

FIMPORANT NOTICE

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Confirmation of your Representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, investors must not be a U.S. person (as defined in the U.S. Tax Code). By accepting the e-mail and accessing this Offering Circular, you shall be deemed to have represented to us that you are not a U.S. person (as defined in the U.S. Tax Code); the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia; and that you consent to delivery of such Offering Circular by electronic transmission.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Offering Circular to any other person.

This Offering Circular does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Arranger and Dealers (as defined herein) or any affiliate of the Arranger or applicable Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Arranger or such Dealer or such affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall this Offering Circular constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. This Offering Circular may only be communicated to persons in the United Kingdom in circumstances where Section 21(1) of the Financial Services and Markets Act 2000 does not apply.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Issuer, the Arranger, the Dealers nor any person who controls any of the foregoing nor any director, officer, employee representative nor agent of any of the foregoing nor affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Issuer or the Paying Agents described herein.

OFFERING CIRCULAR DATED 24 APRIL 2020



THE REPUBLIC OF LITHUANIA

Euro Medium Term Note Programme

Under the euro medium term note programme (the "**Programme**") described in this Offering Circular, the Republic of Lithuania (the "**Issuer**", the "**Republic**" or "**Lithuania**") may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the Republic and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively, "**Bearer Notes**" and "**Registered Notes**"). The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Republic (each, a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer to fulfil its obligations under the Notes are discussed under "Risk Factors" below.

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange (the "**Official List**") and to admit the Notes to trading on the Luxembourg Stock Exchange's regulated market (the "**Market**") pursuant to the rules and regulations of the Luxembourg Stock Exchange. This Offering Circular neither constitutes a base prospectus pursuant to the Luxembourg law on prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) dated 16 July 2019 (the "**Luxembourg Prospectus Law**") which implements Regulation (EU) 2017/1129 (the "**Prospectus Regulation**") nor a simplified base prospectus pursuant to Part III of the Luxembourg Prospectus Law. Accordingly, this Offering Circular does not purport to meet the format and the disclosure requirements of the Prospectus Regulation and Commission Delegated Regulation (EU) 2019/980 implementing the Prospectus Regulation, and it has not been, and will not be, submitted for approval to any competent authority within the meaning of the Prospectus Regulation and in particular the Supervisory Commission of the Financial Sector (*Commission de Surveillance du Secteur Financier*) (the "**CSSF**"), in its capacity as competent authority under the Luxembourg Prospectus Law.

The Republic may agree with any Dealer that Notes may be issued in a form not contemplated by the terms and conditions (the "**Terms and Conditions**" or "**Conditions**") of the Notes herein, in which event a supplement to the Offering Circular, in the case of listed Notes only, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Notes issued under the Programme may be rated or unrated. Where a Tranche (as defined below) of Notes is rated, such rating will be disclosed in the applicable Pricing Supplement (as defined below). Whether or not each credit rating applied for in relation to a relevant Series (as defined below) of Notes will be issued by a credit rating established in the European Union ("**EU**") or the United Kingdom ("**UK**") and registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**") will be disclosed clearly and prominently in the Pricing Supplement.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States that is subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. Persons (see "*Subscription and Sale*").

Arranger

BNP PARIBAS

Permanent Dealers

**BARCLAYS
CITIGROUP
GOLDMAN SACHS INTERNATIONAL
J.P. MORGAN**

**BNP PARIBAS
ERSTE GROUP
SOCIÉTÉ GÉNÉRALE
CORPORATE & INVESTMENT BANKING**

The Issuer, having made all reasonable enquiries, confirms that this offering circular, as amended or supplemented (the "**Offering Circular**") contains all information with respect to the Issuer and the Notes which is material in the context of the issue and offering of the Notes, that the information contained in this Offering Circular is true and accurate in every material respect and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which makes misleading any statement herein, whether of fact or opinion. The Issuer accepts responsibility for the information contained in this Offering Circular accordingly.

Notice of the aggregate principal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in a pricing supplement document (the "**Pricing Supplement**") which, with respect to Notes to be listed on the Luxembourg Stock Exchange will be filed with the CSSF. Copies of Pricing Supplements in relation to Notes to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

The Issuer has, pursuant to an amended and restated dealer agreement dated 24 April 2020 (the "**Dealer Agreement**") appointed Barclays Bank Ireland PLC, Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Europe AG, Citigroup Global Markets Limited, Erste Group Bank AG, Goldman Sachs International, J.P. Morgan Securities plc and Société Générale as permanent dealers for the Notes under the Programme (the "**Permanent Dealers**", and, together with any other dealers that may be appointed from time to time in relation to one or more tranches, the "**Dealers**"), and has authorised and requested the Dealers to circulate this Offering Circular in connection with the Programme, subject to the provisions of the Dealer Agreement. The Issuer has confirmed to the Dealers that this Offering Circular (together with the relevant Pricing Supplement) contains all such information as may be required by all applicable laws, rules and regulations.

No person has been authorised in connection with the offering of the Notes to give any information or make any representation regarding the Issuer or the Notes other than as contained in this Offering Circular. Any such representation or information should not be relied upon as having been authorised by the Issuer or any agency thereof or the Dealers. Neither the delivery of this Offering Circular nor any sales made in connection with the issue of Notes shall, under any circumstances, constitute a representation that there has been no change in the affairs of the Issuer since the date hereof.

None of the Dealers has separately verified the information contained in this Offering Circular. To the fullest extent permitted by law, the Dealers do not accept any responsibility for the contents of this Offering Circular (including any information incorporated by reference) or for any other statement, made or purported to be made by the Dealers in connection with the Issuer or the issue and offering of the Notes. The Dealers accordingly disclaim all and any liability whether arising in tort or contract or otherwise which any of them might otherwise have in respect of this Offering Circular or any Pricing Supplement or any such statement. Each person receiving this Offering Circular or any Pricing Supplement acknowledges that such person has not relied on any Dealer or any person affiliated with any Dealer in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer or any agency thereof or any Dealer to subscribe or purchase, any of the Notes. The distribution of this Offering Circular and any Pricing Supplement and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular or any Pricing Supplement comes are required by the Dealers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Notes and distribution of this Offering Circular or any Pricing Supplement and other offering material relating to the Notes, see "*Subscription and Sale*".

In this Offering Circular, all references to "**Litas**" and "**LTL**" are to the lawful currency of the Issuer up until 1 January 2015, all references to "**U.S. dollars**", "**U.S.\$**" and "**USD**" are to the lawful currency for the time being of the United States of America, all references to "**SDR**" are to Special Drawing Rights against the International Monetary Fund (the "**IMF**"), all references to "**€**", "**EUR**" and "**Euro**" are to the currency introduced on 1 January 1999 at the start of the third stage of European Economic and Monetary

Union pursuant to the Treaty establishing the European Community, as amended. Between 2 February 2002 and 31 December 2014, the exchange rate of the Litas against the Euro was fixed at €1.00 = LTL 3.4528. The Euro was introduced and became the lawful currency of Lithuania on 1 January 2015.

Unless otherwise stated, all annual information, including budgetary information, is based on calendar years. Figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same item of information may vary, and figures which are totals may not be the arithmetical aggregate of their components.

Statistical data appearing in this Offering Circular has unless otherwise stated, been obtained from the Lithuanian Department of Statistics ("**Statistics Lithuania**"), the Ministry of Finance and the Bank of Lithuania. Similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Statistics Lithuania is a public authority coordinating official statistics in Lithuania. Among the general principles set out in the Law on Statistics are independence from political and other interest groups and the confidentiality of statistical data. The Ministry of Finance is not involved in the preparation of data produced by Statistics Lithuania, including Gross Domestic Product ("**GDP**"). Statistical data produced by Statistics Lithuania is confidential until its release.

Lithuania's official financial and economic statistics are subject to review as part of a regular confirmation process. As statistical data is reviewed and confirmed, it is classified first as estimated data (for GDP), then as provisional data, then as non-final data and then as final data. All amounts with respect to GDP and GVA are nominal (at current prices whereas the growth rates are real). Accordingly, financial and economic information may be subsequently adjusted or revised. While the Issuer does not expect revisions to be material, no assurance can be given that material changes will not be made.

Lithuania is a sovereign state. Consequently, it may be difficult for investors to obtain judgments of courts in countries outside Lithuania against Lithuania. Enforcement of such judgments in Lithuania may be refused in certain circumstances in the absence of an applicable treaty facilitating such enforcement. See "*Risk Factors—Risks Relating to the Notes—Enforcement of Liabilities; Waiver of Immunity*".

MiFID II Product Governance / Target Market: The Pricing Supplement in respect of any Notes may include a legend entitled "*MiFID II Product Governance*" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "**MiFID II**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels. A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Benchmark Regulation: Interest and/or other amounts payable under the Notes may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/2011 (the "**Benchmark Regulation**"). If any such reference rate does constitute such a benchmark, the applicable Pricing Supplement will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (*Register of administrators and benchmarks*) of the Benchmark Regulation. Transitional provisions in the Benchmark Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the relevant Pricing Supplement. The registration status of any administrator

under the Benchmark Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the relevant Pricing Supplement to reflect any change in the registration status of the administrator.

In connection with the issue of any Tranche of Notes under the Programme, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Pricing Supplement may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws, regulations and rules.

FORWARD LOOKING STATEMENTS

This Offering Circular includes forward-looking statements. All statements other than statements of historical fact included in this Offering Circular regarding, among other things, Lithuania's economy, fiscal condition, politics, debt or prospects may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "project", "intend", "estimate", "anticipate", "believe", "continue", "could", "should", "would" or the like. Although the Issuer believes that expectations reflected in its forward-looking statements are reasonable as at the date of this Offering Circular, there can be no assurance that such expectations will prove to have been correct and actual results may differ materially. The Issuer undertakes no obligation to update the forward-looking statements contained in this Offering Circular or any other forward-looking statement it may make.

For the Issuer, in addition to the factors described in this Offering Circular, including, but not limited to, those discussed under "*Risk Factors*", the following factors, among others, could cause future conditions to differ materially from those expressed in any forward-looking statements made herein:

External factors, such as:

the impact of the international economic environment on the Lithuanian economy, including liquidity in the international financial markets and volatility in international equity, debt and foreign exchange markets;

- interest rates in financial markets outside Lithuania;
- the impact of any changes in the credit rating of Lithuania;
- the impact of changes in the international prices of commodities; and
- economic conditions in Lithuania's major export markets.

Internal factors, such as:

- general economic and business conditions in Lithuania;
- foreign currency reserves;
- the level of domestic debt;
- domestic inflation;
- the ability of Lithuania to effect key economic reforms;
- the level of foreign direct and portfolio investment.

PRESENTATION OF INFORMATION

In September 2014, Statistics Lithuania released annual data on the National Accounts for the years 2004 to 2013 revised under the European System of National and Regional Accounts ("**ESA 2010**") rules and in October 2014, revised budget deficit data under ESA 2010 rules. The annual data on National Accounts and budget deficit in this Offering Circular is presented under ESA 2010 methodology.

In June 2014, the Bank of Lithuania released the revised Balance of Payments ("**BoP**") data prepared on the basis of the 6th edition of the BoP manual which is based on International Monetary Fund methodology. Until 2014, EU Member States used the 5th edition of the BoP manual as a guide for BoP data compilation.

Since 1 January 2017, the Ministry of Finance discontinued the calculation of the General Government Sector (the "**General Government Sector**") debt data, including the debt of its sectors. As of 1 January 2017, general government debt data, including central government debt, local government debt and social funds' debt, is calculated by Statistics Lithuania under the ESA 2010 methodology.

EXCHANGE RATES

The Litas to Euro exchange rate was fixed between 2 February 2002 and 31 December 2014 at a rate of LTL 3.4528 to EUR1.00. Since 1 January 2015, the Euro has been the lawful currency of Lithuania.

The following table sets forth the U.S. dollar to Euro exchange rates for the last day of the periods indicated and the average exchange rates during the periods indicated:

	Year ended 31 December					1 January to 31 March 2020
	2015	2016	2017	2018	2019	
Year or period end	1.0887	1.0541	1.1993	1.1450	1.1234	1.0956
Average for year or period	1.1095	1.1069	1.1297	1.1810	1.1195	1.1113

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DOCUMENTS INCORPORATED BY REFERENCE

The Terms and Conditions of the Notes set out on pages 19 to 44 of the offering circular dated 15 January 2014, the Terms and Conditions of the Notes set out on pages 19 to 44 of the offering circular dated 21 October 2014, the Terms and Conditions of the Notes set out on pages 14 to 39 of the offering circular dated 23 September 2015, the Terms and Conditions of the Notes set out on pages 18 to 43 of the offering circular dated 7 July 2016, the Terms and Conditions of the Notes set out on pages 19 to 45 of the Offering Circular dated 17 May 2017 and the Terms and Conditions of the Notes set out on pages 20 to 45 of the Offering Circular dated 7 June 2019 and prepared by the Issuer in connection with the Programme shall be deemed to be incorporated in, and to form part of, this Offering Circular.

The document entitled "*Action Plan for Economic Stimulus and Mitigation of Consequences of Coronavirus (Covid-19) Transmission*" (the "**COVID-19 National Action Plan**") prepared by the Issuer and published on 16 March 2020 shall be deemed to be incorporated in, and form part of, this Offering Circular. The COVID-19 National Action Plan has been published on [http://finmin.lrv.lt/uploads/finmin/documents/files/EN_ver/ACTION%20PLAN%20FOR%20ECONOMIC%20STIMULUS%20AND%20MITIGATION%20OF%20CONSEQUENCES%20OF%20CORONAVIRUS%20\(COVID-19\)%20TRANSMISSION%20.pdf](http://finmin.lrv.lt/uploads/finmin/documents/files/EN_ver/ACTION%20PLAN%20FOR%20ECONOMIC%20STIMULUS%20AND%20MITIGATION%20OF%20CONSEQUENCES%20OF%20CORONAVIRUS%20(COVID-19)%20TRANSMISSION%20.pdf).

All amendments and supplements to this Offering Circular prepared by the Issuer from time to time shall be deemed to be incorporated in, and to form part of, this Offering Circular **provided, however, that** any statement contained in this Offering Circular or in any of the documents incorporated by reference in, and forming part of, this Offering Circular shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement.

The Issuer will, at the specified offices of the Paying Agents, provide, free of charge, upon oral or written request, a copy of this Offering Circular and any document incorporated by reference in this Offering Circular. Written or oral requests for such documents should be directed to the specified office of any Paying Agent.

SUPPLEMENTARY OFFERING CIRCULAR

In connection with the admission of Notes to the Official List and the admission to trading of Notes on the Market or the admission of Notes to listing, trading and/or quotation by any other competent authorities, stock exchanges and/or quotation systems, if there shall occur any adverse change affecting any matter contained in this Offering Circular or any change in the information set out under "*Terms and Conditions of the Notes*", that is material in the context of issuance under the Programme, the Issuer will prepare or procure the preparation of an amendment or supplement to this Offering Circular or, as the case may be, publish a new Offering Circular, for use in connection with any subsequent issue by the Issuer of Notes to be admitted to the Official List and admitted to trading on the Market or admitted to listing, trading and/or quotation on any other competent authorities, stock exchanges and/or quotation systems.

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is qualified in its entirety by the remainder of this Offering Circular. Words and expressions defined in "Forms of the Notes" or "Terms and Conditions of the Notes" below shall have the same meanings in this overview.

Issuer:	The Republic of Lithuania
Legal Entity Identifier:	529900F7Y171QF1RSU09
Risk Factors:	Investing in Notes issued under the Programme involves certain risks. The principal risk factors relating to the Notes are discussed under " <i>Risk Factors</i> " below.
Arranger:	BNP Paribas
Dealers:	Barclays Bank Ireland PLC, Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Europe AG, Citigroup Global Markets Limited, Erste Group Bank AG, Goldman Sachs International, J.P. Morgan Securities plc and Société Générale as Permanent Dealers and any other Dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Tranche (as defined below) of Notes.
Fiscal Agent:	Citibank, N.A., London Branch.
Registrar:	Citibank Global Markets Europe AG.
Luxembourg Paying and Listing Agent:	Banque Internationale à Luxembourg, société anonyme.
Listing and Trading:	Each Series (as defined below) may be listed on the Luxembourg Stock Exchange and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system as may be agreed between the Issuer and the relevant Dealer and specified in the relevant Pricing Supplement or may be unlisted.
Clearing Systems:	Euroclear and/or Clearstream, Luxembourg and/or, in relation to any Tranche of Notes, any other clearing system as may be specified in the relevant Pricing Supplement.
Programme Size:	The Programme is unlimited in amount.
Issuance in Series:	Notes will be issued in series (each, a " Series "). Each Series may comprise one or more tranches (" Tranches " and each, a " Tranche ") issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.
Pricing Supplements:	Each Tranche will be the subject of a Pricing Supplement which, for the purposes of that Tranche only, supplements the Terms and Conditions of the Notes and this Offering Circular and must be read in conjunction with this Offering Circular. The terms and conditions applicable to any particular Tranche of Notes are the Terms and Conditions of the Notes as supplemented, amended and/or replaced by the relevant Pricing Supplement.
Forms of Notes:	Notes may be issued in bearer form (" Bearer Notes ") or in registered form (" Registered Notes "). Bearer Notes will not be exchangeable for

Registered Notes and Registered Notes will not be exchangeable for Bearer Notes. No single Series or Tranche may comprise both Bearer Notes and Registered Notes.

Each Tranche of Bearer Notes will initially be in the form of either a temporary global note (a "**Temporary Global Note**") or, if so specified in the relevant Pricing Supplement, a permanent global note (a "**Permanent Global Note**") and, together with the Temporary Global Note, the "**Global Notes**").

Each Global Note which is not intended to be issued in new global note form (a "**Classic Global Note**" or "**CGN**"), as specified in the relevant Pricing Supplement will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and each Global Note which is intended to be issued in new global note form (a "**New Global Note**" or "**NGN**"), as specified in the relevant Pricing Supplement, will be deposited on or around the relevant issue date with a common safekeeper for Euroclear and/or Clearstream, Luxembourg.

Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Pricing Supplement, for Notes in definitive bearer form ("**Definitive Notes**"). If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, either have interest coupons ("**Coupons**") attached and, if appropriate, a talon ("**Talon**") for further Coupons.

Each Tranche of Registered Notes will be represented by either individual note certificates ("**Individual Note Certificates**") or one or more global note certificates ("**Global Note Certificates**").

Each Note represented by a Global Note Certificate will be registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Note Certificate will be deposited on or about the issue date with the common depositary.

Each Note represented by a Global Note Certificate will either be: (a) in the case of a Certificate which is not to be held under the new safekeeping structure ("**New Safekeeping Structure**" or "**NSS**"), registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Note Certificate will be deposited on or about the issue date with the common depositary; or (b) in the case of a Certificate to be held under the New Safekeeping Structure, be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and the relevant Global Note Certificate will be deposited on or about the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg.

Currencies:

Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.

Negative Pledge:	The Notes will have the benefit of a negative pledge as described in Condition 5 (<i>Negative Pledge</i>).
Status of the Notes:	The Notes (subject to Condition 5 (<i>Negative Pledge</i>)) are the direct, unconditional and unsecured obligations of the Issuer and rank and will rank pari passu, without preference amongst themselves, with all other unsecured External Indebtedness of the Issuer, from time to time outstanding, <i>provided, however</i> , that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa.
Issue Price:	Notes may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Pricing Supplement. The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.
Maturities:	The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the Specified Currency.
Redemption:	Notes may be redeemable at par or at such other Redemption Amount (as defined below and as detailed in a formula, index or otherwise) as may be specified in the relevant Pricing Supplement. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Pricing Supplement.
Optional Redemption:	Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Pricing Supplement.
Interest:	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index-linked and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series.
Denominations:	The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Specified Currency (as defined below).
Cross Acceleration:	The Notes will have the benefit of a cross acceleration as described in Condition 14 (<i>Events of Default</i>).
Taxation:	All payments in respect of Notes will be made free and clear of withholding taxes of the Republic of Lithuania, as the case may be, unless the withholding is required by law. In that event, the Issuer will (subject as provided in Condition 13 (<i>Taxation</i>)) pay such additional amounts as will result in the Noteholders or Couponholders (as applicable) receiving such amounts as they would have received in respect of such Notes and Coupons had no such withholding been required.
Rating:	The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to

revision, suspension or withdrawal at any time by the assigning rating agency. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the EU and registered under the CRA Regulation will be disclosed in the Pricing Supplement.

Governing Law: The Notes, Coupons and any non-contractual obligations arising out of or in connection with the Notes or Coupons will be governed by, and shall be construed in accordance with, the laws of England.

Enforcement of Notes in Global Form: In the case of Global Notes and Global Note Certificates, individual investor's rights against the Issuer will be governed by an amended and restated deed of covenant ("**Deed of Covenant**") dated 7 June 2019, a copy of which will be available for inspection at the specified office of the Fiscal Agent.

Selling Restrictions: For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the United Kingdom, the Republic of Lithuania, Singapore and Switzerland see "*Subscription and Sale*" below.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingences which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay principal, interest or other amounts on or in connection with any Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

Risk Factors Relating to Lithuania

Risks related to the COVID-19 Pandemic

The recent emergence of a novel coronavirus (“COVID-19”) poses a new and significant risk to the financial position of Lithuania both directly and through its impact on Lithuania’s major trading partners and the wider European Union. Whilst the direct and indirect impact of the COVID-19 outbreak remains uncertain, a large number of central banks and governments globally have announced financial stimulus packages in anticipation of a very significant negative impact on world GDP during 2020. Concerns remain as to whether these policy tools will counter the anticipated negative macro-economic consequences of the pandemic. A prolongation of the outbreak could significantly adversely affect economic growth, and impact business operations across the economy generally (within Lithuania and its trading partners) as a result of weakened economic activity and in terms of the health and wellbeing of Lithuanian citizens being affected. Such weakening of the economy, could have a material adverse impact on the economic performance of the euro area and ultimately adversely affect economic growth in Lithuania and, consequently, have an adverse affect on Lithuania's ability to meet its obligations under any outstanding indebtedness. See “*The Lithuanian Economy - Economic and Fiscal Policy*”, “*The Lithuanian Economy - Measures to Mitigate Employment and Social Consequences of COVID-19*” and “*Public Debt*”.

Lithuania's economy remains vulnerable to external adverse economic and financial conditions including the impact of future economic difficulties of its major regional trading partners and more general “contagion” effects. These could have a material adverse effect on Lithuania's economic growth

Following independence in 1991, Lithuania has transitioned from a centrally planned economy to a market economy. However, despite strong economic performance and increases in living standards since gaining independence, the Lithuanian economy continues to face several challenges. In the past, Lithuania's economy has been vulnerable to external adverse economic and financial conditions, including major regional or global economic downturns and difficulties experienced by its major regional trading partners. Compared to other EU Member States, the Lithuanian labour force is still characterised by relatively low productivity and high wage inequality. Also, compared to other EU Member States, poverty levels in the country remain relatively high, especially among older Lithuanians and those living in rural areas. There can be no assurance that the Lithuanian economy will not be negatively affected by these or any other economic variables in the long term.

Additionally, while the impact of the United Kingdom's withdrawal from the European Union remains uncertain, the event has caused and has the potential to cause further prolonged global financial market volatility. Further, the adoption of protectionist trade policies by the U.S. and the engagement of a 'trade war' has contributed to increased international trade tensions, which have resulted in a significant decline in volumes of international trade in 2019. This has been compounded by general political and economic uncertainty in Europe. The effect of variation in the monetary policy of larger economies has the potential to generate capital outflows in the region and could have an adverse effect on Lithuania and the Lithuanian economy.

A high concentration of Scandinavian banks in Lithuania poses a systemic risk to the Lithuanian financial sector. Two Scandinavian banks (AB SEB bankas and “Swedbank”, AB) held 62.2 per cent. of all banking assets as at 31 December 2019 (foreign ownership of banking assets in Lithuania amounted to 82.5 per cent. as at 31 December 2019). Seven of the ten banks holding a banking licence issued by the Bank of Lithuania were foreign-owned. The dominance of Scandinavian banks exposes the Lithuanian financial sector to developments in Scandinavia in general, and Sweden in particular, including vulnerabilities in Sweden arising from rising house prices and household indebtedness. A deterioration in the Swedish economy could result in a decrease in overall lending in Lithuania or restrictions on lending to business sectors with higher risk profiles, an increase in funding costs for parent banks and in credit costs in Lithuania, and increased volatility of deposits.

Lithuania is vulnerable to a possible “contagion” effect, in which an entire region or class of investment is disfavoured by international investors. As such, Lithuania could be adversely affected by negative economic or financial developments in neighbouring countries or in countries with similar credit ratings, which are perceived to have related or similar economic characteristics.

In addition, the imposition of further economic or other sanctions, in response to tensions between the Russian Federation (“**Russia**”), the EU and the U.S. on various issues including the situation in Ukraine and alleged interference by Russia in the domestic politics of the EU and the US. This may include targeted sanctions against certain industries and could negatively affect other economies in the region and the Eurozone in general. The current sanctions (or, if the EU decides to apply increased sanctions on Russia, including sanctions which impact its trade flows with Lithuania) could adversely affect Lithuania's balance of payments. If there were to be a significant negative impact on geopolitical relations involving Lithuania, this could adversely affect investor confidence in Lithuania, including Notes issued under the Programme.

There can be no assurance that the factors such as those described above or any other events not currently anticipated will not negatively affect investor confidence in Lithuania, Lithuania's economy or its ability to raise capital in the external debt markets in the future.

Lithuania is dependent on imports of fuels and electricity

Lithuania has limited natural resources. Consequently, Lithuania's energy industry is dependent on the supply of fuel from abroad, with approximately 64.0 per cent. received from Russia in 2019. Lithuania has taken a variety of measures to ensure its long-term energy security, including constructing an LNG terminal in Klaipeda; integrating Lithuania's energy system with that of the rest of the EU and other Baltic Sea countries; and, increasing energy efficiency and generation capacities of renewable energy sources. However, there can be no assurance that Lithuania will continue to have access to energy sources at favourable prices. Any failure by Lithuania to successfully facilitate access to energy sources at favourable prices in the future could have a material adverse effect on Lithuania's economy. See “—*The Lithuanian Economy—Principal Sectors of the Economy—Energy*”.

Lithuania has limited ability to set monetary policy

Lithuania joined the Eurozone on 1 January 2015. Therefore, the Bank of Lithuania lacks the ability to set monetary policy by adjusting money supply and interest rates. The limitations on the ability to affect monetary policy may have an adverse effect on the Lithuanian economy.

Risk Factors Relating to the Notes

Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes; and
- be able to evaluate (either alone or with the help of a financial adviser or other adviser) possible scenarios for economic, interest rate, legal and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in the Notes unless it has the experience (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index-Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (a) the market price of such Notes may be volatile;
- (b) they may receive no interest;
- (c) payment of principal or interest may occur at a different time or in a different currency than expected;
- (d) they may lose all or a substantial portion of their principal;
- (e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (f) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should

consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

Partly Paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than the prevailing rates on its Notes.

Floating Rate Notes referencing or linked to benchmarks

Reference rates and indices, including interest rate benchmarks, such as the London Interbank Offered Rate ("**LIBOR**"), which are used to determine the amounts payable under financial instruments or the value of such financial instruments ("**Benchmarks**"), have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued. Any change in the performance of a Benchmark or its discontinuation, could have a material adverse effect on any Notes referencing or linked to such Benchmark.

In a speech on 27 July 2017, Andrew Bailey, then the Chief Executive of the Financial Conduct Authority (the "**FCA**"), questioned the sustainability of LIBOR in its current form, given that the underlying transactions forming the basis of the benchmark are insufficient to support the volumes of transactions that rely upon it, and made clear the need to transition away from LIBOR to alternative reference rates. He noted that there was support among the LIBOR panel banks for voluntarily sustaining LIBOR until the end of 2021, facilitating this transition. At the end of this period, it is the FCA's intention not to sustain LIBOR through its influence or legal powers by persuading or obliging banks to submit to LIBOR. Therefore, the continuation of LIBOR in its current form (or at all) after 2021 cannot be guaranteed. In a further speech on 12 July 2018, Andrew Bailey emphasised that market participants should not rely on the continued publication of LIBOR after the end of 2021. Other interbank offered rates such as EURIBOR (the European Interbank Offered Rate) (together with LIBOR, the "**IBORs**") suffer from similar weaknesses to LIBOR and as a result (although no deadline has been set for their discontinuation), they may be discontinued or be subject to changes in their administration.

Changes to the administration of an IBOR or the emergence of alternatives to an IBOR, may cause such IBOR to perform differently than in the past, or there could be other consequences which cannot be predicted. The discontinuation of an IBOR or changes to its administration could require changes to the way in which the Rate of Interest is calculated in respect of any Notes referencing or linked to such IBOR. The development of alternatives to an IBOR may result in Notes linked to or referencing such IBOR performing differently than would otherwise have been the case if the alternatives to such IBOR had not developed. Any such consequence could have a material adverse effect on the value of, and return on, any Notes linked to or referencing such IBOR.

Whilst alternatives to certain IBORs for use in the bond market (including SONIA (for Sterling LIBOR) and rates that may be derived from SONIA) are being developed, in the absence of any legislative measures, outstanding notes linked to or referencing an IBOR will only transition away from such IBOR in accordance with their particular terms and conditions.

Where Screen Rate Determination is specified as the manner in which the Rate of Interest in respect of Floating Rate Notes is to be determined, the Conditions provide that the Rate of Interest shall be determined by reference to the Relevant Screen Page (or its successor or replacement). In circumstances where such original Reference Rate is discontinued, neither the Relevant Screen Page, nor any successor or replacement may be available.

Where the Relevant Screen Page is not available, and no successor or replacement for the Relevant Screen Page is available, the Conditions provide for the Rate of Interest to be determined by the Calculation Agent by reference to quotations from banks communicated to the Calculation Agent by the Issuer.

Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of such original Reference Rate), the Rate of Interest may ultimately revert to the Rate of Interest applicable as at the last preceding Interest Determination Date before the original Reference Rate was discontinued and if such original Reference Rate is discontinued permanently, the same Rate of Interest will continue to be the Rate of Interest for each successive Interest Period until the maturity of the Floating Rate Notes, so that the Floating Rate Notes will, in effect, become Fixed Rate Notes utilising the last available Rate of Interest. Uncertainty as to the continuation of the original Reference Rate, the availability of quotes from reference banks, and the rate that would be applicable if the original Reference Rate is discontinued may adversely affect the value of, and return on, the Floating Rate Notes.

Where ISDA Determination is specified as the manner in which the Rate of Interest in respect of Floating Rate Notes is to be determined, the Conditions provide that the Rate of Interest in respect of the Notes shall be determined by reference to the relevant Floating Rate Option in the 2006 ISDA Definitions (including, where the relevant Pricing Supplement states that the ISDA Benchmarks Supplement is applicable, as so supplemented by that supplement). Where the Floating Rate Option specified is an "IBOR" Floating Rate Option, the Rate of Interest may be determined by reference to the relevant screen rate or the rate determined on the basis of quotations from certain banks. If the relevant IBOR is permanently discontinued and the relevant screen rate or quotations from banks (as applicable) are not available, the operation of these provisions may lead to uncertainty as to the Rate of Interest that would be applicable, and may, adversely affect the value of, and return on, the floating rate Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

The Conditions of the Notes may be modified, waived or substituted without the consent of all the Noteholders

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally and for the passing of written resolutions of Noteholders without the need for a meeting. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting or sign the relevant written resolution and Noteholders who voted in a manner contrary to the majority. Any such change in the Conditions of the Notes may adversely affect the trading price of the Notes.

The Conditions of the Notes contain a provision permitting the Notes and the Conditions of the Notes to be amended without the consent of the Noteholders to correct a manifest error or where the amendment is of a formal, minor or technical nature or is not materially prejudicial to the interests of the Noteholders.

The Conditions of the Notes restrict the ability of an individual holder to declare a default and permit a majority of holders to rescind a declaration of default

The Conditions of the Notes contain a provision which, if an Event of Default occurs, allows the holders of at least 25 per cent. in aggregate principal amount of the outstanding Notes to declare all the Notes to be immediately due and payable by providing notice in writing to the Republic, whereupon the Notes shall become immediately due and payable, at their principal amount with accrued interest, without further action or formality.

The Conditions of the Notes also contain a provision permitting the holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to notify the Republic to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn. The Republic shall give notice thereof to the Noteholders, whereupon the relevant declaration shall be withdrawn and shall have no further effect.

Enforcement of Liabilities; Waiver of Immunity

The general state treasury accounts held with the Bank of Lithuania are immune from any enforcement, save for cases where the state fails to properly fulfill its obligations under arbitration or court judgments awarding compensation for pecuniary and non-pecuniary damages.

Under the laws of Lithuania, if the amounts required for the execution of judgment against the state are not provisioned for in the approved state budget, the execution of judgment at the request of the state may be postponed for the next budget year.

Lithuania is a sovereign state. Consequently, it may be difficult for investors to obtain judgments of courts in countries outside Lithuania against Lithuania. Enforcement of such judgments in Lithuania may be refused in certain circumstances in the absence of an applicable treaty facilitating such enforcement.

Under the laws of Lithuania, property (other than monetary funds (in Lithuanian – *piniginės lėšos*)) located in Lithuania is immune from execution and attachment and any process in the nature thereof. Under the law, Lithuania may not waive such immunity or any immunity from execution or attachment or process of the same nature with respect to present or future ***premises of the mission*** as defined in the Vienna Convention on Diplomatic Relations signed in 1961, ***consular premises*** as defined in the Vienna Convention on Consular Relations signed in 1963 or military property or military assets or property or assets of the Issuer related thereto.

The law governing the Conditions of the Notes may change

The Conditions of the Notes are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular and any such change could materially and adversely impact the value of any Notes affected by it.

Notes where denominations involve integral multiples: definitive Notes

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is

less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk based capital or similar rules.

FORMS OF THE NOTES

Bearer Notes

Each Tranche of Notes in bearer form ("**Bearer Notes**") will initially be in the form of either a temporary global note in bearer form (the "**Temporary Global Note**"), without interest coupons, or a permanent global note in bearer form (the "**Permanent Global Note**"), without interest coupons, in each case as specified in the relevant Pricing Supplement. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "**Global Note**") which is not intended to be issued in new global note ("**NGN**") form, as specified in the relevant Pricing Supplement, will be deposited on or around the issue date of the relevant Tranche of the Notes with a depository or a common depository for Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking, S.A. ("**Clearstream, Luxembourg**") and/or any other relevant clearing system and each Global Note which is intended to be issued in NGN form, as specified in the relevant Pricing Supplement, will be deposited on or around the issue date of the relevant Tranche of the Notes with a common safekeeper for Euroclear and/or Clearstream, Luxembourg.

On 13 June 2006, the European Central Bank (the "**ECB**") announced that Notes in NGN form are in compliance with the "*Standards for the use of EU securities settlement systems in ESCB credit operations*" of the central banking system for the euro (the "**Eurosystem**"), **provided that** certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

In the case of each Tranche of Bearer Notes, the relevant Pricing Supplement will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

- (i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Fiscal Agent; and
- (ii) receipt by the Fiscal Agent of a certificate or certificates of non-U.S. beneficial ownership.

The principal amount of Notes represented by the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership **provided, however, that** in no circumstances shall the principal amount of Notes represented by the Permanent Global Note exceed the initial principal amount of Notes represented by the Temporary Global Note.

If:

- (i) the Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of the Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or
- (ii) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note) will become void at 5.00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

The Permanent Global Note will become exchangeable, in whole but not in part only and at the request of the bearer of the Permanent Global Note, for Bearer Notes in definitive form ("**Definitive Notes**"):

- (a) on the expiry of such period of notice as may be specified in the Pricing Supplement; or
- (b) at any time, if so specified in the Pricing Supplement; or
- (c) if the Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:
 - (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or
 - (ii) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Pricing Supplement), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or
- (b) the Permanent Global Note was originally issued in exchange for part only of a Temporary Global Note representing the Notes and such Temporary Global Note becomes void in accordance with its terms; or
- (c) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on the date on which such Temporary Global Note becomes void (in the case of (b) above) or at 5.00 p.m. (London time) on such due date ((c) above) and the bearer of the Permanent Global Note will have no

further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

Temporary Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Temporary Global Note for Definitive Notes; or
- (b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

Permanent Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

- (a) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or
- (b) at any time, if so specified in the relevant Pricing Supplement; or
- (c) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:
 - (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or
 - (ii) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

The exchange of a Permanent Global Note for Definitive Notes from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any Noteholder) or at any time at the request of the Issuer should not be expressed to be applicable in the applicable Pricing Supplement if the Notes are issued with a minimum Specified Denomination such as €100,000 (or its equivalent in another currency) plus one or more higher multiples of another smaller amount such as €1,000 (or its equivalent in another currency). Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Pricing Supplement), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or
- (b) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date ((b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

Rights under Deed of Covenant

Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note or a Permanent Global Note which becomes void will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note or Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Legend concerning United States persons

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Registered Notes

Each Tranche of Notes in registered form ("**Registered Notes**") will be represented by either:

- (i) individual Note Certificates in registered form ("**Individual Note Certificates**"); or
- (ii) one or more global note certificates ("**Global Note Certificate(s)**") in the case of Registered Notes sold outside the United States to non-U.S. persons in reliance on Regulation S,

In a press release dated 22 October 2008, "*Evolution of the custody arrangement for international debt securities and their eligibility in Eurosystem credit operations*", the ECB announced that it has assessed the new holding structure and custody arrangements for registered notes which the ICSDs had designed in co-operation with market participants and that Notes to be held under the new structure (the "**New Safekeeping Structure**" or "NSS") would be in compliance with the "*Standards for the use of EU securities settlement systems in ESCB credit operations*" of the Eurosystem, subject to the conclusion of the necessary legal and contractual arrangements. The press release also stated that the new arrangements for Notes to be held in NSS form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2010 and that registered debt securities in global registered form held issued through Euroclear and Clearstream, Luxembourg after 30 September 2010 will only be eligible as collateral in Eurosystem operations if the New Safekeeping Structure is used.

Each Note represented by a Global Note Certificate will either be: (a) in the case of a Global Note Certificate which is not to be held under the New Safekeeping Structure registered in the name of a common depository (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Note Certificate will be deposited on or about the issue date with the common depository; or (b) in the case of a Global Note Certificate to be held under the New Safekeeping Structure, be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Note Certificate will be deposited on or about the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg.

If the relevant Pricing Supplement specifies the form of Notes as being "Individual Note Certificates", then the Notes will at all times be in the form of Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

Global Note Certificate exchangeable for Individual Note Certificates

If the relevant Pricing Supplement specifies the form of Notes as being "Global Note Certificate exchangeable for Individual Note Certificates", then the Notes will initially be represented by one or more

Global Note Certificates each of which will be exchangeable in whole, but not in part, for Individual Note Certificates:

- (a) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or
- (b) at any time, if so specified in the relevant Pricing Supplement; or
- (c) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Global Note Certificate", then:
 - (i) if Euroclear, Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; and
 - (ii) in any case, if any of the circumstances described in Condition 14 (*Events of Default*) occurs.

