

REPUBLIC OF LITHUANIA
LAW
ON FINANCIAL INSTITUTIONS

10 September 2002 No IX-1068
(As last amended on 17 April 2018 – No XIII-1097)
Vilnius

CHAPTER ONE
GENERAL PROVISIONS

Article 1. Purpose of the Law

1. The present Law shall specify the services which are considered as financial services, the requirements set for the founders, participants and heads of the financial undertakings and credit institutions engaged in the provision of financial services, the rights and duties thereof, the conditions of, procedure for and peculiarities of the establishment, pursuit of business, termination and restructuring of financial institutions as well as the conditions of, procedure for and peculiarities of supervision of the activities of the financial institutions providing licensed financial services.

2. The present Law shall apply to all financial institutions being legal persons of the Republic of Lithuania and the divisions of financial institutions of foreign states operating in the Republic of Lithuania and providing in the Republic of Lithuania the financial services referred to in Article 3 of this Law, unless international treaties of the Republic of Lithuania provide otherwise.

3. The present Law shall not apply to:

1) the state and municipal institutions and agencies of the Republic of Lithuania providing the financial services specified in laws of the Republic of Lithuania;

2) the providers of postal services providing domestic and international postal remittance services;

3) the Bank of Lithuania, which provides financial services in accordance with the procedure set forth by laws of the Republic of Lithuania.

4. The present Law shall implement the legal acts of the European Union listed in the Annex to this Law.

Article 2. Definitions

1. **Closely related persons** shall mean two or more persons who:

1) are related by property relations;

2) hold a qualifying holding in an undertaking's authorised capital and/or voting rights;

3) are related by other mutual property relations allowing one of the persons to control another person.

2. **Persons related by blood as well as by marriage** shall mean a person and his spouse, their children/adopted children, parents/adoptive parents, grandparents, grandchildren as well as brothers/adopted brothers, and sisters/adopted sisters of this person and of his spouse and spouses of these brothers/adopted brothers and sisters/adopted sisters as well as the persons who have registered partnership in accordance with the procedure set forth by laws.

3. **Person** shall mean a natural or legal person.

4. **On-balance-sheet financial assets** shall mean cash on hand, funds in accounts of banks and other credit institutions, rights of claim to the funds payable to a financial institution or to other assets to be returned under loan agreements, acquired debt securities, other payment obligations of a financial undertaking's client, obligations to return or to transfer financial assets, equity securities or other rights.

5. **General provisions** shall mean certain accumulated monetary funds which are formed and intended to reduce (cover) possible losses of the activities of a financial institution.

6. **Financial guarantee** shall mean a guarantee granted by a financial institution in accordance with the procedure set forth by laws, whereby it enters into an irrevocable commitment to disburse the amount of funds specified in the guarantee provided all the conditions specified in the guarantee are fulfilled.

7. **Financial undertaking** shall mean an undertaking of the Republic of Lithuania or an establishment of a foreign state's undertaking operating in the Republic of Lithuania in accordance with the procedure set forth by the laws regulating the provision of financial services and activities of financial institutions and the main activities whereof are the provision of one or more financial services referred to in Article 3(1) of this Law, except for point 1.

8. **Client of a financial institution** shall mean a person whereto financial services are provided by a financial institution.

9. **Assets of a financial institution** shall mean the movable and immovable assets indicated in the balance sheet of a financial institution, as well as intangible assets and financial assets.

10. **Financial holding company** – as defined in Article 4(1)(20) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation No (EU) No 648/2012 (OJ 2013 L 176, p.1) (hereinafter: 'Regulation (EU) No 575/2013').

11. **Financial assurance** shall mean an irrevocable commitment entered into by a financial institution under an assurance agreement drawn up in accordance with the procedure set forth by laws to disburse the amount of funds indicated in the assurance agreement, where the person provided with assurance by the financial institution fails to perform all or part of its obligations.

12. **Financial intermediation (agency services)** shall be the activity on behalf and for the benefit of one or several financial institutions consisting of accepting deposits and other repayable funds, lending, providing other financial services as well as the activities of a tied insurance intermediary pursued by financial institutions, with the exception of the administration of insured events.

13. **Financial assets** shall mean the sum total of the values of a financial institution's on-balance-sheet financial assets and off-balance-sheet claims.

14. **Parent undertaking** shall mean an undertaking holding authorised capital and/or voting rights of another undertaking granting the right to control it.

15. **Net value:**

1) the value of investment acquisition (creation, increase of the value) reduced by the value of amortisation or depreciation and/or by the specific loss provisions made for the amortisation of the risk of this investment;

2) the value of a financial institution's on-balance sheet financial assets and/or off-balance sheet claims at the market price on the open market or, where the on-balance-sheet financial assets and/or the off-balance-sheet claims are not an object of public trading or where there is no reliable

information about their market prices, the value of acquisition reduced by the specific loss provisions made with respect of the assets concerned.

16. **Deposit** shall mean a positive balance of funds in an account opened by a depositor in a credit institution under a bank deposit or bank account agreement.

17. **Receipt of deposits and other repayable funds from non-professional participants of the market** shall mean the receipt of monetary funds from the persons not identified in advance for the purposes of management, use and/or disposal thereof subject to repayment with or without interest. The following shall not be considered as the receipt of deposits or other repayable funds from non-professional participants of the market:

1) receipt of monetary funds from users of payment services for the purpose of provision of payment services;

2) receipt of monetary funds where the funds accepted are immediately exchanged into issued electronic money;

3) receipt of monetary funds by issuing cards and other means used to purchase goods or services only from the issuer of the cards or other means;

4) conclusion of crowdfunding transactions through the crowdfunding platform within the meaning of the Law of the Republic of Lithuania on Crowdfunding, provided that the project owner does not engage in the conclusion of transactions with potential risk indications;

5) public issue of debt securities, provided that the issuer does not engage in the conclusion of transactions with potential risk indications.

18. **Investment** shall mean movable and immovable as well as intangible assets, proportions of the authorised capital and/or voting rights as well as subordinated loans that may be converted into a financial institution's new shares or granted to financial institutions.

19. **Proportion of the authorised capital and/or voting rights granting the right to control the activities of an undertaking** shall mean a proportion of an undertaking's authorised capital and/or voting rights which is directly and/or indirectly managed by a single person or the relations between the person and the undertaking due to which the person:

1) holds the majority of the voting rights of the undertaking's participants;

2) as a participant of the undertaking has the right to elect and remove the manager of the undertaking and the majority of the members of the management or supervisory body of the undertaking;

3) according to provisions of the undertaking's instrument of incorporation or the agreements entered into with the undertaking, may exercise a decisive influence over the undertaking;

4) as a participant of the undertaking and on the basis of the agreements entered into with other participants, has the right to decide how to use the majority of the voting rights of the undertaking's participants;

5) in the opinion of the competent authority, exercises a decisive influence over the undertaking.

20. **Proportion of the authorised capital and/or voting rights** shall mean at least one share, unit or other means issued by an undertaking and confirming participation in the management of the undertaking's capital or the voting right acquired together with these means or a proportion of the undertaking or assets (capital) thereof (where no means confirming participation in the management of the undertaking's capital have been issued).

21. **Supervision on a consolidated basis** shall mean supervision of a parent undertaking

and of a financial group controlled by it exercised on the basis of consolidated financial statements and other reports meant for supervision which shall be prepared and submitted to the competent authority by the parent undertaking.

22. **Controlled undertaking** shall mean an undertaking in which a person holds a proportion of the authorised capital and/or voting rights granting the right to control the activities of the undertaking. All the undertakings controlled by controlled undertakings shall also be considered to be the undertakings controlled by the parent undertaking controlling all the undertakings concerned.

23. **Creditworthiness assessment services** shall mean management of the data, the assessment of personal solvency and financial risk, as well as the determination of personal creditworthiness (score), except for the credit ratings subject to Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, carried out for the purpose of personal solvency and financial risk assessment and indebtedness management.

24. **Credit institution** – as defined in Article 4(1)(1) of Regulation (EU) No 575/2013.

25. **Qualifying holding in the authorised capital and/or voting rights** shall mean a proportion of an undertaking's authorised capital and/or voting rights which is directly and/or indirectly managed by a single person and accounting for 10 % or more of the undertaking's authorised capital and/or voting rights or enabling to exercise a decisive influence over the management of the undertaking.

26. **Licensed financial services** shall mean the financial services subject to a licence issued in accordance with the procedure set forth by laws.

27. **Liquid assets** shall mean the assets which may be immediately sold at the market price or at a price close to the market price with minimum risk of loss. The price close to the market price shall be the highest price at which the parties related to a financial institution and known as the parties intending to purchase/sell assets may directly (outside the market) exchange the assets placed on the market.

