incentives (such as granting additional leave, flexible working hours, etc.).

In 2018, no discrimination or other breaches concerning human rights were established in the Company.

Other groups of interest

The Company enables insurance system participants to effectively submit the required information via convenient channels, continuously provides recommendations and has implemented knowledge testing tools – in 2018, knowledge of 38 participants of the deposit insurance system and 5 participants of the system of insurance of liabilities to investors was tested. The Company provides free consultations and training to the system participants. During 2018, the Company organised 2 seminars for 25 insurance system participants.

In 2018, the public opinion about insurance of deposits was conducted with a view to finding out what information and through what channels could be relevant to the public.

Data about the level of knowledge of the insurance systems participants and public are provided in Figure 13.

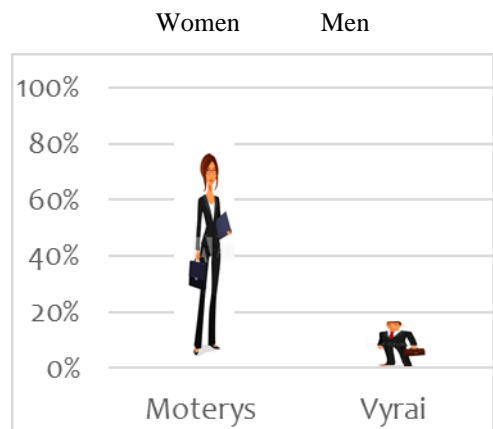
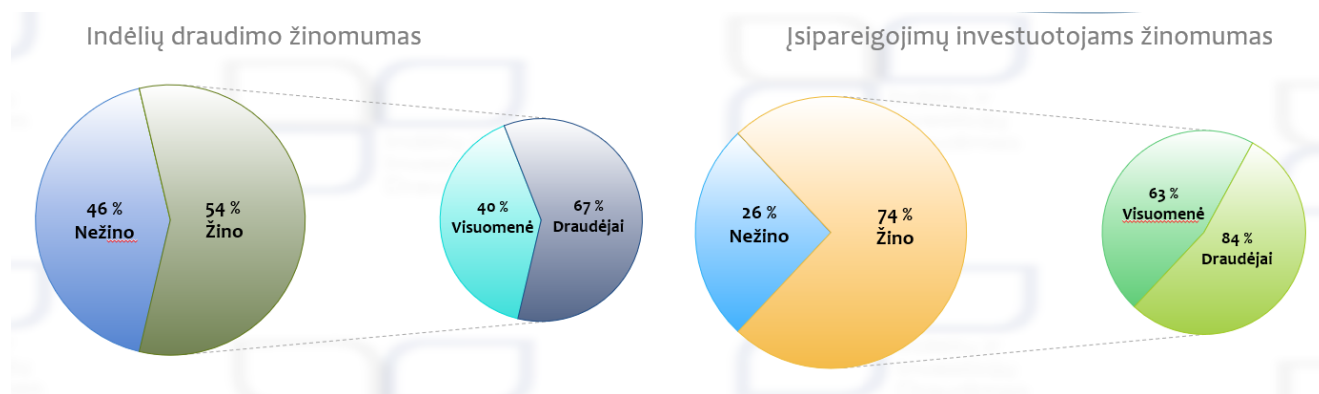


Figure 13. Awareness of the insurance of deposits and liabilities to investors



Awareness of the deposit insurance

Awareness of the insurance of liabilities to investors

46% Unaware

40% Public

26% Unaware

63% Public

54% Aware

67% Policyholders

74% Aware

84% Policyholders

6.2. Environmental protection

The Company does not engage in any activity that could directly have a negative impact on the environment. Nevertheless, the Company encourages sound management and use of water, paper, fuel, energy and other resources.

The Company seeks to pursue green procurement and/or incorporates green criteria in its procurements. The Company promotes and uses in its activities the state-of-the-art measures and technologies, implements the processes that meet ecological standards and help minimise the environmental impact of its operations.

7. EFFICIENT AND TRANSPARENT OPERATIONS



The Company develops and maintains open business relationships with all interest groups and is accountable to the institution implementing the rights and obligations of the owner (the Ministry of Finance of the Republic of Lithuania), the Council of the Company and the public for activities it carries out.

Information provided by the Company to the institution implementing the rights and obligations of the owner, the Council, the public and the system participants meets the following criteria:

Reliability

Accessibility

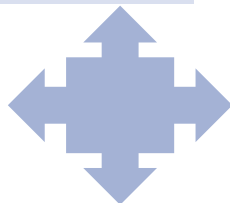
Consistency

Principles of cooperation with interest groups:

Ethics

Transparency

Fairness



During the reporting period, 26 meetings of the Company's Council were organised at which 130 issues were discussed.