The exchange of a Global Note Certificate for Individual Note Certificates from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any Noteholder) or at any time at the request of the Issuer should not be expressed to be applicable in the applicable Pricing Supplement if the Notes are issued with a minimum Specified Denomination such as €100,000 (or its equivalent in another currency) plus one or more higher multiples of another smaller amount such as €1,000 (or its equivalent in another currency).

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, each person having an interest in a Global Note Certificate must provide the Registrar (through the relevant clearing system) with such information as the Issuer and the Registrar may require to complete and deliver Individual Note Certificates (including the name and address of each person in which the Notes represented by the Individual Note Certificates are to be registered and the principal amount of each such person's holding).

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Note Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates against the surrender of the Global Note Certificate at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

- (a) Individual Note Certificates have not been delivered by 5.00 p.m. (London time) on the thirtieth day after they are due to be issued and delivered in accordance with the terms of the Global Note Certificate; or
- (b) any of the Notes represented by a Global Note Certificate (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the Global Note Certificate in accordance with the terms of the Global Note Certificate on the due date for payment,

then the Global Note Certificate (including the obligation to deliver Individual Note Certificates) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the holder of the Global Note Certificate will have no further rights thereunder (but without prejudice to the rights which the holder of the Global Note Certificate or others may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note Certificate will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Note Certificate became void, they had been the holders of Individual Note Certificates in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Global Note Certificate will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as supplemented, amended and/or replaced by the relevant Pricing Supplement, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.

1. INTRODUCTION

(a) **Programme:**

The Republic of Lithuania (the "**Issuer**", the "**Republic**" or "**Lithuania**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of notes (the "**Notes**").

(b) **Pricing Supplement:**

Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of a pricing supplement (the "**Pricing Supplement**") which supplements these terms and conditions (the "**Conditions**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Pricing Supplement. In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.

(c) **Agency Agreement:**

The Notes are the subject of an amended and restated issue and paying agency agreement dated 7 June 2019 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, Citibank, N.A., London Branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), Citigroup Global Markets Europe AG as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), Banque Internationale a Luxembourg, société anonyme as Luxembourg paying agent and transfer agent, the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the transfer agents named therein (together with the Registrar, the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes). In these Conditions references to the "**Agents**" are to the Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them.

(d) **Deed of Covenant:**

The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). Registered Notes are constituted by a deed of covenant dated 7 June 2019 (as amended or supplemented from time to time, the "**Deed of Covenant**") entered into by the Issuer.

(e) **The Notes:**

All subsequent references in these Conditions to "**Notes**" are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for inspection by Noteholders during normal business hours at the Specified Office of the Fiscal Agent, the initial Specified Office of which is set out below.

(f) **Summaries:**

Certain provisions of these Conditions are summaries of the Agency Agreement and the Deed of Covenant and are subject to their detailed provisions. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the

Agency Agreement and the Deed of Covenant are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Paying Agents, the initial Specified Offices of which are set out below.

2. INTERPRETATION

(a) Definitions:

In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Pricing Supplement;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Business Day**" means:

- (i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and
- (ii) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (i) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;
- (ii) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (iii) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (iv) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred **provided, however, that:**
 - (a) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
 - (b) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
 - (c) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is

a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

- (v) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means the Fiscal Agent or such other Person specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

"**Calculation Amount**" has the meaning given in the relevant Pricing Supplement;

"**Coupon Sheet**" means, in respect of a Note, a coupon sheet relating to the Note;

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the relevant Pricing Supplement and:

- (i) if "**Actual/Actual (ICMA)**" is so specified, means:
- (a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (b) where the Calculation Period is longer than one Regular Period, the sum of:
 - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (ii) if "**Actual/365**" or "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (iii) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;
- (iv) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;
- (v) if "**30/360**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y₁**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y₂**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"D₁" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30";

- (vi) if "30E/360" or "Eurobond Basis" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D₁" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30; and

- (vii) if "30E/360 (ISDA)" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D₁" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Pricing Supplement;

"**External Indebtedness**" means any indebtedness, present or future, for money borrowed or raised (whether or not evidenced by bonds, debentures, notes or other similar instruments) provided that indebtedness registered in Nasdaq CSD SE (the merged Central Securities Depository of Lithuania, Latvia and Estonia) (or any successor of this central depository for securities) shall not be included in "External Indebtedness";

"**Extraordinary Resolution**" has the meaning given in the Agency Agreement;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Fixed Coupon Amount**" has the meaning given in the relevant Pricing Supplement;

"**Holder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer – Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer – Title to Registered Notes*);

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Pricing Supplement;

"**Interest Determination Date**" has the meaning given in the relevant Pricing Supplement;

"**Interest Payment Date**" means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

- (i) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"ISDA Benchmarks Supplement" means the Benchmarks Supplement (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement)) published by the International Swaps and Derivatives Association, Inc;

"ISDA Definitions" means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement) as published by the International Swaps and Derivatives Association, Inc.);

"Issue Date" has the meaning given in the relevant Pricing Supplement;

"Margin" has the meaning given in the relevant Pricing Supplement;

"Maturity Date" has the meaning given in the relevant Pricing Supplement;

"Maximum Redemption Amount" has the meaning given in the relevant Pricing Supplement;

"Minimum Redemption Amount" has the meaning given in the relevant Pricing Supplement;

"Noteholder", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer – Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer – Title to Registered Notes*);

"Optional Redemption Amount (Call)" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"Optional Redemption Amount (Put)" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"Optional Redemption Date (Call)" has the meaning given in the relevant Pricing Supplement;

"Optional Redemption Date (Put)" has the meaning given in the relevant Pricing Supplement;

"Payment Business Day" means:

- (i) if the currency of payment is euro, any day which is:
 - (A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (B) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
- (ii) if the currency of payment is not euro, any day which is:
 - (A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"Person" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"Principal Financial Centre" means, in relation to any currency, the principal financial centre for that currency **provided, however, that** in relation to euro, it means the principal financial centre of such Member State of the EU as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

"Put Option Notice" means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"Put Option Receipt" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"Rate of Interest" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Pricing Supplement;

"Record Date" has the meaning given in Condition 12 (*Payments – Registered Notes*);

"Redemption Amount" means, as appropriate, the Final Redemption Amount, the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Pricing Supplement;

"Reference Banks" has the meaning given in the relevant Pricing Supplement or, if none, four major banks selected by the Calculation Agent in consultation with the Issuer in the market that is most closely connected with the Reference Rate;

"Reference Price" has the meaning given in the relevant Pricing Supplement;

"Reference Rate" has the meaning given in the relevant Pricing Supplement;

"Regular Period" means:

- (i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **"Regular Date"** means the day and month (but not the year) on which any Interest Payment Date falls; and
- (iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **"Regular Date"** means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

"Relevant Date" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders by the Issuer in accordance with Condition 20 (*Notices*);

"Relevant Financial Centre" has the meaning given in the relevant Pricing Supplement;

"Relevant Screen Page" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Pricing Supplement, or such other page, section or other part as may replace it on that

information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the relevant Pricing Supplement;

"**Specified Currency**" has the meaning given in the relevant Pricing Supplement;

"**Specified Denomination(s)**" has the meaning given in the relevant Pricing Supplement;

"**Specified Office**" has the meaning given in the Agency Agreement;

"**Specified Period**" has the meaning given in the relevant Pricing Supplement;

"**Talon**" means a talon for further Coupons;

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means any day on which the TARGET2 is open for the settlement of payments in euro;

"**Treaty**" means the Treaty establishing the European Union, as amended; and

"**Zero Coupon Note**" means a Note specified as such in the relevant Pricing Supplement.

(b) **Interpretation:**

In these Conditions:

- (i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;
- (ii) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;
- (iii) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;
- (iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 13 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;
- (v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 13 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;
- (vi) references to Notes being "**outstanding**" shall be construed in accordance with the Agency Agreement;
- (vii) if an expression is stated to have the meaning given in the relevant Pricing Supplement, but the relevant Pricing Supplement gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes; and
- (viii) any reference to the Agency Agreement shall be construed as a reference to the Agency Agreement, as amended and/or supplemented up to and including the Issue Date of the Notes.

3. **FORM, DENOMINATION, TITLE AND TRANSFER**

(a) **Bearer Notes:**

Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.

(b) **Title to Bearer Notes:**

Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, "**Holder**" means the holder of such Bearer Note and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.

(c) **Registered Notes:**

Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Pricing Supplement and higher integral multiples of a smaller amount specified in the relevant Pricing Supplement.

(d) **Title to Registered Notes:**

The Registrar will maintain the register in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(e) **Ownership:**

The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

(f) **Transfers of Registered Notes:**

Subject to Condition 3(i) (*Closed periods*) and Condition 3(j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

(g) **Registration and delivery of Note Certificates:**

Within five business days of the surrender of a Note Certificate in accordance with Condition 3(f) (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this

Condition, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(h) **No charge:**

The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but upon payment by the applicant of (or the giving by the applicant of such indemnity as the Issuer, Registrar or (as the case may be) Transfer Agent may require in respect of) any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(i) **Closed periods:**

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.

(j) **Regulations concerning transfers and registration:**

All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. **STATUS**

The Notes (subject to Condition 5 (*Negative Pledge*)) are the direct, unconditional and unsecured obligations of the Issuer and rank and will rank *pari passu*, without preference amongst themselves, with all other unsecured External Indebtedness of the Issuer, from time to time outstanding, *provided, however*, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa.

5. **NEGATIVE PLEDGE**

So long as any of the Notes remain outstanding, the Issuer will not grant or permit to be outstanding, and will procure that there is not granted or permitted to be outstanding, any mortgage, charge, lien, pledge or other security interest (any of the foregoing a "**Security Interest**") over any of its present or future assets or revenues (which expression includes the International Monetary Assets of the Issuer) or any part thereof, to secure any Relevant Indebtedness or any guarantee thereof unless the Issuer shall, in the case of the granting of the security, before or at the same time, and in any other case, promptly, procure that all amounts payable in respect of the Notes are secured equally and rateably, or such other security or other arrangement is provided as shall be approved by an Extraordinary Resolution of the Noteholders.

For this purpose, "**Relevant Indebtedness**" means any indebtedness, present or future, in the form of, or represented by, notes, bonds or other similar instruments which is capable of being traded on any stock exchange **provided that** indebtedness registered in Nasdaq CSD SE (the merged Central Securities Depository of Lithuania, Latvia and Estonia) (or any successor of this central depository for securities) shall not be included in "**Relevant Indebtedness**".

In these Conditions, "**International Monetary Assets**" means all official holdings of gold and the reserves of the Issuer by whomsoever and in whatever form owned and held or customarily regarded and held out as the international monetary assets of the Issuer, Special Drawing Rights, Reserve Positions in the Fund and Foreign Exchange of the Government or any agency or department of the Government from time to time, and the terms "Special Drawing Rights", "Reserve Positions in the Fund" and "Foreign Exchange" have, as to the types of assets included, the meanings given to them in the International Monetary Fund's ("**IMF**") publication entitled "International Financial Statistics" or such other meanings as shall be formally adopted by the IMF from time to time. "**Government**" means the government of the Republic of Lithuania from time to time.

6. **FIXED RATE NOTE PROVISIONS**

(a) **Application:**

This Condition 6 is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) **Accrual of interest:**

The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) and Condition 12 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) **Fixed Coupon Amount:**

The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) **Calculation of interest amount:**

The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "sub-unit" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. **FLOATING RATE NOTE AND INDEX-LINKED INTEREST NOTE PROVISIONS**

(a) **Application:**

This Condition 7 is applicable to the Notes only if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) **Accrual of interest:**

The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) and Condition 12 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) **Screen Rate Determination**

If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

- (i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
- (ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
- (iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
 - (A) request the principal Relevant Financial Centre office of each the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and
 - (B) determine the arithmetic mean of such quotations; and
- (iv) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided, however, that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

(d) **ISDA Determination:**

If ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;
- (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement; and
- (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Pricing Supplement.

(e) **Index-Linked Interest:**

If the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Pricing Supplement.

(f) **Maximum or Minimum Rate of Interest:**

If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

(g) **Calculation of Interest Amount:**

The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a "sub-unit" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(h) **Calculation of other amounts:**

If the relevant Pricing Supplement specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Pricing Supplement.

(i) **Publication:**

The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Issuer, the Paying Agents and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(j) **Notifications etc:**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8. **ZERO COUPON NOTE PROVISIONS**

(a) **Application:**

This Condition 8 is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) **Late payment on Zero Coupon Notes:**

If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

- (i) the Reference Price; and
- (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. **DUAL CURRENCY NOTE PROVISIONS**

(a) **Application:**

This Condition 9 is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) **Rate of Interest:**

If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Pricing Supplement.

10. **REDEMPTION AND PURCHASE**

(a) **Scheduled redemption:**

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) and Condition 12 (*Payments – Registered Notes*).

(b) **Redemption at the option of the Issuer:**

If the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

(c) **Partial redemption:**

If the Notes are to be redeemed in part only on any date in accordance with Condition 10(b) (*Redemption at the option of the Issuer*), the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law and the rules of each listing authority, stock exchange, regulated market and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation, and the notice to Noteholders referred to in Condition 10(b) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(d) **Redemption at the option of Noteholders:**

If the Put Option is specified in the relevant Pricing Supplement as being applicable, the Issuer shall, at the option of the Holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 10(d), the Holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(d), may be withdrawn; **provided, however, that** if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(d), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes.

(e) **Early redemption of Zero Coupon Notes:**

Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

- (i) the Reference Price; and
- (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 10(e) or, if none is so specified, a Day Count Fraction of 30E/360.

(f) **No other redemption:**

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 10(a) to 10(e) above.

(g) **Purchase:**

The Issuer may at any time purchase Notes in the open market or otherwise at any price and such Notes may be held, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation (**provided that**, if the Notes are to be cancelled, they are purchased together with all unmatured Coupons relating to them).

(h) **Cancellation:**

All Notes redeemed and any unmatured Coupons attached to or surrendered with them shall be cancelled and all Notes so cancelled and any Notes cancelled pursuant to Condition 10(g) (*Purchase*) above (together with all unmatured Coupons cancelled with them) may not be reissued or resold.

11. **PAYMENTS – BEARER NOTES**

This Condition 11 is only applicable to Bearer Notes

(a) **Principal:**

Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London).

(b) **Interest:**

Payments of interest shall, subject to Condition 10(f) (*Payments on business days*) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in Condition 11(a) (*Principal*) above.

(c) **Payments subject to fiscal laws:**

All payments in respect of the Bearer Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(d) **Deductions for unmatured Coupons:**

If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

- (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
- (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
 - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
 - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in Condition 11(a) (*Principal*) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons.

(e) **Unmatured Coupons void:**

If the relevant Pricing Supplement specifies that this Condition 11 is applicable or that the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are applicable, on the due date for final redemption of any Bearer Note or early redemption in whole of such Note pursuant to Condition 10(d) (*Redemption at the option of Noteholders*), Condition 10(b) (*Redemption at the option of the Issuer*) or Condition 14 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(f) **Payments on business days:**

If the due date for payment of **any** amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(g) **Payments other than in respect of matured Coupons:**

Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States.

(h) **Partial payments:**

If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(i) **Exchange of Talons:**

On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 15 (*Prescription*)). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

12. **PAYMENTS – REGISTERED NOTES**

This Condition 12 is only applicable to Registered Notes.

(a) **Principal:**

Payments of principal shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) **Interest:**

Payments of interest shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of interest payable on redemption) upon

surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) **Payments subject to fiscal laws:**

All payments in respect of the Registered Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) **Payments on business days:**

Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 12 arriving after the due date for payment or being lost in the mail.

(e) **Partial payments:**

If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) **Record date:**

Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

13. **TAXATION**

All payments of principal and interest in respect of the Notes and the Coupons by the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the Republic of Lithuania or any political subdivision of, or any authority in, or of, the Republic of Lithuania having power to tax, unless withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the amounts received by the Noteholders and the Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or Coupons, as the case may be in the absence of the withholding or deduction, except that no additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

- (i) to or to a third party on behalf of, a Holder who is liable to pay Taxes in respect of such Note or Coupon by reason of having some connection with the Republic of Lithuania other than the mere holding of the Note or Coupon; or
- (ii) presented for payment more than 30 days after the Relevant Date except to the extent that a Holder of such Note or Coupon would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Business Day.

Any reference in these Conditions to any amounts payable in respect of the Notes and the Coupons shall be deemed to include any additional amounts which may be payable under this Condition 13.

14. **EVENTS OF DEFAULT**

If any of the following events or circumstances (each an "**Event of Default**") occurs:

(a) **Non-payment:**

Any default is made in the payment of any interest due in respect of the Notes or any of them when due and the default continues for a period of 14 days; or

(b) **Breach of other obligations:**

The Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 45 days next following the service by any Noteholder to the Fiscal Agent or the Issuer of notice requiring the same to be remedied; or

(c) **Cross-acceleration:**

Any other loan or debt in the form of Relevant Indebtedness of the Issuer having an aggregate principal amount of at least EUR 120,000,000 (or its equivalent in any other currency or currencies) shall become due and payable prior to the stated maturity thereof following a default or any security therefor becomes enforceable or the Issuer fails to make repayment of any loan or debt in the form of Relevant Indebtedness at the maturity thereof or at the expiration of any grace period applicable thereto or any guarantee of any loan, debt in the form of Relevant Indebtedness or other moneys having an aggregate principal amount of at least EUR 120,000,000 (or its equivalent in any other currency or currencies) given by the Issuer shall not be honoured when due and validly called upon, then the Holders of at least 25 per cent. in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their Early Termination Amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer.

If the Issuer receives notice in writing from Holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration of acceleration is or are cured following any such declaration and that such Holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon the relevant declaration shall be withdrawn and shall have no further effect. No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

15. **PRESCRIPTION**

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

16. **REPLACEMENT OF NOTES AND COUPONS**

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, in the case of Bearer Notes, or the Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system),

subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

17. AGENTS

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer reserve the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent or registrar or Calculation Agent and additional or successor paying agents; **provided, however, that:**

- (i) the Issuer shall at all times maintain a Fiscal Agent and a Registrar; and
- (ii) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent; and
- (iv) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

18. MEETINGS OF NOTEHOLDERS; WRITTEN RESOLUTIONS

(a) General

The provisions for convening meetings of Noteholders as set out in Schedule 1 to the Agency Agreement shall apply to the Notes. The following is a summary of selected provisions in that Schedule.

For the purposes of Condition 14 (*Events of Default*) and this Condition 18, a Note will be deemed to be "outstanding" as set out in Clause 1 of the Agency Agreement. In addition, in respect of a Note which is (a) held by the Republic or (b) held by a department, ministry or agency of the Republic, or by a corporation, trust or other legal entity that is controlled by the Republic or a department, ministry or agency of the Republic and the Holder of the Note does not have autonomy of decision, the Note will be deemed to be not outstanding where:

- (i) the Holder of the Note for these purposes is the entity legally entitled to vote the Note for or against a proposed modification or, if different, the entity whose consent or instruction is by contract required, directly or indirectly, for the legally entitled Holder to vote the Note for or against a proposed modification;
- (ii) a corporation, trust or other legal entity is controlled by the Republic or by a department, ministry or agency of the Republic if the Republic or any department, ministry or agency of the Republic has the power, directly or indirectly, through the ownership of voting securities or other ownership interests, by contract or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of that legal entity; and
- (iii) the Holder of a Note has autonomy of decision if, under applicable law, rules or regulations and independent of any direct or indirect obligation the Holder may have in relation to the Republic:

- (A) the Holder may not, directly or indirectly, take instruction from the Republic on how to vote on a proposed modification; or
- (B) the Holder, in determining how to vote on a proposed modification, is required to act in accordance with an objective prudential standard, in the interest of all of its stakeholders or in the Holder's own interest; or
- (C) the Holder owes a fiduciary or similar duty to vote on a proposed modification in the interest of one or more persons other than a person whose holdings of Notes (if that person then held any Notes) would be deemed to be not outstanding under this definition.

(b) **Convening a meeting of Noteholders**

A meeting of Noteholders:

- (i) may be convened by the Republic at any time; and
- (ii) will be convened by the Republic if an Event of Default in relation to the Notes has occurred and is continuing and a meeting is requested in writing by the Holders of not less than 10 per cent. of the aggregate principal amount of the Notes then outstanding.

(c) **Quorum at initial meeting**

The quorum at any meeting at which Noteholders will vote on:

- (i) a Reserved Matter will be one or more persons present holding or representing not less than $66\frac{2}{3}$ per cent. of the aggregate principal amount of the Notes then outstanding; and
- (ii) a matter which is not a Reserved Matter will be one or more persons present holding or representing not less than 50 per cent. of the aggregate principal amount of the Notes then outstanding.

(d) **Quorum at adjourned meeting**

The quorum for any adjourned meeting will be one or more persons present holding or representing:

- (i) not less than $66\frac{2}{3}$ per cent. of the aggregate principal amount of the Notes then outstanding in the case of a proposed modification relating to a Reserved Matter; and
- (ii) not less than 25 per cent. of the aggregate principal amount of the Notes then outstanding in the case of a proposed modification relating to a matter which is not a Reserved Matter.

(e) **Voting on non-Reserved Matters**

Save as otherwise provided in the Agency Agreement, any proposed modification in relation to a matter which is not a Reserved Matter may only be approved with the consent of the Republic and:

- (i) the affirmative vote of a one or more persons present and holding or representing more than 50 per cent. of the aggregate principal amount of the outstanding Notes represented at a duly called and quorate meeting of Noteholders; or
- (ii) a written resolution signed by or on behalf of a Holder or Holders of more than 50 per cent. of the aggregate principal amount of the Notes outstanding.

(f) **Voting on Reserved Matters**

Except as provided in Condition 18(g) (*Cross-series modification*), any proposed modification relating to a Reserved Matter may only be approved with the consent of the Republic and:

- (i) the affirmative vote of one or more persons present and holding or representing not less than 75 per cent. of the aggregate principal amount of the outstanding Notes represented at a duly called and quorate meeting of Noteholders; or
- (ii) a written resolution signed by or on behalf of a Holder or Holders not less than 66⅔ per cent. of the aggregate principal amount of the Notes outstanding.

(g) **Cross-series modification**

A Cross-Series Modification relating to a Reserved Matter affecting the Notes and any other series of Debt Securities may only be approved with the consent of the Republic and:

- (i)
 - (A) the affirmative vote of one or more persons present and holding or representing not less than 75 per cent. of the aggregate principal amount of the outstanding Debt Securities represented at separate duly called and quorate meetings of the Holders of the Debt Securities of all series (taken in aggregate) that would be affected by the proposed modification; or
 - (B) a written resolution signed by or on behalf of the Holders of not less than 66⅔ per cent. of the aggregate principal amount of the outstanding Debt Securities of all series (taken in aggregate) that would be affected by the proposed modification; and
- (ii)
 - (A) the affirmative vote of one or more persons present and holding or representing more than 66⅔ per cent. of the aggregate principal amount of the outstanding Debt Securities represented at separate duly called and quorate meetings of the Holders of each series of Debt Securities (taken individually) that would be affected by the proposed modification; or
 - (B) written resolutions signed by or on behalf of the Holders of more than 50 per cent. of the aggregate principal amount of the then outstanding Debt Securities of each series (taken individually) that would be affected by the proposed modification.

If a proposed Cross-Series Modification in relation to a Reserved Matter is not approved in the manner described above but would have been approved if it had involved only the Notes and one or more, but less than all, of the other series of Debt Securities affected by the proposed modification, that Cross-Series Modification will be deemed to have been approved in relation to the Notes and the Debt Securities of each other series whose modification would have been approved if the proposed modification had involved only the Notes and such other series of Debt Securities, **provided that:**

- (i) the Republic has notified the Holders of all Debt Securities participating in the proposed modification that this partial Cross-Series Modification deeming provision shall apply; and
- (ii) those conditions in this partial Cross-Series Modification deeming provision are satisfied.

For the purposes of this Condition 18(g):

"Debt Securities" means the Notes and any other bills, bonds, debentures, notes or other debt securities issued by the Republic in one or more series with an original stated maturity of more than one year, and includes any such obligation, irrespective of its original stated maturity, that formerly constituted a component part of a Debt Security;

"Cross-Series Modification" means a modification which affects (i) the Notes or any agreement governing the issuance or administration of the Notes, and (ii) one or more other series of Debt

Securities or any agreement governing the issuance or administration of such other series of Debt Securities; and

"**Series**" when used in relation to the Notes shall have the meaning ascribed to the term in the introductory paragraphs to these Conditions and **series**, when used in relation to a tranche of Debt Securities, shall mean such tranche of Debt Securities together with any further tranche or tranches of Debt Securities that in relation to each other and to the original tranche of Debt Securities are (i) identical in all respects except for their date of issuance or first payment date, and (ii) expressed to be consolidated and form a single series.

(h) **Written resolutions**

A written resolution signed by or on behalf of Holders of the requisite majority of the outstanding Debt Securities will be valid for all purposes as if it was a resolution passed at a meeting of Holders of the Debt Securities duly convened and held in accordance with these provisions. A written resolution may be set out in one or more documents in like form each signed by or on behalf of one or more Holders of Debt Securities.

(i) **Binding effect**

A resolution duly passed at a meeting of Holders of Debt Securities duly convened and held, and a written resolution duly signed by the requisite majority of Holders of Debt Securities, will be binding on all such Holders, whether or not the Holder was present or represented at the meeting, voted for or against the resolution or signed the written resolution.

(j) **Modification**

Notwithstanding anything to the contrary in the Conditions, the Conditions and the Agency Agreement may be modified by the Republic without the consent of the Noteholders:

- (i) to correct a manifest error or to cure an ambiguity; or
- (ii) if the modification is of a formal, minor or technical nature or for the benefit of the Noteholders.

The Republic will publish details of any such modification within 10 days of the modification becoming legally effective.

(k) **Reserved Matters**

In these Conditions, "**Reserved Matter**" means any proposed modification:

- (i) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes;
- (ii) to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes;
- (iii) to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;
- (iv) to change the currency in which, or the place of payment of, any amount due in respect of the Notes is payable;
- (v) to impose any condition on, or otherwise modify the Republic's obligation to make, any payment on the Notes;
- (vi) to change the quorum required at any meeting of Noteholders or the majority required to pass any resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them including in respect of a Cross-Series Modification;

- (vii) to change this definition, the definition of "Extraordinary Resolution", the definition of "outstanding" or the definition of "Written Resolution";
- (viii) to change or waive the provisions of the Notes set out in Condition 4 (*Status*), Condition 14(a) (*Non-payment*) or Condition 14(c) (*Cross-acceleration*); and
- (ix) to change the law governing the Notes, the courts to the jurisdiction of which the Republic has submitted in the Notes, the Republic's obligation to maintain an agent for service of process in England or the Republic's waiver of immunity, in respect of legal proceedings arising out of or in connection with the Notes,

and has the same meaning in relation to the debt securities of any other series save that any of the foregoing references to the Notes or any agreement governing the issuance or administration of the Notes shall be read as references to such other debt securities or any agreement governing the issuance or administration of such other debt securities.

19. FURTHER ISSUES

The Issuer shall be at liberty from time to time, without the consent of the Noteholders or the Couponholders, to create and issue further notes ranking equally in all respects (or in all respects save for the date for and amount of the first payment of interest thereon) so that the same shall be consolidated and form a single series with the Notes.

20. NOTICES

(a) Bearer Notes:

Notices to the Holders of Bearer Notes shall be valid if published (a) in a leading English language daily newspaper of general circulation in London and (b) if and for so long as the Bearer Notes are admitted to trading on, and listed on the Official List of the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg or the Luxembourg Stock Exchange's website, www.bourse.lu. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London and the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. The Republic shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Bearer Notes are for the time being listed or by which they have been admitted to trading. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

(b) Registered Notes:

Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. The Republic shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Registered Notes are for the time being listed or by which they have been admitted to trading.

21. CURRENCY INDEMNITY

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to

convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or Coupon or any judgment or order.

22. **ROUNDING**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

23. **GOVERNING LAW AND JURISDICTION**

(a) **Governing law**

The Notes, the Coupons, the Agency Agreement, the Deed of Covenant and any non-contractual obligations arising out of or in connection with them shall be governed by, and construed in accordance with, the laws of England.

(b) **Jurisdiction**

The Issuer irrevocably agrees for the benefit of the Noteholders and Couponholders that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Agency Agreement or the Notes or the Coupons and that accordingly any suit, action or proceedings arising out of or in connection therewith (together referred to as "**Proceedings**") may be brought in the courts of England.

(c) **Appropriate forum**

The Issuer irrevocably and unconditionally waives and agrees not to raise any objection which it may have now or subsequently to the laying of the venue of any Proceedings in the courts of England and any claim that any Proceedings have been brought against the Issuer in an inconvenient forum and further irrevocably and unconditionally agrees that a judgment in any Proceedings brought in the courts of England shall be conclusive and binding upon the Issuer and may be enforced in the courts of any other jurisdiction. Nothing in this Condition 23 shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

(d) **Service of process**

The Issuer hereby irrevocably and unconditionally appoints the Embassy of the Republic of Lithuania to the United Kingdom of Great Britain and Northern Ireland to the Court of St. James's for the time being as its agent for service of process in England in respect of any Proceedings.

(e) **Waiver of immunity**

The Issuer hereby irrevocably waives any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and irrevocably consents to the giving of any

relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order, award or judgment made or given in connection with any Proceedings **provided, however, that** immunity is not waived with respect to present or future *premises of the mission* as defined in the Vienna Convention on Diplomatic Relations signed in 1961, *consular premises* as defined in the Vienna Convention on Consular Relations signed in 1963 or military property or military assets or property or assets of the Issuer related thereto or property (other than monetary funds (*piniginės lėšos*)) located in the Republic of Lithuania.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be used for the refinancing of indebtedness and general funding purposes of the Republic.

FORM OF PRICING SUPPLEMENT

The Pricing Supplement in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Pricing Supplement but denotes directions for completing the Pricing Supplement.

[MiFID II product governance / Professional investors and eligible counterparties only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [Consider any negative target market]. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer[*'s/s'*] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[*'s/s'*] target market assessment) and determining appropriate distribution channels.]

OR

[MiFID II product governance / Retail investors, professional investors and eligible counterparties target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties, professional clients and retail clients, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); EITHER [and (ii) all channels for distribution of the Notes are appropriate, including investment advice, portfolio management, non-advised sales and pure execution services] OR [(ii) all channels for distribution to eligible counterparties and professional clients are appropriate; and (iii) the following channels for distribution of the Notes to retail clients are appropriate - investment advice[,/ and] portfolio management[,/ and][non-advised sales][and pure execution services][, subject to the distributor's suitability and appropriateness obligations under MiFID II, as applicable]]. [Consider any negative target market]. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer[*'s/s'*] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[*'s/s'*] target market assessment) and determining appropriate distribution channels[, subject to the distributor's suitability and appropriateness obligations under MiFID II, as applicable.]

[Singapore Securities and Futures Act Product Classification - In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes [are] / [are not] prescribed capital markets products (as defined in the CMP Regulations 2018) and [are] [Excluded] / [Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products.)¹

Pricing Supplement dated [•]

THE REPUBLIC OF LITHUANIA

Legal Entity Identifier: 529900F7Y171QF1RSU09

Issue of [Aggregate Principal Amount of Tranche] [Title of Notes] under the Euro Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 24 April 2020. This Pricing Supplement contains the pricing supplement of the Notes and must be read in conjunction with such Offering Circular.

¹For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer.

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and, subject to certain exceptions, may not be offered or sold within the United States or its possessions or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")). Each Dealer has agreed that it will not offer or, sell any Notes within the United States or its possessions or to, or for the account or benefit of, U.S. persons, except in accordance with Rule 903 of Regulation S.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Notes in bearer form having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated [*original date*]. This Pricing Supplement contains the pricing supplement of the Notes and must be read in conjunction with the Offering Circular dated [*current date*] [and the supplemental Offering Circular dated [*date*], save in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] and are attached hereto.]]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement.]

PART A – CONTRACTUAL TERMS

- | | | | |
|----|-------|-----------------------------------|---|
| 1. | (i) | Issuer: | The Republic of Lithuania |
| 2. | [(i) | [Series Number:] | [•]] |
| | (ii) | [Tranche Number:] | [•] <i>(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)</i> |
| 3. | | Specified Currency or Currencies: | [•] |
| 4. | | Aggregate Principal Amount: | [•] |
| | [(i) | [Series:] | [•] |
| | [(ii) | [Tranche:] | [•] |
| 5. | [(i)] | Issue Price: | [•] per cent. of the Aggregate Principal Amount [plus accrued interest from [<i>insert date</i>] (<i>in the case of fungible issues only, if applicable</i>)] |
| 6. | (i) | Specified Denominations: | [•] |
| | (ii) | Calculation Amount: | [•] |
| 7. | [(i)] | Issue Date: | [•] |
| | [(ii) | Interest Commencement Date: | [Specify/Issue Date/Not Applicable]] |
| 8. | | Maturity Date: | [•] <i>specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year</i> |

9. Interest Basis: [•] per cent. Fixed Rate]
 [[specify reference rate] +/- [•] per cent. Floating Rate]
 [Zero Coupon]
 [Index-Linked Interest]
 [Other (specify)]
 (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
 [Index-Linked]
 [Redemption]
 [Dual Currency]
 [Partly Paid]
 [Instalment]
 [Other (specify)]
11. Change of Interest or Redemption/
 Payment Basis: [Specify details of any provision for convertibility
 of Notes into another interest or redemption/
 payment basis]
12. Put/Call Options: [Investor Put]
 [Issuer Call]
 [(further particulars specified below)]
13. Status of the Notes: Senior
14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Note Provisions: [Applicable/Not Applicable]
 (If not applicable, delete the remaining sub-
 paragraphs of this paragraph)
- (i) Rate [(s)] of Interest: [•] per cent. per annum [payable [annually/ semi-
 annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [•] in each year
- (iii) Fixed Coupon Amount[(s)]: [•] per Calculation Amount
- (iv) Broken Amount(s): [•] per Calculation Amount, payable on the Interest
 Payment Date falling [in/on] [•]
- (v) Day Count Fraction: [30/360/Actual Actual (ICMA/ISDA)/other]
- (vi) Other terms relating to the method [Not Applicable/give details]
 of calculating interest for Fixed
 Rate Notes:

16. Floating Rate Note Provisions: [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph.)*
- (i) Interest Period(s): [•]
- (ii) Specified Interest Payment Dates: [•]
- (iii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/ other (*give details*)]
- (iv) Additional Business Centre(s): [Not Applicable/*give details*]
- (v) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ ISDA Determination other (*give details*)]
- (vi) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Fiscal Agent]): [[*Name*] shall be the Calculation Agent (*no need to specify if the Fiscal Agent is to perform this function*)]
- (vii) Screen Rate Determination:
- Reference Rate: [*For example, LIBOR or EURIBOR*]
 - Interest Determination Date(s): [•]
 - Relevant Screen Page: [*For example, Reuters LIBOR 01/EURIBOR 01*]
 - Relevant Time: [*For example, 11.00 a.m. London time/Brussels time*]
 - Relevant Financial Centre: [*For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro)*]
- (viii) ISDA Determination:
- Floating Rate Option: [•]
 - Designated Maturity: [•]
 - Reset Date: [•]
 - ISDA Benchmarks Supplement [Applicable/Not Applicable]
- (ix) Margin(s): [+/-][•] per cent. per annum
- (x) Minimum Rate of Interest: [•] per cent. per annum
- (xi) Maximum Rate of Interest: [•] per cent. per annum
- (xii) Day Count Fraction: [•]
- (xiii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those [•]

set out in the Conditions:

17. Zero Coupon Note Provisions: [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Accrual Yield: [•] per cent. per annum
- (ii) Reference Price: [•]
- (iii) Any other formula/basis of determining amount payable: [Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition 10(f)]
18. Index-Linked Interest Note Provisions: [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Index/Formula: [Give or annex details]
- (ii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent): [Name] shall be the Calculation Agent (no need to specify if the Fiscal Agent is to perform this function)
- (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted: [•]
- (iv) Interest or calculation period(s): [•]
- (v) Specified Interest Payment Dates: [•]
- (vi) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/ other (give details)]
- (vii) Additional Business Centre(s): [•]
- (viii) Minimum Rate of Interest: [•] per cent. per annum
- (ix) Maximum Rate of Interest: [•] per cent. per annum
- (x) Day Count Fraction: [•]
19. Dual Currency Note Provisions: [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: [Give details]
- (ii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent): [[Name] shall be the Calculation Agent (no need to specify if the Fiscal Agent is to perform this function)]

- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [•]
- (iv) Person at whose option Specified Currency(ies) is/are payable: [•]

PROVISIONS RELATING TO REDEMPTION

- 20. Call Option: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
 - (i) Optional Redemption Date(s): [•]
 - (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [•] per Calculation Amount
 - (iii) If redeemable in part:
 - (a) Minimum Redemption Amount: [•] per Calculation Amount
 - (b) Maximum Redemption Amount: [•] per Calculation Amount
 - (iv) Notice period: [•]
- 21. Put Option: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
 - (i) Optional Redemption Date(s): [•]
 - (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [•] per Calculation Amount
 - (iii) Notice period: [•]
- 22. Final Redemption Amount: [•] per Calculation Amount
- 23. Early Redemption Amount:
 - Early Redemption Amount(s) per Calculation Amount payable on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions): [Not Applicable (if the Early Termination Amount are the principal amount of the Notes/or the Early Termination Amount if different from the principal amount of the Notes)]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 24. Form of Notes: **Bearer Notes:**
[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the

Permanent Global Note.]

[Temporary Global Note exchangeable for Definitive Notes on [•] days' notice.]

[Permanent Global Note exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note].

Registered Notes:

[Global Note Certificate exchangeable for Individual Note Certificates on [•] days' notice/at any time/in the limited circumstances described in the Global Note Certificate]

[and]

[Global Note Certificate [(•] nominal amount)] registered in the name of a nominee for [a common depository for Euroclear and Clearstream, Luxembourg/ a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the New Safekeeping Structure (NSS)).]

- | | | |
|-----|---|--|
| 25. | New Global Note: | [Yes/No] |
| 26. | Additional Financial Centre(s) or other special provisions relating to Payment Dates: | [Not Applicable/give <i>details</i> . <i>Note that this item relates to the date and place of payment, and not interest period end dates, to which items 16(ii), 17(ii) and 19(v) relate</i>] |
| 27. | Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): | [Yes/No. <i>If yes, give details</i>] |
| 28. | Details relating to partly paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: | [Not Applicable/give <i>details</i>] |
| 29. | Details relating to instalment Notes amount of each instalment, date on which each payment is to be made: | [Not Applicable/give <i>details</i>] |
| 30. | Redenomination, renominalisation and reconventioning provisions: | Not Applicable/The provisions annexed [to this Pricing Supplement apply] |
| 31. | Other terms or special conditions: | [Not Applicable/give <i>details</i>] |

DISTRIBUTION

- | | | |
|-----|-----------------------------------|-------------------------------------|
| 32. | If syndicated names of Managers: | [Not Applicable/give <i>names</i>] |
| 33. | If non-syndicated name of Dealer: | [give <i>name(s)</i>] |
| 34. | Stabilising Manager (if any): | [Not Applicable/give <i>name</i>] |

35. U.S. Selling Restrictions:

[[Reg. S Compliance Category 1]

There are restrictions on the sale and transfer of Notes and the distribution of offering materials in the United States. The Notes have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any State or other jurisdiction of the United States, and Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person (as defined in the Internal Revenue Code of 1986), except in certain transactions permitted by U.S. tax regulations. The Notes may not be offered, sold or (in the case of Notes in bearer form) delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes may be offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. See "*Subscription and Sale*" in the Offering Circular.