28. **Mixed-activity holding company** shall mean a parent undertaking (other than a financial holding company or a credit institution or a mixed-activity financial holding company as defined in the Law of the Republic of Lithuania on the Supplementary Supervision of Entities in a Financial Conglomerate) at least one of the controlled undertakings whereof is a credit institution.

29. **Off-balance-sheet claims** shall mean the assets/claims not specified on the balance sheet of a financial institution: the financial institution's rights of claim to the sums of money payable to the financial institution and to other assets to be returned or otherwise transferred according to futures, options and other transactions.

30. **Non-professional participants of the market** shall mean all persons, with the exception of the Bank of Lithuania, financial institutions, insurance undertakings as well as other persons qualified to assess the borrowing risk.

31. **Indirect control** shall mean the control arising through other controlled undertakings or through the undertakings controlled by the controlled undertakings.

32. **Interest** shall mean a sum of money paid for a granted loan, a deposit held, debt securities, the assets transferred for use or other debt-claim, i.e., a percentage set by an agreement and calculated from the amount of the deposit held or the granted loan, the par value of the debt securities or the value of the assets transferred for use or of other debt-claim.

33. **Option** shall mean a transaction granting the right, but not the obligation, to purchase or sell the object of the transaction at the agreed price on or before the agreed date.

34. **Subordinated loan** shall mean a loan granted for a time period of at least one year, provided all of the following conditions are fulfilled:

- 1) the loan has been received in cash;
- 2) under the loan agreement, the lender undertakes not to demand repayment of the loan from the borrower prior to the expiry of the time limit specified in the agreement for repayment thereof;
- 3) *repealed as of 30 January 2007*;
- 4) the loan agreement provides that, in the event of the winding up or bankruptcy of the borrower, the claim of the lender under the loan agreement shall be satisfied only upon the satisfaction of claims of other creditors of the borrower.

35. **Administration of money** shall mean the collection, transportation and storage of cash, counting of coins and banknotes, verification of their authenticity and suitability for circulation as well as packing prior to return to circulation.

36. **Taking of risk (transactions having possible risk indications)** shall mean:

- 1) lending, purchase of debt securities;
- 2) discount of bills, cheques and other liabilities;
- 3) granting of a financial guarantee, financial assurance or the means to secure the performance of all other obligations as issued by a financial institution (in order to secure the performance of its or other persons' obligations), the acceptance of other financial institutions' financial guarantees or financial assurances;
- 4) assumption of all obligations according to which the financial institution undertakes to pay according to a payment claim accepted by it or to accept them for redemption, where the buyer requires them;
- 5) acquisition of a proportion of the authorised capital and/or voting rights of other undertakings irrespective of the purpose and the period of time for which the proportion is acquired;
- 6) purchase of claims according to payment obligations;
- 7) transfer of the assets belonging to the financial institution by the right of ownership for use by other persons under to a financial lease (leasing) agreement;
- 8) issuance and acquisition of financial derivatives;
- 9) keeping of funds in higher-risk credit institutions;
- 10) other actions specified in legal acts of the competent authority.

37. **Lease of safes** shall mean the lease of safes located in permanently guarded premises to the persons keeping their valuables therein.

38. **Lending** shall mean:

- 1) transfer of a sum of money to a debtor under a loan or crediting agreement;
- 2) purchase, advance payment (including factoring and forfeiting) or discounting of a pecuniary claim arising from an irrevocable payment obligation, with or without the taking of the lending risk, irrespective of a person into whose accounting these claims are included and who collects monetary funds according to the claims.

39. **Specific loss provisions** shall mean the amount by which the value of assets and off-balance-sheet claims is reduced and which corresponds to the probability of expected losses.

40. **Group of connected clients** shall mean:

1) two or more clients of a financial institution who, unless specified otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other or others, or

2) two or more clients of the financial institution between whom there is no relationship of control as set out in point 1 of this paragraph, but who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, in particular funding or repayment difficulties, the other or all of the others would be likely to encounter funding or repayment difficulties.

41. **Trade in precious metals** shall mean the trade in:

1) fine gold (the gold of a fineness of not less than 999.9 per thousand);

2) fine silver and platinum (the silver and platinum of a fineness of not less than 999.9 per thousand);

3) gold, silver and platinum in bars or in another form which is recognised on the international markets of precious metals, irrespective of fineness thereof;

4) for numismatic purposes, the coins of precious metals which have or have not been in circulation.

42. *Repealed as of 1 January 2012.*

43. *Repealed as of 28 April 2018.*

Article 3. Financial services

1. Financial services shall be:

1) acceptance of deposits and other repayable funds;

2) lending (including mortgage loans);

3) financial lease (leasing);

4) payment services;

5) issuing and administering travellers' cheques, bankers' drafts and other means of payment insofar as this activity is not covered by the service specified in point 4 of paragraph 1 of this Article;

6) provision of financial assurances and financial guarantees;

7) conclusion of transactions, for own account or for account of customers, in money market instruments (cheques, bills, certificates of deposit, etc.), foreign exchange, financial futures and options, exchange and interest-rate instruments, transferable securities and precious metals;

8) investment services;

9) financial mediation (agency services);

10) money handling;

11) creditworthiness assessment services;

12) lease of safe-box vaults;

13) currency exchange (in cash);

14) settlement of payments between credit institutions (clearing);

15) safekeeping and administration of monetary funds;

16) advice to undertakings on capital structure, industrial strategy and related questions as well as advice and services relating to reorganisation, restructuring and purchase of the undertakings;

17) provision of services related to securities issues;

18) issuing electronic money;

19) management of investment funds, closed-ended investment companies, pension funds or investment companies with variable capital;

20) safe custody, accounting and management of financial instruments for account of a customer, including safe custody of assets and related services, such as cash and financial collateral management;

21) activities of the operator of a crowdfunding platform within the meaning of the Law of the Republic of Lithuania on Crowdfunding;

22) activities of the operator of a peer-to-peer lending platform.

2. Licensed financial services shall be defined by laws of the Republic of Lithuania.

3. Provision of licensed financial services without a licence is prohibited.

4. Only a credit institution shall have the exclusive right to accept deposits and other repayable funds from non-professional participants of the market.

5. Financial institutions may provide financial services in a foreign currency, where provided for by laws of the Republic of Lithuania.

Article 4. Financial institution

1. A financial institution shall be a financial undertaking or a credit institution.

2. Collective investment undertakings intended for informed investors and management companies managing only such undertakings shall not be considered to be financial institutions.

3. The activities of a financial institution which is engaged in the provision of licensed financial services shall be supervised by the Bank of Lithuania, except for the cases when, according to provisions of Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ 2013 L 287, p. 63), supervision shall be carried out by the European Central Bank (hereinafter: the ‘competent authority’).

4. Financial institutions shall act in compliance with the Constitution of the Republic of Lithuania, the present Law, the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions as well as a legal person of an appropriate legal form on the basis whereof a financial institution is established and operates and other legal acts.

5. Where the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions lay down other provisions than those laid down by this Law, the provisions of the laws regulating the provision of financial services and pursuit of the activities of financial institutions shall apply.

6. The procedure set forth in Article 20(2), Article 44(3) and Article 46(3) of the present Law shall not apply to financial institutions providing exclusively the non-licensed financial services referred to in the Law of the Republic of Lithuania on Consumer Credit.

CHAPTER TWO ESTABLISHMENT, REGISTRATION AND LICENSING OF A FINANCIAL INSTITUTION

Article 5. Establishment of a financial institution

Financial institutions shall be established in compliance with the laws of the Republic of Lithuania regulating the establishment and pursuit of the activities of a legal person of an

appropriate legal form as well as other laws of the Republic of Lithuania, unless the present Law provides otherwise.

Article 6. Founders

1. A founder of a financial institution may only be a person fulfilling all of the following conditions:

- 1) is acquiring a proportion of the authorised capital and/or voting rights of the financial institution being established;
- 2) can prove that the funds used for the acquisition of the authorised capital and/or voting rights of the financial institution being established are his legitimate income;
- 3) meets other requirements set by this Law as well as other legal acts for founders of financial institutions.

2. A founder of a financial institution may not be a natural person convicted of grave or serious crimes or of crimes against the financial system, economy and business practice, property, property rights and property interests or of other crimes, where his conviction has not expired.

Article 7. Participants of a financial institution holding a qualifying holding in the authorised capital and/or voting rights

1. A participant of a financial institution holding a qualifying holding in the financial institution's authorised capital and/or voting rights may be a person who:

1) alone or acting under the influence of another person, is not going to pose a threat to the safety and soundness of activities of the financial institution and who can guarantee a sound management and control of the activities of the financial institution as provided for by laws of the Republic of Lithuania;

2) by his property, management, blood as well as marriage and operational relations and the structure of participants, could not impair the control of activities of the financial institution exercised by the participants of the financial institution;

3) meets other requirements set by this Law as well as other legal acts of the Republic of Lithuania for participants of financial institutions.