The Company seeks ethical, transparent and fair cooperation with interest groups and acts in a manner that facilitates access of interest groups to the provided services.

The insurance system participants provide data in a remote manner, by connecting to a secure data provision channel, the Application Management System implemented in 2018 for the convenience of depositors allows submitting applications in a remote manner via the E-Government Gateway.

The Company publishes for interest groups all required information specified in Chapters IV-VII of the Transparency Guidelines.

Prevention of corruption

Table 22. Corruption prevention measures

In 2018, the Company approved the Corruption Prevention Policy which includes the following corruption prevention measures:

Identification, analysis and assessment of business areas where the probability of manifestation of corruption is high

Code of ethics

Gifts policy

Collection of information about the person who applies for or holds a managerial position with the Company

Policy for management the conflicts of interests

Public awareness-raising

Plan of measures for implementation of the anti-corruption programme

Anti-corruption assessment of draft legal acts

Training for the Company's employees

During the reporting period, the working group formed by order of the Director of the Company performed the analysis and assessment of the activity area (calculation of deposit insurance contributions and of deposit insurance contributions of liabilities to investors) specified in paragraph 11 of Order No 1K-226 of the Minister of Finance of the Republic of Lithuania of 22 June 2018 on determining the activity areas of institutions and enterprises attributed to the sphere of management of the Ministry of Finance and of the Minister of Finance the anti-corruption analysis and the assessment of which should be carried out in 2018.

During the reporting period, the Company implemented the anti-corruption programme implementation measures established for the Company for 2018 in the Plan of Anti-corruption Programme Implementation Measures for 2016–2025 approved by the Ministry of Finance of the Republic of Lithuania.

*The Company applies
zero tolerance for
corruption*

Internal control system and management of risks

The Company has approved the internal control and risk management regulations governing the principal objectives of internal control, the functioning and the system of internal control of the Company, including the organisation and implementation of the financial control and corruption prevention process in the Company, as well as the main principles, procedures and measures of management of operational risks of the Company.

Internal reviews are planned and carried out annually in observance of the Internal control and risk management regulations of the Company. In 2018, according to the prepared plan two internal reviews were performed – for the assessment of effectiveness of the electronic system of administration of insurance contributions and for the assessment of effectiveness of the electronic system of administration of insurance compensations.

The Company's risk management process takes place every year with a view to assessing the risk and planning its management measures for one year period. The main risk factors pertaining to

activities of the Company and the Funds administrated by it are set out in the SWOT analysis of the strategic plan.

During the reporting period, the assessment of operational risks of the Company – the identification and analysis of risks – was carried out. In 2018, no new (additional) risk factors that have not been identified during the previous periods of assessment of operating risks of the Company were identified.

Further to the assessment of operational risks of the Company the Plan of risk minimisation/management measures for 2018–2019 was developed.

In March, the audit of the Company's activities of 2017 conducted by the Internal Audit Division of the Ministry of Finance of the Republic of Lithuania was completed. The Company's internal control of activities was assessed as *good*.

In 2018, no infringements of public procurement were registered in the Company

Public procurement

Acting according to the principle of transparency, in 2018, the Company conducted 82 procurements for EUR 101.46 thousand (by EUR 4.17 thousand less than in 2017), including 27 procurements of goods and 68 procurements of services.

The Company updated access to the legal information database, acquired health insurance for employees, services of external lawyers/consultants and auditors, purchased protective interior blinds to improve security of premises and employees and conducted other procurement necessary for everyday activities of the Company, such as procurements of business trip organisation services, personnel recruitment, office goods, etc.

International cooperation



The Company is actively involved in the international activities of insurers of deposits and liabilities to investors. The Company is a full member of the European Forum of Deposit Insurers (EFDI). The Company's Director A. Mažintienė is a member of the Board of the EFDI responsible for the finance and budget management.

Six employees of the Company actively participate in activities of the EFDI committees and working groups, such as the European Union Committee, the Stress-Test Working Group, the Public Relations and Communication and other working groups.

During the reporting period, 9 meetings of the Board members related to activities of the EFDI, working groups, conferences organised by the EFDI and the annual meeting of the EFDI members were attended.

The Company's representatives also participate in the Working Group of the European Banking Authority (EBA) regarding the review of the Deposit Insurance Directive.

The Company continuously participates in the surveys of the EFDI and the IADI members, shares good practices in administrating the processes related to the deposit insurance system.

Director

Aurelija Mažintienė