(In the case of Bearer Notes) – [TEFRA C/TEFRA D/ TEFRA not applicable]

36. Additional selling restrictions:

[Not Applicable/give details]

[PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the pricing supplement required to list and have admitted to trading the issue of Notes described herein pursuant to the Euro Medium Term Note Programme of The Republic of Lithuania.]

RESPONSIBILITY

The Republic of Lithuania accepts responsibility for the information contained in this Pricing Supplement.

SIGNED on behalf of **THE REPUBLIC OF LITHUANIA:**

By:
Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

Listing and Admission to trading: [Application has been made by the Republic (or on its behalf) for the Notes to be admitted to trading on the Luxembourg Stock Exchange's regulated market with effect from [•].] [Application is expected to be made by the Republic (or on its behalf) for the Notes to be admitted to trading on the Luxembourg Stock Exchange's regulated market with effect from [•].] [Not Applicable.]

2. RATINGS

Ratings: [The Notes to be issued [[have been]/[are expected to be]] rated [insert details] by [insert the legal name of the relevant credit rating agency entity(ies)].]

Each of [defined terms] is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended).]

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealer], so far as the Republic is aware, no person involved in the issue of the Notes has an interest material to the offer. *Amend as appropriate if there are other interests*]

4. YIELD (FIXED RATE NOTES ONLY)

Indication of yield: [•]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

5. HISTORIC INTEREST RATES (FLOATING RATE NOTES ONLY)

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].

6. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (INDEX LINKED NOTES ONLY)

[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]

[Where the underlying is an index need to include the name of the index and details of where the information about the index can be obtained.]

The Issuer does not intend to provide post-issuance information.

7. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (DUAL CURRENCY NOTES ONLY)

[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]

The Issuer does not intend to provide post-issuance information.

8. **OPERATIONAL INFORMATION**

- (i) ISIN Code: [•]
- (ii) Common Code: [•]
- (iii) CFI: [[See/[], as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN / Not Applicable / Not Available]
- (iv) FISN: [[See/[], as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN / Not Applicable / Not Available]
(If the CFI and/or FISN is not required, it/they should be specified to be "Not Applicable")
- (v) Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (vi) Delivery: Delivery [against/free of] payment
- (vii) Names and addresses of additional Paying Agent(s) (if any): [•]
- (viii) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes] [No]
[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,)]include
this text for registered notes] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] /
[No. Whilst the designation is specified as "no" at the date of this Pricing Supplement, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [(and registered

in the name of a nominee of one of the ICSDs acting as common safekeeper,][include this text for registered notes]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

(ix)

[[*specify benchmark*] is provided by [*administrator legal name*]][*repeat as necessary*]. As at the date hereof, [[*administrator legal name*][appears]/[does not appear]][*repeat as necessary*] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (*Register of administrators and benchmarks*) of the Benchmark Regulation]/[As far as the Issuer is aware, as at the date hereof, [*specify benchmark*] does not fall within the scope of the Benchmark Regulation]/ [As far as the Issuer is aware, the transitional provisions in Article 51 of Regulation (EU) 2016/1011, as amended apply, such that [*name of administrator*] is not currently required to obtain authorisation/registration (or, if located outside the European Union, recognition, endorsement or equivalence)]/ [Not Applicable]

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

In relation to any Tranche of Notes represented by a Global Note, references in the Conditions of the Notes to "Noteholder" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depository or a common depository, in the case of a CGN, or a common safekeeper, in the case of an NGN for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depository or common depository or, as the case may be, common safekeeper. (See terms and conditions set out under "*Terms and Conditions of the Notes*" above).

In relation to any Tranche of Notes represented by one or more Global Note Certificates, references in the Terms and Conditions of the Notes to "Noteholder" are references to the person in whose name the relevant Global Note Certificate is for the time being registered in the Register and which is held by or on behalf of a depository or a common depository or a common safekeeper for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depository or common depository or common safekeeper or a nominee for that depository or common depository or common safekeeper.

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Note Certificate (each an "**Accountholder**") must look solely to Euroclear, Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer, to the holder of such Global Note or Global Note Certificate and in relation to all other rights arising under such Global Note or Global Note Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Note or Global Note Certificate will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Note Certificate, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the holder of such Global Note or Global Note Certificate.

Deed of Covenant

Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or Global Note Certificate will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Note or Global Note Certificate became void, they had been the holders of Definitive Notes or Individual Note Certificates in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Transfers of Interests in Global Notes and Global Note Certificates

Transfers of interests in Global Notes and Global Note Certificates within Euroclear and Clearstream, Luxembourg or any other relevant clearing system will be in accordance with their respective rules and operating procedures. None of the Issuer, the Registrar, the Dealers or the Agents will have any responsibility or liability for any aspect of the records of any of Euroclear and Clearstream, Luxembourg or any other relevant clearing system or any of their respective participants relating to payments made on account of beneficial ownership interests in a Global Note or Global Note Certificate or for maintaining, supervising or reviewing any of the records of Euroclear and Clearstream, Luxembourg or any other relevant clearing system or the records of their respective participants relating to such beneficial ownership interests.

The laws of some states of the United States require that certain persons receive individual certificates in respect of their holdings of Notes. Consequently, the ability to transfer interests in a Global Note Certificate to such persons will be limited. Because clearing systems only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note Certificate to pledge such interest to persons or entities which do not participate in the relevant clearing systems, or otherwise take actions in respect of such interest, may be affected by the lack of an Individual Note Certificate representing such interest.

Although Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Note Certificates among participants and account holders of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Registrar, the Dealers or the Agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their respective operations.

While a Global Note Certificate is lodged with Euroclear, Clearstream, Luxembourg or any relevant clearing system, Individual Note Certificates for the relevant Series of Notes will not be eligible for clearing and settlement through such clearing systems.

Conditions applicable to Global Notes and Global Note Certificates

Each Global Note and Global Note Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note or Global Note Certificate. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Note Certificate which, according to the Terms and Conditions of the Notes, require presentation and/or surrender of a Note, Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Note Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that in respect of a CGN the payment is noted in a schedule thereto and in respect of an NGN the payment is entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg.

Payment Business Day: In the case of a Global Note, or a Global Note Certificate, shall be, if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

Payment Record Date: Each payment in respect of a Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

Exercise of put option: In order to exercise the option contained in Condition 10(d) (*Redemption at the option of Noteholders*) the bearer of a Permanent Global Note or the holder of a Global Note Certificate must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Fiscal Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 10(b) (*Redemption at the option of the Issuer*) in relation to some only of the Notes, the Permanent Global Note or Global Note Certificate may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and/or Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 20 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Note Certificate and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Note Certificate is deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a common

safekeeper, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 20 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system. It is also expected that notices will be published on www.finmin.lrv.lt.

THE REPUBLIC OF LITHUANIA

Area and Population

Lithuania is located in the Baltic region of northern Europe and is bordered by Latvia to the north, Belarus to the east, Poland to the south and the Kaliningrad Region of Russia to the south-west. The western border of the country is the Baltic coast, where Klaipėda, one of the largest ice-free ports on the Baltic Sea, is situated. Lithuania covers an area of approximately 65,300 square kilometres. The capital city of Lithuania is Vilnius, which is located in the south-east of the country.

As at 1 January 2020, the population of Lithuania totalled approximately 2.8 million. As at 1 January 2020, approximately 67.0 per cent. of the population lived in urban areas (including approximately 551,020 residents in Vilnius).

History

Lithuania traces its origins to the 11th century. By the 15th century, the Grand Duchy of Lithuania covered the area between the Black Sea and the Baltic Sea. In the 16th century Lithuania and Poland created a new state, known as the Polish-Lithuanian Commonwealth. This state existed until the end of the 18th century, when it was occupied and dismantled by its neighbouring countries. As a result, most of Lithuania's territory became part of the Russian Empire.

Throughout the 19th century there were large-scale nationalist insurrections and, shortly before the conclusion of the First World War, Lithuania's independence from Russia was declared on 16 February 1918. In August 1922, the Lithuanian parliament (the “**Seimas**”) approved a constitution that proclaimed the country a democratic republic, although on 17 December 1926, the army and nationalists engineered a coup d'état.

With the outbreak of the Second World War and the occupation of Poland by Germany, the Lithuanian and Union of Soviet Socialist Republics (“**USSR**”) governments concluded a mutual-assistance treaty in October 1939. In June 1940, Lithuania was occupied by the USSR and then by Nazi Germany. As World War II neared its end in 1944 and the Nazis retreated, the USSR reoccupied Lithuania.

In the late 1980s, rapid political changes in both Eastern Europe and the USSR acted as catalysts for and reflected developments in Lithuania. Lithuania proclaimed the restoration of its independence on 11 March 1990. On 6 September 1991, the independence of each of the Baltic states of Lithuania, Estonia and Latvia (together, the “**Baltic States**”) was recognised by Moscow. On 17 September 1991, all three Baltic States were admitted to the United Nations as independent members.

In 1992, a new constitution was adopted and the first free parliamentary elections were held since Lithuania regained its independence from the USSR.

Constitution, Government and Political Parties

The Constitution and Political System

Lithuania's Constitution (the “**Constitution**”) was adopted in October 1992. The Constitution established the Republic of Lithuania with a President as the head of state and the Seimas as the highest legislative authority. The Constitution provides for the separation of executive, legislative and judicial powers.

The Seimas is a unicameral body composed of 141 members elected for four-year terms. Seventy-one seats in the Seimas are determined by direct popular vote for single member constituencies, while the remaining seats are allocated on a proportional basis to every political party that receives 5.0 per cent. or more of the total national vote, in the case of single parties, or 7.0 per cent. or more of the total national vote, in the case of coalitions.

The government of Lithuania (the “**Government**”) consists of the Prime Minister, appointed by the President and approved by the Seimas, and 14 ministers, each of whom is nominated by the Prime Minister and appointed by the President. Members of the Government may also be members of the Seimas. The cabinet of ministers formulates the Government's programme (the “**Government Programme**”) for approval by the Seimas. Legislation is put forward by the Government in accordance with the Government Programme and is subject to approval by a simple majority of the Seimas and to the

approval of the President. In addition, members of the Seimas, the President and citizens of the Republic of Lithuania also have the right to propose legislation in certain circumstances.

The President is elected by direct general election for a term of five years and may be elected for a maximum of two consecutive terms. Presidential powers include the right to call pre-term parliamentary elections and, in certain circumstances, to dissolve the Seimas. The President is also required to approve all laws passed by the Seimas and may veto the passage of such laws. In addition, it is the President's responsibility to nominate candidates for the positions of State Controller and Chairman of the Board of the Bank of Lithuania and to appoint and dismiss, upon the assent of the Seimas, the Commander of the Armed Forces, the Prosecutor General and the Head of the Security Service. The President has responsibility for the conduct of foreign policy and acts as commander-in-chief of the armed forces in times of war or in other emergencies.

Self-governance of local communities is exercised through municipalities. Lithuania is divided into 60 municipalities which are self-governed through councils elected by the community of the particular municipality every four years. The head of each municipality is a mayor. Following amendments to the Law on Elections of Municipality Councils effective as of 12 July 2014, the mayor is elected directly by the community of the relevant municipality. The municipalities control their own budgets and collect their own revenue. See "*—Public Finances—Municipal Budgets*". Regional development councils consisting of the municipalities' mayors and the representatives appointed by the municipalities and Government act as a decision making body on a regional level.

There are two primary types of courts in Lithuania: the courts of general jurisdiction and the administrative courts. The courts of general jurisdiction consist of the Supreme Court, the Court of Appeals, five regional courts and 12 district courts. The administrative courts consist of two district administrative courts and the Supreme Administrative Court and are established for the purpose of hearing cases relating to administrative acts of state entities. The Supreme Administrative Court is the appeal institution for the decisions, rulings and orders of district administrative courts. Judges are appointed and dismissed by the President, except for the Supreme Court judges who are appointed and dismissed by the Seimas upon nomination by the President.

In addition, the Constitutional Court, which is not a part of the regular Lithuanian court system, has jurisdiction over cases involving legislative acts and international agreements, including their conformity with law and compliance with the Constitution, and cases relating to potential voting infringements. The Constitutional Court only hears cases following the filing of a petition by an eligible party in compliance with the Constitution. From 1 September 2019, the Constitutional Court accepts individual constitutional complaints. A natural or legal person who considers that laws, acts of the Seimas, the President or the Government on the basis of which a decision has violated his or her constitutional rights or freedoms and has exhausted all legal remedies may apply to the Constitutional Court.

The Constitutional Court consists of nine justices, each elected by the Seimas for a nine-year non-renewable term of office. Three candidates each are nominated by the Chairman of the Seimas, the President and the President of the Supreme Court. The Seimas appoints the President of the Constitutional Court from among the justices upon nomination by the President.

Government and Politics

Lithuania's first general election after regaining its independence was held in 1992.

Lithuania's first presidential election after regaining its independence was held in February 1993. Eight presidential elections have since taken place. In 2004, Rolandas Paksas, the then president, was charged with perjury and removed from the office through an impeachment procedure.

On 12 July 2019, Mr Gitanas Nausėda, a former central banker and chief economist, became President of Lithuania, replacing Ms Dalia Grybauskaitė, who could not stand for reelection after two terms in office. Mr Nausėda, a center-right pro-EU political novice, spent his career in commercial banking, most recently prior to his election as President, as chief economist and adviser to the head of Sweden's SEB Bank in Lithuania. Upon his inauguration, the existing Government returned its powers to the President pursuant to Lithuanian law, and on 7 August 2019, Mr Nausėda approved the reshuffled Government with three new ministers.

The most recent general election of the Seimas was held in October 2016. Following the elections, the Lithuanian Farmers and Greens Union formed a coalition government with the Social Democrats. The next general election of the Seimas is scheduled to be held in October 2020.

The following table shows each party's number of seats in the Seimas following the general elections in October 2016:

	<u>Number of Seats</u>
Homeland Union — Lithuanian Christian Democrats.....	31
Lithuanian Social Democratic Party	17
Order and Justice Party	8
Liberals Movement.....	14
Labour Party.....	2
Lithuanian Farmers and Greens Union (previously known as Farmers and New Democracy Party Union)	54
Lithuanian Poles' Electoral Action – Christian Families Alliance.....	8
Non-affiliated Members.....	4
Lithuanian Green Party.....	1
Political party "List of Lithuania"	1
Lithuanian Centre Party.....	1
"The Way of Courage" Political Group.....	-
Total	<u>141</u>

Due to movements by Members of Parliament between political parties after the elections, the distribution of Members of Parliament within Parliamentary groups in the Seimas and termination of mandates as at 31 March 2020 is as follows: Lithuanian Farmers and Greens Union had 48 members, Homeland Union – Lithuanian Christian Democrats had 36 members, Lithuanian Social Democratic Party had nine members, Lithuanian Social Democratic Labour Party had 12 members, Liberals Movement had 10 members, Lithuanian Poles' Electoral Action – Christian Families Alliance had 8 members and there were 16 non-affiliated members as at such date.

In local municipal elections held in March 2019, the Homeland Union-Lithuanian Christian Democrats obtained 18.2 per cent., the Lithuanian Social Democratic Party obtained 18.0 per cent., and the Lithuanian Farmers and Greens Union obtained 15.0 per cent. of the total number of seats contested (excluding mayors' seats), as compared to 18.3 per cent., 24.3 per cent. and 9.6 per cent. of the total number of seats contested, respectively, in the prior municipal elections held in 2015. Mayors are also elected directly by the community of the relevant municipality. The Lithuanian Social Democratic Party obtained 25.0 per cent., the Homeland Union-Lithuanian Christian Democrats obtained 18.3 per cent., the Liberals Movement of the Republic of Lithuania obtained 10.0 per cent., and the Lithuanian Farmers and Greens Union also obtained 10.0 per cent. of the total number of mayoral seats. It is worth noting that 20.0 per cent. of the mayors elected represent public election committees, which are non-partisan electoral lists. By law, public election committees are established after an election date is announced, and they are registered by the Central Electoral Commission, with a view of encouraging the electoral participation of independent candidates. A committee must include at least double the number of councilors in a specific municipality. Meanwhile, a party needs to have at least 2,000 members to be officially established. The next municipal elections are scheduled to be held in spring 2023.

International Relations

Position in the International Community

Since restoration of its independence in 1990, Lithuania has established diplomatic relations with 186 countries and is a member of many international organisations.

Lithuania is committed to effective multilateralism and is actively involved in the activities of many international and regional organisations. In 1991, Lithuania became a member of the United Nations and a participating state of the Organisation for Security and Co-operation in Europe (the “OSCE”, formerly the Conference on Security and Co-operation in Europe). In 1992, Lithuania became a member of the World Bank and the IMF, and in 1993 Lithuania joined the Council of Europe. Lithuania became a member of the World Trade Organisation (the “WTO”) on 31 May 2001. In 2004, Lithuania joined the European Union (“EU”) and the North Atlantic Treaty Organisation (“NATO”). In 2019, Lithuania celebrated the 15th anniversary of its NATO membership. In 2018, Lithuania met its pledge to NATO to spend 2.0 per cent. of GDP on defence. Moreover, the parliamentary parties pledged to allocate 2.5 per cent. of GDP for this area by 2030.

In 2018, Lithuania became a member of the Organisation for Economic Co-operation and Development (the “**OECD**”). In order to apply OECD best practices in finance, corporate governance and economic performance throughout the country, Lithuania joined conventions such as the Convention on Base Erosion and Profit Shifting and the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Lithuania also initiated reforms in the state-owned enterprise sector and responded to the needs of the labour market through education and training reform and the adoption of a new Labour Code. These measures have contributed to the growth of Foreign Direct Investment (“**FDI**”) and have improved significantly the country’s international rankings in, for example, the World Bank’s “Doing Business” index. Being constructively involved in OECD work, Lithuania pursues enhanced engagement in such priority areas as: innovation (as exemplified by its support for OECD Artificial Intelligence principles); responsible business conduct; and inclusive growth through new multidimensional approaches. Furthermore, Lithuania is actively involved in OECD regional partnerships and initiatives, such as Eurasia Competitiveness programme and Eurasia Week, allowing it to help spread awareness of the OECD standards and national experiences to wider regions.

In June 2019 Lithuania began the accession process to the International Energy Agency (“**IEA**”). The IEA Governing Board unanimously approved Lithuania’s request to join this organisation.

At the 38th session of the General Conference of the United Nations Educational, Scientific and Cultural Organisation (“**UNESCO**”), on 11 November 2015 in Paris, Lithuania was elected with the highest number of votes (171 votes) to serve on the organisation’s Executive Board from 2015-2019, continuing Lithuania’s activity and visibility within the UNESCO framework. Lithuania’s priorities included the safety of journalists, protection of human rights, protection of tangible and intangible cultural heritage (with particular attention to the protection of cultural heritage during armed conflict), and the efficiency and effectiveness of UNESCO’s work. One of Lithuania’s ongoing priorities is making sure the issues surrounding Crimea remain on UNESCO’s agenda. Lithuania is the coordinator of the “group of friends” - a grouping of likeminded states with a common perspective on Crimea - in UNESCO. Lithuania has presented its candidature for the re-election in 2020 to UNESCO’s Executive Board for the term 2021-2025.

In 2018, Lithuania was elected as a member of the United Nations Children’s Emergency Fund (“**UNICEF**”) Executive Board for the 2019-2021 term. Together with 35 other member states, Lithuania will actively contribute to UNICEF’s humanitarian actions. In addition, Lithuania has given in recent years, and continues to give, significant attention to the international community’s efforts to fight child abuse, including in cyberspace, advancement of gender equality, fight against sexual harassment, improvements in the work of the Executive Board, innovations and new technologies, psychological health and modernisation of education. In 2019, Lithuania was elected to the Executive Board of the United Nations Entity for Gender Equality and the Empowerment of Women (“**UN Women**”) for the period 2020-2022. Advancement of gender equality and women’s empowerment are among the most important priorities for Lithuania in the UN and other international organisations.

Experts from Lithuania have been elected to various human rights treaty and international bodies. Prof. Dalia Leinartė was elected to the Committee on the Elimination of Discrimination against Women (“**CEDAW**”) for a second term from 2017-2020. Prof. Jonas Ruškus was elected to the Committee on the Rights of Persons with Disabilities (“**CRPD**”) for a second term from 2019-2022. Prof. Justinas Žilinskas was elected to the International Humanitarian Fact-Finding Commission for the term 2017-2021. In 2018, Prof. Dainius Pūras, United Nations Special Rapporteur on the right of everyone to the enjoyment of the highest attainable standard of health (since 2014), was elected as Chairperson of the Coordination Committee of Special Procedures of the United Nations Human Rights Council. He coordinates the work of about 80 independent UN experts, who implement the organization’s mandates in the field of human rights.

Lithuania has presented its candidature to the Human Rights Council for the term 2022-2024, with elections to be held in 2021. Lithuania has never before served on the Human Rights Council and stands ready to cooperate in strengthening the Human Rights Council and supporting its mechanisms. Lithuania’s priorities include advancement of gender equality, women’s empowerment and adoption of measures to increase women’s political representation, media freedom and protection of journalists, advancement of the rights of persons with disabilities, protection of children rights, especially by combating bullying. Protection of human rights in conflict areas, especially in the illegally annexed Crimea (Ukraine), eastern Ukraine, the Georgian regions of Abkhazia and South Ossetia/Tskhinvali, Syria and Myanmar, is also among Lithuania’s priorities.

During the 22nd session of the General Assembly of the UN World Tourism Organisation (“WTO”) in September 2017, Lithuania was elected to the Executive Council from 2018-2021 for the first time, and re-elected as the Vice-Chairman of the Regional Commission for Europe. As the Vice-Chair of the Regional Commission for Europe and representative of the European Region on the Committee on Tourism and Sustainability, Lithuania contributes to the implementation of sustainable development goals.

Lithuania is actively and constructively engaged in the work of the WTO by chairing different bodies/committees of this organisation. Permanent Representatives of Lithuania to the WTO have been elected to chair different WTO Committees on six occasions including on Budget, Finance and Administration; Trade facilitation; Subsidies and countervailing measures; Balance of Payments restrictions; and Customs Valuation. Lithuania is participating in various trade related technical assistance programmes and funds (for example, for the period of 2019-2020, Lithuania has contributed EUR50,000 towards WTO Doha Development Agenda Global Trust Fund (“DDA GTF”).

Lithuania is member of the Three Seas Initiative (“3SI”), a cooperation platform established in 2015 by Presidents of 12 EU member states between the Adriatic Sea, the Baltic Sea and the Black Sea. Through the 3SI Lithuania aims to boost the regional connectivity, digitalisation, energy security and reaching genuine convergence with the western part of the EU.

European Union Membership

Lithuania became a member state of the EU on 1 May 2004 and has been at the core of EU integration initiatives since. Lithuania became a member of the Schengen Area in December 2007. In June 2012, Lithuania ratified the European Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, which was signed by leaders of 25 EU member states in March 2012. In the second half of 2013, Lithuania held the rotating presidency of the Council of the European Union. On 1 January 2015, Lithuania became a member of the Eurozone. Since its EU accession, Lithuania has been a party to every trade agreement that the EU has concluded with non-EU members.

As an EU Member State, Lithuania is subject to multilateral surveillance by the European Council and other EU institutions and is obliged to prepare a stability programme which covers fiscal policy, Lithuania’s main assumptions underlying its economic outlook, and an assessment of economic policy measures and their budgetary impact. This information covers the current and previous year and includes forecasts for at least the next three years. Lithuania is also committed to prudent fiscal policy pursuant to the Fiscal Compact which enforces measures provided for by national legislation in respect of budget policy. Lithuania is one of 27 EU Member States that have ratified the Fiscal Compact which came into force on 1 January 2013. The Constitutional Law on the Implementation of the Fiscal Treaty was adopted in November 2014 (effective as of 1 January 2015) following the ratification of the Fiscal Compact. The management of the structural budget balance and the expenditure rule was embedded by supra-legislative norm (namely, by the Constitutional law). In addition, and based on the more extensive economic governance regulation applicable to the members of the Euro area, each year Lithuania has to prepare and present the Draft Budgetary Plan for the Commission and the Eurogroup that is assessed in October.

One of the most important goals since the beginning of Lithuania’s membership in the EU has been to maximise the efficient use of EU funds to stimulate the national economy and bridge the gap in economic and social development *vis-a-vis* the more affluent EU Member States. Another important goal for Lithuania in respect of its EU membership is for it to achieve full integration into the EU energy and energy transport markets. See “—*The Lithuanian Economy—Principal Sectors of Economy—Energy*”.

Lithuania’s membership of the EU has resulted in major inflows of EU funds (funds received from the EU), as well as allocations, (funding commitments from the EU).

EU Structural Assistance is provided under programmes prepared by EU Member States and approved by the Commission that are designed to improve working and living conditions in EU Member States in different economic sectors, including, *inter alia*, transportation, investments in business, environment, sustainable development, information society, energy efficiency, direct and indirect assistance to research and development and the enhancement of public administration capacity. EU Structural Assistance consists of funds provided from the European Social Fund, the European Regional Development Fund and the Cohesion Fund. Between 1 May 2004 and 31 December 2019, Lithuania received and has invested EUR 10.5 billion in funds relating to EU Structural Assistance.

Common Agricultural Policy Funds are provided to help ensure fair competition and common quality and safety standards for food in the EU. Farmers receive direct payments under the Common Agricultural Policy and access to the EU's single market. The Ministry of Agriculture of the Republic of Lithuania annually approves the Rural Development Programme for the current year. This programme provides state support for agriculture and rural development as financed from the State budget and EU funds. It consists of direct payments and investment programmes. Between 1 May 2004 and 31 December 2019, Lithuania received EUR 7.9 billion of Common Agricultural Policy Funds.

The following table sets forth information relating to the inflow of EU and other funds to Lithuania for the periods indicated:

	Year ended 31 December				
	2015	2016	2017 (EUR million)	2018	2019
Pre-Accession Funds	(0.7)	0.0	0.0	0.0	0.0
Cohesion Policy	23.9	2.5	0.0	0.0	0.0
Structural Assistance	169.8	517.6	555.1	1,158.8	741.9
of which:					
For the period from 2004 to 2006	0.0	0.0	0.0	0.0	0.0
For the period from 2007 to 2013	86.2	0.0	50.7	287.4	0.0
For the period from 2014 to 2020	72.3	513.8	487.5	850.4	721.0
Other	11.2	3.8	16.8	21.0	21.0
Common Agricultural Policy	507.7	714.5	698.5	708.0	649.0
Internal Policy	105.5	163.3	149.4	95.4	113.5
Other Funds	0.9	0.6	0.4	0.4	0.9
Non-EU Facilities	25.6	34.1	20.6	(0.9)	(0.3)
Total	832.6	1,432.6	1,423.8	1,961.7	1,505.0
Percentage of GDP	2.2	3.7	3.4	4.3	3.1

Source: Ministry of Finance

Lithuania contributed approximately EUR 5.2 billion of "Own Resources" payments to the EU between 1 May 2004 and 31 December 2019.

The following table sets forth certain information with respect to Lithuania's "Own Resources" payments to the EU for the periods indicated:

	Year ended 31 December				
	2015	2016	2017 (EUR million)	2018	2019
Traditional own resources	73.9	73.9	80.3	91.3	99.5
of which:					
Customs duties	73.1	73.1	79.4	91.3	99.5
Sugar levies	0.8	0.8	0.9	0.0	0.0
Agricultural levies	0.0	0.0	0.0	0.0	0.0
Other	326.2	332.5	271.9	320.4	384.4
of which:					
VAT	41.9	43.4	47.6	53.7	55.6
Gross national income ⁽¹⁾	255.7	264.8	197.9	241.0	302.0
Gross national income reserve	0.0	0.0	0.0	0.0	0.0
UK correction	28.6	24.2	23.5	22.5	23.3
The Netherlands and Sweden correction	0.0	0.0	2.8	2.9	3.0
Ireland, Denmark and UK correction	-	-	-	0.4	0.5
Total	400.0	406.4	352.2	411.7	483.9

Source: Ministry of Finance

Lithuania has received inflows from the EU to total EUR 1.5 billion in 2019, and currently expects to receive EUR 2.0 billion in 2020 and EUR 2.0 billion in 2021. These expectations are based on the current EU budget and are not legal commitments on behalf of the EU to provide such funds. See "— Forward-Looking Statements".

For the period from 2014 to 2020, approximately EUR 8.4 billion has been and is expected to be invested under five European structural and investment funds. These are the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund. The Partnership Agreement of the Republic of Lithuania covering those five funds was adopted by the Commission in June 2014 and will be implemented through three operational programmes, namely the Operational Programme for EU Structural Funds Investments for 2014-2020, the Lithuanian Rural Development Programme for 2014-2020 and the Operational Programme for the Lithuanian Fisheries Sector for 2014-2020. These

operational programmes cover important investment fields including the promotion of research and development, innovation, business competitiveness, education, employment, the reduction of poverty, the improvement of economic infrastructure and energy efficiency infrastructure. By the end of 2019, approximately EUR 5.2 billion of EU funds (78.0 per cent.) for the financial period from 2014 to 2020 were allocated to the projects being implemented and approximately EUR 3 billion of EU funds (44.0 per cent.) were paid out to the relevant beneficiaries. In 2019, EUR 950 million of EU structural funds were paid out to the relevant beneficiaries. Other key achievements in 2019 included: private funds amounting to EUR 84 million were attracted; and the simplification of the EU funds administration processes has resulted in enhanced efficiencies equivalent to the output of 2202 working days. The key challenges for the remainder of 2020 are to plan all the funds of the Operational Programme (allocated to the projects) by the end of 2020 and to prepare for the post-2020 investment period (the project of the Partnership Agreement, EU Funds Investment Programme, and the concept of Control and Management System).

By the end of 2019, nine investment funds were established: two funds of funds aiming to increase the access to finance for SMEs, four funds of funds for energy efficiency and multi-apartment building and public building modernisation, a fund of funds for adapting the public and private cultural heritage to the needs of society, a fund for water management companies and the financial instrument co-investment fund for transport. For implementation of these funds, up to EUR 1.1 billion has been allocated and it is anticipated that this will attract up to EUR 1.7 billion of private funds.

Currently, negotiations regarding the EU structural funds budget for the period 2021 to 2027 are ongoing. The initial proposal is for Lithuania to receive EUR 5.6 billion, although there can be no certainty, at this stage, as to the exact amount to be allocated to Lithuania. In March 2020, the first draft of EU funds Investment Programme was submitted to the European Commission (the “EC”).

Regional Initiatives and Bilateral Cooperation

Good neighbouring relationships are of central importance to Lithuania’s national security and is among its key foreign policy objectives.

Latvia and Estonia are particularly important partners for Lithuania, and the three Baltic States have common security and economic interests, particularly in strengthening regional defence and integrating energy and transport connections into European networks. The Baltic States’ institutionalised intensive and close inter-governmental and parliamentary co-operation is within the frameworks of the Baltic Council of Ministers and the Baltic Assembly.

The Baltic States’ close cooperation with respect to integration into the EU energy market is illustrated by the development of interconnected electricity and gas networks, developing power generation and diversification of energy supply, establishing a common electricity exchange market as well as development of a regional gas market. The Baltic Energy Market Interconnection Plan (“BEMIP”) provides for the development of energy infrastructure in the Baltic Sea region and the subsequent synchronisation of Baltic power systems with Continental European networks. See “—*The Lithuanian Economy—Principal Sectors of the Economy—Energy*”.

In the Joint Statement of the Prime Ministers’ Council of the Baltic Council of Ministers on 25 December 2019 in Riga, the Baltic States reiterated the necessity to enhance their early warning capabilities and to strengthen security, crisis management and defence planning in the Baltic region. The Baltic States committed to co-ordinate actions on the Rail Baltica railway infrastructure management and they welcomed the decisions at the BEMIP High Level Group on the Baltic States’ synchronisation with the Continental European Network (“CEN”) schedule and timeline. On 20 June 2019, a political roadmap to implement the synchronisation of the Baltic States’ electricity networks with the CEN was signed. A specific action plan and the necessary main projects up to 2025, when the Baltic States will join the safe and reliable energy system of Europe, was established. The Baltic States further committed to working on gas infrastructure projects of regional importance and developing the common regional gas market. They stressed the need for the highest international nuclear and environmental safety requirements for nuclear facilities in the EU neighbourhood, *inter alia*, with regard to the nuclear power plant project in Belarus.

In 2019, Lithuania spearheaded the creation of the Baltic States and US (“3+1”) Energy Dialogue, with the aim to enhance and facilitate energy cooperation between the three Baltic States and the United States, to support the implementation of the Baltic States synchronisation with the CEN by enhancing cyber

security, diversifying gas supplies in the Baltic States, and, encouraging co-operation in utilising innovative low-carbon energy technologies.

From 1 July 2020 to 30 June 2021, Lithuania will hold the chairmanship of the Council of the Baltic Sea States (the “**CBSS**”) and will focus three long-term priorities: fostering regional identity; strengthening a sustainable and prosperous region; and ensuring civil safety and security. For Lithuania, the CBSS remains an important forum for regional intergovernmental cooperation.

Since 1992 Lithuania has been a member of the network for cooperation of the Nordic and Baltic countries (the “**NB8**”). NB8 members – Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden – co-ordinate their policies and co-operate across areas of common interest. NB8 members regularly consult with key partners, including Poland, the UK, Japan, South Korea and the Visegrad Group countries. The NB8 focuses on regional security, including the Eastern Partnership, transatlantic relations, cyber co-operation, connectivity, including regional energy and transport projects and digital cooperation, climate change and environmental issues, cultural and health cooperation.

NB8 and the United States have set up a separate framework of cooperation, namely the Enhanced Partnership in Northern Europe (“**e-PINE**”). The main focus for e-PINE is co-operative security. In addition to traditional meetings of political directors of the Foreign Ministries and academics, meetings of experts on security policy, the EU’s Eastern neighbourhood and human rights were introduced into the annual agenda. Lithuania contributed to the development of the transatlantic energy cooperation in October 2019 hosting the 2nd Partnership for Transatlantic Energy Cooperation (“**P-TEC**”) ministerial meeting in Vilnius with participation of high level representatives from the United States, Central and Eastern European countries, and the European Commission.

Although restricted in its activities due to EU sanctions policy against the Russian Federation, the Northern Dimension (“**ND**”) and its partnerships remain important avenues to continue project management of nuclear waste, regional water treatment and improving environmental standards in the region. Lithuania, as a member of the EU, follows the ND activities.

The EU Strategy for the Baltic Sea Region (the “**EUSBSR**”) was approved by the European Council in 2009. The EUSBSR aims to find a common solution for the different challenges in the Baltic Sea region, in particular to improve the environmental status of the Baltic Sea, to enhance existing transport and energy infrastructure, and to increase the prosperity of the region. At present, Lithuania is coordinating three policy areas, which encompass transport (together with Sweden), energy (together with Latvia) and bioeconomy (together with Sweden and Finland). In terms of transport, the key aim is to improve the functionality of existing internal and external transport links in the Baltic Sea Region. The main focus in the energy field is energy efficiency, with the goal of establishing a regional platform for the enhanced collaboration among the regional Member States as well as exchange of best practices. With regard to bioeconomy, the aim is to reinforce the sustainability of agriculture, forestry and fisheries across the region. Since 2019, work to update the EUSBSR Action plan is ongoing together with the European Commission. In 2021-2022 Lithuania is expected to chair the Group of EUSBSR National Coordinators. The EUSBSR Annual Forum is scheduled to be held in Lithuania in 2021.

Strategic cooperation with the United States is one of the cornerstones of Lithuania’s foreign and security policy. The long-term historical ties between the United States and Lithuania was emphasised by the continued policy of non-recognition of the Baltic States’ occupation, enshrined in Sumner Welles Declaration from 23 July 1940. The US’ support in Lithuania’s regaining of independence in 1990 and the US’ crucial role in advancing Lithuania’s membership in Euro-Atlantic institutions are examples of the important relationship between Lithuania and the United States.

A continued US military presence in Lithuania is necessary to ensure the security of Lithuania and that of the whole region. Implementing the decisions of the NATO Warsaw Summit in 2016, the US became the a framework nation in the enhanced Forward Presence in the Baltic region (Poland). Moreover, the US is regular participant in Baltic air police missions and numerous military exercises in the Baltics. The European Deterrence Initiative also demonstrates the US’ commitment to NATO allies and partners to enduring peace, stability, and territorial integrity in Europe.

Lithuania is fighting, together with the US, against common global security challenges like terrorism and cyber and hybrid threats. Lithuania is actively contributing to international missions and operations in Afghanistan, Iraq, Mali, the Straits of Hormuz and conducts a national training mission in Ukraine.

The firm Polish-Lithuanian relationship is based on the Treaty of Friendly Relations and Good Neighbourly Co-operation of 1994. Poland is a strategic partner of Lithuania in the region as well as a key ally in the EU, NATO and other multilateral international organisations. Lithuania and Poland are united in their approach to the enhancement of regional security, deterring aggression, strengthening energy security and transport connectivity. Energy security interests and the strategic partnership between Lithuania and Poland prompted the largest-ever Polish investment in Lithuania in 2006; “Orlen Lietuva” is one of the most important foreign investments in the history of Lithuania. The Government of Lithuania continues to closely co-operate with the Polish Government and PKN Orlen in an effort to keep the company competitive on global energy markets.

In recent years co-operation in the sphere of hybrid threats and common measures against hostile propaganda from third countries has become a priority in bilateral relations. Co-operation on energy security has intensified between Lithuania and Poland, while the synchronisation of electricity networks of Baltic countries with the European continental grid is underway (planned for 2025) in cooperation with EU. The Gas Interconnection Poland-Lithuania (“GIPL”) project is due to be finished in 2021. Integration of regional transport infrastructure is carried out through infrastructure projects such as “Rail Baltica” and “Via Baltica”. Poland is the second largest trading partner for Lithuania and was the first destination country for exports of Lithuanian-origin goods in 2018, one of the most important destination and source country of FDI projects. In 2019, Polish investments increased by 12.0 per cent. in one year up to EUR 1.09 billion.

Lithuania and Poland have been co-operating on the integration of their energy systems via electricity power grids (“LitPolLink”, operational since 2015, and an under-sea cable “Harmony Link”, the most significant Baltic energy project started in 2020), the gas interconnection system (“GIPL”) – the Lithuanian natural gas transmission system operator started the construction of the interconnector in January 2020) and also transport infrastructure projects “Rail Baltica” and “Via Baltica” that are under implementation.

Since March 2004, Poland has been a regular contributor to NATO’s Air-Policing mission over the Baltic States. A joint Lithuanian–Polish–Ukrainian Brigade (“LITPOLUKRBRIG”) is operational. With NATO Enhanced Forward Presence (“EFP”) forces present in the Baltic countries and Poland, regular military exercises are held in order to strengthen NATO capabilities to react to the threats from third countries.