2. The procedure for acquiring, increasing, transferring and reducing a qualifying holding in the authorised capital and/or voting rights of a financial institution providing licensed financial services shall be set forth by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions.

Article 8. Requirements to ensure activities of a financial Institution

1. A financial institution may provide financial services where it has in place an adequate:

- 1) accounting system;
- 2) internal control system;
- 3) personnel;
- 4) technical, information and technological security means and premises;
- 5) management and organisational structure;
- 6) property insurance.

2. The provisions of paragraph 1 of this Article shall also apply to the subsidiary undertakings of institutions, branches, other structural divisions thereof or to workstations in a

location other than the registered office of a financial institution and providing financial services to clients.

Article 9. Procedure for registering a financial institution

1. A financial institution shall be registered in the Register of Legal Entities in accordance with the procedure laid down by laws of the Republic of Lithuania. A financial institution the establishment whereof is subject to an authorisation of the competent authority as provided for by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions shall be registered in the Register of Legal Entities only upon the receipt of this authorisation. A financial institution registered in the Register of Legal Entities shall be considered to have been established.

2. The registered office of a financial institution registered in the Register of Legal Entities of the Republic of Lithuania must be in the Republic of Lithuania.

3. A registered financial institution or an undertaking in operation which has taken a decision on the provision of financial services may commence the provision of financial services only upon obtaining of a licence/authorisation to provide them, where laws of the Republic of Lithuania stipulate that such a licence/authorisation is necessary.

4. A licence/authorisation to provide financial services shall be issued to a financial institution in accordance with the procedure laid down by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions.

5. Laws of the Republic of Lithuania may stipulate that an authorisation of the competent authority is necessary in order to:

- 1) register amendments to instruments of incorporation in the cases specified by this Law and other laws of the Republic of Lithuania;
 - 2) reorganise a financial institution;
 - 3) wind up a financial institution;
 - 4) restructure a financial institution;
 - 5) open bankruptcy proceedings against a financial institution;
 - 6) elect or appoint persons members of the supervisory board and the board, including the chairperson and the head of the administration, as well as the auditor or the inspector;
 - 7) acquire, for investment and management purposes, a qualifying holding in the authorised capital and/or voting rights of another undertaking or to increase it in the cases specified by laws of the Republic of Lithuania;
 - 8) set up branches, representative offices or other structural divisions of a legal person in a location other than the registered office of the financial institution, in the Republic of Lithuania or abroad;
 - 9) sell or otherwise transfer all or a part of its obligations under deposit agreements or all or a part of other obligations of the financial institution arising upon the transfer of settlement for issued financial instruments (hereinafter: the 'transfer of a portfolio of obligations');
 - 10) no longer pursue the provision of all or a part of financial services.
6. Laws of the Republic of Lithuania may also specify other cases when an authorisation of the competent authority is necessary.

Article 10. Withdrawal of a licence

1. The competent authority must withdraw a licence issued to a financial institution to provide licensed financial services where the financial institution:

- 1) has obtained the licence fraudulently or by otherwise breaching laws;
- 2) pursues the activities prohibited by laws.

2. The competent authority shall have the right to withdraw a licence issued to a financial institution to provide licensed financial services where the financial institution:

1) has not made use of the licence within 12 months from the issuance of the licence to provide financial services;

2) pursues other activities not provided for in Article 3(1) of the present Law;

3) does not meet the requirements set by this Law and other legal acts of the Republic of Lithuania for the safe and sound activities of respective financial institutions;

4) has breached the financial accounting, management and control requirements set by legal acts of the Republic of Lithuania, the provisions of this Law as well as other legal acts or instructions of the competent authority regarding the safe and sound activities of a financial institution;

5) has become insolvent and/or its activities pose a threat to interests of its clients or violate them, interfere or may interfere with the settlements or operations carried out on the money and capital markets;

6) does not pursue licensed activities for a period of time exceeding 6 months;

7) fails to fulfil its duties according to the relevant obligations, or there is evidence that the licence holder will not be able to do that in the future;

8) its participants take a decision on the return of the licence to provide licensed financial services;

9) in other cases set forth in laws of the Republic of Lithuania.

3. Taking account of the contents of an infringement, the consequences of the infringement and of the imposition of a sanction for the security, stability and soundness of the system of financial institutions and upon the taking of a decision on the withdrawal of a licence granted to a financial institution to provide financial services, the competent authority may propose that its participants wind up the financial institution or open bankruptcy proceedings against it as well as may itself open bankruptcy proceedings against the financial institution.

CHAPTER THREE

FINANCIAL INSTITUTIONS OF FOREIGN STATES

Article 11. Activities of financial institutions of foreign states in the Republic of Lithuania

1. A financial institution of a foreign state may establish in the Republic of Lithuania controlled undertakings or acquire the authorised capital and/or voting rights of the undertakings in operation and set up branches and representative offices.

2. A financial institution of foreign states may provide financial services in the Republic of Lithuania only upon the receipt of an authorisation and/or licence to provide financial services issued by an institution specified by laws of the Republic of Lithuania (where the laws specify that such an authorisation or licence is necessary). Prior to the granting of an authorisation or licence to provide financial services to a financial institution of a foreign state in the cases specified by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the

activities of financial institutions, the foreign institution exercising supervision thereof must be consulted with in advance.

3. The conditions of and the procedure for the operation of financial institutions of foreign states in the Republic of Lithuania shall be laid down by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions.

4. It shall be prohibited to refuse an authorisation to provide financial services or to register a financial institution of a foreign state or to otherwise restrict the activities of financial institutions of foreign states in the Republic of Lithuania or to hinder them for the reasons of economic expediency or congested market, where all the requirements set by this Law and other laws of the Republic of Lithuania for the establishment or registration of the financial institutions of foreign states in the Republic of Lithuania have been met.

Article 12. Right of the financial institutions licensed in the Member States of the European Union to provide financial services in the Republic of Lithuania

1. A financial institution licensed in a Member State of the European Union may establish a branch in the Republic of Lithuania where the foreign competent authority has forwarded to the competent authority of financial institutions of the Republic of Lithuania an operating plan of the institution and has specified the types of activities, the intended address of the branch, the structure as well as information about the heads of the branch. Upon the receipt of such a notification, the competent authority of financial institutions of the Republic of Lithuania shall prepare for the exercise of supervision and specify to the financial institution the activity requirements which it must comply with. The branch may be established upon the receipt by the financial institution of the said notification from the competent authority of financial institutions of the Republic of Lithuania or, where no notification is received, after the lapse of two months from the submission of the information provided for in this paragraph by the foreign competent authority to the competent authority of financial institutions of the Republic of Lithuania.

2. Where a financial institution referred to in paragraph 1 of this Article has already established at least one branch in the Republic of Lithuania, the procedure laid down in this Article shall not apply to the establishment of other branches thereof.

3. In other cases specified by the laws of the Republic of Lithuania regulating the provision of financial services, a financial institution licensed in a Member State of the European Union may commence the provision of financial services in the Republic of Lithuania without establishing a branch after the lapse of one month from the submission of an operating plan of the financial institution by the foreign competent authority to the competent authority of financial institutions of the Republic of Lithuania.

4. In the event of a change in any of the particulars of a financial institution referred to in paragraph 1 of this Article, the institution must notify thereof the competent authority of financial institutions of the Republic of Lithuania at least one month in advance. A financial institution which provides services without establishing a branch must notify the competent authority of financial institutions of the Republic of Lithuania of a change in its operating plan in advance.

CHAPTER FOUR PARTICIPANTS OF A FINANCIAL INSTITUTION

Article 13. Participant of a financial institution

1. A participant of a financial institution shall be a person on behalf whereof a proportion of the financial institution's authorised capital and/or voting rights has been acquired, irrespective of whether he has acquired the proportion of the financial institution's authorised capital and/or voting rights on his own behalf for the benefit of a third party or in another representative capacity.

2. A participant of a financial institution may only be a person whose identity or legal registration has been confirmed by relevant documents.

3. A person shall become a participant of a financial institution and acquire all rights and duties which are granted to him by the proportion of the authorised capital and/or voting rights of the financial institution acquired by him:

1) in the case of the establishment of the financial institution – as of the day of registration of the financial institution, and in the case of the establishment of a financial institution which is going to engage in the provision of licensed services – as of the receipt of a licence. Until the receipt of the licence, the participant of the financial institution may have and acquire only the rights and duties which are not related to the provision of licensed services;

2) in the case of an increase of the authorised or share capital – as of the day of full settlement for the proportion of the financial institution's authorised capital and/or voting rights being acquired, and where laws specify that the amendments to founding documents related to the increase of the authorised capital and/or voting rights must be registered – as of the day of registration of the amendments to the financial institution's founding documents related to the increase of the authorised capital and/or voting rights;

3) in other cases – as of the arising of the rights of ownership to the proportion of the financial institution's authorised capital and/or voting rights.

Article 14. Rights and duties of participants of a financial institution

1. The rights and duties of participants of financial institutions shall be specified by the laws of the Republic of Lithuania regulating pursuit of the activities of a legal person of an appropriate legal form on the basis whereof a financial institution operates and by the founding documents of these institutions, unless other laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions provide otherwise.

2. Laws of the Republic of Lithuania may also specify the following additional duties to participants of a financial institution:

1) to pay additional contributions in order to increase the authorised capital of the financial institution or to cover the losses incurred by it;

2) to sell, reorganise, restructure or wind up the financial institution;

3) to reduce the authorised capital of the financial institution; to sell or to otherwise transfer the proportion held in the financial institution's authorised capital and/or voting rights.

Article 15. List of participants of a financial institution

1. The administration of a financial institution must draw up and manage a list of participants of the financial institution. The list must contain the following information:

1) on a participant of the financial institution: the surname, name, address of the place of residence, citizenship, personal number and/or name and number of a personal identification document of a natural person; the business name, registration number, location of the registered office, surname and name of the head of the administration of a legal person;

2) where a proportion of the authorised capital and/or voting rights of the financial institution is held by several persons – the data referred to in point 1 of paragraph 1 of this Article on every participant and a person representing him;

3) the number of the proportions – shares or member shares – held by a participant in the authorised capital and/or voting rights of the financial institution, par value of the shares or size of the member shares, other possible identification data (the type and class of the shares, emission number, its registration number) as well as the property and non-property rights granted;

4) the date of the acquisition of proportions of the authorised capital and/or voting rights;

5) the date of entering of the data on the acquisition of proportions of the authorised capital and/or voting rights in the list of participants of the financial institution;

6) data on a decision taken by the competent authority to allow to acquire and hold a qualifying holding in the authorised capital and/or voting rights of the financial institution, to increase or to reduce it, where provided for by laws of the Republic of Lithuania.

2. Data of a list of participants of a financial institution must be updated at least once per month. A person must also be appointed to continuously record occurred changes, provide information about the data entered in the list and related to participants of financial institutions to the persons who have been granted such a right in accordance with the procedure laid down by laws or by a decision of the management bodies of a financial institution and register every submission of such information.

3. The data required for the identification of the indirect holding of 5 % or more of the authorised capital and/or voting rights of a financial institution must be entered in a list of participants of the financial institution. The persons holding or acquiring 5 % or more of the authorised capital and/or voting rights of the financial institution must notify the administration of the financial institution of the proportion of the authorised capital and/or voting rights which is indirectly held by them and the data required for identification thereof.

CHAPTER FIVE

BODIES OF A FINANCIAL INSTITUTION

Article 16. Bodies of a financial institution

The bodies of a financial institution, structure, composition, procedure for the formation, convening and operation, duties and rights as well as limitations of liability thereof shall be established by the Civil Code of the Republic of Lithuania and the laws of the Republic of Lithuania regulating pursuit of the activities of a legal person of an appropriate legal form on the basis whereof the financial institution operates and founding documents thereof, unless this Law and other laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions provide otherwise.

Article 17. General meeting of participants of a financial institution

1. At the general meeting of participants of a financial institution, the following persons shall not have the right to vote:

1) owners of a qualifying holding in the authorised capital and/or voting rights of the financial institution without an authorisation of the competent authority to acquire or hold a qualifying holding in the authorised capital and/or voting rights of the financial institution, where

this authorisation is necessary under the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions;

2) the participants of the financial institution whose voting rights have been suspended on the grounds provided for by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions as well as by activities of competent authorities or under a court decision.

2. For the purpose of determining the quorum a proportion of voting rights held by the participants of financial institutions referred to in paragraph 1 of this Article shall not be counted.

3. The general meeting of participants of a financial institution may, by at least 2/3 of votes, take a decision to transfer the right to dispose of all assets of the financial institutions to the management bodies of the financial institution, where this decision has been provided for in the founding documents of the financial institution.

4. The management body of a financial institution which is subject to the obligation to convene meetings under laws of the Republic of Lithuania and the founding documents must convene an extraordinary general meeting of participants of the financial institution, where:

1) the equity capital of the financial institution falls below than the minimum authorised capital specified by legal acts of the Republic of Lithuania;

2) the equity capital of the financial institution is insufficient to ensure safe and sound activities of the financial institution;

3) the competent authority which sets the time limits for the convening of the meeting and agenda thereof so requires;

4) in other cases specified by laws of the Republic of Lithuania.

5) Where the competent authority takes a decision to request that an extraordinary general meeting of participants of a financial institution is convened, it must be convened within the time limits specified by the competent authority without regard to the time limits laid down by the laws of the Republic of Lithuania regulating pursuit of the activities of a legal person of an appropriate legal form on the basis whereof the financial institution operates.

Article 18. Meetings of collegial management bodies of a financial institution

Minutes shall be taken of meetings of the collegial management bodies of a financial institution in accordance with the procedure laid down by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions as well as by other laws.

Article 19. Administration of a financial institution

1. The procedure for forming the administration of a financial institution, powers, functions and duties as well as working procedure thereof shall be specified by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions as well as pursuit of the activities of a legal person of an appropriate legal form on the basis whereof the financial institution operates.

2. The administration of a financial institution must, unless the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions provide otherwise, be made up of two persons, namely, the head of the administration and his deputy (hereinafter: the 'heads of the administration'), who, in accordance with the founding documents, job descriptions, resolutions of the higher management bodies and the rules of

procedure of the administration, shall have the right to conclude transactions on behalf of the financial institution. The founding documents of the financial institution and the rules of procedure of the administration must specify the areas of activities in which:

1) only both heads of the administration acting jointly and in concert may act and conclude transactions;

2) the head of the administration and his deputy or the persons authorised by them may act and conclude transactions independently.

Article 20. Heads of a financial institution

1. Heads of a financial institution shall be:

1) members of the supervisory board;

2) members of the board;

3) the inspector;

4) the heads of the administration;

5) employees of the financial institution as well as other persons who, in accordance with the financial institution's founding documents, resolutions of the board and the rules of procedure of the administration and by a decision of the heads of the administration, have been authorised to independently take decisions on the provision of financial services and to conclude, on behalf of the financial institution, the transactions specified by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions or by other legal acts adopted in compliance therewith and having risk characteristics;

6) head of the internal audit service.

2. Where supervision of the activities of a financial institution is exercised, in accordance with the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions, by the competent authority, only the persons holding a prior authorisation granted therefor by the competent authority may become heads of financial institutions. The competent authority shall have the right to specify the cases when a prior authorisation of the competent authority to become the head of a financial institution shall not be required. By a decision of the competent authority, powers of the head of a financial institution may be suspended, he may be removed from the office of the head of the financial institution, or the body of the financial institution which has elected, appointed or granted powers to him may be imposed an obligation to revoke the said person from office, to terminate an employment contract concluded therewith, to divest him of the powers, and the financial institution may be imposed a sanction where he has been elected, appointed or granted powers without a prior authorisation of the competent authority or this authorisation has been cancelled upon the transpiration of at least one circumstance specified in paragraph 3 of this Article.

3. The competent authority shall have the right to reject an application for the office of the head of a financial institution or to cancel a prior authorisation where a person who has submitted the application:

1) holds or held a qualifying holding in the authorised capital and/or voting rights of the financial institution or was the head of the financial institution subject to sanctions by the competent authority in order to restore its liquidity and solvency or wound up by reason of insolvency or by a court's decision for the infringements of law as specified by laws of the Republic of Lithuania;

2) once or on several occasions violated the provisions of this Law or of other laws and legal acts of the Republic of Lithuania regulating the provision of financial services and pursuit of the

activities of financial institutions and has been imposed an administrative penalty more than once per year (with the exception of the cases when, according to other laws of the Republic of Lithuania, it is considered that he has not been imposed the administrative penalty) or convicted of grave or serious crimes, crimes against the financial system, crimes against the economy and business practice, crimes against property, property rights and property interests or of other crimes, where his conviction has not expired or, by a decision of the competent authority, he has been removed from the office of the head of the financial institution, and five years have not lapsed since then;

3) may not hold the office of the head of the financial institution, because the time period for which the court has prohibited him to hold the office has not expired;

4) has obligations or exercises the functions which pose a threat to the safety and soundness of activities of the financial institution;

5) does not meet the requirements set for heads by other laws and legal acts of the Republic of Lithuania.

4. Members of the management bodies of a financial holding company must be of good repute, possess the required qualifications and sufficient experience to hold the position. A natural person shall not be considered to be of good repute if:

1) the person has been convicted of a grave or serious crime or a misdemeanour against the financial system, economy and business practice or of a crime against property, property rights and property interests and the conviction has not expired or has not been expunged;

2) the person abuses narcotic, toxic, psychotropic substances or alcohol.