Lithuanian-German bilateral relations are strong, with both countries closely partnering in economy, defence, science and culture. In 2019, Germany was Lithuania’s third largest trading partner and fourth largest foreign investor in terms of cumulative foreign direct investments. Germany is Lithuania’s largest partner in science, innovations and technology. In 2019, the highest numbers of tourists visiting Lithuania came from Germany. Lithuanian and German municipalities have established more than 50 partnerships. Since 1996, Lithuania, together with Estonia and Latvia, has maintained a strategic dialogue with Germany under the format “3+1” (the three Baltic states and Germany). In pursuance of the 2016 NATO Summit decisions, Germany assumed the role of the framework nation for the multinational battalion battle group in Lithuania, which is part of NATO’s EFP.

In 2009, the French-Lithuanian declaration on strategic partnership signed by the Presidents of Lithuania and France solidified co-operation in energy, trade and economy. Political and economic co-operation has developed as France remains one of the most significant investors in Lithuania. France’s contribution to the security of the Baltic region is essential. Lithuania and France closely co-operate in UN and EU peace-keeping missions in Africa.

Lithuania and the United Kingdom are close partners and allies, pursuing strong and deep relations in foreign affairs, trade, economy and culture. The United Kingdom is among Lithuania’s top ten largest trade partners. The Lithuanian community in the United Kingdom plays an important role in promoting business, trade, and investment relations between Lithuania and the United Kingdom. The United Kingdom substantially contributes to security and defence through EFP and NATO Air Policing missions in the Baltic States.

Lithuania’s relations with Russia are based on the principles outlined in the Treaty on the Foundation of Interstate Relations signed in July 1991 as well as over 40 treaties and other bilateral agreements regulating co-operation in political, economic, social, cultural, transport, and other spheres. Due to Russia’s policies, including in the wider region, political dialogue between the two countries has been practically non-existent since 2011, but practical cooperation has continued. For example, in the sphere of

economy and trade, Russia remains Lithuania's main trading partner, tourist flows are increasing, and academic/cultural exchanges and public-to-private ("P2P") contacts are being actively promoted. Lithuania's political position is fully in line with the common positions of the EU with regard to Russia, which was formulated after the illegal annexation of Crimea by Russia, fuelling the conflict in eastern Ukraine and the continuous aggressive policy of Russia with regard to its neighbours. Lithuania remains a firm supporter of a coordinated response by the international community to Russia's violations of international law and principles.

Russia remains Lithuania's largest single trading partner for both exports and imports, although bilateral trade has significantly decreased in recent years. In 2019, Lithuanian exports to Russia accounted for 14.0 per cent. of total Lithuanian exports and imports from Russia accounted for 14.7 per cent. of total Lithuanian imports. However, Russia is only the 17th largest importer of Lithuanian goods and accounts for only 1.9 per cent. of total Lithuanian exports. The Russian import ban of agricultural and food products against all EU Member States and several other countries had a negative impact on the volumes of Lithuanian exports to Russia in 2014; however, Lithuanian exporters of agricultural and food products managed to diversify exports and access new markets worldwide.

Trade and P2P contacts continue between Lithuania and the Kaliningrad Region of Russia. A number of Lithuanian municipalities along the border with the Kaliningrad Region have signed co-operation agreements with their counterparts in the Kaliningrad Region. A range of cross-border co-operation ("CBC") projects have been implemented under the framework of the Lithuania-Poland-Russia CBC programme for the period between 2007 and 2013. The current Lithuania-Russia cross-border co-operation programme for 2014-2020 amounts to EUR 27.2 million (EU 17 million, LT 1.7 million and RU 8.5 million). As of 31 December 2019, 24 new cooperation projects have been approved to be financed under the programme. These projects aim to strengthen regional cooperation focusing on the preservation of local culture and historical heritage, accessibility to the regions (health and civil security infrastructure), local and regional good governance, promoting prosperity and border management and security.

Relations between Lithuania and Belarus are governed by the Agreement on Good Neighbourhood and Co-operation, which was signed in 1995 and entered into force in 1996. Lithuania and Belarus have signed approximately 30 bilateral treaties covering areas such as the economy, transport, environment, state border control, trans-border contacts, and common historical and cultural heritage areas. Lithuania follows a common EU policy of critical engagement towards Belarus including: (i) technical dialogues on specific topics, (ii) cooperation through the multilateral track of the Eastern Partnership, (iii) support to civil society and victims of repression, and (iv) restrictive measures (arms embargo and sanctions against four individuals), which were extended on 17 February 2020 by the EU Council for one year (until 28 February 2021). The EU also reiterated the importance of ensuring nuclear safety beyond the borders of the EU and called on Belarus to cooperate constructively with the relevant international authorities regarding the construction of Ostravets NPP, and to implement the EU's stress test recommendations. With a view to increasing Lithuania's resilience to possible challenges raised by this project, an emergency preparedness exercise was carried out in Lithuania in October 2019. Further efforts are planned to increase Lithuania's emergency preparedness and response capabilities.

In 2019, Lithuanian exports to Belarus accounted for 3.87 per cent, of total Lithuanian exports and imports from Belarus accounted for 2.4 per cent, of total Lithuanian imports. The 2014-2020 European Neighbourhood Instrument Latvia-Lithuania-Belarus CBC Programme continued the successful partnership between Latvian, Lithuanian and Belarusian organisations during the 2014-2020 programming period of the EU.

Relations between Lithuania and Ukraine are governed by the Agreement on Friendship and Cooperation which was signed in 1994 and entered into force in 1995, as well as different bilateral agreements and treaties covering cooperation in economy, investments, transport, energy, education, culture, tourism and other areas. The Council of the Presidents of the Republic of Lithuania and Ukraine was established in 2002 and since 2006 is held usually once a year in Vilnius or Kyiv. The last Council was held on 27 November 2019 in Vilnius and was co-chaired by the recently elected Presidents of Lithuania and Ukraine, Gitanas Nausėda and Volodymyr Zelensky. Lithuania firmly supports Ukraine's independence, sovereignty and territorial integrity, Ukraine's integration in the EU and NATO as well as the country's reform process. On 7 July 2020 in Vilnius, Lithuania, together with Ukraine, will host the Fourth Ukraine Reform Conference. In 2019, Lithuanian exports to Ukraine accounted for 3.63 per cent. of total Lithuanian exports and imports from Ukraine accounted for 1.0 per cent. of total Lithuanian imports.

Lithuania actively supports and promotes closer economic integration and political association between the EU and its Eastern European partner states (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine).

Lithuania pays particular attention to Ukraine, Georgia and Moldova as these Eastern European states are the EU's associated partners, moving closer towards the EU at a greater pace. Supporting Ukraine, Georgia and Moldova in implementing Association Agreements, including Deep and Comprehensive Free Trade Areas (“**AA/DCFTA**”) and related reforms is at the core of the Lithuanian policy towards associated partners.

Lithuania is working closely with the Eastern Partnership countries in transport, digital economy, environment, energy efficiency and many other areas.

THE LITHUANIAN ECONOMY

Background

Upon regaining its independence in 1990, Lithuania began the transition to a market-based economy. This transition was accompanied by a four-year recession beginning in 1992, resulting from the impact of the severe shock of disconnection of the economy from the USSR and the effect of the implementation of economic reform. Lithuania's economy began to show signs of economic recovery in 1994.

The Lithuanian economy grew steadily during the period from 1995 to 1998. In the second half of 1998, the financial crisis in Russia and the related collapse of the Russian consumer market caused a major shock to the Lithuanian economy. The Lithuanian economy recovered in 2000 and GDP grew steadily (annual average of 7.9 per cent.) from 2001 to 2003.

Lithuania completed its accession to the EU in 2004. Reforms implemented in Lithuania and accession to, and integration in, the EU have had a positive impact on the economic development of the country. Between 2004 and 2007, Lithuania's average annual GDP growth rate was 8.4 per cent. During this period, domestic demand accelerated rapidly, primarily due to increased access to credit, and was the primary driver of economic growth.

The 2008 global financial crisis had a significant impact on the Lithuanian economy. The decrease of exports, foreign investment, consumer confidence, and consequently domestic demand led to only a 2.6 per cent. growth in GDP in 2008 and a decline in GDP of 14.8 per cent. in 2009, together with a switch from a current account deficit ("CAD") to a surplus. However, driven mainly by the exports sector and domestic demand-stimulated sectors, Lithuania's GDP growth increased by 1.6 per cent. in 2010, 6.0 per cent. in 2011, 3.8 per cent. in 2012, 3.5 per cent. in 2013, 2.0 per cent. in 2014, 2.4 per cent. in 2015 and 2.6 per cent. in 2016.

Overview – 2017 onwards

Lithuania has continued to see a steady but moderate GDP growth of 4.2 per cent. in 2017, 3.6 per cent. in 2018 and 3.9 per cent. in 2019. Domestic demand was the main driver of GDP growth in 2017 and 2018, while in 2019 the growth of the economy was mainly stimulated by net exports.

After unemployment peaked in 2010, it steadily declined and the unemployment rate totalled 7.1 per cent. in 2017, 6.1 per cent. in 2018 and 6.3 per cent. in 2019.

In 2017, exports and imports started to grow followed by a large increase of 16.8 per cent. and 15.3 per cent., respectively, and continued to increase in 2018 (by 7.0 per cent. and 8.5 per cent., respectively), and in 2019 (by 4.7 per cent. and 2.8 per cent., respectively).

The current account had a surplus of 0.5 per cent. of GDP in 2017, which remained almost the same (0.3 per cent. of GDP) in 2018 and increased to 4.3 per cent. of GDP in 2019.

Economic and Fiscal Policy

Following the global financial crisis, Lithuania's Government took measures in order to maintain stable public finances, strengthen investor confidence, enhance financing opportunities for businesses, improve labour efficiency and tax administration, provide higher levels of investment, provide a favourable business environment and encourage the effective use of public funds allocated for investment.

Lithuania has maintained a track record of responsible fiscal policy, as illustrated by the General Government outcome data (see "*—Public finances*"). The Government's fiscal policy has been focused on balancing the rebuilding of fiscal buffers and a need to implement structural reforms. This aims at securing productivity, strengthening long-term potential growth and sustainability of Government finances, as well as addressing the challenges caused by Lithuania's ageing society. In recent years, the Government's fiscal policy objectives have been to exercise fiscal policies according to the condition of the economic cycle, to gradually increase the size of fiscal reserves and to keep the General Government Sector's structural balance at a level consistent with the medium term objective, which is set by the Parliament to – 1.0 per cent. of GDP. In favourable economic conditions between 2016 - 2019, the General Government structural balance was targeted to converge to a balanced or even a surplus position. The adherence to the fiscal discipline rules set up by national and EU legislation allow for building up

fiscal space which is going to be used in current unfavourable economic circumstances. Compared to the previous crisis (between 2008 and 2009), Lithuania is better prepared for the economic disruption which will result from the COVID-19 pandemic because Lithuania started 2020 with no imbalances in its economy (including low unemployment, no consumption bubbles, current account surplus and relatively low private and public debt), the General Government fiscal position was balanced and the total amount of fiscal reserves amounted to EUR 1 billion (2.2 per cent. of GDP) by the end of 2019. Part of these reserves is accumulated in the State Social Security Fund, the Guarantee fund and the Long-Term Work Benefit Fund, whose funds could be used in different circumstances of unemployment. These funds will allow the automatic stabilisers to play their role. On 16 March 2020, the Government prepared an initial EUR 2.5 billion package of measures targeted to combat the negative COVID-19 impact on the health system, economics and social environment. Depending on the severity of the health crisis caused by COVID-19 and its negative impact on the economy, the Government stands ready to react swiftly and allocate as many funds as needed. The measures launched by the European Commission, European Central Bank could become complementary resource and a meaningful pillar for stimulation of the economy if used in a timely manner.

In addition, the Government has introduced the following tax and sectoral measures to mitigate against the impact of the COVID-19 pandemic:

Tax measures

- Deferring or arranging taxes in instalments according to the agreed schedule without interest to be paid.
- Stopping recovery actions in respect of tax arrears in accordance with the criteria of reasonableness.
- Exemption of taxpayers from fines, default interest for failure to comply with tax obligations on time.
- Postponement of submission (and payment of) personal income tax returns and advanced corporate income tax returns.
- Exemption from real estate, land and state land rent taxes for a limited period (until the end of quarantine; in some cases this period is prolonged with one additional month after quarantine). This exemption is applicable only in specific municipalities and only proportionally to that part of the property intended to carry out activities that are restricted during the quarantine.
- Relief from import duties and VAT exemption on importation granted for goods needed to combat the effects of the COVID-19 outbreak pursuant to the EU Regulation provisions until the European Commission's decision (EU) 2020/491 of 3 April 2020 on relief from import duties and VAT exemption on importation granted for goods needed to combat the effects of the COVID-19 outbreak during 2020.

Sectorial and regional measures

- On 18 March 2020, the Bank of Lithuania released the countercyclical capital buffer of EUR 86 million that came into force on 1 April 2020 and will allow banks to provide up to EUR 1 billion in loans to businesses and residents.
- Increase the capacity of the state guarantee funds by EUR 500 million (entered into force on 18 March 2020).
- Ensure additional state guarantees amounting up to EUR 500 million (entered into force on 18 March 2020) - 50 to 100 per cent. offset for SMEs on the amounts of interest actually paid has been foreseen.
- EUR 250 million of EU investment funds have been reallocated to health, employment and business sectors for the mitigation of COVID-19 impact.

- Changes in national regulations to speed up the use of EU funds (target value – EUR 1.2 billion).
- Enabled full use of the Climate Change Programme (EUR 18 million), Road Maintenance and Development Program (EUR 142 million) and accelerating the programme for renovation of apartment buildings (EUR 90 million).
- Recommendation to municipalities to allow inhabitants pay for utilities in instalments or postpone the payments as well as to exempt taxpayers from taxes levied on business property and land.

Further details of the Government's proposed response to the impact of COVID-19 can be found in the COVID-19 National Action Plan.

Gross Domestic Product

GDP is the total value of final products and services in a country in a specific year. The following table sets out the GDP of Lithuania in current prices for the following periods, indicated both as a total and per capita:

	2015	2016	2017 ⁽²⁾	2018 ⁽³⁾	2019 ⁽³⁾
GDP, total at current prices, Euro millions	37,321.8	38,893.4	42,269.4	45,264.4	48,339.2
Real GDP growth ⁽¹⁾ , %	2.0	2.6	4.2	3.6	3.9
GDP per capita at current prices, Euro.....	12,847.8	13,560.1	14,944.6	16,157.5	17,310.4

Notes:

- ⁽¹⁾ Chain-linking method is used for calculation of real GDP growth rates, unadjusted for seasonality and working days.
⁽²⁾ Non-final data.
⁽³⁾ Provisional data.

Source: Statistics Lithuania

The following table sets out the composition of GDP by expenditure component in both current prices and percentage terms for the periods indicated:

	Year ended 31 December									
	2015		2016		2017 ⁽²⁾		2018 ⁽³⁾		2019 ⁽³⁾	
	(EUR millions)	(% of GDP)	(EUR millions)	(% of GDP)	(EUR millions)	(% of GDP)	(EUR millions)	(% of GDP)	(EUR millions)	(% of GDP)
Final consumption expenditure	29,776.4	79.8	31,132.5	80.0	33,162.8	78.5	35,423.0	78.3	37,639.4	77.9
Household consumption expenditure	23,249.6	62.3	24,430.3	62.8	26,173.7	61.9	27,890.7	61.6	29,355.1	60.7
Government consumption expenditure	6,428.2	17.2	6,610.8	17.0	6,895.8	16.3	7,464.1	16.5	8,207.3	17.0
Individual	3,643.8	9.8	3,783.7	9.7	3,987.2	9.4	4,345.8	9.6	4,816.1	10.0
Collective	2,784.4	7.5	2,827.2	7.3	2,908.6	6.9	3,118.3	6.9	3,391.2	7.0
NPI serving households⁽¹⁾.....	98.5	0.3	91.3	0.2	93.3	0.2	68.2	0.2	77.1	0.2
Gross capital formation.....	7,917.8	21.2	7,457.7	19.2	8,099.0	19.2	8,962.3	19.8	8,296.3	17.2
Gross fixed capital formation....	7,323.9	19.6	7,722.6	19.9	8,449.3	20.0	9,300.3	20.5	10,230.5	21.2
Changes in stocks.....	568.1	1.5	(287.9)	(0.7)	(375.9)	(0.9)	(364.6)	(0.8)	(1,964.6)	(4.1)
Acquisitions less disposals of valuables.....	25.8	0.1	23.0	0.1	25.6	0.1	26.6	0.1	30.3	0.1
Exports of goods and services	25,685.5	68.8	26,283.9	67.6	31,112.7	73.6	34,229.3	75.6	37,743.7	78.1
Imports of goods and services	26,057.8	69.8	25,980.8	66.8	30,105.2	71.2	33,350.3	73.7	35,340.2	73.1
Gross domestic product	37,321.8	100.0	38,893.4	100.0	42,269.4	100.0	45,264.4	100.0	48,339.2	100.0

Notes:

- ⁽¹⁾ NPI serving households represents expenditure provided by non-profit serving institutions to households as social transfer in kind.
⁽²⁾ Non-final data.

(3) Provisional data.

Source: Statistics Lithuania

Principal Sectors of the Economy

The following table sets out the breakdown by sector of gross value added (“GVA”) for Lithuania in current prices for the periods indicated:

	2015		2016		2017 ⁽¹⁾		2018 ⁽²⁾		2019 ⁽²⁾	
	(EUR millions)	(% of GVA)	(EUR millions)	(% of GVA)	(EUR millions)	(% of GVA)	(EUR millions)	(% of GVA)	(EUR millions)	(% of GVA)
Agriculture, forestry and fishing	1276.1	3.8	1208.3	3.5	1482.8	3.9	1315.8	3.2	1430.1	3.3
Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities.....	7471.9	22.2	7740.7	22.1	8400.8	22.1	8718.9	21.4	9062.6	20.8
of which manufacturing.....	6426.8	19.1	6571.0	18.8	7173.9	18.9	7476.6	18.4	7832.0	18.0
Construction	2473.5	7.4	2335.0	6.7	2540.6	6.7	2831.8	7.0	3187.9	7.3
Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities	10513.7	31.3	11014.7	31.5	12003.3	31.6	12973.2	31.9	13735.6	31.6
Information and communication	1153.4	3.4	1258.5	3.6	1383.5	3.6	1527.9	3.8	1623.1	3.7
Financial and insurance activities	704.8	2.1	760.7	2.2	774.9	2.0	921.6	2.3	1009.3	2.3
Real estate activities	2266.5	6.7	2408.6	6.9	2534.0	6.7	2666.7	6.6	2714.3	6.2
Professional, scientific and technical activities; administrative and support service activities....	2188.2	6.5	2387.8	6.8	2642.2	7.0	2930.1	7.2	3283.9	7.5
Public administration and defence; compulsory social security; education; human health and social work activities	4826.0	14.4	5083.2	14.5	5347.0	14.1	5886.1	14.5	6498.0	14.9
Arts, entertainment and recreation, repair of household goods and other services.....	729.4	2.2	803.0	2.3	865.8	2.3	905.9	2.2	962.3	2.2
Gross value added.....	33603.6	100.0	35000.5	100.0	37974.9	100.0	40678.3	100.0	43507.2	100.0

Notes:

(1) Non-final data.

(2) Provisional data.

Source: Statistics Lithuania

Industry

Lithuania’s export-oriented industry sector consists of mining and quarrying, manufacturing, electricity, gas, steam and air conditioning supply, water supply, sewerage, waste management and remediation activities. Much of the demand for raw materials used in the industry sector is met by imports.

While GVA in the industry sector rose by 5.1 per cent. in 2017, the industrial production at constant prices in the industry sector rose by 5.3 per cent. as compared to 2016 and at constant prices. In 2018, GVA in the industry sector rose by 2.9 per cent. and industrial production by 6.2 per cent. as compared to 2017 and at constant prices. In 2019, GVA in the industry sector rose by 3.4 per cent. and industrial production by 4.3 per cent. as compared to 2018 and at constant prices.

Industry accounted for 22.1 per cent. of total GVA in 2017, 21.4 per cent. in 2018 and 20.8 per cent. in 2019.

Manufacturing

The manufacturing subsector has provided a large contribution to GVA and GDP for a number of years. This subsector accounted for 18.9 per cent. of total GVA in 2017, 18.4 per cent. in 2018 and 18.0 per cent. in 2019. The principal sub-sectors within the manufacturing sector since 2006 have been the manufacturing of refined petroleum products, food and beverages and chemicals and chemical products. As a result of increased foreign demand, manufacturing production at constant prices increased by 4.7 per cent. in 2017, 7.3 per cent. in 2018 and 4.3 per cent. in 2019.

Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles, Transportation and Storage, Accommodation and Food Service Activities

The wholesale and retail trade subsector, including the repair of motor vehicles and motorcycles, transportation and storage, accommodation and food service activities, accounted for 31.6 per cent. of total GVA in 2017, 31.9 per cent. in 2018 and 31.6 per cent. in 2019. The GVA of this subsector at constant prices increased by 6.0 per cent. in 2017, 8.2 per cent. in 2018 and 8.0 per cent. in 2019.

Real Estate Activities

The real estate activities subsector (which does not include construction) accounted for 6.7 per cent. of total GVA in 2017, 6.6 per cent. in 2018 and 6.2 per cent. in 2019.

The GVA of real estate activity at constant prices increased by 4.0 per cent. in 2017, 6.5 per cent. in 2018 and 4.4 in 2019.

Construction

The construction subsector accounted for 6.7 per cent. of total GVA in 2017, 7.0 per cent. in 2018 and 7.3 per cent. in 2019.

The GVA of the construction subsector at constant prices increased by 7.5 per cent. in 2017, 12.5 per cent. in 2018 and 8.9 per cent. in 2019.

Energy

The energy sector is particularly important to the Lithuanian economy.

In 2018, Lithuania's revised National Energy Independence Strategy ("NEIS") and its Action Plan were approved by the corresponding Authorities. NEIS provides for four main directions of Lithuanian energy policy: energy security, the development of green energy, efficient energy consumption, and competitiveness and innovation. NEIS includes Lithuania's key energy targets for 2030 and defines the guidelines for energy development until the middle of the century. NEIS reflects the vision of the Lithuanian energy sector – to provide reliable, renewable and environmentally friendly energy to the residents of the country at the most favourable price.

Targets set in the NEIS are reflected in Lithuania's Integrated National Energy and Climate Plan 2021 – 2030 ("NECP"). The NECP was prepared in line with the relevant EU regulation on the Governance of the Energy Union and Climate Action (2018/1999) and approved by the Lithuanian Government on 30 December 2019.

The main goals set by Lithuania in the NEIS and the NECP are the following: to increase the share of overall energy consumption produced from renewable energy resources ("RES") to 45.0 per cent. (this makes Lithuania one of five most ambitious EU Member States, compared to the EU's goal of 32.0 per cent.); to reduce emissions of greenhouse gasses ("GHG") by 9.0 per cent. (compared to 2005) and to reduce energy intensity at least 1.5 times. These main priorities of Lithuania's energy policy are currently in line with European energy policies. Achieving these goals and implementing measures approved in the NECP will require investments of EUR 14 billion including EUR 9.8 billion from public sources. The EU is in the process of updating its energy policy framework in a way that will facilitate transition to clean energy. The EU aims to become climate-neutral by 2050 (an economy with net-zero GHG). This objective is a core part of the European Green Deal, adopted in December 2019. Therefore, the Commission aims to propose raising the commitment to cut CO₂ emissions from 40.0 per cent. to at least 50.0 per cent. and towards 55.0 per cent. in a responsible way until 2030. These new targets are

considered at the proposed European Climate Law and are expected to be set in 2021. In case of Lithuania, a thorough impact assessment and consideration of already calculated investment needs is required to assess the possibility of increasing GHG reduction goals. However, in line with the European Green Deal, European Climate Law and plans to review Renewable Energy Directive in 2021, Lithuania considers it to be feasible and necessary to increase the EU renewable energy ambition to 100 per cent. by 2050 (current Lithuanian national target 2050 set in the NEIS is 80.0 per cent. RES share in the overall energy consumption and 100 per cent. RES share in electricity consumption).

Energy Sector Reforms

Lithuania has taken steps to liberalise its electricity market and from 2013 all commercial users pay for electricity at market price. Household consumers also have the right (not the obligation) to choose an independent electricity supplier and purchase electricity in the market or under bilateral contracts. Currently, Lithuania is preparing further arrangements for a full de-regulation of retail electricity prices for households. Furthermore, in order to smoothly reach the effective retail electricity supply market, certain technical and organizational conditions are being prepared: to roll-out electricity smart meters, create a centralized electricity consumption data collection and sharing database, to standardize process for independent supplier switching and to standardize provisions of invoices and price offers. The necessary legislative amendments are already being considered in Parliament. The gradual transition is foreseen to take place between 2020 and 2023.

The Nord Pool Spot intraday market (“**ELBAS**”) in Lithuania was launched in 2013. This completed the BEMIP’s long-term goal of creating a modern and integrated Baltic power market connected to the Nordic region.

Electricity

Lithuania’s electricity transmission network is operated by Litgrid AB. Litgrid AB manages electricity flows in Lithuania and maintains the stable operation of the national electricity system. Litgrid AB is also in charge of the integration and development of the electricity market of Lithuania as well as the operation and development of the electricity transmission grid and implementation of one of the key energy strategic projects: synchronisation of the Baltic States’ electricity grid with the continental European system of electricity networks.

According to Eurostat data for first half of 2019, average electricity prices for household customers in Lithuania were approximately 48.0 per cent. below the EU average, while average electricity prices for non-household customers in Lithuania were approximately 27.0 per cent. below the EU average.

During 2019, Lithuania consumed 11.145 terawatt hours (“**TWh**”) of electricity, 72.0 per cent. of which was imported. 41.0 per cent. of the imported electricity was from EU countries, while 59.0 per cent. was imported from 3rd countries. In 2019, local electricity production increased by 13.0 per cent. and constituted 28.0 per cent. of electricity demand. Production from renewable energy resources (“**RES**”) constituted 80.0 per cent. of local generation. The Government is also intending to address domestic electricity demand by increasing energy efficiency and the generation capacities of its renewable energy sources in households. Currently, 30.2 MW of solar power plants are installed under the self-consumer status.

The expansion of the Kruonis Pumped Storage Power Plant (“**Kruonis PSPP**”) is also being considered. Kruonis PSPP is currently equipped with four hydro units, but the initial design of the power plant provides an opportunity to build another four units, which could include a fifth 225 MW hydro unit. The viability of this project is being evaluated and a decision is expected by the end of 2020, taking into account current electricity market tendencies, expansion of renewable energy sources and new production capacities in the region.

Electricity Interconnections and Synchronous Operation with ENTSO-E

Due to historical factors, Lithuania’s high voltage electricity transmission grid is directly interconnected with the high voltage grids of Latvia, Belarus and the Kaliningrad Region of Russia. These interconnections allow extensive exchanges of power with those neighbouring systems. However, the core objective of Lithuania’s and of all Baltic States’ energy strategies is the integration of their energy systems into the common European electricity market and to begin synchronised operations with the

European Continental Network (“**ENTSO-E**”) by 2025. The importance of such synchronisation is also recognised in the framework of the EU energy policy. This project is included within the European Energy Security Strategy and the EU Energy Union as a Project of Common Interest and of critical importance to the EU energy security.

New interconnection lines with Sweden and Poland, the constituent parts of the integration of the Baltic electricity market into the common European electricity market, were installed and launched at the end of 2015 (electricity link between Lithuania and Poland “**LitPol Link**” - 500 MW) and the beginning of 2016 (submarine power cable between Lithuania and Sweden “**NordBalt**” – 700 MW).

On 28 June 2018, the President of the European Commission Jean-Claude Juncker together with the heads of state or government of Lithuania, Latvia, Estonia and Poland agreed on the political roadmap for synchronising the Baltic States’ electricity grid with the Continental European Network by the target date of 2025. Synchronisation will be implemented via the existing line between Lithuania and Poland (“**LitPolLink**”), complemented by the new submarine HVDC link. These and other relevant grid reinforcements have been also included in the fourth EU list of Projects of Common Interest (“**PCIs**”), making them eligible for the CEF funding.

On 19 March 2019, a grant agreement releasing EUR 323 million (EUR 125.2 million for Lithuanian part) of EU funding from the Connecting Europe Facility (“**CEF**”) to carry out phase 1 of the synchronisation of the Baltic States’ electricity network with the Continental European Network (“**CEN**”) was signed.

Decommissioning of Ignalina NPP

As part of the international commitments made during Lithuania’s accession to the EU, the Government adopted a decision to close down Unit 1 and Unit 2 of the Ignalina NPP in December 2004 and December 2009, respectively. The Ignalina NPP fully ceased production of electricity on 31 December 2009.

Pledges of financial support have been made by the EU and other international contributors to cover the costs related to the decommissioning of the Ignalina NPP. According to the revised Final Decommissioning Plan of the Ignalina Nuclear Power Plant adopted at the end of August 2014, the total cost of decommissioning both of the Ignalina NPP’s reactors, and the resulting radioactive waste management, is estimated to be approximately EUR 3.377 billion (inflation and risks included) until 2038. Recognising the magnitude of the long-term costs related to the decommissioning of the Ignalina NPP, the EU has made a commitment to provide financial assistance to Lithuania with respect to the decommissioning costs via a dedicated EU support programme (the “**Ignalina Programme**”). For this purpose, the provisions of Protocol No 4 of Lithuania’s Treaty of Accession stipulate seamless continuation of the Ignalina Programme in future financial frameworks.

By 2020, Lithuania will have received EUR 1,818 million from the EU for the decommissioning of Ignalina NPP and related activities. Lithuania contributes approximately 14.0 per cent. of the funds required for the decommissioning of Ignalina NPP. To ensure the smooth and uninterrupted progress of Ignalina NPP decommissioning, the continuity of adequate EU support is vital. The required financing from the EU until 2038 amounts to EUR 1,331 million (if the current co-financing practice is maintained). To ensure the smooth and stable decommissioning of Ignalina NPP post-2020, a commitment of EUR 780 million of EU funding during the 2021–2027 Multiannual Financial Framework (“**MFF**”) is required. The European Commission, in its proposal of 2 May 2018, suggested EUR 552 million. At the plenary session on 17 January 2019, the European Parliament approved the report on the draft Ignalina Programme regulation, in which funding of EUR 780 million is proposed to be allocated for the decommissioning of Ignalina NPP in the 2021–2027 MFF. The negotiations for EU support for the decommissioning of Ignalina NPP post-2020 are ongoing. The final decision has not yet been made.

Oil

Lithuania’s oil sector comprises one oil refining and transportation company (ORLEN Lietuva, which owns the Orlen Lietuva Refinery), one oil handling terminal (Būtingė), one oil products terminal Klaipėdos Nafta AB (“**Klaipėdos Nafta**”), four oil extraction companies, approximately 300 companies engaged in oil product sales and approximately 900 petrol stations.

Lithuania has oil reserves onshore and offshore in the Baltic Sea, but their size, based on existing exploration results, is limited. Consequently, Lithuania's oil supply heavily depends on external suppliers; more than 80.0 per cent. crude oil is imported from Russia. However, if there were difficulties to import Russian crude oil, there would be possibilities to import crude oil from other different sources. It could affect prices due to the longer supply route or other factors. Currently, all crude oil imported into Lithuania arrives by way of oil tankers through the Būtingė oil terminal. The Būtingė oil terminal allows the import of crude oil from Russia and other suppliers and provides an export outlet via the Baltic Sea using oil tankers. The Būtingė terminal has the capacity to export more than 14 million tonnes of crude oil per year and import a sufficient amount of crude oil to enable Lithuania's Orlen Lietuva Refinery to operate at full potential.

Lithuania exports a significant volume of refined oil products, which are produced at the Orlen Lietuva Refinery. ORLEN Lietuva, which is wholly owned by the Polish company PKN ORLEN S.A., owns the Orlen Lietuva Refinery, the pipeline system and the Būtingė oil terminal. In 2018, ORLEN Lietuva produced 10.1 million tonnes of marketable oil products (based on refining 9.7 million tonnes of crude oil).

Historically and at present, the import, export, transit and sale of oil products are not activities subject to any restrictions or quotas. The Government sets the sales procedures and quality requirements for the oil products used in Lithuania, and sets the level of applicable taxes. Trade in oil products is subject to licensing procedures which are set and controlled by the Government.

Consumption of oil products in Lithuania has, in recent years, amounted to approximately 2.5 million tonnes per annum. Lithuania's needs for petroleum products are met mainly by petroleum products produced by ORLEN Lietuva, with only a small part of its demand being met by imported products.

Gas

Lithuania's gas transmission and distribution network consists of approximately 2,100 kilometres of gas transmission pipelines and 8,300 kilometres of distribution grids. In 2019, Lithuania consumed 23.5 TWh of natural gas.

The Lithuanian gas system is connected with the gas systems of Latvia, the Kaliningrad region of Russia and Belarus. Lithuania has an LNG terminal, which allows it to import natural gas from LNG markets all over the world.

Strategic Gas Projects

The liquefied natural gas terminal at the port of Klaipėda (the "**LNG Terminal**") began operations on 3 December 2014. It created conditions for a more competitive natural gas market and improved energy security for the Baltic States. 2019 was a record year for Klaipėda LNG terminal and the best year in the history of the terminal – approximately 19 TWh of natural gas was handled through the terminal and the capacities of Klaipėda LNG terminal to import about 19 TWh natural gas in 2020 have already been booked. In December 2019, the Seimas approved granting the state guarantees of EUR 275 million value to the loan agreements between the Nordic Investment Bank ("**NIB**") and Klaipėda Liquefied natural gas (LNG) terminal operator Klaipėdos nafta AB (KN) intended for the acquisition of a FSRU vessel to ensure Klaipėda LNG terminal operations until 2044 and to restructure LNG terminal maintenance costs. Following this decision KN entered into financing (loan) agreements with NIB.

Gas interconnection between Poland and Lithuania, (the so-called "**GIPL project**"), is one of the key elements in achieving EU energy goals in the gas sector, as well as a precondition for completion of the EU internal energy market. Natural gas will be transmitted in both directions. The total length of the gas pipeline is about 508 km.

On conclusion of a works contract at the end of 2019, Amber Grid, the Lithuanian natural gas transmission system operator, started preparatory works for the construction of the gas interconnection ("**GIPL**"). Arrangements for the delivery of the pipes manufactured in Poland are underway.

In the first phase of the construction, efforts will be concentrated on the Jauniūnai – Alytus section, i.e. one hundred kilometres of the gas pipeline, to be followed by the remaining section of the pipeline to the Lithuanian – Polish border. The total length of the Lithuanian part of the GIPL is 165 km.

As strong competition was ensured in the tendering procedure, the implementation of the GIPL project will cost EUR 24 million less than estimated. Instead of EUR 136 million, the costs of the project (purchase of the pipes and construction works) will amount to EUR 112 million. The total value of the GIPL project is approx. EUR 500 million. Over 60.0 per cent. of the project costs are financed by the European Commission. Latvian and Estonian gas transmission system operators will also contribute to the funding of the project.

On completion of the gas interconnection at the end of 2021, capacities will be in place that will allow transportation of up to 27 TWh/y of natural gas in the direction of the Baltic States and up to 21 TWh/y of natural to Poland, and the gas markets of the Baltic States will become part of the common EU market for gas.

Sustainable Energy and Energy Efficiency

The National Energy Independence Strategy, approved by the Parliament in 2018, sets strategic goals for the periods of 2030 and 2050. In the period up to 2030, the strategy focuses on the development of self-consumers and wind energy. Additionally, the strategy also focuses on further uses of **RES** for the production of district heating by installing effective biomass cogeneration plants and for household heating as well as the use of alternative fuels in the transport and electricity sectors. For the period from 2030 to 2050, the following ambitious percentages of renewable energy are envisaged: 100 per cent. in electricity, 100 per cent. in district heating, 80.0 per cent. in total consumption and 50.0 per cent. in the transportation sector. The development of RES in Lithuania must be carried out in accordance with the following principles: gradual integration of RES in the market; affordability and transparency; and the proactive participation of energy end users.

Lithuania has already reached its goal of 23.0 per cent. of its total energy consumption being RES by 2020. In 2018, the share of RES in the total consumption of energy was 25.83 per cent. Another priority of the energy strategy is to develop sufficient local power generation capacities. At the end of 2018, amendments on the Law on Energy from Renewable Sources were approved in Parliament enabling the further support for electricity production from the RES and newly installed local power generation capacities are awaited. It is planned to increase the domestic electricity generation from RES by at least 2.5 TWh by 2025 which could reduce electricity imports by up to 30.0 per cent.

In October 2019, the first technology-neutral auction to promote renewable energy was launched in Lithuania. All technologies (solar, wind, biogas, and biomass) could participate in this auction. The participants competed for the opportunity of getting a price premium on the market price and 0.3 TWh of annual production quota. Windfarm Akmene One won the auction as it had offered the lowest price premium and the highest annual production of electricity. Lithuania has scheduled the next renewables auctioning round for 29 May 2020. That auction will be for 700 GWh in annual production. Technologically-neutral auctions as part of the new green energy support scheme will help Lithuania to reach its ambitious targets for the development of renewable energy, to ensure as much clarity and transparency as possible for investors investing in green energy in Lithuania, and to increase the number of participants in the auctions and competition.

The newly established Lithuanian Energy Agency is responsible for the development strategy of offshore wind power plants and is now organising exploration studies that are required for a decision on the construction and operation of power plants offshore.

The National Energy Independence Strategy approved by the Parliament in 2018, sets strategic goals and results for energy efficiency for the periods 2030 to 2050. The state will promote complex multi-family residential and public buildings renovation (with priority given to renovation of residential areas) and encourage low energy intensity and low energy consumption industries, promote industries install and purchase the latest environmentally friendly technologies and equipment.

It is expected that, relative to 2017, primary and final energy intensity will be 1.5 times and 2.4 times lower in 2030 and 2050, respectively. Also, the apartment buildings and public buildings renovation will save about 5-6 TWh of energy and action in industry will save about 1 TWh of electricity by 2030.

The newly adopted Energy Efficiency Directive 2018/2002 sets the energy efficiency target at the European Union level and it should be at least 32.5 per cent. for 2030, expressed in terms of primary and/or final energy consumption. Also, Lithuania has to achieve cumulative end-use energy savings for

the entire obligation period from 2021 to 2030, equivalent to new annual savings of at least 0.8 per cent. of the final energy consumption. That requirement could be met by new policy measures that are adopted during the new obligation period from 1 January 2021 to 31 December 2030 or by new individual actions as a result of policy measures adopted during or before the previous period, provided that the individual actions that trigger energy savings are introduced during the new period.

The Government has approved national energy and climate plans which include, as one of the goals, to ensure that by 2030 Lithuania's primary energy consumption shall not exceed 5462 ktoe, final energy consumption shall not exceed 4526 ktoe and the total energy savings achieved by energy efficiency improvement measures shall not be less than 27 280 GWh.

Innovation

Innovation is one of the four main directions of the Lithuanian energy policy provided by NEIS. The goal of Lithuania is to become the leader in the region in developing and exporting energy innovations. Directions for innovation in the energy sector that have potential include IT systems and cybersecurity solutions, the development of energy storage solutions, energy efficiency, hydrogen technologies, and alternative fuels production. Innovations in the fields of solar energy, biomass and biofuel technologies, LNG utilisation and hydrogen and gas technologies are already under development in Lithuania.