Article 21. Responsibility of members of the supervisory board and the board of a financial institution

Members of the supervisory board and the board of a financial institution shall, in accordance with the procedure laid down by laws of the Republic of Lithuania, be responsible for ensuring the compliance of activities of the financial institution with provisions of this Law and other legal acts of the Republic of Lithuania.

Article 22. Remit of management bodies of a financial institution and granting of powers

Founding documents of a financial institution must specify the remit of the management bodies of the financial institution to act on behalf of the financial institution, including the management, use and disposal of assets thereof as well as conclusion of the transactions related to the provision of financial services and the procedure for granting and revoking the powers to act on behalf of the financial institution.

Article 23. Internal control of activities of a financial institution

1. The internal control of the activities of a financial institution shall be ensured in the financial institution by a sound and adequate internal control system and by an independent and adequate internal audit service, which may be made up of one or several persons.

2. The internal control system of the activities of a financial institution shall be made up of:

1) adequate organisational structure enabling to ensure vertical and horizontal relationships;

2) adequate internal information system;

3) the personnel responsibility and remit specified in internal regulatory documents;

- 4) double internal control of operating procedures;
 - 5) top management information system permitting timely decision-making;
 - 6) risk control and risk management.
3. The objectives of the internal audit service shall be as follows:
- 1) to assess compliance with the requirements set by legal acts of the Republic of Lithuania and internal regulations;
 - 2) to verify and assess the adequacy and efficiency of the financial institution's internal control system;
 - 3) to evaluate whether sets of financial statements of the financial institution fairly reflect the actual situation;
 - 4) to assist the board of the financial institution in defining the lines of activities and their implementation measures;
 - 5) to determine whether the activities of the financial institution are robust, whether its selected policies are reasoned and whether the application of its selected measures is sufficiently effective;
 - 6) to submit to the board of the financial institution analysis as well as evaluations and recommendations on issues of the management of the financial institution, organisation of the activities of divisions being audited and robustness thereof.
4. The functions, liability, rights, duties and working procedure of employees of the internal audit service and the permanent internal control system of a financial institution shall be specified by laws of the Republic of Lithuania, the legal acts issued by the competent authority, the founding documents of the financial institution, the rules of procedure thereof, employment contracts, job descriptions and other internal documents of the financial institution.
5. The internal audit service must forthwith notify the management bodies of a financial institution and, where necessary, the competent authority of discovered infringements of laws and other legal acts of the Republic of Lithuania which pose a threat to interests of the clients of the financial institution and to safe and sound activities of the financial institution.

CHAPTER SIX

CAPITAL OF A FINANCIAL INSTITUTION AND PROFIT DISTRIBUTION

Article 24. Capital of a financial institution

The capital of a financial institution shall consist of the equity capital and the borrowed capital.

Article 25. Borrowed capital

The borrowed capital of a financial institution shall be made up of the funds which the financial institution has acquired by the right of ownership through borrowing by issuing long-term debt securities (bonds) or concluding loan agreements where the term to maturity of the borrowed funds is longer than one year and the agreements have all characteristics of a subordinated loan.

Article 26. Equity capital

1. The equity capital of a financial institution shall be made up of contributions of participants of the financial institution for the proportions of the financial institution's authorised or share capital and/or voting rights acquired by them and of the profit of the financial institution.

2. Unless the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions provide otherwise, the equity capital of a financial institution shall consist of:

- 1) authorised capital (paid-up share capital) or share capital;
- 2) capital reserve;
- 3) non-current tangible assets revaluation reserve;
- 4) financial assets revaluation reserve;
- 5) legal reserve or reserve capital;
- 6) loss reserve;
- 7) other reserves;
- 8) retained earnings/loss.

Article 27. Authorised capital

1. The authorised capital or share capital of a financial institution shall be formed, increased or reduced in accordance with the procedure laid down by the laws of the Republic of Lithuania regulating pursuit of the activities of a legal person of an appropriate legal form on the basis whereof the financial institution operates as well as the provision of financial services, unless this Law provides otherwise.

2. The authorised capital or share capital of the financial institutions being established shall be formed by paying for the proportions of the authorised capital and/or voting rights being acquired in money's worth only. They shall be transferred to a cumulative account opened for this purpose in the name of founders in one of the credit institutions holding a licence to provide financial services in the territory in the Republic of Lithuania. Accumulated funds shall be transferred to a financial institution's account upon the registration of an undertaking being established in the Register of Legal Entities and, where this has been specified by laws of the Republic of Lithuania, upon the receipt of a licence to provide financial services.

3. A financial institution operating in accordance with the procedure laid down by the Company Law of the Republic of Lithuania shall be allowed to acquire its issued shares in its own name, where a special non-distributable reserve was built-up for this purpose from the profit of the previous financial year. However, the sum of the par values of the shares already held and being acquired may not exceed 5 % of the authorised capital, and expenditure thereon may not exceed the amount of the special non-distributable reserve built-up.

4. The proportions of the authorised capital and/or voting rights issued by a financial institution and acquired on behalf of the financial institution or by the undertakings controlled by it shall not grant the right to participate in the management of the financial institution.

Article 28. Reserves

1. The capital reserve of a financial institution shall consist of share premium accounts (the excess over the par value) or of other cash contributions by participants of the financial institution to obtain the right to a proportion of the authorised capital and/or voting rights of the financial institution, where the contributions are not part of the authorised capital.

2. The capital reserve of a financial institution shall be formed from a difference in earnings obtained after selling new proportions of the authorised capital and/or voting rights at issue price above their par value or from other cash contributions by owners of the financial institution to

obtain the right to a proportion of the authorised capital of the financial institution and/or to participation in management thereof, where the contributions are not part of the authorised capital.

3. After the close of the financial year, participants of a financial institution may take a decision on the use of the capital reserve to cover the losses incurred by the operations related to the sale of own issued proportions of the authorised capital and/or voting rights and on inclusion thereof in the result available for distribution or on use thereof to increase the authorised capital.

4. The non-current tangible assets revaluation reserve shall be the amount of the increase in the value of non-current tangible assets resulting after the revaluation of the assets.

5. The financial assets revaluation reserve shall be changes in the value of a financial institution's available-for-sale financial assets which have been appreciated and revaluated at their fair value.

6. A change in the value of the assets acquired by a financial institution from its client or from a third party that has provided an assurance or guarantee or pledged the assets for the liabilities of the financial institution's client in order to satisfy the right of claim according to the client's financial liabilities may not be included in the revaluation reserve.

7. Revaluation reserves may be reduced during the financial year without the consent of participants of a financial institution, where the revaluated assets are written off, written down or transferred into the ownership of other persons. In such a case, the revaluation reserves shall be reduced by the amount which has been included in the revaluation reserves at the time of the revaluation of the assets.

8. A financial institution may not use the assets revaluation reserve to cover operating losses and to include it into the result available for distribution.

9. The legal reserve or reserve capital of a financial institution shall be formed in accordance with the procedure laid down by the laws of the Republic of Lithuania regulating pursuit of the activities of a legal person of an appropriate legal form on the basis whereof the financial institution operates.

10. Prior to allocating the net profit of the accounting year for other purposes, a financial institution must make deductions from it to the loss reserve, where provided for by the laws of the Republic of Lithuania regulating pursuit of the activities of a legal person of an appropriate legal form on the basis whereof the financial institution operates, in accordance with the procedure laid down by these laws.

11. A financial institution may, by a decision of owners thereof, use the loss reserve only to cover the losses incurred by it.

12. Other reserves of a financial institution shall consist of the reserves which are available or not available for distribution. The purpose of as well as the procedure for forming, using and liquidating them shall be set forth by the founding documents of a legal person as well as by the laws of the Republic of Lithuania regulating the provision of financial services, pursuit of the activities of financial institutions and the legal form of the activities of a legal person on the basis whereof the financial institution operates.

Article 28¹. Granting of financial assistance for the purpose of acquiring shares of a financial institution

Subject to the requirements of this Law and the Company Law of the Republic of Lithuania a financial institution shall have the right to grant financial assistance to legal and/or natural persons by directly or indirectly paying amounts in advance, granting a loan or providing security, where

this has the purpose of acquisition, by such persons, of shares of the financial institution and where at least one of the following conditions is met:

1) the legal form of the financial institution is a public limited liability company or a private limited liability company, and the actions concerned are attributed to the financial services provided thereby;

2) the legal form of the financial institution is a public limited liability company, it complies with the criteria set out in the second paragraph of Article 17(7) of Directive 2012/30/EU of the European Parliament and of the Council of 25 October 2012, and thereby enables natural and/or legal persons to acquire fully paid-up shares issued by the financial institution and acquired at the investor's request by the financial institution or a financial institution belonging to the group of undertakings. In all the documents (letters, accounts, commercial documents, etc.) used by the financial institution in relations with other entities, this financial institution must include the expression 'investment company'.