A regulatory sandbox – a safe environment to experiment and collect experiences without having to face strict rules, while certain consumer safeguards are still being established - is currently being created to test innovations in energy. In order to facilitate and promote the development of energy innovation and technologies, the Ministry of Energy has drafted amendments to the Law on Energy whereby a regulatory sandbox for the testing of energy innovation will be created. The amendments to the Law on Energy establish the main principles and criteria for such regulatory sandbox and the rights and obligations of participants in this regulatory approach.

The new legal environment will enable energy innovators to carry out live testing of new products and business solutions. These activities will be supervised by the National Energy Regulatory Council which will also provide consulting. At present an innovator seeking to test a pilot innovative product or service in the energy area needs a permit. Obtaining such a permit requires lots of time and effort and sometimes live testing is not possible at all.

The Ministry of Energy is drawing up an Action plan for the strengthening of the innovation ecosystem of the energy area in Lithuania. The plan will be confirmed in 2020. The document will set out specific tasks in terms of funding, human resources, infrastructure, products and services, science and technologies, regulatory environment, consumers and communication, with implementation time limits for the period of 2020-2024.

Currently, it is expected that until 2030 at least EUR 50 million will be invested in energy related research, development and innovation in Lithuania.

Infrastructure

The international competitiveness of Lithuania in the transport and logistics sector is, to a large extent, driven by its favourable geographical position.

The Klaipėda State Seaport, located on the Baltic Sea coast 318 kilometres from Vilnius, is one of the largest ice-free ports on the Baltic Sea and is a multi-purpose deep-water port operating 24 hours per day.

Notably, the port is situated at the crossroads of two international transport corridors and serves as a bridge between the markets of Europe and the Commonwealth of Independent States (the “CIS”), as well as Asia and farther afield global regions. It maintains trade relations with more than 70 countries.

The depth of the port waters is 15.5 m and the port has 33 specialized terminals which allow it to handle all types of cargo. It is Lithuania's main transportation centre and provides all maritime business and cargo-related services, including: stevedoring, shipbuilding, ship repair, logistics, cargo forwarding and agency services. LNG bunkering services are also provided.

The Klaipėda State Seaport is currently capable of handling up to 70 million tonnes of cargo annually and also serves passenger ferries with regular departures to Germany, Sweden and Denmark. As at 31

December 2019, the Klaipėda State Seaport had storage facilities for general cargo (99,380 m²), bulk cargo (933,700 tonnes), refrigerated cargo (66,000 tonnes), liquid cargo (749,000 m³) and open storage (1,045,879 m²). The port is capable of accepting large-tonnage vessels: dry-cargo vessels up to 100,000 DWT, tankers up to 170,000 DWT and containerships up to 19,000 TEUs. It can accommodate vessels up to 400 m in length and with a maximum draught of 13.8 m.

On account of ever-growing cargo volumes, large-scale Klaipėda port territorial expansion projects are scheduled for 2020-2035. Preparatory work for these projects has begun. For that purpose, in 2019 the Government approved the Klaipėda State Seaport Master Plan, which allows the port to implement the land reclamation projects in the southern and the northern parts of the existing port. Moreover, throughout 2020-2022 the port waters dredging up to -17 m. are to be carried out in the entire port fairways to accommodate and fully load ever-increasing size ships.

Cargo declaration, border and customs clearance is carried out electronically through sophisticated IT systems. The port accelerates freight transportation, facilitates stakeholders' work and increases the port's competitiveness. The International Ship and Port Facility Security Code ("ISPS Code") was introduced in Klaipėda in 2014. The terminals of the port operate in compliance with the ISO 9001 and 14001 standards.

As at 31 December 2018, Lietuvos geležinkeliai AB (JSC Lithuanian Railways), the Lithuanian railway company, operated 1,911.3 kilometres of track connecting Lithuania directly with the Baltic States, Belarus, Russia and Poland. The Lithuanian railway system is currently being modernised and expanded, with emphasis placed on the improvement of international transport corridors, particularly connectivity and interoperability with the EU rail network by implementing the "Rail Baltica" project. In 2019, Lithuanian Railways transported 55.2 million tonnes of cargo and 5.5 million passengers.

The Rail Baltica project is a greenfield and upgrade rail transport infrastructure project of national significance, and is one of the priority projects of the European Union: Trans-European Transport Networks (TEN-T). It envisages a continuous rail link from Tallinn (Estonia) to Warsaw (Poland), going via Riga (Latvia) and Kaunas (Lithuania), with a connection to Vilnius (Lithuania). Lithuania is upgrading a section of the Rail Baltica line from the Lithuania-Poland border to Kaunas, and is currently finalising the construction activities in Kaunas node in order to connect the 1,435 mm rail network to the Kaunas Intermodal Terminal. It is expected to open the facilities for business in 2021.

At the end of 2019, the Lithuanian Parliament adopted legislation for the reorganisation of Lietuvos geležinkeliai AB in line with the Fourth Railway Package. This legislation aims at completing the single European rail area to foster European competitiveness and growth by separating rail infrastructure and railway undertakings. The reorganisation was completed in December 2019 when a new group of vertically integrated companies was established, consisting of the following companies:

- AB Lietuvos Geležinkeliai (JSC Lithuanian Railways) – the holding company, fully owned by the State;
- AB LG CARGO – a cargo railway undertaking, fully owned by AB Lietuvos Geležinkeliai;
- UAB LG Keleiviams – a passenger railway undertaking, fully owned by AB Lietuvos Geležinkeliai; and
- AB Lietuvos Geležinkelių Infrastruktūra (JSC Lithuanian Railways Infrastructure) – an infrastructure manager, fully owned by AB Lietuvos Geležinkeliai.

Geographically and historically Lithuania is linked to the 1,520 mm railway network of the CIS. As a result, Lithuania is well positioned to act as a bridge for the supply chains and transportation of goods between Asian markets, including China, Kazakhstan and Turkey, and the rest of Europe. Currently, the Lietuvos geležinkeliai AB portfolio of container train services includes: "Viking" (Klaipėda (Lithuania)–Minsk (Belarus)–Kiev (Ukraine)–Ilyichevsk/Odessa (Ukraine)), "Saulė" (Chongqing (China)–Antwerpen (Belgium), via Šeštokai (Lithuania)), "Merkurijus" (Kaliningrad (Russia)/Klaipėda (Lithuania)–Moscow (Russia)), "Šeštokai Express" (Poland – Lithuania – Belarus – Russia), "Baltijos vėjas" (Vilnius – Kostanay (Kazakhstan)), "Milan Express" (Kaunas (Lithuania) – Milan (Italy)) and the contrailer train "Nemunas" (Kaunas (Lithuania) – Minsk (Belarus) – Kaunas (Lithuania), via Vilnius). The route of the EU flagship project "Viking" merges with the TransCaspian corridor and ensures cargo flows between Northern Europe, Central Asia and China.

Lithuania's national road network covers approximately 21,239 km. Lithuania, even compared with economically stronger states, has a fairly well-developed road network. One of the main stimulus to develop the road network in the country is that Lithuania is a transit country with a number of roads crossing it from west to east and from north to south. The Government gives priority to the development of the Via Baltica highway stretching from Helsinki (Finland) to Warsaw (Poland), passing via Kaunas and Panevėžys (Lithuania). On 27 November 2018, the reconstructed section of the Via Baltica highway between Kaunas and Marijampolė (40 km) was officially opened. On 20 November 2019, the special plan for reconstruction of the Via Baltica highway A5 Kaunas-Marijampole-Suwalki section from 56.83 to 97.06 km has been approved by the Government. Road transportation constitutes a significant portion of Lithuania's international transportation market and has grown significantly since 1993, and in particular since Lithuania's accession to the EU in 2004.

Lithuania has three civil international passenger airports: Vilnius International Airport, Kaunas International Airport and Palanga International Airport. Šiauliai International Airport is a military airport, which also renders services of civil air transportation (mostly cargo).

According to data of the Communications Regulatory Authority of the Republic of Lithuania (the "CRA"), the total revenue received from the electronic communications sector in Quarter IV 2019 constituted EUR 182.3 million – in comparison with Quarter IV 2018, it increased by 4.7 per cent. (EUR 8.1 million). In 2019, Telia Lietuva, AB (38.7 per cent.), UAB Tele2 (23.5 per cent.), UAB Bitė Lietuva (18.8 per cent.) received the main share of revenue earned from the electronic communications sector. In comparison with 2018, investments into the infrastructure of the public electronic communications network decreased by 8.5 per cent. to EUR 73.9 million.

Electronic communications operators continue to invest in broadband communications networks (4G networks (LTE), fixed broadband, fibre communication lines, and networks). At the end of 2019, the investments into the electronic communications network infrastructure amounted to EUR 19.3 million. The major investor in the broadband communications networks (more than 35.1 per cent. of all investments at the end of 2019) is by Telia Lietuva, AB.

Currently, Lithuania is a leader of the broadband communication development in Europe and worldwide, with broadband penetration (subscribers per 100 people) amounting to 50.9 per cent., an increase of 3.6 per cent., compared to 2018. Moreover, according DESI Lithuania achieved better results than EU average in 4G coverage (98.0 per cent.) and ultrafast broadband coverage (61.0 per cent. in 2019).

According to the data obtained by CRA in 2019, the number of active LTE technology (4G network) SIM cards, used for provision of Internet services, increased by 14.4 per cent. and constituted 2.4 million units.

According to the data obtained by CRA in the fourth quarter of 2019, there were 48 registered undertakings in Lithuania engaged in the postal service market.

In 2019, the total annual revenue earned from the postal service market increased by 11.7 per cent. in comparison with 2018, and constituted EUR 191.07 million. In terms of the overall income in 2019, the biggest market share was held by Lietuvos pastas, AB (Lithuanian Post) (36.3 per cent.), DPD Lietuva, UAB (18.0 per cent.) and DHL Lietuva, UAB (12.1 per cent.).

In 2019, the number of self-service terminals increased 2.6 times, from 214 in 2018 to 550 in 2019. The number of outgoing international parcels increased by 34 per cent (3.37 million parcels were posted from Lithuania in 2019, in comparison with 2.51 million parcels in 2018) per year, whereas the number of international incoming parcels increased by 19.6 per cent. (2.94 million parcels received from abroad in 2019, compared to 2.46 million parcels in 2018).

Compared to 2018, investment in the development of postal services increased by 119.3 per cent. in 2019 and constituted EUR 12.0 million. This increase was determined by the investment of Lithuanian Post for construction of a parcel and letter distribution center, as well as investments by other providers of postal services into development of the self-service terminals network. The major share of self-service terminals was owned by Omniva, UAB (54.5 per cent.), Lithuanian Post (29.5 per cent.), DPD Lietuva, UAB (15.5 per cent.).

The universal postal service in Lithuania is provided solely by Lithuanian Post. The number of stationary postal service points increased by 12.1 per cent. per year and reached 723 units in 2019.

The increasing number of self-service terminals and stationary postal service points determined an increase of the revenue received from unconventional postal services (including express consignments, delivery of postal items to the self-service terminals). In 2019, this revenue amounted to EUR 126.78 million (an increase of 11.4 per cent., compared to 2018), corresponding to 66.4 per cent. of the total revenue received from universal postal services. In comparison with 2018, the number of parcels posted by unconventional postal services in 2019 increased by 19.1 per cent., or 3.7 million units, amounting to 23.11 million units.

Inflation

The following table shows inflation rates based on changes in average annual consumer price index (“CPI”), average annual harmonised index of consumer prices (“HICP”) and average annual producer price index (“PPI”) in Lithuania for the periods indicated:

	Year ended 31 December					
	2015	2016	2017	2018	2019	
Inflation (CPI)	(0.9)	0.9	3.7	2.7	2.3	
Inflation (HICP)	(0.7)	0.7	3.7	2.5	2.2	
Inflation (HICP) excluding energy, food, alcohol and tobacco	1.9	1.7	2.6	1.9	2.3	
Inflation (PPI).....	(9.6)	(4.4)	5.1	5.6	(0.1)	

Source: Eurostat, Statistics Lithuania.

In 2017, the average annual inflation amounted to 3.7 per cent. whereas in 2018 it decreased to 2.7 per cent. and in 2019 it decreased to 2.3 per cent. In 2017, increased excise duty rates on alcohol had a major impact on inflation. This effect disappeared in 2018, and the inflation slowed down. In 2019, favorable prices of energy products had a downward effect on inflation.

In 2019, the PPI switched from a inflationary trend with an annualised rate of 5.6 per cent. in 2018 to a slight deflationary trend, with an annualised rate of -0.1 per cent. in 2019.

Wages

The following table sets out the average gross, net and real monthly wages in the Lithuanian economy for the years and periods indicated and the percentage changes as compared to the previous year or corresponding period in the previous year:

	Year ended 31 December									
	2015		2016		2017		2018		2019 ⁽¹⁾	
	(EUR)	(% change)	(EUR)	(% change)	(EUR)	(% change)	(EUR)	(% change)	(EUR)	(% change)
Entire economy										
Average monthly gross earnings	714.1	5.4	774.0	8.4	840.4	8.6	924.1	10.0	1,296.2	8.8
Average monthly net earnings	553.9	5.1	602.3	8.7	660.2	9.6	720.0	9.1	822.0	14.2
Real monthly average earnings index.....		106.1		107.7		105.7		106.2		111.6
Public sector										
Average monthly gross earnings	750.3	4.0	800.2	6.7	854.8	6.8	946.2	10.7	1,368.2	8.8
Average monthly net earnings	580.0	3.8	620.9	7.1	670.0	7.9	735.1	9.7	863.3	17.4
Real monthly average earnings index.....		104.7		106.1		104.1		106.8		114.8
Private sector										
Average monthly gross earnings	696.1	6.3	761.3	9.4	833.7	9.5	914.1	9.6	1,265.0	7.4
Average monthly net earnings	541.0	5.9	593.3	9.7	655.5	10.5	713.1	8.8	804.0	12.7
Real monthly average earnings index.....		106.9		108.7		106.6		105.9		110.2

⁽¹⁾ Preliminary data.

Source: Statistics Lithuania

In recent years, due to the economic recovery, average wages have been increasing. In 2017, the average gross monthly wage for the entire economy increased by 8.6 per cent. and amounted to EUR 840.4. In 2018, the average gross monthly wage for the entire economy was 10.0 per cent. higher than in 2017 and amounted to EUR 924.1. During 2019, the average gross monthly wage further increased by 8.8 per cent. The growth was partly due to the increase of the gross minimum monthly wage to EUR 555.

Upon the recommendation of the Tripartite Council, the Government determines the minimum hourly pay and minimum monthly wage in Lithuania each year. Since 1 January 2020, the minimum monthly wage has been raised to EUR 607.

Despite these developments, the wage level in Lithuania still remains one of the lowest compared to the EU average.

Employment

The table below sets forth information on Lithuania's labour force and employment and unemployment levels for the periods indicated. The information reflects the results of a survey conducted by Statistics Lithuania during the relevant period to assess the percentage of the population employed using an *ad hoc* questionnaire meeting Eurostat standards to poll the population aged between 15 and 74.

	Year ended 31 December				
	2015	2016	2017	2018	2019*
Labour force ⁽¹⁾ , thousands.....	1,468.9	1,477.5	1,457.9	1,464.8	1,470.4
Labour force activity rate (15-64 years), %.....	74.1	75.5	75.9	77.3	78.0
Employed ⁽²⁾ , thousands.....	1,334.9	1,361.4	1,354.8	1,374.7	1,378.4
Employment rate (15-64 years), %	67.2	69.4	70.4	72.4	73.0
Unemployed ⁽³⁾ , thousands.....	134.0	116.2	103.1	90.0	92.0
Unemployment rate ⁽⁴⁾ , %	9.1	7.9	7.1	6.1	6.3

Notes:

- (1) All residents who are employed or unemployed.
(2) Persons aged 15 and older doing any kind of work for which they are remunerated in cash or in kind, or generate income or profit.
(3) Persons between 15 and 74 who have been actively seeking employment for at least two weeks and are ready to start working if work was available.
(4) The proportion of unemployed persons in Lithuania's labour force.
* - revised data

Source: Statistics Lithuania

After unemployment reached its peak in the post global economic downturn period, unemployment has continued to decrease in recent years, with the rate of unemployment at 7.1 per cent., and 6.1 per cent. in 2017, and 2018, respectively. In 2019, the unemployment rate was slightly higher – 6.3 per cent., while the activity rate continuously has increased to 78.0 per cent. In addition to general economic recovery, emigration, partially offset by re-emigration, has also contributed to decreasing unemployment rates.

In June 2016, the Seimas adopted the Law on Employment, which came into effect on 1 July 2017. The aim of this law is to create a model of prioritised and integrated active labour market policy measures and extend the education and practice in workplace opportunities for the unemployed. In order to boost employment, active labour market policy measures will be applied. These measures will focus on helping the elderly, the unskilled and the long-term unemployed and to help young people to integrate into the labour market.

In June 2016, the Seimas adopted a recast of the Labour Code which came into effect on 1 July 2017. The recast of the Labour Code was prepared in order to add more flexibility to the labour relations regulation and ensuring employment security. Amongst other things, the law covers the flexible regulation of working hours, the adaptation of dismissal regulations to market conditions and the recognition of a variety of agreements so as to satisfy the needs of the employees and employers as well as the obligation to pay the minimum monthly wage only for unqualified work.

In 2019, monitoring of the Labour Code revealed that there was a rapidly increasing number of project-based employment contracts. The number of apprenticeship employment contracts was also increasing. There was a slight decrease of open-ended employment contracts in 2019 (75.2 per cent. in the second half of 2019, compared to 76 per cent. in 2018). About 5.2 per cent. of all employment contracts were fixed-term employment contracts. Before the adoption of the new Labour Code, the percentage of fixed-term employment contracts was less than 3 per cent. Moreover, the percentage of full-time employees who received the minimum monthly wage in relation to the number of full-time employees in the whole economy is decreasing (11.34 per cent. in 2016, compared to 2.6 per cent. in October 2019). Furthermore, the percentage of full-time employees who received less than average gross monthly gross earnings in the whole economy has decreased by 0.3 points during one year (from October 2018 to October 2019).

In October 2018, the Lithuanian Labour Exchange, together with its territorial units, merged into the Employment Service, a single legal entity. This merger has been done in order to increase the quality of services provided to jobseekers and employers, focusing on the needs of the specific employer and the situation of the specific unemployed person, as well as to optimise the activities of the institution.

A model for employment promotion and motivation services for unemployed and social beneficiaries was created and approved on 12 December 2018 under the order of the Minister of Social Security and Labour, and since 2019 pilot projects have been implemented in six municipalities. The aim of the model is to ease the transition of long-term unemployed persons to the labour market and to balance the provision of employment promotion and motivation services, together with cash social assistance, as well as to ensure coordination between national and municipal levels, and promote their cooperation.

According to data presented by the Public Employment Service, on 14 April 2020, 185,600 jobseekers were registered, representing 10.8 per cent. of the working age population of the country. Since the beginning of the COVID-19 response measures on 16 March 2020, the supply of labour has increased, i.e. registered unemployment has increased by 1.5 per cent. and the number of unemployed persons increased by 25, 200.

Social Security System

A major component of the Government's expenditure is social security payments. The State Social Insurance Fund and the Compulsory Health Insurance Fund (together, the "**Social Security Funds**") are administered by the Government and are partially, or wholly, financed by contributions from employers and employees. The revenues and expenses of these funds are not shown as revenues and expenses on the State budget, but the State Social Insurance Fund receives transfers from the State budget to supplement its off-budget revenues and as contributions relating to specific categories of persons. These transfers are shown as grants in the expenses part of the State budget. See "*—Public Finances—Funds Operating Outside of the State Budget*".

In 2015, the Government approved new social security system reform measures and in 2016 this reform was adopted by the Seimas.

In June 2016, the Law Amending the Law of the Republic of Lithuania on Unemployment Social Insurance was adopted by the Seimas. It came into effect on 1 July 2017. The aims of this law are to increase the number of insured persons who are entitled to unemployment social insurance benefits and to ensure adequate unemployment social insurance benefits by changing the calculation procedures for these benefits.

The implementation of these legislative acts allows for improved labour market operations, making the labour market more dynamic and labour relations more flexible. Employees are offered guarantees in respect of their presence in the labour market and the coverage and adequacy of unemployment social insurance payments should improve.

The Law Amending the Law of the Republic of Lithuania on State Social Insurance Pension was adopted by the Seimas in June 2016 and came into force on 1 January 2018.

The main changes by this law are:

- an amended pension formula: the component of the pension that depends on the State social insurance contributions as an individual pension component (a pension points system has been introduced) and is financed from the State Social Insurance Budget, while considering the pension component that is determined by the length of service, but is not directly related to the size of contributions paid will gradually shift to being financed by the State budget (fully implemented in 2019);
- the pension indexation rule: indexation is based on clear criteria that allow the assessment of both the economic conditions and demographic indicators (pensions will be indexed according to the average change of the wages sum for the preceding three years, the current year and the three forecasted years). Since January 2018, all pensions were indexed by 6.94 per cent.; since January 2019, all pensions were indexed by 7.63 per cent.; and

- the length of insurance qualifying for full pension will be gradually increased from 30 to 35 years.

Due to concerns about future pensioners, changes to the funded scheme came into force in January 2019. The main features of this reform are:

- new sources of financing a change in a person's private contribution (3.0 per cent. from the person's wage) and the state's contribution (1.5 per cent. from the national average wage)¹. No fraction of the social insurance contribution is transferred; therefore the old-age pension reduction is not applicable anymore. In order to encourage participation within the person's private means, the general level of personal income tax and social insurance contributions due on employment income was reduced by 1.55 per cent. (that corresponds in absolute numbers to 2.0 per cent. of the gross employment income before tax reform);
- auto-enrolment: all persons below the age of 40 who are insured by social insurance will be enrolled to the funded system with the possibility to opt-out. If a person disagrees with the auto-enrolment, (s)he had to inform the State Social Insurance Fund Board (**SSIFB**) about his/her decision by 30 June 2019. The procedure of auto-enrolment will be repeated every 3 years until the person reaches the age of 40;
- life-cycle pensions funds: since 2019, all pension funds' managers shall introduce an assets management model based on the life-cycle approach. All participants of the funded scheme shall be moved to the fund corresponding to their age; and
- reduced pension fund's assets fee (for life-cycle fund: 2019 – 0.8 per cent., 2020 – 0.65 per cent., from 2021 – 0.5 per cent., for assets preservation pension funds – 0.2 per cent.).

Legislation in force from 2020:

- One centralized public annuity provider – SSIFB (currently annuities are purchased from the life insurance companies). It is estimated that the non-profit annuity provider and the scale economy will contribute to cheaper annuities in the future; and
- Lower threshold (EUR 10,000) of assets in a pension fund is required for the obligatory annuity purchase.

It should be noted that since 1 January 2019, the following tax reforms has been implemented:

- All taxes and social insurance contributions shall be paid by the employee. For this reason, the social insurance contributions previously paid by the employer have become a part of the employee's gross wage (i.e. all gross wages were increased by 28.9 per cent.); and
- The social insurance contribution and tax tariffs were recalculated using the new (higher) base.

State Social Insurance Fund

Lithuania's social insurance system is run by the Government through an extra-budgetary fund, the State Social Insurance Fund. Lithuania's social insurance system provides pensions and maternity/paternity benefits, as well as insurance against illness, unemployment and accidents.

In June 2011, in order to stabilise the ratio between the working age population and the number of pensioners, the Seimas approved an amendment to the Law on State Social Insurance Pensions, according to which the retirement age is to be increased to 65 years of age for both men and women. Each year from 1 January 2012, the retirement age increases by four months for women and by two months for men until 2026 when it will reach 65 years of age for both women and men. In 2020, the retirement age for women stands at 63 years and for men 64 years.

Since 1 January 2019, the calculations of state social insurance contributions have changed. The burden of payment of the larger part, i.e. 28.9 per cent. of contributions paid by employers, is transferred to employees. Respectively, employers are obliged to recalculate the gross wage of the employee by

¹ Note: the current total contributions' level (4.5%) in principle corresponds to 6% (2+2+2) applicable before the tax reform.

increasing it by 28.9 per cent. and amending the employment agreements without the employees' prior consent. The wage recalculation should not lead to the reduction of the employee's net wage. It applies to all policyholders and insured persons that have employment relations that are covered by the state social insurance.

In 2019, due to the tax reform and the decision to transfer an employer's social security contribution to the employee, the rate of the social security contribution decreased. The rate of the state social insurance contributions payable by employees for the pension, sickness, maternity and health insurance is 19.5 per cent. The rate payable by employers for the unemployment social insurance is 1.31 per cent. (the rate of unemployment insurance contributions under fixed-term employment contracts shall be 2.03 per cent.) and the rate for accidents at work and occupational diseases insurance varies between 0.14 per cent. and 1.4 per cent. of gross earnings.

In 2018, a "floor" for social security contributions was introduced. Employers must pay social security contributions (both employers' and employees' contributions) on the basis of the minimum monthly wage or the minimum hourly rate (i.e. from the amount not smaller than a set minimum wage). This applies to all employees except pensioners, all kinds of disabled people, all employees up to 24 years old and other employees who receive maternity, paternity or child care benefits.

In 2019, a "ceiling" for social security contributions was introduced for both employees' and employers' contributions. The persons employed under employment contracts shall pay social security contributions (except for health insurance contributions) from the amount not exceeding 120 average wages per year. In case the person has at least two insurers during one calendar year, the ceiling of social security contributions is calculated separately.

In 2019, State Social Insurance Fund budget's income by preliminary data was EUR 4.6 billion, i.e. 9.3 per cent. higher than in 2018. The State Social Insurance Fund budget for 2019 had calculated expenditures of EUR 4.2 billion, i.e. an increase of 2.9 per cent. compared to 2018. The 2020 State Social Insurance Fund budget was approved with EUR 4.9 billion of income and EUR 4.5 billion of expenditure.

Pension expenditures were the equivalent of 6.7 per cent. of GDP in 2017, 6.6 per cent. of GDP in 2018 and are expected to have constituted 6.6 per cent of GDP in 2019.

Compulsory Health Insurance Fund

The Compulsory Health Insurance Fund was established in 1997 and is regulated by the Law on Health Insurance of the Republic of Lithuania. The Compulsory Health Insurance Fund guarantees healthcare services to eligible persons and reimburses the costs related to such services, including medicines and medical aid equipment. In order for a person to be covered, he either has to pay contributions himself or contributions have to be paid on his behalf.

The Compulsory Health Insurance Fund is primarily funded by compulsory health insurance contributions from the beneficiaries of the fund amounting to 6.98 per cent. of their income. Self-employed persons pay health insurance contributions amounting to 6.98 per cent. of their taxable income. Both contributions are calculated in accordance with the procedures set in the Law on State Social Insurance and Law on Health Insurance. Other sources of funding include State budget contributions and allocation.

Guarantee Fund and Long-Term Work Benefit Fund

If a company goes bankrupt an employee should receive a payment from the Guarantee Fund. This covers the employee's wages (this cannot exceed six minimum state wages), taxes (except personal income tax), which is calculated based on the employee's wages; fees of credit transfers for the transaction of benefit from the Guarantee Fund to the employees' personal account; and administration fee. The main source of the Guarantee Fund is the employers' contributions (equal to 0.16 per cent. of the gross wage of the insured employee).

Long-term work benefit payments were established as an additional financial guarantee for long-term workers. It came into force on 1 July 2017. The right to receive the long-term benefit requires a person to have been working in the same workplace continuously for five years and to have been dismissed according to Article 57 of the Labour Code (Termination of Employment Contract on the Initiative of the Employer without the Employee's Fault). The main source of the Long-Term Work Benefit Fund is the

employers' contributions (equal to 0.16 per cent. of the gross wage of the insured employee). The amount of the benefit depends on time the person worked in the same workplace, i.e. the benefit amounts to 77, 58 per cent. of the average monthly personal wage if he/she worked for 5 to 10 years before the dismissal; 77, 58 per cent. of the average of two monthly personal wages if the person has worked for 10 to 20 years.

Both funds are administered by the State Social Insurance Fund Board ("SODRA").

Measures to Mitigate Employment and Social Consequences of COVID-19

As of 18 March 2020, in order to mitigate the employment and social consequences of COVID-19, the Government of Lithuania has taken the following measures:

1. **Support For Saving Workplaces:** in the state of emergency or quarantine, where it is not possible to work remotely due to the nature of work organisation or the employee does not agree to work in another job offered (if available), employers may declare idle time or partial idle time, and the state may contribute to payroll of workers (special conditions apply). When idle time is declared in a company, the employee must receive at least the minimum salary set by the Government and cannot be required to come to work. Expenses incurred by employers may be covered by a subsidy from the state institution to the employer. The minimum monthly salary is currently EUR 607 (gross) or approx. EUR 437 (net).

State subsidy amounts to:

- 70 per cent. from the salary of the employee during idle time, but no more than EUR 910.50 (gross) (for a full month of idle time), or at the choice of the employer
- 90 per cent. from the salary of the employee during idle time, but no more than EUR 607 (gross) (for full month of idle time).

The subsidy may be paid until the end of the emergency and quarantine, and the employer undertakes to retain at least 50 per cent. of the jobs for which subsidies were paid for at least 3 months after the subsidy has ended (additional conditions apply).

2. **Benefits For Self-Employed:** self-employed persons who have paid social security contributions for at least 3 months during the last year prior to the declaration of emergency will be paid a lump sum from the Guarantee Fund.

The monthly benefit will amount to the minimum consumption requirement for the current year, which is currently EUR 257 per month. The benefit will be available through the Employment Service, but will not be paid to persons who are self-employed and also employed by the contract at the same time (special conditions apply).

3. **School Scholarship For Unemployed:** when a state of emergency and quarantine is declared, and doors are closed in vocational schools, where the unemployed registered with the vocational education and training (VET) program receive training, they still receive a scholarship of EUR 236, even though the education process itself is temporarily inaccessible or is carried out remotely (special conditions apply).

4. **Vocational Training:** if an employer notices an employee of a possible dismissal because they are no longer required, vocational training may be organised for that employee to retrain and remain with the same employer. During vocational training, the Employment Service finances a person's education costs (special conditions apply).

5. **Increased Sickness Benefits For Employees Who Became Infected During The Performance Of Their Duties:** if during the period of announced emergency situation or quarantine health care professionals, officials or other employees performing their duties during the mentioned period are infected with the illness for which the emergency or quarantine is declared, they may have a right to a sickness benefit of 77.58 per cent. of insured income in accordance with the procedure established in the Law on Sickness and Maternity Social Insurance.

The respective Sodra territorial unit should be provided with documents justifying the connection between the duties performed and the illness.

6. Long-Term Sickness Benefit For Children: in the event of an emergency or quarantine closing of schools and kindergartens, a sick leave and sickness benefit will last for more than 14 calendar days, i.e. until the end of the emergency or quarantine (special conditions apply). The benefit is 65.94 per cent. of an insured income.

7. Sickness Benefit For Grandparents Looking After Their Grandchildren: working grandparents shall be included in childcare when a state of emergency is declared and infection control regime is established, so that they can receive a benefit for the care of a healthy kindergarten child, pre-schooler, elementary schooler or disabled person under 21 years of age attending an educational institution. However, grandparents would only be able to benefit from this exception, if parents were not provided with the possibility to work remotely and were not notified of the idle time. In this case, a benefit may be granted until the end of the emergency and the infectious disease control regime is lifted (special conditions apply). The benefit would be 65.94 per cent. of an insured income.

8. Sickness Benefit For Carers Of Persons With Disabilities: following the declaration of an emergency or quarantine and the suspension of a day care centre for people with disabilities, the benefit is provided to those persons needing to care for a disabled person if that disabled person has previously attended a day care centre. A benefit will be granted until the end of the emergency or the infectious disease control regime is lifted (special conditions apply).

If a disabled child under the age of 21 attended school and enrolled in a general or special education program, one of his or her parents, guardians or, if they are unable, one of the grandparents will be eligible for a special benefit (special conditions apply). The benefit for care is 65.94 per cent. of an insured income.

The access to benefit may also include those caring for an elderly person (special conditions apply).

9. Sick Benefits For Those Caring For An Elderly Person: when day care centres are shut down because of an emergency or quarantine status, and day care centres were providing short-term social care to a retired person, a person taking care of the retired person may be entitled to benefit (special conditions apply). It stands at 65.94 per cent. of an insured income.

10. Sickness Benefits For Patients With Serious Chronic Diseases: if a person suffers from a serious chronic illness listed on a list approved by the Minister of Health and has no access to remote work or idle time, he or she may be entitled to benefit during an emergency or quarantine situation. The benefit will be 62.06 per cent. of an insured income.

11. Suspension From Work: an employer is allowed to suspend an employee from work without pay in an emergency or quarantine situation, if the employee's medical condition endangers his or her colleagues' health condition, but the employee does not agree to work remotely. This may be relevant when employees return from states covered by coronavirus, but still go to work and disregard duties for isolation during the incubation period. As it is known, persons returning from any foreign country are obliged to be isolated for 14 calendar days.

Privatisation

The Lithuanian privatisation programme, which was launched in September 1991 with the enactment of the Law on Privatisation, has progressed in two stages. The State Property Fund (the “**SPF**”) (which replaced the Privatisation Agency in May 1997) was the main body involved in implementing the privatisation process, which is overseen by the State Privatisation Commission (the “**Privatisation Commission**”). The substantial majority of SPF's objectives have been accomplished and as of March 2017, there were approximately EUR 17 million worth of remaining privatisation shares left to be sold. The Law on Privatisation of State-Owned and Municipal Shares governs the transfer of state owned shares to private shareholders. The State enterprise Turto Bankas AB (“**Turto Bankas**”) is currently entrusted with carrying out the privatisation of shares on behalf of the state. In October 2014, the SPF was merged into Turto Bankas.

From 1 January 2016, the extra-budgetary Privatisation Fund was abolished and funds received from privatisation transactions were transferred to the State budget upon deduction of a payment to Turto Bankas. Remuneration of experts and advisers for their services and costs of execution of effective court

judgments obliging the State or Turto Bankas to return the funds received by the State from privatisation transactions shall be covered from the State budget.

The largest privatisation deal to date was in 2006, when the Government sold 216,915,941 Mažeikių Nafta AB shares to the Polish company PKN ORLEN S.A. for approximately U.S.\$852 million (approximately EUR 0.6 billion). In April 2009, the remaining 9.98 per cent. of Mažeikių Nafta AB shares that were held by the Government were sold to PKN ORLEN S.A. for approximately U.S.\$284 million (approximately EUR 210 million). Mažeikių Nafta AB has subsequently been renamed ORLEN Lietuva. During the last 10-year period there were no significant privatisation deals.

State Owned Enterprises

The Government is the largest owner of commercial assets in Lithuania. As of 31 December 2019, there are 50 state owned enterprises (“**SOEs**”), compared to 137 SOEs in 2012. The number of SOEs declined due to mergers (43 forestry enterprises merged into a single enterprise), privatisations or reorganizations of various public or budgetary institutions. At the end of 2018, the book value of SOE portfolios amounted to EUR 9.7 billion – 2.7 per cent. more than at the end of 2017, sales revenue amounted to EUR 2.8 billion – 8.5 per cent. more than in 2017. Return on equity (“**ROE**”) was 2.1 per cent., while EBITDA margins were 15.7 per cent. SOEs in total employed more than 33,000 employees. The SOE sector mainly comprises SOEs operating in energy, transport and forestry. Approximately 47.0 per cent. of the total assets of SOE portfolios are attributed to the energy sector, followed by 33.0 per cent. in the transport and communications sector and 14.0 per cent. in the forestry sector. The scope of activity of SOEs differs significantly; the four largest SOEs account for approximately 80.0 per cent. of total sales revenue of the SOE portfolios.

A coordinating agency model is applied for exercise of SOE ownership function. There are 13 institutions which execute ownership rights, mostly line-ministries. To strengthen SOE governance, a specialised government unit (the “**Governance Coordination Centre**”) was established to act in an advisory capacity to other shareholding ministries on technical and operational issues and to monitor SOE performance. SOE governance in Lithuania is based on OECD governance principles.

Based on OECD recommendations and international good practice, Lithuania initiated major SOEs governance reform in 2010. The reform started when the Government adopted the Resolution “Concerning the Approval of the Description of the Guidelines on Assurance of State-Owned Enterprise Activity, Transparency and Appointment of a Coordinating Authority” (referred to as the Transparency Guidelines), which set high transparency and accountability requirements for all SOEs and established coordinating unit, responsible for monitoring of SOEs sector. On 6 June 2012, the Resolution “Concerning the Approval of the Description of the Procedure for the Implementation of the Property and Non-Property Rights of the State in State-Owned Enterprises” (referred to as the Ownership Guidelines) was adopted, which defined the Government’s ownership policy with regard to the SOE. SOE governance was constantly strengthened while adding new provisions and governance principles. The main amendments of these documents during the past few years was:

1. Letter of Expectations. The Letters of Expectations, prepared by shareholding institutions, outline the purpose of the SOE in question as well as its main functions and goals. As of March 2017, these letters are mandatory and publicly available for all SOEs.
2. Profitability ratios for SOEs. In January 2019, a Government Resolution regarding the profitability ratios of commercial SOEs was adopted. The Resolution sets the average required profitability ratios for individual SOEs commercial activities for the new period of 2019-2021.
3. Governance principles of subsidiaries of SOEs. Starting from 2019, uniform governance practices were set to all subsidiaries of SOEs. Subsidiaries are now required to follow SOE governance principles regarding disclosure, board of directors’ nomination and strategic planning practises.

Furthermore, amendments were made to the Resolution of the Government of the Republic of Lithuania Approving the Schedule of Procedures for the Nomination of Candidates to the Board of Directors of a State or Municipal Enterprise and Candidates to the Supervisory or Governing Body of a State- or Municipality-owned Enterprise Elected by the General Meeting of Shareholders (“**Nomination Guidelines**”):

4. The main changes regarding the Nomination Guidelines are:

- a. By January 2018 at least half of the board of directors of each SOE was required to be made up of independent board members. At the end of 2019, independent board members made up around 60.0 per cent. of all board members, while independent chairs were 65 per cent. of all chairs.
- b. Public servants of political trusts or persons, responsible for the policy formation of the sector of economy in which the company operates, cannot be elected as members of a board of directors. Since the beginning of 2018, there are no public servants of political trusts on boards of SOEs.
- c. From September 2019, professional staffing agencies are required to participate in the selection process of potential candidates.

Based on the amendments to the Law of State and Municipal Enterprises (effective as of 26 October 2017) and the Resolution of the Government of the Republic of Lithuania Concerning Dividends for Shares of State-Owned Companies and Profit Contributions by State Enterprises, profit contributions of state enterprises and dividends of the state-owned limited liability companies (where the majority of shares are owned by the state), requirements depend on the enterprise's financial results, more specifically, its return on equity ("**ROE**"). Depending on achieved ROE, a company has to pay dividends from 60 to 85.0 per cent. of distributable profits. The higher the ROE, the lower the dividend required to be paid. Exceptions apply for SOEs that are assigned to carry out investments of strategic importance and SOEs whose own capital would become less than required capital and reserves after dividends were paid.

Taking into consideration the recommendations provided by the OECD to Lithuania regarding the measures to improve SOE governance practices and national aspiration to strengthen SOEs governance, by July 2018, Lithuania completed the formal accession process and became a fully-fledged member of the OECD.

On 5 December 2018, the Government developed a plan to address issues related to the legal forms of SOEs, in particular state enterprises. The plan outlines a detailed timeline for the reorganisation of most state enterprises into limited liability companies. Additionally, the Government reviewed the ownership rationale of the majority of SOEs and developed a plan for divestment of ownership rights in certain SOEs.

Environmental Protection

Environmental protection in Lithuania is primarily the responsibility of the Ministry of Environment. The Ministry of Environment's primary objective is to consistently implement the directives of the EU and national laws relating to the environment and it is currently focused on upgrading Lithuania's water resources management and waste treatment systems.

In order to successfully carry out its objectives, the Ministry of Environment works closely with other state institutions and attempts to harmonise the interests of environmental protection with economic and social development.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Pursuant to Article 8 of the Law on the Bank of Lithuania, the Bank of Lithuania is responsible for calculating Lithuania's balance of payments ("BoP").

The following table shows Lithuania's BoP and related statistics prepared by the Bank of Lithuania under the sixth edition of the BoP manual for the periods indicated:

		Year ended 31 December				
		2015	2016	2017	2018	2019
		(EUR million)				
I. CURRENT ACCOUNT	Credit	28,260.9	28,678.1	33,557.9	36,952.6	40,652.4
	Debit	29,170.9	29,112.4	33,345.3	36,821.2	38,586.6
	Balance	(909.9)	(434.3)	212.5	131.4	2,065.8
1.A Goods and services	Credit	25,685.5	26,283.9	31,112.7	34,229.3	37,820.3
	Debit	26,057.8	25,980.8	30,105.2	33,350.3	35,110.3
	Balance	(372.4)	303.2	1,007.6	879.0	2,710.0
a. Goods	Balance	(2,130.0)	(1,891.4)	(2,051.8)	(2,780.8)	(2,167.8)
	Exports (in fob prices)	19,655.1	19,470.2	22,763.4	24,551.6	26,015.3
	Imports	21,785.0	21,361.6	24,815.2	27,332.5	28,183.0
b Services	Exports	6,030.4	6,813.7	8,349.3	9,677.7	11,805.0
	Imports	4,272.8	4,619.2	5,290.0	6,017.9	6,927.2
	Balance	1,757.6	2,194.5	3,059.4	3,659.9	4,877.8
1 Manufacturing services on physical inputs owned by others	Exports	260.1	310.7	315.2	267.5	349.2
	Imports	16.9	14.4	13.6	7.9	13.4
	Balance	243.2	296.3	301.6	259.6	335.8
2 Maintenance and repair services not included elsewhere (n.i.e.)	Exports	108.5	209.6	266.7	297.5	355.0
	Imports	66.4	107.1	128.1	118.8	186.5
	Balance	42.1	102.6	138.7	178.7	168.5
3 Transport	Exports	3,524.8	3,871.1	4,872.0	5,808.7	7,028.1
	Imports	2,302.1	2,332.2	2,764.8	3,071.8	3,542.2
	Balance	1,222.7	1,538.9	2,107.3	2,736.9	3,485.9
4 Travel	Exports	1,040.6	1,089.7	1,169.4	1,274.2	1,353.0
	Imports	857.0	912.9	984.0	1,185.5	1,242.3
	Balance	183.6	176.8	185.4	88.7	110.7
5 Construction	Exports	162.1	187.9	229.1	258.0	389.4
	Imports	28.3	63.1	62.4	83.0	114.3
	Balance	133.9	124.7	166.7	174.9	275.0
6 Insurance and pension services	Exports	1.1	0.8	2.0	2.3	6.1
	Imports	49.5	44.1	45.4	50.4	55.1
	Balance	(48.5)	(43.4)	(43.4)	(48.1)	(49.0)
7 Financial services	Exports	78.0	96.9	122.0	155.8	154.5
	Imports	114.6	127.1	129.4	155.2	140.3
	Balance	(36.5)	(30.2)	(7.4)	0.6	14.1
8 Charges for the use of intellectual property n.i.e.	Exports	20.6	25.1	27.3	26.4	30.3
	Imports	43.6	60.6	60.1	52.5	65.1
	Balance	(23.0)	(35.5)	(32.8)	(26.1)	(34.9)
9 Telecommunications, computer, and information services	Exports	240.8	298.5	488.9	554.9	675.2
	Imports	183.1	207.7	278.1	305.8	371.6
	Balance	57.7	90.7	210.8	249.1	303.6
10 Other business services	Exports	506.3	630.3	762.1	921.4	1,349.0
	Imports	515.0	643.6	717.0	875.1	1,085.1
	Balance	(8.7)	(13.3)	45.2	46.3	263.9
11 Personal, cultural and recreational services	Exports	26.4	30.5	38.5	46.9	58.5
	Imports	29.5	27.7	34.2	35.9	34.3
	Balance	(3.1)	2.8	4.4	11.0	24.2
12 Government goods and services, n.i.e.	Exports	61.1	62.6	56.0	64.2	56.9
	Imports	67.0	78.6	73.0	76.0	76.9
	Balance	(5.9)	(15.9)	(17.0)	(11.9)	(20.1)
1.B Primary income	Credit	927.6	879.8	911.5	1,132.1	1,149.7
	Debit	2,274.8	2,305.9	2,486.7	2,585.8	2,556.6
	Balance	(1,347.3)	(1,426.1)	(1,575.2)	(1,453.7)	(1,406.9)
1 Compensation of employees	Credit	108.0	64.7	42.7	52.0	51.4
	Debit	93.0	101.7	87.2	90.2	123.0
	Balance	15.0	(36.9)	(44.5)	(38.2)	(71.6)
1.B.2 Investment income	Credit	242.7	260.6	290.7	469.3	441.3
	Debit	2,071.8	2,100.2	2,290.3	2,372.7	2,303.0
	Balance	(1,829.1)	(1,839.6)	(1,999.6)	(1,903.3)	(1,861.8)
1 Direct investment income	Credit	134.9	149.1	149.5	273.2	229.2
	Debit	1,493.7	1,575.0	1,773.4	1,918.2	1,816.8
	Balance	(1,358.8)	(1,425.9)	(1,623.9)	(1,645.0)	(1,587.6)
2 Portfolio investment income	Credit	72.8	80.7	96.3	107.2	115.2
	Debit	494.6	471.8	463.5	399.0	429.9
	Balance	(421.8)	(391.1)	(367.3)	(291.8)	(314.7)
3 Other investment income	Credit	32.4	25.2	25.5	28.1	30.5
	Debit	83.5	53.4	53.4	55.4	56.3
	Balance	(51.1)	(28.3)	(27.9)	(27.3)	(25.8)
1.B.3 Other primary income	Credit	576.9	554.5	578.1	610.8	657.0
	Debit	110.1	104.1	109.2	122.9	130.6
	Balance	466.9	450.4	468.9	487.9	526.4
1.C Secondary income	Credit	1,647.9	1,514.4	1,533.7	1,591.2	1,682.5
	Debit	838.2	825.7	753.5	885.1	919.8
	Balance	809.7	688.6	780.2	706.1	762.7
1 General government	Credit	314.2	264.1	235.5	279.9	381.3
	Debit	324.4	341.4	283.2	368.6	385.3
	Balance	(10.2)	(77.4)	(47.7)	(88.8)	(4.0)
2 Other sectors	Credit	1,333.7	1,250.3	1,298.1	1,311.3	1,301.1
	Debit	513.8	484.3	470.3	516.5	534.4
	Balance	820.0	766.0	827.8	794.8	766.7
					0.0	0.0
2. CAPITAL ACCOUNT	Credit	1,120.8	572.3	506.8	670.7	835.3
	Debit	3.5	3.6	5.1	2.5	3.9

	Balance	1,117.3	568.7	501.7	668.2	831.4
1 Gross acquisitions/disposals of non-produced non-financial assets	Credit	0.0	0.0	0.0	0.0	0.0
	Debit	0.0	0.0	0.0	0.0	0.0
	Balance	0.0	0.0	0.0	0.0	0.0
2 Capital transfers	Credit	1,120.8	572.3	506.8	670.7	835.3
	Debit	3.5	3.6	5.1	2.5	3.9
	Balance	1,117.3	568.7	501.7	668.2	831.4
2.1 General government	Credit	1,120.8	572.3	506.8	670.7	835.3
	Debit	2.7	3.4	4.8	2.5	3.7
	Balance	1,118.1	569.0	502.0	668.2	831.5
2.2 Other sectors	Credit	0.0	0.0	0.0	0.0	0.0
	Debit	0.9	0.3	0.3	0.0	0.2
	Balance	(0.9)	(0.3)	(0.3)	(0.0)	(0.2)
Current and capital accounts	Credit	29,381.8	29,250.4	34,064.6	37,623.3	41,487.7
	Debit	29,174.4	29,116.0	33,350.4	36,823.7	38,590.5
	Balance	207.4	134.4	714.3	799.6	2,897.2
					0.0	0.0
3. FINANCIAL ACCOUNT.....		747.2	(398.5)	610.0	1,005.9	2,039.5
3.A Net acquisition of financial assets		3,647.2	5,396.6	4,140.6	2,637.4	(396.0)
3.B Net incurrence of liabilities		2,900.0	5,795.1	3,530.6	1,631.5	(2,435.4)
3.1 Direct investment.....		(617.3)	(347.9)	(850.7)	(357.1)	(734.2)
3.1.1 Net acquisition of financial assets.....		324.5	841.9	353.1	844.1	473.2
3.1.2. Net incurrence of liabilities.....		941.8	1,189.7	1,203.8	1,201.2	1,207.4
3.2 Portfolio investment.....		(87.9)	3,364.1	1,578.4	1,703.4	(2,395.9)
3.2.1 Net acquisition of financial assets.....		(203.9)	2,774.1	3,322.6	1,212.6	(711.3)
3.2.2 Net incurrence of liabilities.....		(116.0)	(590.0)	1,744.2	(490.8)	1,684.6
3.3 Financial derivatives and employee stock options.....		(148.9)	(32.4)	(35.0)	5.8	4.8
3.3.1 Net acquisition of financial assets.....		(435.1)	(190.4)	(227.8)	(193.8)	(203.0)
3.3.2 Net incurrence of liabilities.....		(286.2)	(158.0)	(192.8)	(199.6)	(207.9)
3.4 Other investment.....		2,910.1	(4,204.8)	(1,444.0)	(1,497.4)	5,753.8
3.4.1 Net acquisition of financial assets.....		4,984.4	990.6	(861.4)	(576.3)	426.4
3.4.2. Net incurrence of liabilities.....		2,074.3	5,195.4	582.6	921.1	(5,327.4)
3.5 Reserve assets.....		(1,308.9)	822.4	1,361.3	1,151.1	(589.1)
3.5.1 Monetary gold.....		0.9	(0.2)	0.0	0.0	0.0
3.5.2 Special drawing rights		0.0	(0.0)	(0.0)	0.0	0.3
3.5.3 Reserve position in the IMF		0.0	0.0	0.0	34.0	22.2
3.5.4 Other reserve assets.....		(1,309.8)	822.6	1,361.3	1,117.1	(611.6)
III. Net errors and omissions.....		539.8	(533.0)	(104.2)	206.3	(857.7)

Note:

⁽¹⁾ Line items within the financial account represent consolidations of credits and debits over the relevant period.

Source: The Bank of Lithuania

The following table shows Lithuania's current account balance in EUR millions and as a percentage of GDP for the periods indicated:

	Current Account Balance	
	(EUR millions)	(% of GDP)
2015	(909.9)	(2.4)
First Quarter	(350.8)	(4.3)
Second Quarter	(568.1)	(6.1)
Third Quarter	(110.1)	(1.1)
Fourth Quarter	119.0	1.2
2016	(434.3)	(1.1)
First Quarter	(193.8)	(2.3)
Second Quarter	(367.2)	(3.8)
Third Quarter	(71.5)	(0.7)
Fourth Quarter	198.2	2.0
2017	212.5	0.5
First Quarter	(200.4)	(2.2)
Second Quarter	(139.9)	(1.3)
Third Quarter	94.1	0.8
Fourth Quarter	458.6	4.2
2018	131.4	0.3
First Quarter	(209.5)	(2.1)
Second Quarter	(177.8)	(1.6)
Third Quarter	78.3	0.6
Fourth Quarter	440.5	3.7
2019	2,065.8	4.3
First Quarter	259.7	2.4
Second Quarter	102.7	0.9
Third Quarter	458.6	3.6
Fourth Quarter	1,244.9	9.8

Source: The Bank of Lithuania, Statistics Lithuania.

The current account ran a surplus of 0.5 per cent. of GDP in 2017. An increase in the balance of services resulted in a current account surplus of 0.3 per cent. of GDP in 2018 and 4.3 per cent. of GDP in 2019, despite the persistent deficit in balance of goods.

The foreign trade deficit was EUR 2.1 billion in 2017, and it continuously increased to EUR 2.8 billion in 2018 and decreased to EUR 2.2 billion in 2019. See “—Foreign Trade” below.

Lithuania's balance of services is mainly driven by transportation services, particularly road haulage, which increased even further in 2019, resulting from solid investment and expansion into the EU market. Most of the road haulage services exported from Lithuania are now heading to Western EU countries. The balance of services was in surplus and increased from EUR 3.1 billion in 2017, to EUR 3.7 billion in 2018 and EUR 4.9 billion in 2019.

The total deficit on the primary income balance was EUR 1.6 billion in 2017, EUR 1.5 billion in 2018 and EUR 1.4 billion in 2019, which was mostly due to high deficits in portfolio investment income. Nonetheless, the deficit has decreased during each period, while the balance of portfolio investment and other investment income has been steadily increasing, resulting in a reduced overall deficit.

Secondary income is comprised mainly of transfers from EU structural funds and remittances from Lithuanians working abroad. The balance of secondary income had a surplus of EUR 0.8 billion in 2017, EUR 0.7 billion in 2018 and EUR 0.8 billion in 2019.

The capital account had a relatively stable positive balance of EUR 0.5 billion in 2017, EUR 0.7 billion in 2018 and EUR 0.8 billion in 2019. This was largely due to the capital transfers in the government sector.

The financial account balance was positive at EUR 0.6 billion in 2017, increased to EUR 1.0 billion in 2018, and then increased twice to EUR 2.0 billion in 2019.

Official reserve assets stood at EUR 1.4 billion in 2017, which decreased to EUR 1.2 billion in 2018 and turned to a negative balance of EUR -0.6 billion in 2019. See “—Monetary and Financial System-Foreign Reserve Assets” below.

Foreign Trade

Composition of Trade

The following table sets forth Lithuania's exports and imports of goods by principal product type as a percentage of the total exports and imports for the periods indicated:

	2015		2016		2017		2018		2019	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Live animals and animal products.....	4.7	3.2	5.0	3.6	5.0	3.6	4.6	3.5	4.8	3.6
Vegetable products	7.5	4.8	6.5	3.9	5.6	3.6	4.6	3.3	5.7	3.4
Animal or vegetable fats and oils.....	0.4	0.6	0.5	0.7	0.4	0.6	0.3	0.5	0.3	0.6
Prepared foodstuffs; beverages, spirits and vinegar; tobacco	6.8	5.4	7.5	5.6	7.3	5.3	7.9	5.2	7.6	5.4
Mineral products ⁽¹⁾	16.5	21.4	14.0	17.9	14.7	19.0	14.8	20.5	13.3	19.2
Products of the chemical or allied industries	10.8	12.1	10.9	12.0	10.1	11.7	10.7	11.6	11.1	12.2
Plastics and articles thereof, rubber... Wood and articles of wood and paper.....	6.2	5.3	6.6	5.6	6.5	5.6	6.7	5.4	6.6	5.3
Textiles and textile articles	5.4	3.9	5.7	4.1	5.2	3.9	5.4	4.0	5.3	3.9
Base metals and articles of base metal.....	5.2	4.6	5.4	5.1	4.9	4.7	4.7	4.4	4.5	4.2
Machinery and mechanical appliances; electrical equipment	4.9	5.8	5.2	6.1	5.8	6.5	6.1	6.8	5.8	6.6
Vehicles, aircraft, vessels and associated transport equipment	14.8	17.9	14.6	18.3	15.8	18.5	15.2	17.5	14.8	17.4
Miscellaneous manufactured articles	3.9	7.6	4.4	9.5	5.2	9.6	5.0	10.0	5.9	10.5
Other goods	7.7	2.2	8.4	2.4	8.0	2.2	8.2	2.3	8.3	2.3
	5.0	5.1	5.4	5.1	5.7	5.2	5.7	5.1	6.0	5.4
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Statistics Lithuania

The following tables show the changes in exports and imports by main categories of goods for the periods indicated in percentage terms:

	Exports					Imports				
	2015 vs 2014	2016 vs 2015	2017 vs 2016	2018 vs 2017	2019 vs 2018	2015 vs 2014	2016 vs 2015	2017 vs 2016	2018 vs 2017	2019 vs 2018
Capital goods.....	(7.9)	(1.2)	31.1	1.1	1.3	8.4	3.4	20.4	3.7	(1.5)
Intermediate goods	(5.1)	(2.1)	15.9	9.8	6.2	(6.1)	(6.5)	16.3	12.3	1.1
Consumption goods.....	(3.2)	1.8	10.0	5.2	2.8	2.2	0.7	9.2	2.3	5.9
Motor spirit.....	(12.8)	(13.1)	29.1	4.1	(9.9)	108.2	32.0	13.2	11.2	3.4
Passenger motor cars	(45.3)	(6.2)	30.8	15.9	78.2	(4.9)	9.5	17.1	15.7	27.8
Others	10.9	21.2	86.1	7.3	(1.7)	397.6	17.4	58.1	3.7	57.6
All goods	(6.0)	(1.3)	16.8	7.0	4.7	(1.9)	(2.6)	15.3	8.5	2.8

Source: Statistics Lithuania

Focus of Trade

The following table shows exports and imports of goods by region and by individual country (for main trading partners) for the periods indicated:

	Year ended 31 December									
	2015		2016		2017		2018		2019	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
	(EUR million)									
By region										
World	22,903.9	25,399.5	22,607.0	24,737.3	26,410.5	28,516.2	28,271.0	30,942.6	29,598.9	31,817.2
EU ⁽¹⁾	14,048.7	17,198.7	13,721.0	17,577.3	15,409.3	20,143.9	16,627.7	21,312.8	17,409.3	21,877.3
CIS (excluding Ukraine)	4,859.7	5,362.6	4,457.0	4,466.0	5,666.7	5,173.3	5,758.6	6,046.9	6,112.2	6,252.9
By country										
Russia	3,139.1	4,137.7	3,046.3	3,432.0	3,919.6	3,589.5	3,961.6	4,395.4	4,143.0	4,679.1
Latvia	2,274.0	2,096.4	2,230.7	1,988.3	2,624.3	2,049.4	2,771.1	2,213.8	2,808.5	2,263.4
Germany	1,794.5	2,918.2	1,735.3	3,026.2	1,933.8	3,507.8	2,084.2	3,700.3	2,231.7	3,702.3
Poland	2,226.7	2,617.5	2,056.8	2,720.3	2,148.9	3,058.9	2,331.9	3,560.8	2,339.0	3,778.0
Estonia.....	1,205.4	766.5	1,197.1	827.6	1,307.7	918.7	1,391.3	950.6	1,489.7	1,092.7
Netherlands	918.9	1,306.0	707.3	1,199.9	928.2	1,442.4	952.7	1,525.8	1,074.9	1,710.5

Note:

⁽¹⁾ On the basis of a 28 Member State EU.

Source: Statistics Lithuania

The following table shows exports and imports of goods by region and by individual country (for main trading partners) for the periods indicated in percentage terms:

	Year ended 31 December									
	2015		2016		2017		2018		2019	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
By region	%									
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
EU ⁽¹⁾	61.3	67.7	60.7	71.1	58.3	70.6	58.8	68.9	58.8	68.8
CIS (excluding Ukraine)	21.2	21.1	19.7	18.1	21.5	18.1	20.4	19.5	20.7	19.7
By country										
Russia	13.7	16.3	13.5	13.9	14.8	12.6	14.0	14.2	14.0	14.7
Latvia	9.9	8.3	9.9	8.0	9.9	7.2	9.8	7.2	9.5	7.1
Germany	7.8	11.5	7.7	12.2	7.3	12.3	7.4	12.0	7.5	11.6
Poland	9.7	10.3	9.1	11.0	8.1	10.7	8.2	11.5	7.9	11.9
Estonia	5.3	3.0	5.3	3.3	5.0	3.2	4.9	3.1	5.0	3.4
Netherlands	4.0	5.1	3.1	4.9	3.5	5.1	3.4	4.9	3.6	5.4

Note:

⁽¹⁾ On the basis of a 28 Member State EU.

Source: Statistics Lithuania

Both for exports and imports, Lithuania's main trading region is the EU, which accounted for 58.8 per cent. of exports and 68.8 per cent. of imports in 2019. The largest individual country export partners since 2006, in order of their share of total exports, were Russia, Latvia, Poland and Germany, and the largest single country import partners for the same period, in order of their share of total imports, were Russia, Germany, Poland and Latvia.

In the years following the Russian economic crisis in 1998, Lithuanian exports to EU countries increased as a percentage of Lithuania's total exports. Since 2006 the share of exports to Russia and other CIS countries has been increasing as these economies have been growing rapidly, however, in 2015, exports to CIS countries decreased largely due to the food embargo imposed by Russia. In 2019, Lithuanian exports to CIS countries (excluding Ukraine) amounted to 20.7 per cent. and exports to Russia were 14.0 per cent. of total exports, more than 90.0 per cent. of which were re-exports.

Foreign Direct Investment

FDI inflow comprises capital for the purchase of shares in direct investment enterprises, reinvested earnings and a positive balance of inter-company loans. Generally, fluctuations in FDI are caused by the condition of the Lithuanian economy. When the economy is growing rapidly, FDI increases as investors attempt to benefit from the growth. In addition, Lithuanian companies are more likely to generate higher profits in a strongly growing economy, which may result in increased reinvested earnings and, if such companies are wholly or partly foreign owned, increased FDI. The reverse applies when growth declines. FDI may decrease as investors look for alternative investments and Lithuanian companies generate lower profits, resulting in a decrease in reinvested earnings.

There was a net FDI outflow of EUR 347.9 million in 2016, EUR 850.7 million in 2017, 357.1 million in 2018 and EUR 734.2 million in 2019.

The net portfolio investment inflow was EUR 3.4 billion in 2016 and it decreased to EUR 1.6 billion in 2017 and to EUR 1.7 billion in 2018 and the outflow was EUR 2.4 billion in 2019.

As at 31 December 2019, investments in financial and insurance activities accounted for 26.5 per cent. of total FDI stock (being the aggregate amount of FDI as at that date); investments in the manufacturing industry accounted for 16.5 per cent. of total FDI stock; investments in real estate activities accounted for 13.6 per cent. of total FDI stock; investments in wholesale and retail trade, repair of motor vehicles and motorcycles accounted for 11.8 per cent. of total FDI stock; and investments in information and communication activities accounted for 7.0 per cent. of total FDI stock.

As at 31 December 2019, the largest source of FDI stock by country of origin was Sweden (17.1 per cent.), followed by Estonia (15.9 per cent.), the Netherlands (13.8 per cent.), Germany (7.2 per cent.), Cyprus (6.9 per cent.) and Poland (6.0 per cent.).

PUBLIC DEBT

Lithuania's gross total Government debt (“**General Government Debt**”) consists of debt of the state, the Social Security Funds and the other extra-budgetary funds (collectively, “**Central Government Debt**”) and debt of local governments. Pursuant to the Law on State Debt, as amended, Lithuania's public debt is divided into domestic and foreign debt based on a residency principle. The following table sets out Lithuania's General Government Debt, both in millions of Euros and as a percentage of GDP, as at the dates indicated:

	As at 31 December				
	2015	2016	2017	2018	2019
Currency and deposits	533.4	541.4	420.56	287.68	185.28
Securities other than shares.....	12,530.0	12,277.9	13880.55	12891.42	14874.25
Loans	2,876.2	2,696.2	2324.03	2237.54	2464.13
General Government Debt.....	15,939.6	15,515.4	16,625.1	15,416.6	17,523.7
General Government Debt.....	42.7	39.9	39.3	34.1	36.3

Source: Statistics Lithuania

General Government Debt was 36.3 per cent. of GDP at the end of 2019. Lithuania's debt to GDP ratio remains one of lowest in the EU and is significantly below the 60.0 per cent. of GDP limit established by the Maastricht Euro convergence criteria.

Debt on behalf of the State

Debt Management Policy

Conservative debt management has been a declared objective of successive Lithuanian governments since 1991.

The Seimas sets a limit for the net change in debt liabilities each year upon approval of the Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets (the “**State Budget Law**”) for the relevant year. Limits on the structure of debt issued by Lithuania are set each year in the Stability Programme of Lithuania. On 17 March 2020, the limit for the net change in debt liabilities was increased from EUR 0.9 billion to approximately EUR 5.4 billion for 2020 due to the measures taken against the spread and impact of COVID-19.

It is planned that at the end of April 2020, the Government will approve the Stability Programme of Lithuania for 2020 that establishes the principles of the development and implementation of the effective public finance borrowing and debt management policy in order to increase national macroeconomic stability and economic development. The Government's borrowing and debt management objective in 2020–2021 remains similar to the one during the previous period: to ensure the financing of the state expenditures determined by the laws of the Republic of Lithuania and to serve assumed debt liabilities with the borrowed funds at the lowest possible costs and tolerable risk in the medium term.

The Government's current debt management objectives include:

- seeking tolerable interest rate, refinancing, exchange rate and contingent liabilities risk by following risk limits set in the programme and in line with international practices;
- attracting the largest possible share of idle funds of entities attributed to the general government to the State Treasury, which will improve the financial assets liquidity of the State Treasury and will allow it to manage the State monetary resources more effectively; and
- increasing the domestic Government securities market liquidity by issuing liquid Government securities and developing a relationship with partners and investors.

Interest rate and refinancing risks result from interest rate fluctuations in the market. In an attempt to manage these risks the Government has established limits on liabilities assumed on behalf of the State in terms of floating-rate debt (10.0 per cent. of liabilities assumed on behalf of the State), residual short-term debt (not more than 25.0 per cent. of liabilities assumed on behalf of the State), the weighted average duration of the liabilities assumed on behalf of the State by residual maturity (not less than four years)

and the weighted average duration of the liabilities assumed on behalf of the State before the change in interest rates (not less than 3.5 years). As at 31 March 2020, Lithuania's floating rate debt amounted to 0.0 per cent. of the liabilities assumed on behalf of the State. Residual short-term debt amounted to 14.3 per cent. of the liabilities assumed on behalf of the State, the weighted average duration of the liabilities assumed on behalf of the State by residual maturity was 10.4 years and the average weighted residual maturity of the liabilities assumed on behalf of the State before the change in interest rates was 10.2 years.

Foreign Debt on behalf of the State

The Ministry of Finance is responsible for the Government's foreign borrowing, while the Bank of Lithuania acts as the main fiscal agent of the Government in servicing foreign debt. Foreign borrowings are currently incurred for the purposes of financing budget deficits.

Although Lithuania has been allocated funds from the IMF, it currently has no outstanding borrowings under those allocations. Lithuania has obtained financing and support from various multilateral financial institutions. See “—*Relationships with Multilateral Financial Institutions*”.

Lithuania first accessed the international capital markets in 1995, when it issued U.S. \$100 million 10.0 per cent. notes due 1997. Since then, Lithuania has issued Eurobonds in the international markets on a number of occasions. As at 31 December 2019, the total outstanding amount of Lithuania's indebtedness in long term Government securities issued in the international markets was EUR 11.4 billion.

The following table sets forth information on Lithuania's outstanding public Eurobond issues as at 31 March 2020:

<u>Aggregate Outstanding Principal Amount</u>	<u>Original Issue Date</u>	<u>Maturity Date</u>	<u>Coupon</u> (%)
EUR 500 million	22/01/2014	22/01/2024	3.375
EUR 750 million	22/10/2015	22/10/2025	1.250
EUR 1 billion	29/10/2014	29/10/2026	2.125
EUR 1.2 billion ⁽¹⁾	22/10/2015	22/10/2035	2.125
EUR 1.1 billion ⁽²⁾	26/05/2017	26/05/2027	0.950
EUR 650 million	19/06/2019	19/06/2029	0.500
EUR 750 million ⁽³⁾	26/05/2017	26/05/2047	2.100
EUR 850 million	19/06/2019	19/06/2049	1.625
U.S.\$ 1.5 billion ⁽⁴⁾	09/03/2011	09/03/2021	6.125
U.S.\$ 1.5 billion	01/02/2012	01/02/2022	6.625

Notes:

⁽¹⁾ Original issue of EUR 750 million and further issue of EUR 450 million on 22/09/2016.

⁽²⁾ Original issue of EUR 750 million and further issue of EUR 350 million on 14/11/2017.

⁽³⁾ Original issue of EUR 550 million and further issue of EUR 200 million on 14/11/2017

⁽⁴⁾ Original issue of USD 750 million and further issue of USD 750 million on 16/11/2011.

Source: Ministry of Finance

Where the Government borrows in currencies other than the Euro, it is intended that such borrowing will be combined with hedging transactions to limit exchange rate risk. Lithuania has issued Eurobonds denominated in U.S. dollars and subsequently hedged its exchange rate risk by fully converting its liabilities into Euros.

Domestic Debt on behalf of the State

As a result of the Government's strategy to concentrate short- and medium-term borrowing in the domestic market and long-term borrowing in the international capital markets, as at 31 December 2019, 16.7 per cent. of domestic Government securities had residual maturities of up to 12 months, 36.3 per cent. had residual maturities of one to three years and 47.0 per cent. had residual maturities of more than three years.

The following table sets out the amounts borrowed in the domestic market by instrument in each of the periods indicated.

	<u>Year ended 31 December</u>				
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
			(EUR million)		
Bonds and bills in auctions	1,051.9	890.5	829.5	1,043.0	1,270.0
Private placements and syndicated offerings	0.0	0.0	0.0	0.0	0.0
Savings notes	234.8	153.8	43.2	6.2	5.2

Loans.....	0.0	0.0	0.0	0.0	0.0
Total	1,286.7	1,044.3	872.7	1,049.2	1,275.2

Source: Ministry of Finance

In May 2009, the Ministry of Finance resumed the issuance of savings notes with a 12-month maturity and a fixed annual interest rate. Since then, one-year, two-year, three-year, four-year and five-year savings notes have been issued. As at 31 December 2019, the aggregate principal amount of savings notes outstanding was EUR 98.1 million.

The following table sets out the weighted average original yield (upon issuance and by nominal maturity) of Government securities issued at public auctions in each of the periods indicated.

	Year ended 31 December				
	2015	2016	2017	2018	2019
<i>Categorised by original maturity</i>			%		
Treasury bills.....	0.05	-	-	-	-
1-month T-bills.....	-	-	-	-	-
3-month T-bills.....	-	-	-	-	-
6-month T-bills.....	-	-	-	-	-
9-month T-bills.....	-	-	-	-	-
12-month T-bills.....	0.05	-	-	-	-
Notes.....	0.66	0.34	0.29	0.49	0.30
2-year notes.....	-	-	-	-	-
3-year notes.....	0.43	0.09	0.00	0.07	0.05
5-year notes.....	0.74	0.30	0.18	0.42	0.23
7-year notes.....	0.78	0.50	0.64	0.75	0.46
10-year notes.....	1.16	0.83	1.05	1.14	0.55
Savings notes.....	0.44	0.22	0.09	0.00	0.00
1-year savings notes.....	0.20	-	-	-	-
2-year savings notes.....	0.36	0.15	-	0.00	0.00
3-year savings notes.....	0.51	0.29	0.00	0.00	0.00
4-year savings notes.....	-	0.16	0.10	-	0.00
5-year savings notes.....	-	0.10	-	-	-

Source: Ministry of Finance

Debt Service

Debt service costs relating to General Government Debt consist of principal payments and interest payable on Central Government Debt and local government debt as well as other related costs.

The table below shows the debt service projections as at 31 March 2020 for the foreign debt on behalf of the State by type of credit for the years indicated. The data contained in the table does not assume any refinancing of existing debt.

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030-2049	Total debt service
	(EUR million)											
Principal payments	1,733.1	1,445.0	1,618.7	121.7	621.7	868.9	1,118.9	1,218.9	113.4	759.1	3,775.9	13,395.1
Loans.....	89.4	85.6	149.3	121.7	121.7	118.9	118.9	118.9	113.4	109.1	790.9	1,937.5
Securities.....	1,643.7	1,359.4	1,469.4	0.0	500.0	750.0	1,000.0	1,100.0	0.0	650.0	2,985.0	11,457.6
Interest payments	391.4	288.0	199.7	146.4	144.3	125.4	114.1	90.9	78.6	76.9	793.7	2,449.2
Loans.....	31.0	29.3	27.6	23.8	21.7	19.6	17.7	15.8	13.9	12.2	49.2	261.9
Securities.....	360.3	258.7	172.1	122.6	122.6	105.7	96.4	75.1	64.7	64.7	744.5	2,187.3
Total	2,124.5	1,733.0	1,818.4	268.1	766.0	994.2	1,232.9	1,309.7	191.9	836.0	4,569.6	15,844.3
of which loans.....	120.4	114.9	176.9	145.4	143.4	138.5	136.6	134.6	127.3	121.3	840.1	2,199.4
of which securities.....	2,004.0	1,618.2	1,641.5	122.6	622.6	855.7	1,096.4	1,175.1	64.7	714.7	3,729.5	13,644.9

Source: Ministry of Finance

The table below presents debt service projections as at 31 March 2020 for the domestic debt on behalf of the State by type of credit for the years indicated. The data contained in the table does not assume any refinancing of existing debt.

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030-2049	Total debt service
	(EUR million)											
Principal payments	766.8	926.1	877.1	635.3	876.6	330.0	65.0	315.0	40.0	105.0	20.0	4,956.9
Loans.....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities.....	766.8	926.1	877.1	635.3	876.6	330.0	65.0	315.0	40.0	105.0	20.0	4,956.9

Interest payments	44.9	38.9	31.9	23.2	15.8	6.9	4.3	4.2	0.8	0.3	0.2	171.3
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities	44.9	38.9	31.9	23.2	15.8	6.9	4.3	4.2	0.8	0.3	0.2	171.3
Total	811.7	965.1	909.0	658.5	892.4	336.9	69.3	319.2	40.8	105.3	20.2	5,128.3
of which loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which securities	811.7	965.1	909.0	658.5	892.4	336.9	69.3	319.2	40.8	105.3	20.2	5,128.3

Source: Ministry of Finance

Contingent Liabilities

The following table sets out the contingent liabilities that arise from sureties and guarantees given by Lithuania as at the dates indicated:

	Year ended 31 December				
	2015	2016	2017	2018	2019
	<i>(EUR million)</i>				
Domestic	195.8	272.8	301.1	289.5	259.2
State guarantees	47.3	54.1	59.5	65.0	70.5
Guarantees provided by guarantee institutions	148.4	218.8	241.6	224.5	188.7
Foreign	36.2	31.2	76.7	76.5	73.8
Guarantees for loans guaranteed by international financial institutions	30.0	23.1	19.8	15.2	11.8
Total	262.0	327.1	397.6	381.2	344.7

Source: Ministry of Finance

Lithuania has a portfolio of guarantees which, as at 31 December 2019, in aggregate represented 0.7 per cent. of GDP. Under the State Budget Law 2020, in 2020 the Government is authorised to provide guarantees in an aggregate amount of up to EUR 1,733.5 million (total limit on outstanding guaranteed debt). The guarantees in an aggregate amount of up to EUR 95.0 million are authorised for student loans and in an aggregate amount of up to EUR 370.5 million for state investment projects financed via bilateral and multilateral loans from international financial institutions and (or) for supplementing turnover funds of enterprises important for the national security referred to in the Republic of Lithuania Law on the Protection of Objects of Importance to Ensuring National Security. There are also certain guarantee institutions established by the Government for the purpose of providing guarantees in the agricultural sector and for small and medium-sized enterprises (“SMEs”). The limit for such guarantees is set at EUR 768.0 million excluding loans guaranteed by AAA rated financial institutions. Also, the new additional guarantee was introduced in an aggregate amount of up to EUR 500 million in order to stimulate the economy in light of the coronavirus (COVID-19) pandemic. The Law on State Debt provides general guidance on the provision of guarantees by the Government.

Defaults

Since regaining its independence in 1990, Lithuania has not been in default on either principal or interest in relation to any of its external creditors.

Relationships with Multilateral Financial Institutions

Since 1992, Lithuania has received substantial financial and technical support from various multilateral financial institutions, including the Council of Europe Development Bank (“CEB”), the European Bank for Reconstruction and Development (the “EBRD”), the Nordic Investment Bank (the “NIB”), the World Bank, the IMF and the European Investment Bank (the “EIB”).

International Monetary Fund

Lithuania became a member of the IMF in 1992. Lithuania's IMF quota (its maximum financial commitment to the IMF) is SDR 441.6 million. In 2018, the IMF included Lithuania in its Financial Transactions Plan and began using Lithuania's IMF quota resources to finance the Fund's operations. Currently, Lithuania's collaboration with the IMF is based on economic consultations, participation in the global economic process, financial market development and consequence analysis. IMF representatives visit Lithuania and assess its economic situation annually.

World Bank

Lithuania has been a member of the World Bank group since 1992. The assistance provided by the World Bank to Lithuania during the period of transition to a market economy comprised of loans, grants, political dialogue and analytical as well as technical assistance. Lithuania has not borrowed from the World Bank since 2002. Lithuania began the processes of graduation from the World Bank in 2006 and completed the graduation from client to full donor status in 2015. Lithuania became a full member and donor of the International Development Association in 2011. Lithuania has contributed to the Fifteenth, Sixteenth, Seventeenth and Eighteenth Replenishments of the International Development Association.

European Investment Bank

Lithuania has been a member of the EIB since 2004, and after the withdrawal of the United Kingdom from the European Union, owns 0.18 per cent. of the EIB's shares. The EIB has provided financing in connection with various large infrastructure projects in Lithuania, including the reconstruction of Vilnius International Airport, the reconstruction of the Klaipėda State Seaport, the construction of the highway Via Baltica and the modernisation of railway infrastructure. The EIB invested EUR 46.6 million in the Lithuanian economy over the course of 2019. On 13 March 2009, the EIB provided Lithuania with a long-term loan of EUR 1.132 billion for purposes of co-financing investment projects, which are also financed by EU Structural Funds. In March 2013 the loan was fully disbursed. In October 2014, the EIB Board approved a EUR 1.3 billion long-term loan facility for Lithuania. The loan will support investment in the areas of communications, energy, sustainable transport infrastructure and rural development and will be available as co-financing for selected projects under Lithuanian operational programmes for 2014–2020. The loan agreement for EUR 300 million of the larger facility was signed on 7 May 2015 and was fully disbursed in October 2015. A new loan agreement for EUR 300 million was signed on 13 April 2018. As at 31 December 2019, Lithuania had EUR 1,531.76 million in outstanding loans from the EIB which must be repaid by the end of 2044.