Article 29. Retained earnings/loss

The retained earnings/loss of a financial institution as of the beginning of the financial year may be used only after the close of that financial year, with the exception of the cases when the financial institution is reorganised, wound up or restructured, and included in the result available for distribution.

Article 30. Profit and its distribution

1. The profit or loss of a financial institution shall be the financial result of the financial institution's annual activities, which shall be calculated by deducting the financial institution's expenses of the financial year from the financial institution's earnings of the year. The earnings and expenses of the financial institution shall be determined in compliance with the accounting policy selected, taking account of the provisions of legal acts of the Republic of Lithuania and established international practice, by the management bodies of the financial institution and approved by decisions thereof.

2. Net profit or loss shall be the net financial result of annual activities. It shall be calculated by deducting the taxes for the reporting period from the financial result of a financial institution's annual activities.

3. The financial year of a financial institution shall coincide with the calendar year.

4. The net financial result (profit or loss) of annual activities for the financial year must be distributed not later than within three months from the close of the financial year by a decision of participants of the financial institution approving the set of annual financial statements.

5. A decision of participants of a financial institution on the distribution of the net financial result (profit or loss) of annual activities shall specify:

- 1) retained earnings (loss) at the beginning of the financial year;
- 2) net financial result (profit or loss) of annual activities;
- 3) transfers from reserves to cover losses;
- 4) contributions of the participants to cover losses (where the participants of the financial institution have decided to cover the whole or part of the result (loss) available for distribution);
- 5) result (profit or loss) available for distribution at the end of the reporting period;
- 6) distribution of the profit to reserves;
- 7) profit allocated for the payment of dividends or for other purposes;

8) retained earnings (loss) brought forward to the next financial year.

6. Participants of a financial institution may adopt a resolution on the allocation of a part of the result available for distribution for the payment of dividends or other forms of profit and for other purposes, provided the following conditions are fulfilled:

1) the loss left uncovered from the previous financial year has been brought forward to the beginning of the financial year;

2) compulsory deductions to the legal reserve or reserve capital and loss reserve as specified by laws of the Republic of Lithuania have been made;

3) deductions to the reserves specified in the founding documents of the financial institution have been made;

4) upon the payment of dividends and use of a part of profit for other purposes, the capital of the financial institution meets the requirements set by laws and other legal acts.

7. Where after the close of the financial year and at the beginning of the next financial year the sum total of the result unavailable for appropriation and the net result of annual activities of a financial institution is negative (loss), participants of the financial institution must take a decision to cover this loss, that is, to include the amounts transferred from reserves and capitals to the result available for appropriation in the following sequence:

1) transferred from other reserves not used during the financial year;

2) transferred from the legal reserve or from the reserve capital;

3) transferred from the loss reserve;

4) transferred from the capital reserve.

8. Where the amounts transferred from those reserves are not sufficient to cover the loss:

1) the remaining retained loss shall be brought forward to the beginning of the next financial year, where the capital of a financial institution meets the requirements set by laws of the Republic of Lithuania and other legal acts;

2) participants of the financial institution must take a decision to cover the loss by contributions of participants of the financial institution, that is, the capital of the financial institution must be restored to meet the requirements set by laws of the Republic of Lithuania and other legal acts.

9. Where participants of a financial institution fail to take a decision on the covering of a loss by contributions of the participants in order to restore the capital up to the levels specified in legal acts of the Republic of Lithuania, or where such a decision is taken, but the capital is not restored to the levels specified in the legal acts within the time limits laid down therein, the financial institution shall be subject to the sanctions provided for by laws.

CHAPTER SEVEN

BUSINESS RISK OF A FINANCIAL INSTITUTION AND ITS MITIGATION

Article 31. Taking up of business risk

1 A financial institution must have in place written internal rules to ensure that:

1) the financial institution operates safely and soundly when concluding transactions on the provision of financial services and investing funds;

2) the financial institution is capable of timely identifying the possible risk arising from the conclusion of transactions, appropriately assessing and reducing it as well as continuously monitoring and managing it.

2. The transactions concluded by a financial institution and having possible risk characteristics must be concluded in writing. A financial institution operating on the capital and money markets may also conclude oral transactions; however, information on the conclusion of such transactions must be subsequently presented in writing or in another form allowing the transactions to be disclosed.

3. Prior to taking a decision on the acquisition of the capital or money market instruments, lending or assumption of obligations for a client, a financial institution must ascertain that:

1) the financial assets being acquired, the assets being pledged or other assets from which a claim of the financial institution may be satisfied in the future actually exist and the acquired claim of the financial institution may be satisfied from such assets;

2) the client's financial as well as economic position and forecasts about it allow to expect that the client will be capable of performing his obligations;

3) the client performed and performs his financial obligations to financial institutions.

4. A financial institution must, in accordance with the procedure laid down by the Law of the Republic of Lithuania on Archives, store all documents on the basis whereof a decision on the conclusion of a transaction has been taken as well as other documents specified by legal acts.

5. In order to secure the performance of a client's obligations, a financial institution may not accept:

1) the pledge of the client's or a third party's assets already pledged under another transaction, with the exception of the case when the pledge of these assets is registered in the mortgage register;

2) the pledge of the client's or a third party's assets the pledge whereof is registered in the mortgage register, where the client's obligation to other creditors (creditor's claim) as secured by this pledge exceeds 70 % of the value of the pledged assets;

3) the pledge of a proportion of the authorised capital and/or voting rights of the financial institution;

4) the pledge of a proportion of the authorised capital and/or voting rights of a financial institution controlled by the financial institution or of the parent financial institution thereof.

5) *repealed as of 26 September 2003.*

6. Upon the conclusion of a transaction, a financial institution must continuously monitor and record in documents, whether the client performs contractual obligations and whether his financial and economic situation poses a threat to the proper performance of contractual obligations to the financial institution.

7. When concluding a transaction having possible risk characteristics with a client, a financial institution must require that the agreement clearly specifies:

1) the subject of the agreement on the provision of financial services and the purpose of the provision of a financial service (if any);

2) data on the client;

3) the rights, obligations of the contracting parties, the means of securing the performance of the obligations, if any;

4) the right of the financial institution, in the event of nonfeasance or misfeasance of contractual obligations by the client, to terminate the agreement prior to the expiry of validity thereof or to require that the client or the third party assuming the client's obligations performs the obligations prior to the expiry of the validity or to require to provide additional means securing the performance of the obligations;

5) other measures not prohibited by laws which would allow the financial institution to reduce the risk it takes.

Article 32. Assessment of business risk and its mitigation

1. A financial institution must assess and mitigate the risk arising:

1) due to the provision of financial services to the heads of the financial institution and/or to the persons related thereto by blood as well as by marriage or being otherwise closely related thereto;

2) due to the provision of financial services to owners of a qualifying holding in the authorised capital and/or voting rights of the financial institution and/or to the persons related thereto by blood as well as by marriage or being otherwise closely related thereto;

3) due to the provision of financial services to a single client or to a group of connected clients;

4) due to investments in proportions of the authorised capital and/or voting rights of other undertakings;

5) due to investments in land or other immovable property;

6) due to operations on the money and capital markets.

2. A financial institution must, in accordance with the procedure laid down by legal acts of the Republic of Lithuania, revalue its assets and determine the net value thereof by taking account of the risk of each transaction concluded on the provision of financial services, the financial as well as economic position of the client, the performance of obligations under transactions on the provision of financial services and the available means of securing the performance of these obligations as well as other circumstances affecting the value of the financial institution's assets.

3. A financial institution must take all measures specified by legal acts of the Republic of Lithuania and adopted in the pursuit of the activities of the financial institution to safeguard its assets against depreciation.

4. A financial institution must, in accordance with the procedure laid down by legal acts of the Republic of Lithuania, make specific loss provisions to reduce its operational risk, including the lending, market, interest rate, currency exchange rate, investments, country (state or part thereof) risk as well as other types of risk which may be determined and assessed, and to cover the losses incurred due to the risk as well as to determine the market value of assets of the financial institution (hereinafter: 'specific loss provisions to reduce operational risk').

5. In addition to specific loss provisions to reduce operational risk, a financial institution must make general loss provisions to cover possible losses related to the likely risk.

CHAPTER EIGHT LIQUIDITY AND SOLVENCY OF A FINANCIAL INSTITUTION

Article 33. Liquidity and solvency of a financial institution

1. A financial institution must always be prepared to perform its obligations at the first request of a client (liquidity) and to perform all of its obligations (solvency).