Lithuania actively uses the financing of the EFSI, established by the European Commission in 2015. Total financing under the EFSI in Lithuania amounts to EUR 322 million and is set to trigger EUR 1.7 billion in additional investments (as of February 2020). The EFSI financing has been signed for nine Lithuanian projects. In addition, the EFSI financing has been approved for five additional Lithuanian projects and one project is in a state of pre-approval. Lithuania takes the 9th place in the member state ranking with the highest EFSI investment rate relative to GDP.

In October 2008 the Ministry of Economy and Innovation, the Ministry of Finance and the European Investment Fund (“EIF”), which belongs to the EIB Group, signed a funding agreement in order to establish a Joint European Resources for Micro to Medium Enterprises (“**JEREMIE**”) holding fund. JEREMIE is a joint initiative of the Commission with EIF and EIB to promote access to finance for SMEs. The JEREMIE holding fund committed EUR 58.5 million to five venture capital (including seed) funds that enabled the fund managers to attract almost EUR 20 million from private investors. The total amount available for Lithuanian micro, small and medium enterprises through the equity investments has reached more than EUR 77 million. Therefore, it resulted in 100 venture capital investments into Lithuanian small and medium business enterprises. Investments were made into a variety of industries ranging from ICT, laser technologies, consumer products to B2B products and services. Three quarters of the investments were made into the very early stage businesses (76 companies), whilst 24 companies were already at the expansion stage. The fund managers are now actively working with the portfolio companies focusing on their growth with the aim to exit them successfully in the upcoming years. As of end of 2019 there were 55 companies still actively managed in the JEREMIE holding fund's portfolio, whilst 45 companies were already exited.

In June 2009, the Government launched a holding fund to implement the Joint European Support for Sustainable Investment in City Areas (“**JESSICA**”) initiative. JESSICA is an EC and EIB initiative intended to stimulate investment in urban development and state-sponsored renovation. The initial capital of the JESSICA holding fund was EUR 227 million. In May 2015, Lithuania, in co-operation with the EIB, signed an agreement on the establishment of the JESSICA II fund, amounting to EUR 150 million, which will ensure continuation of the JESSICA initiative in 2014-2020. More importantly, in October 2016 JESSICA II was succeeded by the Leveraged Fund, which is expected to stimulate the attraction of private investment into the economy. The capital of the Leveraged Fund amounts to EUR 100 million, which is intended to additionally attract up to EUR 500 million of private investments. The Financial Intermediary Guarantee Agreement was signed in December 2018 with Šiaulių bankas AB for a EUR 30

million guarantee, which would cover a portfolio of EUR 150 million to be originated by the Financial Intermediary. For that purpose, in 2019 a new Financial Instrument under the Leveraged Fund was structured with EUR 50 million of allocated funds to create an Investment Platform, which would raise EUR 200 million from commercial banks and international financial institutions.

Lithuania has developed a particularly good cooperation with the experts of Joint Assistance to Support Projects in European Regions (“JASPERS”). JASPERS technical assistance has been provided for Lithuania starting from 2008 and Lithuania continues to use it for the preparation of major projects. In the 2007-2013 financing period JASPERS were involved in preparation of 13 major projects which were successfully implemented in transport, R&D and energy sectors. In the 2014-2020 financing period JASPERS was also involved in preparation of 4 planned major projects in transport, waste and energy sectors. Cooperation with JASPERS while preparing major projects has a huge positive impact on both institutional competences and project management skills.

European Bank for Reconstruction and Development

Lithuania has been a member of the EBRD since 1992 and owns 0.1 per cent. of the EBRD's shares. The Bank has supported Lithuania's successful transition to a market economy through the financing of various projects in different economic sectors, with an emphasis on finance and infrastructure. The current EBRD Strategy for Lithuania was approved in 2016, focusing further Bank's operations in Lithuania on two strategic orientations, namely i) bolstering energy security and increasing energy efficiency, and ii) enhancing private sector competitiveness through innovation. Currently, EBRD's portfolio of projects in Lithuania amounts to EUR 310 million. Since 1992, the EBRD has provided Lithuania with loans amounting to EUR 21.6 million and USD 60.1 million, all of which have been repaid.

The EBRD has been the major shareholder of AB Šiaulių bankas since 2005. In February 2013, AB Šiaulių bankas took over selected core banking assets of AB Ūkio bankas. The EBRD supported the transfer of assets by providing AB Šiaulių bankas with a EUR 20 million subordinated debt facility. In 2018, EBRD increased its equity share in AB Šiaulių Bankas from 18.2 per cent. to 26.02 per cent. using the option of converting the subordinated loan into AB Šiaulių Bankas shares.

Since 2017, EBRD has implemented financial instruments in the area of venture capital, energy efficiency projects such as modernisation of multi-apartment buildings, and made investments in corporate green bonds, innovative and export-oriented businesses in Lithuania. EBRD also provides consultations to Lithuania concerning securitisation and covered bonds project, and contributes to the development of the domestic capital market – makes investments in private and venture capital funds as well as provides expertise to improve the regulatory environment.

The Council of Europe Development Bank

Lithuania has been a member of the CEB since 1996 and owns 0.229 per cent. of the CEB's authorised share capital. Lithuania co-operates with the CEB through promoting social integration, protecting the most vulnerable groups of society, pursuing sustainable development and improving living conditions in urban and rural areas. In August 2009, the CEB provided a EUR 130 million long-term loan to Lithuania to co-finance public investments in social infrastructure development projects, which was fully disbursed in 2013. In April 2015, Lithuania signed a EUR 100 million long-term loan agreement with CEB to co-finance investments under the Lithuania State Investment Programme, and this loan was fully disbursed. In June 2019, Lithuania signed a EUR 100 million long-term loan with CEB to co-finance public investments in energy efficiency improvement projects. In March 2020, Lithuania signed a EUR 100 million long-term loan agreement with CEB to co-finance investments under the Lithuania State Investment Programme. As at 31 December 2019, Lithuania had EUR 183.8 million in outstanding loans from the CEB which are scheduled to be repaid by the end of 2037.

In December 2015, in response to the refugee crisis, Lithuania contributed to the Migrant and Refugee Fund, established by the CEB, in the amount of EUR 150,000.

Nordic Investment Bank

Lithuania has been a member of the NIB since 2005 and owns 2.0 per cent. of the shares of the NIB. The NIB is co-financing projects in Lithuania's infrastructure, energy efficiency, environment and corporate

sectors. The NIB co-finances large projects (over EUR 50 million) directly, whilst small and medium-sized projects are co-financed through financial intermediaries. In December 2009, Lithuania entered into a EUR 100 million loan agreement with the NIB to finance projects aimed at improving the energy efficiency of buildings in Lithuania's public and private sectors in 2009-2014. In April 2015, a second loan agreement, totalling EUR 100 million, was signed. The loan was fully disbursed and used to improve energy efficiency in public and residential buildings. As at 31 December 2019, Lithuania had EUR 176.9 million in outstanding loans from the NIB, all of which are scheduled to be repaid by the end of 2035.

GROSS EXTERNAL DEBT

The Bank of Lithuania defines Lithuania's gross external debt as the outstanding amount, at any given time, of those actual current, and non-contingent, debt liabilities that are owed to non-residents by residents of Lithuania. Accordingly, gross external debt includes debt securities, short-term and long-term loans, non-resident deposits held in Lithuanian banks, trade credits and other financial liabilities to non-residents. Equities, financial derivatives and other contingent liabilities (guarantees, etc.) are excluded from gross external debt.

The following table sets forth certain information with respect to Lithuania's gross external debt as at the dates indicated.

	Year ended 31 December				
	2015	2016	2017 (EUR million)	2018	2019
General Government.....	14,229.75	13,884.71	14,499.55	13,343.36	16,160.45
<i>of which:</i>					
Short-term.....	692.88	962.99	929.41	1,019.41	1,259.17
Long-term.....	13,536.87	12,921.72	13,570.14	12,323.95	14,901.28
Bank of Lithuania.....	4,193.38	7,761.61	7,815.13	9,386.12	4,355.14
<i>of which:</i>					
Short-term.....	4,018.70	7,586.69	7,652.15	9,219.32	4,185.80
Long-term.....	174.68	174.92	162.98	166.80	169.34
Deposit-Taking Corporations.....	3,440.26	4,716.28	4,747.53	3,756.60	3,058.53
<i>of which:</i>					
Short-term.....	3,439.57	4,715.83	4,729.05	3,735.99	3,037.87
Long-term.....	0.69	0.45	18.48	20.61	20.66
Other sectors.....	3,523.61	3,767.72	4,810.87	5,656.91	5,732.01
<i>of which:</i>					
Other financial corporations (excl. MFIs).....	786.94	843.97	1,132.20	1,285.31	1,319.03
Non-financial corporations.....	2,719.91	2,909.18	3,664.05	4,353.38	4,401.32
Households and nonprofit institutions serving households.....	16.76	14.57	14.62	18.22	11.66
Direct investment (intercompany lending).....	3,287.48	3,384.19	3,574.81	3,389.51	3,633.69
Gross External Debt.....	28,674.48	33,514.51	35,447.89	35,532.50	32,939.82
As a percentage of GDP.....	76.8%	86.2%	83.9%	78.5%	68.1%

Source: The Bank of Lithuania

As at 31 December 2019, Lithuania's gross external debt was EUR 32.9 billion accounting for 68.1 per cent. of GDP. As at 31 December 2019, the contribution of the government sector to Lithuania's gross external debt was 49.1 per cent., the contribution of the Bank of Lithuania was 13.2 per cent., the contribution of the deposit-taking corporations sector was 9.3 per cent., debt of other sectors contributed 17.4 per cent., while the contribution of direct investment liabilities (debts owned by domestic and foreign enterprises to each other) was 11.0 per cent.

As at 31 December 2019, Lithuania's net external debt was EUR 4.4 billion, representing 9.2 per cent. of GDP.

MONETARY AND FINANCIAL SYSTEM

Structure and Development of the Lithuanian Banking System

The Lithuanian banking system is operated by privately owned commercial banks, which are mainly engaged in lending and deposit taking activities. The sector is dominated by the banks of Nordic capital origin with some presence of domestically owned banks. After gaining independence in 1990, the Lithuanian banking system, as well as the overall economy, has undergone major developments. The key reform was the adoption of the Law on the Bank of Lithuania in March 1990, which re-established the Bank of Lithuania as Lithuania's central bank. This coincided with the decentralisation of the banking system and the emergence of a number of commercial banks.

The banking sector developed rapidly between 2000 and 2008, with a high level of competition for lending business driven primarily by foreign funding. However, as a result of the global financial crisis and the economic downturn, the development of the banking sector began to slow down in 2008. Following a period of expansion, the aggregate loan portfolio decreased from 2009 to 2012, and a period of stabilisation and moderate growth ensued from the beginning of 2012. In mid-2015 a recovery in lending began, especially with respect to housing loans.

Following adoption of the Euro, the majority of loans and deposits are denominated in Euros.

During 2016-2018, there was a trend of further consolidation of the Lithuanian banking system: the sale of Danske Bank A/S Lithuania branch's portfolio of retail customers to Swedbank was accomplished in 2016, and also DNB ASA and Nordea Bank AB announced their intentions to combine forces and establish a universal bank of the Baltic States in autumn 2016. After the merger in October 2017, Luminor Bank AB was established in Lithuania, the third largest bank in Lithuania in terms of assets. As a part of the Luminor cross-border merger plan, on 27 December 2018, the ECB adopted a decision to withdraw the authorisation of Luminor Bank AB as a credit institution with the effect of the merger of Luminor Bank AB (Lithuania) into Luminor Bank AS (Estonia). The legal effectiveness of the merger took place on 2 January 2019, which is also the date of the withdrawal of the licence of Luminor Bank AB, while all assets, rights and obligations of Luminor Bank AB were taken over by Luminor Bank AS (Estonia). The latter started to operate in Lithuania through a branch established in Lithuania – Luminor Bank AS Lithuanian branch. In January 2019, bank AB Citadele bankas was also reorganised and now carries out its activities as a branch of Citadele Banka AS. As Lithuania joined the euro area, the supervision of banks operating in Lithuania became part of the Single Supervisory Mechanism ("SSM") and the European Central Bank ("ECB") took over direct supervision of the three largest banks (AB SEB bankas and "Swedbank", AB and Luminor Bank AB). The consolidation process of Luminor bank at the Baltic States level was finalised on 2 January 2019 and since then banking operations in the Baltics are carried out via the Estonian bank, Luminor Bank AS, and its branches in Lithuania and Latvia. The ECB now directly supervises the three largest banks (AB SEB bankas, Swedbank, AB and AB Šiaulių bankas) and works in close co-operation with the Bank of Lithuania. The supervision of smaller banks is further performed by the Bank of Lithuania (the ECB only ensures indirect supervision of these market participants). In order to ensure that the supervision model is effective, the Bank of Lithuania takes part in a constructive dialogue with the ECB to ensure high supervisory standards, which are consistent with the SSM approach.

As at 31 December 2019, there were ten commercial banks, eight foreign bank branches, and more than three hundred EU banks providing cross-border services in Lithuania without a Lithuanian branch.

Foreign investors, consisting mainly of Scandinavian banks, hold the majority of the share capital of commercial banks in Lithuania. The banking system remains relatively concentrated. Two Scandinavian banks (AB SEB bankas and "Swedbank", AB) held 62.2 per cent. of all banking assets as at 31 December 2019 (while overall, foreign ownership amounted to 82.5 per cent.). Seven of the ten banks holding a banking licence issued by the Bank of Lithuania were foreign-owned.

The amendments of the Law on Banks effective from 1 January 2017 provide a possibility to establish specialised banks under simplified conditions. For example, such specialised banks can be established with a minimum of EUR 1 million capital instead of EUR 5 million. However, whilst such specialised banks can provide a wide range of financial services, they cannot provide investment services or manage investment funds, close-end investment companies, pension funds or engage in other similar activities. These amendments are expected to provide a niche for new banking market players, including Fintech

companies. As at 31 March 2020, following the assessment of the Bank of Lithuania, ECB has granted five specialised banks licences.

As at 31 December 2019, the total assets of commercial banks and foreign bank branches operating in Lithuania amounted to EUR 30.7 billion, which represented an increase of 7.2 per cent. higher compared to the year ended 31 December 2018, mostly supported by the growth of housing loans and increased liquidity reserves. Customers held EUR 25.0 billion of deposits, an increase of 12.1 per cent. year-on-year, supported by the strong wage growth. Deposits remain a stable source of bank financing despite very low interest rates. Among other factors, this might be attributed to long term structural factors such as customer confidence in banks, lack of knowledge of alternative savings products and risk aversion. Overall, the deposit share in banks' total funding increased over the years to a current 87 per cent., while dependence of parent banks' funding declined significantly. As of 31 December 2019, banks liabilities to credit institutions (mostly to parent banks) stood at EUR 0.6 billion (3 per cent. of total liabilities).

The share of household and corporate loans in banks' balance sheet is distributed almost equally. In 2019, the banks' loan aggregate portfolio increased by EUR 0.6 billion (2.8 per cent.) to EUR 20.5 billion. In 2019, the growth in household lending was robust, with its value up by 5.4 per cent (to EUR 10.1 billion), mostly attributed to stronger provision of housing loans, whereas corporate lending decreased by 5.2 per cent. to EUR 9.2 billion. Overall, the value of household loans rose by nearly EUR 546 million and the value of corporate loans decreased by almost EUR 503 million.

Despite the global low interest rate environment, interest rates of new lending increased in the last few years, supporting banks' profitability, which remained strong and among the highest in the EU. In 2019, the profit accrued by banks and foreign bank branches amounted to EUR 333 million (year-on-year decrease of EUR 23 million (6 per cent)).

The following table sets forth the aggregate assets, loans, deposits and profits of the banking system on a consolidated basis (financial group) as at and for the periods indicated:

	Year ended 31 December				
	2015	2016	2017	2018	2019
			(EUR millions)		
Assets (at period end)	23,436.80	25,754.40	27,323.80	28,620.30	30,685.60
Loans to customers	15,879.20	18,072.60	18,640.3	19,891.70	20,450.30
Deposits and letters of credit.....	16,892.00	18,766.70	20,034.60	22,274.90	24,963.40
Profit (loss).....	215.3	252.2	239.7	355.8	332.7

Source: The Bank of Lithuania

As at 31 December 2019, according to data provided by the Bank of Lithuania, all Lithuanian banks complied with the minimum capital adequacy requirement (8 per cent.) the combined buffer requirement as well as individually set Pillar II add-on requirements. The aggregate capital adequacy ratio of the banking sector was 19.9 per cent and was 1.3 per cent. higher than 2018.

The capital conservation buffer, the value of which is 2.5 per cent., came into force on 30 June 2015. The counter-cyclical capital buffer, which applies to all banks, is also in force. Since December 2018, the counter-cyclical capital buffer rate in Lithuania, applied to banks and central credit unions is 0.5 per cent. This rate will be raised to 1 per cent. as of 30 June 2019, thus increasing the financial system's resilience to potential shocks. Capital buffers for systemically important institutions have also been set. In Lithuania, the following three banks are recognised as systemically important: AB SEB bankas (maintaining a buffer of 2 per cent.), Swedbank (maintaining a buffer of 2 per cent.), and AB Šiaulių bankas (maintaining a buffer of 0.5 per cent., and will be required to maintain a buffer of 1.0 per cent. by the end of 2020).

The Bank of Lithuania liquidity ratio requirement was abandoned in the beginning of 2015. It has been replaced by the liquidity coverage ratio ("LCR") requirement. Banks were obliged to fulfil a new liquidity requirement at a ratio of not less than 100 per cent., without a transition period. According to the data submitted by banks, LCR was large across all banks and was met with a sufficient margin – as of 31 December 2018, the banking sector's ratio was 254 per cent. The quality of bank liquid assets was high, as the liquid assets were comprised of particularly high quality and liquidity financial instruments.

The amendments to the Law on Banks, effective from 1 January 2017, provide the possibility to establish specialised banks under simplified conditions. For example, such specialised banks can be established

with a minimum of EUR 1 million capital instead of EUR 5 million. However, whilst such specialised banks can provide a wide range of financial services, they cannot provide investment services or manage investment funds, close-end investment companies, pension funds or engage in other similar activities. These amendments are expected to provide a niche for new banking market players, including Fintech companies. In 2018 and 2019, following the assessment of the Bank of Lithuania, ECB granted five specialised banks licences.

In 2019, the interest in establishing e-money institutions and payment institutions remained high and incentives to obtain banking licences are also evident. At the end of 2019, a total of 115 electronic money (“EMI”) and payment (“PI”) institutions (67 EMIs and 48 PIs) operated in Lithuania; their number over the year grew by a fifth. In 2019, the Bank of Lithuania received over 80 applications from interested institutions, yet more than 30 of them were rejected in the preliminary stage due to lack of data, or their examination was terminated after the submission of notes by the Bank of Lithuania. In 2019, the payment transactions made by EMIs/PIs amounted to 16.5 billion, while companies earned EUR 68.6 million from licensed activities: 66 per cent. of this income was generated by EMIs, while 34 per cent. was generated by PIs. Even though these payment services providers do not pose significant competition for existing banking market players, going forward banks may have to share their payment business with the newcomers.

Exchange Rates

On 1 January 2015, Lithuania adopted the Euro as its currency, following a decision by the Council of the European Union on 23 July 2014. The irrevocable conversion rate was set at 3.4528 Lithuanian Litas to EUR 1.00, which was unchanged from the Litas repeg to the Euro in 2002 and corresponded to the central rate of the Litas in the European Exchange Rate Mechanism (“ERM II”), where Lithuania was a member from June 2004.

The national currency Litas had been used from 1993. The exchange rate for the Litas had been fixed from 1994 under a currency board arrangement. Initially, the Litas was pegged to the U.S. dollar at LTL 4 to USD 1.00, which was the rounded market rate at the time. The Litas was repegged to the Euro on 2 February 2002 at the market rate (without any devaluation or revaluation) of LTL 3.4528 to EUR 1.00.

The Bank of Lithuania

The central bank of Lithuania is the Bank of Lithuania, belonging by right of ownership to the State of Lithuania. Its powers and responsibilities are established in the Law on the Bank of Lithuania.

From 1 January 2015, the Bank of Lithuania became a member of the Eurosystem and the SSM. The Bank of Lithuania is a part of the European System of Central Banks (“ESCB”). Upon the accession of Lithuania to the Euro area, among other things, the ECB took over certain functions of the Bank of Lithuania, including monetary policy, Euro exchange rate regulation and supervision of the largest banks. The Bank of Lithuania carries out its functions and activities in co-operation with the ECB and the ESCB and in compliance with the EU legislation.

Acting as an integral part of the ESCB, the Bank of Lithuania has a number of responsibilities. These include, amongst others, issuing banknotes and performing other related activities, implementing monetary policy, managing, using and disposing of the official foreign reserves of the Bank of Lithuania, ensuring stable and efficient operation of payment and securities settlement systems, including the development of payment systems managed by the Bank of Lithuania and other information systems constituting the infrastructure of payments, and collecting statistical information necessary for the performance of the tasks of the ESCB from state and municipal institutions and economic entities.

The Bank of Lithuania also acts as a state treasury agent according to the requisite agreement with the Ministry of Finance, performs financial market supervision, settles out of court disputes between consumers and financial market participants, collects statistical information necessary for the performance of the functions of the Bank of Lithuania that are not related to the activities of the ESCB from state and municipal institutions and economic entities, sets the procedures for the collection, compilation and dissemination of the said statistical information, and compiles the balance of payments and international investment and financial accounts of the Republic of Lithuania. The Bank of Lithuania may grant loans, secured by adequate collateral for the Bank of Lithuania, to credit institutions registered in the Republic of Lithuania. Also, the Bank of Lithuania implements a macroprudential policy that aims

to contribute to the protection of the stability of the entire financial system, including strengthening the resilience of the financial system and the reduction of systemic risks in order to ensure sustainable financial sector's contribution to economic growth, and performs the functions assigned by laws of the Republic of Lithuania to the financial sector resolution authority.

The Bank of Lithuania is governed by the Board of the Bank of Lithuania, which consists of a Chairperson, two Deputy Chairpersons and two other members. The Chairperson is appointed for a term of five years by the Seimas following his or her nomination by the President of Lithuania. The Deputy Chairpersons and Members of the Board are each appointed for a term of six years by the President of Lithuania following their nomination by the Chairperson of the Board. The Board meets at least once a month and all decisions must be made by a majority of at least three votes and a quorum of three members is required for any vote. The Board adopts resolutions, and the Chairperson issues orders.

The Chairperson presents biannual reports to the Seimas discussing the implementation of its objectives and the status of the banking system. Once a year, and in cases of financial crisis on a more frequent basis, the Chairperson may be invited to the hearings of the Seimas Committee on Budget and Finance regarding the macroprudential policy conducted by the Bank of Lithuania.

Monetary Policy

Since January 2015, Lithuania has been a member of the Euro area and the Bank of Lithuania has been a member of the Eurosystem. The primary objective of the Eurosystem is to maintain price stability in the Euro area while using centralised decision making and coordination at the ECB with decentralised implementation via the national central banks. As a member of the Eurosystem the Bank of Lithuania implements the single monetary policy and applies the ECB monetary policy instruments, significantly enhancing liquidity management opportunities for domestic credit institutions.

The Bank of Lithuania enforces the minimum reserve requirement of the ECB, applying a 1 per cent. ratio to deposits of the credit institutions operating in the Euro area and their issued debt securities of up to two years maturity.

In order to achieve its primary objective, the Eurosystem uses a set of monetary policy instruments and procedures. The instruments are used and the operations are conducted with eligible counterparties according to Guideline (EU) 2015/510 of the ECB of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (ECB/2014/60).

The Eurosystem, aiming for price stability in the Euro area, sets interest rates on monetary policy operations, at the same time guiding short term interest rates of the euro money market, also manages liquidity of the banking system using standard and non-standard monetary policy instruments.

Together with the other central banks of the Eurosystem, the Bank of Lithuania started conducting the Public sector purchase programme ("PSPP") and Pandemic Emergency Purchase Programme ("PEPP") since early 2015 and 30 March 2020, respectively. Within the framework of this programme the Bank of Lithuania has been purchasing the Government securities of the Republic of Lithuania as well as the PSPP eligible bonds issued by the European supranational institutions, in order to reach the entire volume assigned by the capital key rule. Flexibility of PEPP significantly increased the scope of purchasable Government debt securities available for the Bank of Lithuania. Eligible corporate bonds of Lithuanian issuers have been the subject of purchases by other Eurosystem's national central banks specialised in purchases of corporate sector bonds, according to the mutual agreement of a cost-efficient implementation of asset purchase programmes.

Official Foreign Reserves

The table below sets out total official foreign reserves held by the Bank of Lithuania as at the dates indicated:

	As at 31 December				
	2015	2016	2017 (EUR million)	2018	2019
Gold	182.3	205.5	202.5	209.8	253.5
SDRs (IMF special drawing rights) and Reserve position in the IMF.....	174.8	175.0	163.1	201	226.5
Cash and deposits	835.5	1,494.0	1,421.10	1,818.00	2,105.50
Securities	366.1	593.8	1,924.60	2,811.90	1,941.40

Total official foreign reserves.....	<u>1,558.7</u>	<u>2,468.3</u>	<u>3,711.3</u>	<u>5,040.7</u>	<u>4,526.9</u>
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Source: The Bank of Lithuania

Until 2015, due to currency board arrangement, growth of foreign reserves in Lithuania was closely related to growth of currency in circulation. Substantial changes were usually caused by changes of excess reserves of domestic credit institutions and Government deposits.

Since 1 January 2015, when Lithuania acceded to the Eurozone, foreign exchange reserves were subject to a change of reporting methodology. Assets denominated in currencies other than EUR and against non-Eurozone residents are considered foreign reserves and this to some extent explains the temporary decrease in foreign reserves from the end of 2014.

After the introduction of the euro, the Bank of Lithuania determines the amount of financial assets, taking into consideration market conditions as well as investment opportunities and restrictions; however, the average amount of financial assets cannot be above the maximum amount of net financial assets set in accordance with the Agreement on Net Financial Assets (the “ANFA”). ANFA also stipulates that the maximum amount of net financial assets of the Bank of Lithuania will not be reduced to a level below the initial (historical) one, recorded during the adoption of the euro, which is EUR 5.856 billion.

Interest Rates

Since 1 January 2015, when the Bank of Lithuania became a part of the Eurosystem, the interest rates set by the ECB have applied to Lithuania. From then the main reference rate used in legal instruments have been EURIBOR, EONIA and €STR.

Since the adoption of the euro in Lithuania, the government bond yields were mostly influenced by Lithuania’s risk profile, developments in the Euro area and the expansionary monetary policy implemented by the Eurosystem.

Banking Supervision and Regulation

The Bank of Lithuania performs an ongoing analysis of the financial situation in all financial sector undertakings, assesses their performance, monitors their compliance with prudential or other requirements, analyses the performance and trends of all financial sector undertakings, and issues licences, permissions and consents to supervised institutions. The Bank of Lithuania also investigates disputes among consumers and supervised institutions and provides recommendations on how a particular dispute between a consumer and a financial institution should be settled. Having received a consumer complaint, the Bank of Lithuania may proceed with an inspection of a financial market participant through an investigation or an on-site visit.

By joining the Euro area, as of 2015 Lithuania also joined the SSM. Since 1 January 2020 three largest banks registered in Lithuania (AB SEB bankas, “Swedbank”, AB and AB Šiaulių bankas) fall under the direct supervision of the ECB. It supervises them together with the Bank of Lithuania.

Framework

A package of amendments to the laws of the Republic of Lithuania was adopted at the end of 2011, which provided a basis for the implementation of a new model for the supervision of financial sector undertakings in the country. Since 1 January 2012, the supervision of all financial sector undertakings (including credit and payment institutions, investment firms and insurance companies) has been conducted by the Bank of Lithuania. The Lithuanian Securities Commission (the “**Securities Commission**”) and the Lithuanian Insurance Supervisory Commission (the “**Insurance Supervisory Commission**”) have been liquidated and their functions have been assumed by the Bank of Lithuania. Supervision of the financial market is financed from the fees of delegated financial market participants payable to the Bank of Lithuania and from other funds of the Bank of Lithuania. This restructuring enables available financial resources to be used more rationally and the supervisory work to be organised more effectively through better use of staff competences gained in the supervision of individual segments of the financial market. The main focus of supervision remains the monitoring and control of major operating risks – credit, liquidity, market and operational risk, as well as on the supervision of systemically important financial sector enterprises.

In order to consolidate and optimize the supervision processes of all financial market participants, on 5 June 2018, the Parliament adopted a package of amendments to the Law on the Bank of Lithuania and to the related laws (in total the package consists of amendments to 27 laws). The legislation ensures a level playing field for financial market participants, enhances the effectiveness of supervision, protects consumers and contributes to financial stability.

Banking supervision is carried out by the Bank of Lithuania as stipulated in the Law on the Bank of Lithuania, the Law on Financial Institutions and the Law on Banks. The regulatory framework of the Lithuanian banking system is in compliance with all applicable EU regulations. Credit institutions are being supervised in order to monitor their compliance with the standards of safe and sound banking set by the laws and legal acts of the Bank of Lithuania and recommended in the International Accounting Standards and decisions of the Basel Committee.

The Bank of Lithuania, among other functions, performs an ongoing analysis of the financial condition of credit institutions, assesses their activities, monitors their compliance with prudential requirements, and analyses the performance and trends of the banking system. The Bank of Lithuania systematically performs inspections of credit institutions. Inspections of credit institutions mainly focus on the high risk areas of their operations by reviewing credit, liquidity, market and operational risks and their efficiency. Where operational shortcomings or incidences of non-compliance are discovered, the relevant institution is asked to address them or, if necessary, enforcement measures established by legislation are applied.

The supervision of branches established by banks of EU Member States in Lithuania is performed by the supervisory authority of the state under whose jurisdiction the foreign bank falls. Foreign-owned banks and foreign bank branches are important institutions in Lithuania's banking system. As such, the Bank of Lithuania co-operates with supervisory institutions in other relevant jurisdictions, participates in the supervisory colleges, and exchanges of information and data. The Bank of Lithuania has signed multilateral agreements related to the supervision of international banking groups that have branches operating in Lithuania.

In June 2015, the Bank of Lithuania signed a Memorandum of Understanding with the China Banking Regulatory Commission (“**CBRC**”). The memorandum is aimed at enhancing co-operation with the Chinese financial sector's supervisory authorities and sharing supervisory information. The Memorandum of Understanding is under revision to expand the scope including insurance supervision due to structural changes in China Banking and Insurance Regulatory Commission (“**CBIRC**”).

In August 2017, the Memorandum of Understanding between the Bank of Lithuania and the National Bank of Moldova was signed for the purpose in establishing a framework for cooperation and information exchange.

In 2018, the Bank of Lithuania signed bilateral co-operation agreements with the Monetary Authority of Singapore, the Astana Financial Services Authority and the National Bank of Ukraine aiming to promote innovation in financial services.

The Bank of Lithuania established requirements for the public disclosure of information by commercial banks. Such information is useful for commercial bank customers, investors and other parties concerned in the assessment of a bank's performance, its operations and risk management processes. In addition, a higher degree of transparency also encourages commercial banks to assess and control the assumed risks more accurately.

Regulatory Development

Since 1 January 2014, Basel III requirements (CRD IV and CRR requirements) have been introduced in the Lithuanian banking sector. The new requirements will further strengthen the stability and safety of the country's banking sector. From the beginning of 2014 banks must comply with 4.5 per cent. CET 1 capital ratio, 6 per cent. Tier1 capital adequacy ratio and 8.0 per cent. total capital ratio. As at 30 June 2015, all banks were in compliance with these minimum requirements. From 30 June 2015, banks must also comply with the 2.5 per cent. capital conservation buffer requirement. Moreover, macroprudential capital buffers such as the countercyclical capital buffer and the buffer for systemically important institutions are also in place. According to these requirements, banks must not only calculate their regulatory capital requirements, but must also make assessments of their internal capital adequacy. A countercyclical capital buffer (CCB) rate of 1 per cent. has been established for banks since 30 June 2019. In March 2020, due to

increasing challenges raised by COVID-19, the Bank of Lithuania has decided to reduce the CCyB rate from 1 per cent. to 0 per cent. The relaxed CCyB requirement came into force on 1 April 2020.

Taking into account the latest regulatory developments regarding the Capital Requirements Regulation and related Regulations, the Resolution of the Board of the Bank of Lithuania Nr. 03-68 on Options and discretions of the Bank of Lithuania was amended on 26 March 2019.

Since 2008, Lithuanian banks have completed the Internal Capital Adequacy Assessment Process (the “ICAAP”), which allowed the Bank of Lithuania to identify and measure material risks that were either not addressed or were insufficiently addressed by the minimum requirements of the Basel III (formerly Basel II) Accord. The Bank of Lithuania uses the ICAAP to evaluate each bank's significant areas of activity, the metrics used by its management, its risk management policies and procedures and the sufficiency of its capital base, as well as to set each bank's internal capital requirement. Management of each bank meets with the Bank of Lithuania to discuss the results of its ICAAP. As a result of the ICAAP, banks have set higher internal capital requirement limits.

The Bank of Lithuania organises regular individual meetings with the management of all banks operating in the country. During these meetings, problems and threats related to individual banks and the banking system, as well as potential responses by the Bank of Lithuania, are discussed. For several years, the Bank of Lithuania has urged banks to institute a more conservative credit risk management policy and suggested retaining earnings to strengthen their capital base as opposed to declaring dividends. Each inspection is followed by meetings with each bank's senior management to discuss ways to eliminate shortcomings identified during inspections.

Liquidity risk management also remains a priority issue as part of the Bank of Lithuania's monitoring and supervisory arrangements. In 2012, banks started trials of the LCR and net stable funding ratio (“NSFR”) calculations in advance of implementation deadlines under Basel III (2015 for LCR and 2018 for NSFR). LCR aims to ensure that a bank maintains adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day time horizon under stress conditions. NSFR requires that long term assets are funded with at least a minimum amount of stable liabilities in relation to their liquidity risk profile. The NSFR aims to limit over-reliance on short-term wholesale funding during times of buoyant market liquidity and encourage a better assessment of liquidity risk across all on- and off-balance sheet items.

In 2011, the Bank of Lithuania adopted several regulations aimed at reducing trading risk under the Provisions for the Organisation of Internal Control and Risk Assessment (Management). These provide more detailed regulation of the requirements set for the management, internal control and management information system of a bank related to the specific operational risk characteristic of the trading activity, in order, most importantly, to prevent likely loss events due to the fraud of employees in their conduct of trading transactions. In March 2012, the Board of the Bank of Lithuania implemented a new policy allowing banks to apply the operational risk advanced measurement approach to capital adequacy.

The Bank of Lithuania continues to focus on strengthening stability and the resilience of the credit unions, notwithstanding their low systemic importance (in terms of their assets, credit unions constitute only 1.8 per cent. of the total financial system assets or 2.6 per cent. of banking sector assets as at the end of 2016).

The Bank of Lithuania, desirous of ensuring that credit unions adequately assess the risks they have assumed, has approved amendments to the Regulations for the Assessment of Loans of Credit Unions (which came into effect as of 1 January 2014), regulating loan assessment and formation of specific provisions. In addition, the Provisions for Organising the Internal Control and Assessment (Management) of the Risk of Credit Unions came into effect as of 1 May 2014. In June 2015, the Bank of Lithuania approved the rules on credit unions' investment into non-equity securities establishing the requirements for credit unions to invest available cash as well as forming and assessing securities portfolios. Investments made by credit unions shall not undermine the ultimate objective of credit unions, which is to serve the borrowing needs of their members: therefore, credit unions must retain their traditional operating model and investments into securities shall be made with the purpose of liquidity management.

According to the Law on Payment Institutions, effective as at 28 December 2009 (as amended), legal entities may only provide payment services if they hold a payment institution licence. As at 1 January 2020, the Bank of Lithuania had issued 45 licences entitling entities to provide payment services (including licences for restricted activity).

On 10 November 2016, the Parliament adopted a new Law on Credit relating to Immovable Property, that implements the Directive 2014/17/EU. The law came into effect on 1 July 2017. The law provides for a common framework regarding consumer credits secured by a mortgage or otherwise relating to residential immovable property and mainly intends to strengthen consumer protection. It also requires that credit intermediaries obtain authorization in order to carry out their activity.

As at 1 January 2012, the new Law on Electronic Money and Electronic Money Institutions, implementing the Directive 2009/110/EC, came into effect. The law includes procedures for the licensing, operation, calculation of own funds, internal control and risk management, reorganisation and liquidation of electronic money institutions, as well as other requirements to be complied by electronic money institutions. As at 1 January 2020, the Bank of Lithuania had issued 65 licences for electronic money institutions (including a licence for restricted activity).

Moreover, Guidelines on Internal Governance (the “**Guidelines**”) have been prepared in order for the organisational structure and internal governance of banks to be effective, based on a bank's long-term business strategy, the nature of the bank's business and in accordance with the Europe Banking Authority's guidelines on this issue. The guidelines strengthen the responsibility of banks' management bodies for the safe and sound activities of banks, their adequate management of risk, and their self-control. The guidelines stipulate that a bank's management bodies shall be responsible for the effective governance of a bank, and that members of management bodies shall have adequate qualifications and competences in taking governance decisions. The need for not only individual, but also collegial qualification, competence and responsibility of a bank's management bodies is stressed. The amendments to the Guidelines were made on 30 January of 2020 in order to outline the measures in place with the risk profile and business model of the bank concerned and implement the principle of proportionality. Banks will have to change the composition of their Supervisory boards and Risk and Nomination committees by attracting independent members and review the management measures in place to avoid the creation of complex and opaque structures, they are also obliged to introduce risk culture, ethical and professional standards in their day-to-day activities.

The Board of the Bank of Lithuania endorsed the Requirements on the calculation of the expected credit losses as part of the work on the implementation of IFRS 9 and EBA Guidelines on credit institutions, credit risk management practices and accounting for expected credit losses.

Seeking to ensure that payment service providers have in place the appropriate security measures to mitigate operational and security risks, the Bank of Lithuania endorsed Description of Requirements Regarding Management of Operational and Security Risks for Payment Service Providers. Also, the Rules Regarding Operational or Security Incident Reporting to the Bank of Lithuania were approved. There the main criteria for the classification of major payment service provision-related and payment service provision-unrelated operational or security incidents, the procedure for reporting such incidents to the Bank of Lithuania as well as requirements for the content of such reports are specified.

Significant changes also took place in the licensing area. In 2012, the legal framework was developed, licences in written form were abandoned, and information about the licences of the financial market participants subject to supervision by the Bank of Lithuania and licensed by it were published on the Bank of Lithuania's website. This decision reduced the administrative burden for business entities, and consumers were provided with the ability to obtain comprehensive information about the licences issued to the financial market participants for the provision of financial services. In addition, the licensing process itself has improved with the aim of transparent and financially credible participants entering the market with their top management being competent and professional. The Bank of Lithuania has also introduced a smart e-licensing tool which enables potential market entrants to remotely apply for a licence in a faster, easier and less expensive manner. Since 2017, the Bank of Lithuania has operated the Newcomer programme, a one-stop shop for meetings and consultations with all potential financial market participants.