2. A financial institution must meet the requirements set for liquidity by legal acts of the Republic of Lithuania by agreeing the maturity dates and amounts of acquired claims with the maturity dates and amounts of assumed obligations and taking account of the type, scope and risk of

its activities as well as the requirements set by the competent authority for the liquidity of financial institutions.

3. A financial institution must have in place written internal rules for liquidity and solvency setting forth detailed procedures of liquidity and solvency control and management.

4. Requirements for the liquidity and solvency of financial institutions shall be set by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions as well as by the legal acts adopted by competent authorities.

CHAPTER NINE

UNDERTAKINGS CONTROLLED BY A FINANCIAL INSTITUTION, ITS DIVISIONS AND FINANCIAL GROUPS

Article 34. Undertakings controlled by a financial institution

A financial institution shall, acting in accordance with the laws of the Republic of Lithuania regulating pursuit of its activities, have the right to establish, acquire and manage controlled undertakings.

Article 35. Divisions of a financial institution

1. A financial institution shall, unless prohibited by the laws of the Republic of Lithuania regulating pursuit of its activities, have the right to provide financial services in its divisions established in accordance with the procedure laid down by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of activities of financial institutions and operating in the same location or a location other than the registered office of the financial institution.

2. A financial institution may establish branches, representative offices and other divisions as referred to in Article 37(2) of this Law.

Article 36. Branches of a financial institution

1. A financial institution shall, unless prohibited by the laws of the Republic of Lithuania regulating pursuit of its activities, have the right to establish branches in the Republic of Lithuania and foreign states.

2. A branch of a financial institution shall have the right, in implementing the objectives of its activities as specified in the branch's regulations approved by the management bodies of the financial institution, to provide financial services in a location other than the registered office of the financial institution. The financial institution which has established the branch shall be held liable for the transactions and activities thereof.

Article 37. Representative offices and other divisions of financial institutions

1. The financial institutions of the Republic of Lithuania may for the representation of their interests, unless prohibited by the laws of the Republic of Lithuania regulating pursuit of the activities thereof, establish representative offices in foreign states, and the financial institutions of foreign states – representative offices in the Republic of Lithuania.

2. Financial institutions may, where this is provided for in the founding documents thereof and unless prohibited by the laws of the Republic of Lithuania regulating pursuit of the activities

thereof, provide financial services in a location other than their own or that of the registered office of their branch upon establishing separate divisions, work stations or automated outlets.

Article 38. Financial groups

1. A financial institution, including a financial holding company, and the financial institutions controlled by it as well as other financial institutions controlled by these financial institutions which are directly and/or indirectly controlled by the former financial institution shall make up a financial group.

2. The undertakings which are directly and/or indirectly controlled by financial institutions may not acquire or hold a proportion of the authorised capital and/or voting rights of the financial institutions controlling them.

3. A financial institution which is the parent institution of other financial institutions of a financial group must:

1) manage them or influence their activities so that the whole financial group in general and each financial institution of this group in particular operate safely and soundly;

2) ensure that the financial institutions of the financial group have adequate capital and the entire financial group meets the requirements set for the safety and soundness of activities of these institutions.

Article 38.¹ Supervision of financial groups on a consolidated basis

1. In the cases referred to in the laws of the Republic of Lithuania regulating the provision of financial services and the pursuit of activities of financial institutions, a financial group shall be subject to supervision on a consolidated basis.

2. The rights and obligations of the financial institutions subject to supervision on a consolidated basis, mixed-activity financial holding companies and mixed-activity holding companies, as well as the rights and obligations of the competent authority exercising supervision on a consolidated basis shall be established by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of activities of financial institutions, as well as other legal acts regulating the pursuit of activities of financial institutions and their supervision.

Article 39. Right of financial institutions licensed in the Republic of Lithuania to provide financial services in the Member States of the European Union

1. Prior to establishing a branch in a Member State of the European Union, a financial institution must notify thereof the competent authority of financial institutions of the Republic of Lithuania, enclose an operating plan and specify types of activities, the address of the branch at which, where necessary, documents may be requested as well as the structure of the branch and information about the managers of the branch.

2. The competent authority of financial institutions of the Republic of Lithuania must forward the information referred to in paragraph 3 of this Article to the foreign competent authority within three months. The competent authority of financial institutions of the Republic of Lithuania must not allow establishing a branch and refuse the forwarding of the information provided for only where the organisational structure of the intended branch or the financial situation of the undertaking does not meet the requirements set by the Republic of Lithuania competent authority of financial institutions for pursuit of such activities. The financial institution shall be immediately notified about the forwarding or the refusal to forward the relevant information.

3. Where a financial institution has already established at least one branch in a foreign state, the procedure set forth in this Article shall not apply to the establishment of other branches thereof in that state.

4. In order to provide financial services in a foreign state without establishing a branch, a financial institution must notify thereof the competent authority of financial institutions of the Republic of Lithuania. This institution must also submit an operating plan setting out the financial services to be provided. The competent authority of financial institutions of the Republic of Lithuania must, within one month, forward this notification to the foreign competent authority and notify thereof the financial institution.

5. In the event of a change in any of the particulars forwarded by a financial institution when effecting a notification of the establishment of a branch, the institution must notify thereof the competent authorities of financial institutions of the Republic of Lithuania at least one month in advance. In such a case and on the ground referred to in paragraph 2 of this Article, the competent authority of financial institutions of the Republic of Lithuania must instruct that activities of the branch are terminated. In the event of a change in an operating plan of a financial institution providing financial services without establishing a branch, it must give advance notice thereof to the competent authority of financial institutions of the Republic of Lithuania and the foreign competent authority.

Chapter Ten. *Repealed as of 30 January 2007.*

CHAPTER ELEVEN

ACCOUNTING AND AUDIT OF A FINANCIAL INSTITUTION

Article 43. Accounting

1. A financial institution must keep accounts in compliance with laws of the Republic of Lithuania and other legal acts as well as the accounting policy selected by management bodies of the financial institution, which is implemented by taking account of specific circumstances, the nature of the business pursued and in conformity with international or business accounting standards.

2. The accounting organisation of a financial institution must such that:

1) sets of financial statements reflect the actual financial position and performance of the financial institution;

2) it provides conditions for the heads of the financial institution to safely and soundly use and manage the financial institution's assets and to dispose thereof;

3) it provides conditions for participants of the financial institution and the institutions authorised by law to verify and to control the activities of the financial institution, heads and other employees thereof having the right to take decisions which give rise to the financial institution's obligations to other persons and the financial position of the financial institution.

3. After the close of the financial year, a financial institution must:

1) within three months of the close of the financial year, but not later than ten days prior to the annual general meeting of participants of the financial institution, provide access for the participants of the financial institution to and, where specified by laws of the Republic of Lithuania,

submit to the competent authority a set of annual financial statements audited by an audit firm, a draft decision on the appropriation of profit and the auditor's opinion;

2) not later than within three months of the close of the financial year, approve the set of annual financial statements by a decision of the general meeting of the participants of the financial institution and take a decision on the appropriation of profit;

3) within three days of the taking of a decision by the general meeting of the participants of the financial institution on the approval of the set of annual financial statements, submit to the competent authority the set of annual financial statements approved by the meeting and the decision on the appropriation of profit, where the supervision of the activities of the financial institution is established by laws of the Republic of Lithuania;

4) within four months of the close of the financial year, provide to the public the set of annual financial statements and the auditor's opinion in accordance with the procedure laid down by laws of the Republic of Lithuania and other legal acts, where this is required by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions;

5) within four months of the close of the financial year, the parent financial institution of other financial institutions belonging to a financial group must publish a set of consolidated annual financial statements in accordance with the procedure laid down by laws of the Republic of Lithuania and other legal acts.

4. The general meeting of participants of a financial institution may not consider and approve a set of annual financial statements which has not been audited.

5. A decision taken by the general meeting of participants of a financial institution on the appropriation of profit shall be valid only provided a set of annual financial statements has been audited.

Article 44. Audit

1. An audit firm must carry out an audit of a financial institution's annual financial statements and consolidated financial statements and, on the basis of the audit, provide an auditor's opinion on such financial statements and a report on audit. In the report on audit, the auditor must provide information on whether the financial institution and a financial group:

1) have accurately and in a qualified manner valued the assets according to legal acts in force in the Republic of Lithuania;

2) have performed mandatory adjustments or write-offs of the value of the assets;

3) have formed mandatory and required capitals, reserves and provisions to reduce the operational risk;

4) comply with the capital requirements set by legal acts of the Republic of Lithuania;

5) meet the requirements set by legal acts of the Republic of Lithuania for the efficient and sound management of assets and for safe and sound activities;

6) have in place adequate internal control and information systems.

2. The general meeting of participants of a financial institution shall select an audit firm to perform an audit of annual financial statements and consolidated financial statements.

3. A financial institution must, before the end of the first six-months' period of the current financial year, conclude a contract with an audit firm selected at the general meeting of the participants of the financial institution on the performance of the audit of annual financial

statements, where the supervision of the activities of the financial institution is established by laws of the Republic of Lithuania.

Article 45. Requirements for an auditor and an audit firm, liability thereof

Requirements for an auditor and an audit firm, as well as liability thereof shall be established by this Law and by the Law of the Republic of Lithuania on Audit of Financial Statements.

Article 46. Duties of an auditor and an audit firm

1. Duties of an auditor and an audit firm shall be established by this Law and by the Law of the Republic of Lithuania on Audit of Financial Statements.

2. An audit firm must, within the time limits laid down in a contract between a financial institution and the audit firm, but not later than 15 days prior to the annual general meeting of participants of the financial institution, submit to the financial institution an auditor's opinion.

3. An audit firm shall forthwith give a written notice to the management bodies of a financial institution and, upon the receipt of their opinion/comments on the following issues, to the competent authority (where the supervision of the activities of a financial institution being audited is established by laws of the Republic of Lithuania), where it establishes the facts:

1) due to which the auditor will have to refuse to provide an opinion on sets of annual financial statements of the financial institution or to provide a qualified or adverse opinion;

2) testifying to a criminal act, serious breaches of internal regulations which have been committed or are likely to be committed;

3) of infringements of the laws of the Republic of Lithuania and other legal acts setting requirements for safe and sound operations;

4) of insufficient securing of claims of the financial institution according to concluded transactions or insufficient safeguarding of the assets owned/managed by it against depreciation/loss;

5) of considerable shortcomings of the internal control system or inadequate control;

6) due to which the auditor and heads of the financial institution are clearly of a different opinion regarding the ability to meet all their obligations (solvency), earnings or profit, the collection and processing of information and the soundness of the information system or the financial accounting;

7) which may have a considerable effect on the financial position of the financial institution and on its administrative or accounting systems.

4. An audit firm shall be bound by the duty specified in paragraph 3 of this Article also in the case when it comes to know the mentioned facts while performing its work in another undertaking closely related to the financial institution concerned.

5. An audit firm may provide advice to the competent authority or notify it of the results of a verification in the cases not provided for in paragraph 3 of this Article.

6. The competent authority may request that an audit firm submit, and the audit firm must submit to the competent authority the entire information at its disposal on the results of a verification carried out in a financial institution.

Article 47. *Repealed as of 1 March 2017.*

CHAPTER TWELVE

ADVISORY COMMISSION ON FINANCIAL MARKETS POLICY FORMATION

1. The Advisory Commission on Financial Market Policy Formation (hereinafter: the ‘Commission’) shall deliver advice to the Minister of Finance on issues of financial market policy formation and monitor the implementation of financial market policies.

2. The Commission shall consist of:

1) the Minister of Finance (chair of the Commission);

2) the Vice-Minister of Finance responsible for the financial market;

3) the Chair of the Board of the Bank of Lithuania;

4) the head of the division of the Bank of Lithuania responsible for the supervision of the financial market.

3. Upon a decision of the Commission, representatives of associated business structures may be invited to attend meetings of the Commission in an advisory capacity when considering relevant issues on the agenda of the meetings.

4. The rules of procedure of the Commission shall be approved by the Commission.

5. Functions of the Commission shall be as follows:

1) submit proposals to the Minister of Finance regarding the formation of the financial market policy;

2) monitor and analyse the trends in the development, supervision and regulation of the financial market and submit proposals on relevant issues to the Minister of Finance;

3) submit its opinion to the Bank of Lithuania on issues of harmonisation of legal regulation in individual financial market sectors;

4) submit proposals to the Minister of Finance regarding the formation of a position with respect to the issues addressed by institutions of the European Union in the area of financial services.

6. For the purpose of performing the functions assigned to it, the Commission shall have the right to:

1) receive from public authorities and institutions, organisations different explanations, statistical data and the analytical generalisation of such data, other information required for the performance of the Commission's functions, provided the provision of such information is not limited by laws and other legal acts;

2) engage professionals in resolving specific issues;

3) cooperate and exchange information with foreign institutions.

7. The Bank of Lithuania shall, at least twice per year, submit to the Commission the information about the development of the financial market and exercise of the supervisory function.

8. The Commission, members of the Commission and professionals may not disclose the data and the information which they became aware of in the course of the Commission exercising its rights and performing functions, in case such data and the information constitute a secret protected by laws.

CHAPTER THIRTEEN

TERMINATION AND RESTRUCTURING OF A FINANCIAL INSTITUTION, OPENING OF BANKRUPTCY PROCEEDINGS AGAINST IT

Article 52. Termination of a financial institution

1. Financial institutions shall be terminated by way of reorganisation or winding up.
2. Financial institutions shall cease to exist as of the removal thereof from the Register of Legal Entities.

Article 53. Reorganisation and restructuring of a Financial Institution

A financial institution shall be reorganised and restructured in accordance with the procedure laid down by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions.

Article 54. Winding up of a financial institution

A financial institution may be wound up at the initiative of participants thereof or compulsorily in accordance with the procedure laid down by the Civil Code of the Republic of Lithuania and the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions as well as pursuit of the activities of a legal person of an appropriate legal form on the basis whereof the financial institution operates.

Article 55. Winding up of a financial institution on the initiative of its participants

1. A financial institution may be wound up by a decision of the general meeting of participants of the financial institution in accordance with the procedure laid down by the laws of the Republic of Lithuania regulating pursuit of the activities of a legal person of an appropriate legal form on the basis whereof the financial institution operates. Where the laws establish supervision of the activities of this financial institution, participants thereof shall apply to the competent authority in writing for the granting of an authorisation to wind up the institution and for the withdrawal of the financial institution's licence.

2. The competent authority may refuse to grant an authorisation to wind up a financial institution where it establishes that this institution is unable to fully settle with creditors.

3. Where the liquidator/liquidation commission of a financial institution establishes during the winding up that the institution is unable to fully settle according to assumed obligations (hereinafter: 'insolvent'), he must terminate the satisfaction of creditors' claims as well as other winding-up proceedings and refer to a court for the opening of bankruptcy proceedings against the financial institution.

Article 56. Compulsory winding-up of a financial institution

1. The general meeting of participants of a financial institution whose licence to provide financial services has been withdrawn by a decision of the competent authority shall take a decision on the termination of activities of the financial institution.

2. A financial institution shall be wound up upon a decision of a court, where the general meeting of participants of the financial institution whose licence to provide financial services has been withdrawn does not take a decision on the termination of activities of the financial institution within the time limit laid down by the competent authority. The right to refer to the court for the winding up of a financial institution shall be vested in the competent authority, the supervisory board, the board or at least one participant of the financial institution.

Article 57. Bankruptcy of a financial institution

1. Financial institutions' bankruptcy procedures shall be regulated by the Enterprise Bankruptcy Law of the Republic of Lithuania, unless this Law and other laws regulating the provision of financial services and pursuit of the activities of financial institutions provide otherwise.

2. Bankruptcy proceedings of a financial institution may be conducted only within the judicial procedure.

3. *Repealed as of 3 December 2015.*

4. *Repealed as of 3 December 2015.*

5. A petition to court regarding the opening of bankruptcy proceedings against a financial institution may be submitted by participants of the financial institution, the liquidators/liquidation commission, head of the administration, a creditor/creditors, the restructuring institution and, with respect to a financial institution providing licensed financial services, also by the competent authority.

6. A court shall pass a ruling to open or to refuse opening bankruptcy proceedings against a financial institution not later than within 15 days of the receipt of a petition.

CHAPTER FOURTEEN FINAL PROVISIONS

Article 58. Entry into force of the Law

1. This Law, except for Article 58, shall enter into force on 1 July 2003.

2. As the entry into force of this Law, provisions thereof shall also apply to already operating financial undertakings and credit institutions.

3. An undertaking providing only the financial services referred to in points 16 and 17 of Article 3(1) of this Law shall not be considered to be a financial institution until accession of the Republic of Lithuania to the European Union.

4. Articles 12 and 39 of this Law shall enter into force upon the accession of the Republic of Lithuania to the European Union.

Article 59. Proposals to the Government and to the Bank of Lithuania

To propose to the Government and to the Bank of Lithuania to prepare and to submit to the Seimas, by 1 November 2003, the draft laws amending and/or supplementing the laws that do not meet the provisions of the Law on Financial Institutions, also to draft the secondary legislation required for the implementation of this Law.

I promulgate this Law passed by the Seimas of the Republic of Lithuania

PRESIDENT OF THE REPUBLIC

VALDAS ADAMKUS

LEGAL ACTS OF THE EUROPEAN UNION IMPLEMENTED BY THIS LAW

1. Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC (OJ 2009 L 267, p. 1).

2. Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ 2013 L 176, p. 338).

3. Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC (OJ 2015 L 337, p. 35).