Macprudential Policy

In September 2014, the function of macroprudential policy development and implementation was embedded in the Law on the Bank of Lithuania. The law establishes that the Bank of Lithuania is the macroprudential authority in Lithuania with the powers to implement full-scale national macroprudential policy measures. In 2015, the Bank of Lithuania published its Macroprudential Policy Strategy which defines the intermediate objectives of macroprudential policy, macroprudential instruments, principles for

decision making, communication of decisions and cooperation with other national and international authorities. The strategy was reviewed and amended in the beginning of 2019.

In June 2015, the Bank of Lithuania started setting the countercyclical capital buffer (“**CCyB**”) rate quarterly, while banks had to calculate their individual CCyB requirements, taking into account geographical distribution of their exposures. The main purpose of the CCyB is to hold a sufficient capital buffer to cover potential bank losses in case of cyclical systemic risk or during an economic downturn. Until the third quarter of 2017, the CCyB rate was set at 0 per cent. In December 2017, the Bank of Lithuania decided to increase the CCyB rate from 0 to 0.5 per cent, effective from 31 December 2018, with a further increase to 1 per cent., announced in June 2018 and effective from 30 June 2019. The increase in CCyB rate is not associated with excessive cyclical risks but rather with the view that the CCyB rate should be positive in a moderate risk environment. Subsequent decisions in Q1 2020 kept the CCyB rate unchanged.

In March 2020, the Bank of Lithuania decided to release the CCyB, reducing the rate from 1 per cent. to 0 per cent. The relaxed CCyB requirement came into force on 1 April 2020. It is projected that the shock caused by the COVID-19 outbreak will lead to economic contraction, and the goal of the release of the CCyB is to support the supply of credit in the face of heightened uncertainty. The pre-emptively released buffer will allow banks to provide around EUR1 billion in loans to businesses and households, thus partly offsetting the adverse impact of COVID-19 shock on the country’s economy.

Since 2015, the Bank of Lithuania annually reviews the list of systemically important institutions and determines the additional capital requirements applicable to them. Currently, three banks established in Lithuania (AB SEB bankas, Swedbank, AB and AB Šiaulių bankas) are identified as systemically important. They have had to comply with the other systemically important institutions (“**O-SII**”) capital buffer requirement of 0.5 and 2 per cent since the end of 2016. In 2018, for AB Šiaulių bankas’s O-SII buffer was increased from 0.5 to 1 per cent., effective as of the end of 2020; the decision remained unchanged in the assessment process of 2019.

In 2011, the Bank of Lithuania adopted Responsible Lending Regulations. The aim of the regulations is to promote responsible lending practices, reduce systemic risk in the financial sector and reduce unbalanced changes in real estate prices. The regulations are also aimed at protecting households against overly burdensome financial obligations. Initially, they were applied to credit institutions only (Lithuanian banks, foreign bank branches, the central credit union and other credit unions), however, from 1 July 2017, they are applied on activity basis, i.e. to all credit providers when issuing credits related to real estate to consumers.

The regulations set the maximum Loan-to-Value (“**LTV**”) ratio between loans for the acquisition of real estate (construction) and the acquired and pledged assets value, which shall not exceed 85 per cent., maximum loan duration up to 30 years (maximum loan maturity was shortened by 10 years as of 1 November 2015). In addition to the currently effective Debt Service-To-Income (“**DSTI**”) cap of 40 per cent., credit providers also have to ensure that the DSTI ratio makes up no more than 50 per cent. when a 5 per cent. interest rate is used for calculating a monthly interest payment. For loans with an interest rate fixed for the lifetime of the loan agreement, an interest rate that is agreed on in a credit agreement shall be applied to calculate a monthly interest payment. For these loans the 40 per cent. DSTI ratio is applied. In addition, a similar 40 per cent. DSTI limit is applied when issuing consumer credits.

Deposit and Investment Insurance

Lithuania’s deposit and investment insurance schemes are aligned with EU legal acts. The Law on Insurance of Deposits and Liabilities to Investors implements Directive 97/9/EC of the European Parliament and of the Council of 3 March 1997 on investor-compensation schemes and Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes. The law guarantees funds repayment to individuals and legal entities who hold deposits with Lithuanian credit institutions up to the amount of EUR 100,000. In addition, guarantee includes repayment of adequate larger amount of temporary high balances to individuals. The law also provides protection to investors with regard for liabilities of credit institutions and undertakings providing investment services up to the amount of EUR 22,000 in cases of the insured event.

The State undertaking “Deposit and Investment Insurance” is responsible for insurance of the depositor’s deposits and liabilities to investors, as well as administration of the Deposit Insurance Fund and the Fund

of Insurance of Liabilities to Investors. In January 2016, risk-based calculation of contributions to the Deposit Insurance Fund was introduced. Since the amendment of the Law on the Insurance of Deposits and Liabilities to Investors, made in December 2015, the Bank of Lithuania performs risk assessment of credit institutions paying contributions into the Deposit Insurance Fund which is used to adjust each institution's contribution accordingly (riskier institutions pay relatively bigger contributions).

Credit Unions

As at 1 January 2020, 63 credit unions operated in Lithuania, with a total membership of over 161.4 thousand. At the end of 2019 there were three groups of credit unions in the credit union sector the Lithuanian Central Credit Union ("LCCU") group, united 48 credit unions, the United Central Credit Union ("UCCU") group, united 11 credit unions, and 4 credit unions which are undergoing restructuring into specialised banks. It is important to note that at the beginning of 2019 the credit union "Mano unija" completed the restructuring process and on 2 January 2019 started operating as a specialised bank. Amendments to the laws implementing reform within this sector, which came into force as of 1 January 2018, encouraged credit unions to merge. In 2018–2019 the number of credit unions (LCCU members) decreased due to the reorganization of credit unions by merger.

In 2019, assets of the credit union sector increased by 6.8 per cent. and, according to unaudited data as at 1 January 2020, amounted to EUR 791.5 million, or 2.6 per cent. of the banking system's assets (compared to 2.6 per cent. in 2019). The annual change in the credit union sector asset value was driven by growth of time deposits in credit unions operating in big cities. In 2019 credit unions loans grew and at the end of the year they accounted for the largest asset share, while other asset positions, notably investments in securities, decreased. At the end of 2019, credit unions had granted to their members EUR 570.5 million in loans. In 2019, loans granted by credit unions increased by EUR 90 million, or 18.7 per cent, while their credit union sector asset share – by 7 per cent. accordingly. Loans comprised more than 72 per cent. of the credit union sector assets according to the data as at 1 January 2020. The main funding source for credit unions continues to be accepted deposits with which they financed 88 per cent. of their assets. Deposits accepted by credit unions have expanded by nearly EUR 51 million (7.9 per cent.) in 2019 and stood at EUR 694.7 million as of 1 January 2020. Credit unions' share capital shrank by EUR 0.2 million in 2019, to EUR 49.4 million. The change in their share capital was due to the reorganization of the largest credit union "Mano unija" into a specialized bank. After eliminating the impact of this credit union, the share capital of credit unions increased by EUR 4.5 million. According to the reported data, sustainable shares which are used to cover losses born by a credit union comprised EUR 46.7 million at the end of the year, or 95 per cent. of the share capital. In 2019, the credit union sector's result of activities amounted to EUR 3.9 million of unaudited profit. For comparison, in 2018 credit union sector's operational result amounted to EUR 2.8 million of audited profit.

In March 2018, the Bank of Lithuania, in implementing the provisions of the Law on Credit Unions on investments in bonds and seeking to mitigate their aggressive investments, adopted the Rules on Credit Union Investment in Non-equity Securities. From 1 October 2018, the investment portfolio of credit unions cannot account for more than 30 per cent. of their on-balance-sheet assets, while the average modified financial duration of a securities portfolio cannot be longer than three-and-a-half years. As a consequence, credit unions reduced their securities portfolios and changed their composition according to maturity. Consequently, credit union investments in securities declined by almost twice in 2019. Securities shrank by almost EUR 32 million and as at 1 January 2017 amounted to EUR 77.7 million, or 11.7 per cent. of credit union assets. Credit unions' investment in securities continued to decrease gradually between 2017 and 2018 and as at 1 January 2020 amounted to EUR 33.6 million or 4.2 per cent of credit union assets. Furthermore, from 1 January 2018 the new capital adequacy requirements were introduced. Credit unions which had membership within the CCU were set a 10.5 per cent. capital adequacy ratio. The credit unions mentioned will have to ensure the compliance with this requirement no later than from 1 January 2028. Credit unions which are undergoing restructuring into specialised banks were set a 14.5 per cent. capital adequacy ratio, and they will have to ensure its fulfilment in a shorter period, by the end of 2023. Given the changed capital requirements credit unions calculate capital adequacy ratio according to Basel II requirements. It means that credit unions calculate the capital requirement not only for credit risk, but also for market risk and operational risk. These requirements allow for a more accurate assessment of the risks faced by credit unions. By the end of 2019, all credit unions fulfilled the capital requirements. Additionally, in October 2018 the Bank of Lithuania adopted the new Rules on Credit Unions Calculation of the Liquidity Ratio which came into force on 1 April 2019. According to these Rules the ratio of a credit union's liquid assets to its net liquidity outflow shall be not below 100 per cent.

The Structural Reform of the Credit Union Sector

In June 2016 the Seimas passed legal acts needed for the implementation of the structural reform of the credit union sector. The structural reform aims to prevent systemic risks in the sector and to ensure that credit unions operate safely, reliably and efficiently so as to meet the needs of their communities. One of the major elements of the structural reform was abolishing the provision allowing only one central credit union within the country and requiring all credit unions to join a central credit union (the number of which is now unregulated and is left to form organically within the sector) which is responsible for monitoring the financial stability and ensuring the functioning of the mutual solvency system of the whole credit union group. Under the new mutual solvency system all members of a central credit union group are jointly responsible for liabilities of other members in case of insolvency.

According to the new legislation at least five credit unions are required to be able to establish a central credit union by common agreement. This is aimed at addressing the fragmentation of the sector and ensuring reliability of the mutual solvency system. Previously, the operations of credit unions were based on different rules – some credit unions were united under the Lithuanian Central Credit Union, while others operated independently.

In addition to providing legal conditions for the implementation of the structural reform, the Law on Credit Unions introduces the option to reorganise a credit union into a bank for those credit unions that want to continue their operations without joining a central credit union. A transition period was set until the end of 2023. 5 credit unions decided to avail themselves of this opportunity (for more information, please, see the section “—*Credit Unions*”). The new system of the reorganised credit union sector started operating as of 1 January 2018.

Resolution Framework

As of the end of 2015, a new resolution framework for banks and large investment firms was established in Lithuania by amending the Law on Financial Sustainability. The Bank of Lithuania was designated as the national resolution authority and together with the Single Resolution Board is now responsible for planning and, if needed, the implementation of resolution tools. The Single Resolution Board is responsible for the three largest banks in Lithuania (AB SEB bankas, “Swedbank”, AB and AB Šiauliai bankas) as well as for Luminor Bank AS (Estonia) and AS “Citadele banka” (Latvia) operating in Lithuania via branches while the Bank of Lithuania is responsible for the remaining banks and investment firms.

In accordance with the new regime, large banks and other financial institutions, whose systemic importance is such that they are too significant to fail, would be resolved in line with the resolution plan drafted in advance. The new regime does not eliminate the possibility that undertakings may go bankrupt; but it seeks to ensure continuity of critical banking functions, such as cash withdrawals and payments, deposit taking, provision of the loans, access to capital markets and wholesale funding. Ordinary bankruptcy procedures will still be applied to undertakings that do not have a systemic impact on the stability of the financial sector and the national economy in general. As of January 2016, in addition to the previously available resolution tools, such as sale-of-business, bridge institution and asset separation, the bail-in tool is also applicable. The bail-in (conversion of liabilities into equity) ensures that shareholders and creditors of the failing undertaking bear an appropriate part of the costs arising from the failure of the institution first. With a view to ensuring a sufficient capital and liability buffer to cover losses, undertakings will have to comply with the minimum requirement of own funds and eligible liabilities (“**MREL**”). This is to be set individually for each undertaking by the Bank of Lithuania and Single Resolution Board.

In December 2019 a binding MREL requirement was set for four banks operating in Lithuania, including three systemically important banks (“**SIBs**”) – AB SEB, “Swedbank”, AB and AB Šiauliai bankas. The Bank of Lithuania implemented the decision of the Single Resolution Board and set binding individual MREL requirement at sub-consolidated level for the Swedish subsidiaries of SEB and Swedbank Groups operating in Lithuania. In addition, a consolidated MREL requirement was set for two local banking groups – AB Šiauliai bankas and UAB Medicinos bankas. The total amount of MREL determined for Lithuanian SIBs stood at EUR 2 134 million and comprised 11.17 per cent. of the total liabilities and own funds at the end of 2018.

The two Swedish subsidiaries have to reach binding MREL target by Q3’2020, and AB Šiauliai bankas - within four years until the end of 2023. To ensure the resolvability of undertakings, the Single Resolution Board and the Bank of Lithuania, acting as resolution authorities, have a right to demand changes to the

corporate structure, the date of assets, and the restriction or stoppage of certain exercised or planned activities, where the current business model might hamper smooth resolution in the event of a crisis.

The efficient application of resolution tools is backed by the Single Resolution Fund (“SRF”) managed by the Single Resolution Board with banks and major investment firms from 19 participating Member States within the Banking Union paying contributions thereto. SRF will be gradually built up during the first eight years (2016-2023) and aims to reach the target level of at least 1 per cent. of the amount of covered deposits of all credit institutions within the Banking Union by 31 December 2023. Its resources will be used to finance the implementation of resolution tools in order to abolish the previous practice of covering the costs of bank bailouts with taxpayers’ money. At the end of 2019, SRF had already accumulated EUR 33.0 billion of contributions raised from all banks in euro area countries, including Lithuania.

Money Laundering and Terrorist Financing Regulations

The money laundering and terrorist financing prevention framework of Lithuania is based on the Law on Prevention of Money Laundering and Terrorist Financing, certain provisions of the Criminal Code of the Republic of Lithuania and the Code of Administrative Offenses of the Republic of Lithuania as well as various international Conventions that have been ratified. The Law on Prevention of Money Laundering and Terrorist Financing transposes the relevant EU legislation. The current money laundering and terrorist financing prevention framework facilitates cross-border co-operation between Lithuania and the other members of the EU.

A high level AML/CFT Anti-Money Laundering (“AML”) and Countering the Financing of Terrorism (“CFT”) Coordination group was set up in 2015 which prepares and mitigates risk mitigation plans for the indicated ML/TF risks. Competent authorities, in particular the Financial Crime Investigation Service as well as the Bank of Lithuania are strengthening national and international co-operation in the field of anti-money laundering and countering the financing of terrorism (AML/CFT).

To strengthen the existing model for cross-border cooperation on AML supervision of credit and financial institutions, a permanent Nordic-Baltic working group with representatives from each country’s financial supervisory authorities was established in the fourth quarter of 2019. Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden in the first quarter of 2020 signed up a Memorandum of Understanding to formalise the continued, long-term coordination. The working group maintains regular contact and exchange experiences and information with the goal of being more effective in the prevention of money laundering.

The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (“MONEYVAL”) has assessed the effectiveness of Lithuania's AML/CFT system and its level of compliance with the FATF Recommendations in 2018. The report of the assessment indicated that Lithuanian authorities are aware of the money laundering terrorism financing (ML/TF) threats and have taken steps to address a number of them. This has seen strong results, in particular, in reducing the shadow economy. However, further efforts are needed to mitigate some significant vulnerabilities, in particular in relation to the investigation and prosecution of AML/CFT supervision.

MONEYVAL acknowledged that Lithuania has a sound legal and procedural framework for exchanging information with foreign partners in a comprehensive, proactive and timely manner, both upon request and spontaneously, and in line with its risk profile. Lithuania actively seeks international co-operation from other states, which has resulted in convictions and the seizure and confiscation of proceeds of crime.

The 5th EU Anti-money laundering Directive, which amends the 4th Anti-Money Laundering Directive was published in the Official Journal of the European Union on 19 June 2018. Lithuania has transposed this Directive to its national legislation by introducing amendments to the Law on the Prevention of Money Laundering and Terrorist Financing. Amended AML/CFT law came into force on 10 January 2020. In 2018, the national anti-money laundering framework was further strengthened by incorporating three Guidelines issued by the European Supervisory Authorities into national legislation. These are the Guidelines on risk based supervision, the Guidelines on risk factors and simplified and enhanced customer due diligence and the Guidelines to prevent transfers of funds being abused by ML and TF. The Guidelines are addressed to financial institutions and supervisory authorities. The Bank of Lithuania updated its AML/CFT Guidelines for financial market participants, which sets out the AML/CFT requirements for financial market participants in line with international practice and standards.

Additionally, in order to strengthen the supervision of credit and financial institutions in AML/CFT area, the Bank of Lithuania has established a separate division responsible solely for the AML/CFT supervision in the beginning of 2019 and increased its resources significantly (10 FTEs.).

Lithuania took active measures to strengthen private public partnership in AML area. Lithuanian authorities (the Bank of Lithuania, Financial crime investigation service under the Ministry of the Interior of the Republic of Lithuania and Ministry of Finance of the Republic of Lithuania) are currently working under new initiative to bring public and private sector together in order to strengthen the fight against ML and TF. Special working group combined of representatives from mentioned institutions was established in August of 2019. The main task of this working group was to analyse existing private and public sector partnership (“PPP”) models and possibilities for establishing such model in Lithuania.

Current proposal indicates that strengthening institutional set-up for fighting ML and FT can be done by creating ML and FT risk management competence center in Lithuania. It is expected that such ML and FT risk management center would be comprised of public and private sector representatives and would serve as platform for the private and public sector partnership (PPP) and cooperation.

Capital Markets

Nasdaq Vilnius Stock Exchange (“Nasdaq Vilnius”)

The Nasdaq Vilnius Stock Exchange has operated in Lithuania since 1993. Nasdaq Vilnius is part of the Nasdaq Group, Inc., which is a leading provider of trading, exchange technology, information and public company services across six continents.

Currently the Baltic market, which comprises the Nasdaq stock exchanges in Vilnius, Riga and Tallinn, operates a single securities list, the common indexes such as OMX Baltic Benchmark and a set of harmonised listing, trading and corporate events disclosure regulations. The statistics of the stock exchanges are provided and uploaded on a common website.

Nasdaq CSD SE (Societas Europaea) acts as the regional central securities depository in the Baltics and Iceland. It provides post-trade infrastructure and a wide range of securities services for Baltic and Icelandic market participants. The core business activity of the Nasdaq CSD comprises the accounting for and safe custody of publicly issued securities, the settlement of securities and cash as well as the development and maintenance of registers required for the accounting for and safe custody of securities. Nasdaq Vilnius maintains its own Listing Rules, Membership and Trading Rules, as well as the Price List of Nasdaq Vilnius, each of which is harmonised with the relevant requirements of EU legal directives and other regulations. The membership and Trading Rules of Nasdaq Vilnius have been harmonised with the Baltic and Nordic exchanges belonging to Nasdaq Group.

Nasdaq Vilnius provides trading on a regulated market in equities, debt securities and investment fund units and conducts primary placement auctions of Lithuanian Government bonds. From 2015 Nasdaq Vilnius also started operations on the alternative market First North, which is a multilateral trading facility. The securities of eight local companies (consisting of three equity and five corporate bonds) are currently listed on the First North alternative market. Surveillance of trading and companies is conducted jointly by the Bank of Lithuania, Nasdaq Vilnius and Certified Advisers.

Being part of the Target 2 Securities (T2S) Framework Agreement, Nasdaq CSD is powered by modern straight-through processing (STP) technology connected to the pan-European TARGET2-Securities platform and settlement services for T2S-eligible securities are provided by T2S - the single pan-European platform for securities settlement in central bank money. Other securities are settled in the CSD system.

Nasdaq Vilnius uses the INET technology for trading of equities (INET trading system) and fixed income products (Genium INET system). INET technology is recognised as the most advanced securities trading technology in the world and is used across Nasdaq's U.S., Nordic and Baltic markets.

As at 1 January 2020, the Nasdaq Vilnius Main List comprised of fourteen Lithuanian issuers and the Secondary List consisted of twelve Lithuanian issuers, the Debt Securities List comprised of 25 debt issuances, 20 of which were Government and five Lithuanian corporate bond issues, and four Lithuanian funds were listed on the Fund Trading List.

The following table sets forth information with respect to the activities of Nasdaq Vilnius.

	Year ended 31 December					
	2014	2015	2016	2017	2018	2019
Share trading volume (EUR million)	212.30	84.00	99.20	98.04	90.04	96.83
Nasdaq Vilnius overall turnover (EUR billion).....	1.50	1.25	1.03	0.93	1.15	1.39
Nasdaq Vilnius aggregated capitalisation (EUR billion).....	5.70	6.20	6.80	7.7	8.3	9.2
Index OMX Vilnius (points).....	452.42	485.99	558.50	653.29	616.9	712.14

Source: The Bank of Lithuania

In 2019, due to increased debt securities trading volumes, the overall (equities and debt securities) trading volume decreased. Nasdaq Vilnius share trading volumes increased in 2019 compared to share trading volumes in 2018. This was led by higher automatch trading activity (in 2019 automatch trading volume was 8.1 per cent. higher than in 2018).

Market capitalisation has improved slightly each year since 2015 and continued to grow in 2019. Total market capitalisation of the Nasdaq Vilnius increased by 10.3 per cent. in 2019.

The value of the Nasdaq Vilnius index decreased by 15.44 per cent. in 2019.

All securities and related instruments in public circulation are maintained in dematerialized form and are recorded in the securities accounts opened with the Nasdaq CSD SE Lithuanian Securities Settlement System in accordance with the Nasdaq CSD Rules and Procedures for Recording of Securities in Book-Entry Form.

Capital Markets Regulation

The Law on Securities establishes the procedure for the fulfilment of the obligation to publish a prospectus when securities are offered to the public and admitted to trading on a regulated market, the procedure for submission of takeover bids as well as the requirements for the disclosure and storage of periodic and current information. Following the entry into force of the Prospectus Regulation (No. 2017/1129), the provisions of this law regulating the preparation and publication of the securities prospectus were updated in 2019. According to the Law on Securities public offers of securities are exempted from the obligation to publish a prospectus provided that the total consideration of each such offer is less than an amount calculated over a period of 12 months which shall not exceed EUR 8,000,000. In cases when total consideration of public offers exceeds EUR 1,000,000, but is less than EUR 8,000,000 during a 12-month period, when companies are exempted from the requirement of drawing up and publishing the prospectus, an information document must be prepared.

The Law on Markets in Financial Instruments regulates activities of intermediaries operating in the securities market, the activities of regulated markets and the operators of regulated markets. These two laws and related legal acts fully transpose the relevant EU legislation.

In 2016, the Government retained its focus on improving access to finance in Lithuania, especially for SMEs. On 3 November 2016, the Parliament adopted the Law on Crowdfunding, which came into force on 1 December 2016. The law partly abolished the exclusive right of credit institutions to receive deposits and other repayable funds from non-professional market participants and eased the way companies and private persons can attract necessary funds for their businesses (either via loans or securities).

The Ministry of Economy and Innovation prepared a new law regarding the legal protection regime for bondholders together with amendments to the Law on Companies that allows the public offering of private limited liability companies' bonds. These legal acts came into force on 1 November 2016. Other amendments concerning private placement, the option for companies to provide company shares to employees, members of board and improvements to the Law on Companies were adopted by the Parliament and came into force on 13 July 2017.

Collective Investment Undertakings

Under Lithuanian law, investment funds and investment companies established for the sole purpose of raising capital from a number of investors with a view to investing the capital for the benefit of those investors according to a defined investment policy are referred to as collective investment undertakings ("CIUs").

The Law on CIUs provides for two types of collective investment undertakings which can be publicly offered to retail investors in Lithuania: harmonised CIUs, which may invest only in a restricted range of assets, principally transferable securities, and must satisfy strict diversification requirements, but they may be publicly offered in any EU state (known as UCITS in the EU); and CIUs with more flexible diversification requirements which, however, are of limited distribution as they may not be publicly offered in other EU states.

The Law on Collective Investment Undertakings Intended for Informed Investors determines a legal framework for alternative collective investment undertakings intended for informed investors (investors who meet certain criteria). The Law expands the choice of legal forms for investment undertakings managing funds for informed investors – they are not only able to function as public or private limited liability companies but as partnerships as well. Funds for informed investors are also provided with a wider choice of possibilities as to what assets to invest in and how to manage investment risk.

In addition, the Law on Managers of Alternative Collective Investment Undertakings sets out requirements for the managers of alternative CIUs (known as Alternative Investment Funds Managers in the EU) and allows such managers to provide services and (or) offer the units of alternative CIUs to professional investors throughout the EU (the notification procedure).

In 2017, the Bank of Lithuania reviewed the legal regulation on CIUs and prepared draft laws (Law on CIUs, draft Law on Collective Investment Undertakings Intended for Informed Investors, Law on Managers of Alternative Collective Investment Undertakings) aimed to foster the development of the domestic capital market. The review was targeted at making the legal regulation on CIUs more flexible and efficient, introducing new possibilities to national and EU alternative CIUs and reducing the administrative burden for CIUs, while maintaining the highest level of market reliability, safety and transparency. These legal acts were adopted by the Parliament in the autumn session of 2018 and came into force on 1 February 2019.

There are two primary types of CIUs operating in Lithuania. These consist of CIUs registered in Lithuania (“**Domestic CIUs**”) and CIUs registered in foreign jurisdictions with permission to sell investment units in Lithuania (“**Foreign CIUs**”).

The number of persons holding investment units or shares of Foreign CIUs and the amount invested by Lithuanian investors in Foreign CIUs is greater than that of Domestic CIUs.

The table below sets forth the total assets of Domestic and Foreign CIUs as at the dates indicated.

	As at 31 December				
	2015	2016	2017	2018	2019
			<i>(EUR million)</i>		
Domestic CIUs	394.5	763	1054.9	1121.4	1,254.20
Foreign CIUs	341.4	393	440.1	278.6	242.7
Total CIUs	735.9	1,156.0	1,495.0	1,400.0	1,496.9

Source: The Bank of Lithuania

As at 31 December 2019, the value of assets managed by Domestic CIUs amounted to EUR 1.25 billion. This is an 11.8 per cent. increase, as compared to 31 December 2018. As at 31 December 2019, the value of assets managed by Foreign CIUs was EUR 242.7 million, a decrease of 12.9 per cent., as compared to 31 December 2018.

Pension Funds

State social pension insurance is provided by the State Social Insurance Fund (the “**First Pillar**”) and in addition to this there are two types of pension funds in Lithuania – Second Pillar Pension Funds and Third Pillar Pension Funds. Second Pillar Pension Funds manage and invest participants’ salary contribution and an additional pension contribution from the State Budget (such scheme entered into force from 1 January 2019), while Third Pillar Pension Funds manage and invest voluntary supplementary contributions made outside of the State Social Insurance Fund.

In 2018 the Parliament of Lithuania approved the pension accumulation reform by passing amendments to the Law on the Accumulation of Pensions (Second Pillar Pension Funds). The pension accumulation reform abandons the system where the State Social Insurance Fund Board would transfer a part of the

social insurance contributions into the Second Pillar Pension Funds. Instead, a new formula for pension accumulation has been established. The contribution into the pension fund will now be comprised of 3 per cent. of the participant's personal income and 1.5 per cent. of the national average salary as a supplementary contribution paid for a participant out of the state budget. The new legislation lays down a new procedure for involvement in the supplementary accumulation of pensions in the Second Pillar Pension Funds. The amendments stipulate that all the working adults under the age of 40 will be included in the pension accumulation system from January 2019 with the right to refuse to do so. The procedure of inclusion will be repeated every three years until the person reaches the age of 40. People over 40 years of age who do not contribute to the accumulation of pensions will be entitled to voluntarily contribute to the accumulation process.

As at 31 December 2019, Second Pillar Pension Funds and Third Pillar Pension Funds held EUR 4 billion in combined assets (an increase of 24.9 per cent. as compared to 31 December 2018).

Second Pillar Pension Funds

As at 31 December 2019, there were 40 Second Pillar Pension Funds managed by four management companies and one life insurance company. Second Pillar Pension Funds are supervised by the Bank of Lithuania. See “—Banking Supervision and Regulation” and “—Capital Markets Regulation”.

The table below sets forth the total assets of Second Pillar Pension Funds as at the dates indicated.

	As at 31 December				
	2015	2016	2017	2018	2019
Assets	2,120.9	2487.2	2911.1	3118.4	3,887.90

Source: The Bank of Lithuania

As at 31 December 2019, the value of Second Pillar Pension Funds' assets amounted to EUR 3.9 billion, an increase of 24.7 per cent. as compared to 31 December 2018.

As at 31 December 2019, approximately 1.35 million Lithuanians were participating in Second Pillar Pension Funds. The Second Pillar Pension Funds are managed according to the life-cycle concept, reducing investment risk as funds' recommended participant age increases.

Third Pillar Pension Funds

Pursuant to the Law on Supplementary Voluntary Pension Accumulation, only licensed entities meeting specified requirements are permitted to manage Third Pillar Pension Funds. Since 1 January 2012, Third Pillar Pension Funds have been supervised by the Bank of Lithuania. See “—Banking Supervision and Regulation” and “—Capital Markets Regulation”.

As at 31 December 2019, there were 15 Third Pillar Pension Funds in Lithuania managed by four management companies, with 71.8 thousand Lithuanians participating in such funds, representing approximately 5.2 per cent. of employed Lithuanians.

The table below sets forth the total assets of Third Pillar Pension Funds as at the dates indicated.

	As at 31 December				
	2015	2016	2017	2018	2019
Assets	61.6	79.5	96.6	103.9	135.6

Source: The Bank of Lithuania

As at 31 December 2019, the value of pension funds' assets amounted to EUR 135.6 million, an increase of 30.5 per cent. as compared to 31 December 2018.

Insurance Market

Activities related to insurance and reinsurance in the Republic of Lithuania are regulated by the Law on Insurance. The insurance market is supervised by the Bank of Lithuania. See “—Banking Supervision and Regulation” and “—Capital Markets Regulation”.

The updated Law on Insurance transposing Directive 2009/138/EC (Solvency II) came into effect on 1 January 2016. It introduced a new risk-based prudential and supervisory regime, which is built upon quantitative (solvency), qualitative (governance and risk management) and enhanced transparency and disclosure requirements.

Before 1 January 2016, the undertakings had followed domestic business accounting standards in managing accounting and preparing financial statements. As of 1 January 2016, insurance undertakings registered in Lithuania must follow International Accounting Standards (IAS) in managing their accounting and preparing financial statements.

A directive on the distribution of insurance products was adopted by the European Parliament and the Council on 20 January 2016 (EU) 2016/97). It updated Insurance Mediation Directive 2002/92/EC and complemented other rules on the sale of investment products and packaged retail and insurance-based investment products. This Directive extended the scope of regulation to all persons who sell insurance products directly to customers (insurance undertakings, insurance intermediaries, and ancillary insurance intermediaries), introduced stricter rules on the management of conflicts of interest and the conduct of business and set specific information disclosure requirements. The Law on Insurance transposing the provisions of this Directive as well as other related legal acts came into force on 1 October 2018.

As at 31 December 2019, there were eight domestic insurance companies operating in Lithuania including four life insurance companies and four companies providing non-life insurance products, eleven foreign branches of insurance companies registered in other EU Member States including four branches providing life insurance services, and 96 independent insurance brokerage companies.

As at 31 December 2019, Lithuanian insurance companies held assets of EUR 1.4 billion, an increase of 12.2 per cent. compared to 31 December 2018. As at 31 December 2019, investments (including unit-linked life assurance investments) accounted for 82.6 per cent. of total insurance company assets. Government securities accounted for 69.5 per cent. of such investments, excluding investments of unit-linked life assurance. Meanwhile corporate securities and deposits (including cash at bank and in hand) accounted for 9.5 per cent. and 6.2 per cent., respectively of such investments. The remaining 14.8 per cent. included real estate, equity securities and other investments.

As at 31 December 2019, the gross written premiums (the aggregate premiums written and assumed by insurers before deductions for reinsurance) of insurers in Lithuania, both domestic and foreign branches, amounted to EUR 945.1 million, an increase of 7.7 per cent. compared to 31 December 2018.

PUBLIC FINANCES

The Lithuanian General Government Sector consolidates the State budget, the budgets of 60 municipalities, the Social Security Funds and the other extra-budgetary funds. Set out below is a summary of the General Government Sector for the periods indicated, prepared according to the IMF's Government Finance Statistics Manual 2014 ("GFSM 2014") methodology:

	Year ended 31 December									
	2015		2016		2017		2018		2019	
	(EUR million)	(% of GDP)	(EUR million)	(% of GDP)	(EUR million)	(% of GDP)	(EUR million)	(% of GDP)	(EUR million)	(% of GDP)
Revenue	12,769.1	34.2	13,074.0	33.6	13,890.3	32.9	15,360.9	33.9	16,647.4	34.4
Taxes	6,375.1	17.1	6,715.7	17.3	7,183.2	17.0	7,784.4	17.2	9,857.6	20.4
<i>Taxes on income, profits</i>	2,013.4	5.4	2,175.0	5.6	2,256.0	5.3	2,528.9	5.6	4,202.8	8.7
<i>Taxes on goods and services</i>	4,235.3	11.3	4,413.4	11.3	4,798.2	11.4	5,118.6	11.3	5,509.4	11.4
<i>Other taxes</i>	126.4	0.3	127.3	0.3	129.0	0.3	136.9	0.3	145.4	0.3
Social contributions	4,355.7	11.7	4,732.5	12.2	5,175.7	12.2	5,756.2	12.7	4,709.2	9.7
Grants	737.4	2.0	440.4	1.1	412.5	1.0	594.4	1.3	750.3	1.6
Other revenue	1,300.9	3.5	1,185.4	3.0	1,118.9	2.6	1,225.9	2.7	1,330.3	2.8
Expense	12,741.3	34.1	13,084.3	33.6	13,641.6	32.3	15,084.2	33.3	16,511.1	34.2
Compensation of employees	3,475.7	9.3	3,653.4	9.4	3,860.1	9.1	4,248.4	9.4	4,758.1	9.8
Use of goods and services	1,828.9	4.9	1,799.0	4.6	1,888.0	4.5	1,922.3	4.2	2,075.3	4.3
Consumption of fixed capital	1,103.8	3.0	1,132.1	2.9	1,124.4	2.7	1,209.0	2.7	1,244.2	2.6
Interest	648.5	1.7	608.0	1.6	558.9	1.3	493.3	1.1	498.5	1.0
Subsidies	122.8	0.3	135.1	0.3	120.8	0.3	167.3	0.4	204.0	0.4
Grants	343.0	0.9	343.9	0.9	278.2	0.7	382.5	0.8	386.4	0.8
Social benefits	4,673.0	12.5	4,902.9	12.6	5,293.0	12.5	6,101.7	13.5	6,790.1	14.0
Other expense	545.6	1.5	509.9	1.3	518.2	1.2	559.7	1.2	554.5	1.1
Net operating balance	27.8	0.1	(10.3)	(0.0)	248.7	0.6	276.7	0.6	136.3	0.3
Net acquisition of non-financial assets	128.5	0.3	(100.6)	(0.3)	56.7	0.1	4.9	0.0	7.0	0.0
Net lending (+)/ borrowing (-)	(100.7)	(0.3)	90.3	0.2	192.0	0.5	271.8	0.6	129.3	0.3
GDP	37,321.8	100.0	38,893.4	100.0	42,269.4	100.0	45,264.4	100.0	48,339.2	100.0

Source: Ministry of Finance.

State Budget

The following table shows a summary of the State budget for the years and periods indicated, prepared according to the GFSM 2014 methodology:

	Year ended 31 December									
	2015		2016		2017		2018		2019	
	(EUR million)	(% of GDP)	(EUR million)	(% of GDP)	(EUR million)	(% of GDP)	(EUR million)	(% of GDP)	(EUR million)	(% of GDP)
Revenue	6,524.0	17.5	6,518.2	16.8	6,754.6	16.0	7,241.9	16.0	9,411.0	19.5
Taxes	5,095.9	13.7	5,347.7	13.7	5,721.2	13.5	6,069.8	13.4	8,038.0	16.6
<i>Taxes on income, profits</i>	961.7	2.6	1,003.3	2.6	982.5	2.3	1,003.3	2.2	2,582.4	5.3
<i>Taxes on goods and services</i>	4,133.2	11.1	4,343.4	11.2	4,737.3	11.2	5,064.8	11.2	5,452.7	11.3
<i>Other taxes</i>	1.0	0.0	1.0	0.0	1.4	0.0	1.7	0.0	2.9	0.0
Social contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	702.6	1.9	430.6	1.1	381.7	0.9	564.0	1.2	742.7	1.5
Other revenue	725.5	1.9	739.9	1.9	651.7	1.5	608.1	1.3	630.3	1.3
Expense	6,748.0	18.1	6,746.1	17.3	6,766.3	16.0	11,200.8	24.7	9,927.3	20.5
Compensation of employees	1,461.7	3.9	1,519.4	3.9	1,588.6	3.8	1,723.0	3.8	1,922.0	4.0
Use of goods and services	847.3	2.3	816.8	2.1	827.0	2.0	856.1	1.9	929.0	1.9
Consumption of fixed capital	469.9	1.3	515.5	1.3	513.2	1.2	570.9	1.3	611.7	1.3
Interest	639.2	1.7	600.9	1.5	554.4	1.3	490.2	1.1	491.8	1.0
Subsidies	114.2	0.3	125.6	0.3	108.3	0.3	141.4	0.3	156.9	0.3
Grants	1,729.0	4.6	1,689.5	4.3	1,642.0	3.9	5,660.0	12.5	3,799.4	7.9
Social benefits	1,037.3	2.8	1,106.4	2.8	1,200.1	2.8	1,433.2	3.2	1,690.8	3.5
Other expense	449.4	1.2	372.0	1.0	332.7	0.8	326.0	0.7	325.7	0.7
Net Operating Balance	(224.0)	(0.6)	(227.9)	(0.6)	(11.7)	(0.0)	(3,958.9)	(8.7)	(516.3)	(1.1)
Net Acquisition of Nonfinancial Assets	253.8	0.7	47.7	0.1	136.4	0.3	(79.4)	(0.2)	(128.8)	(0.3)
Net Lending (+)/ Borrowing (-)	(477.8)	(1.3)	(275.6)	(0.7)	(148.1)	(0.4)	(3,879.5)	(8.6)	(387.5)	(0.8)
GDP	37,321.8	100.0	38,893.4	100.0	42,269.4	100.0	45,264.4	100.0	48,339.2	100.0

Source: Ministry of Finance.

Budget Process

The budget process in Lithuania is regulated by the Constitution, Law on the Budget Structure, the Government Resolution on Drafting of Financial Indicators for the State Budget and Municipal Budgets, other resolutions adopted by the Government and other annual legislation passed by the Seimas on the

budget at the end of each year, including the State Budget Law. The process is coordinated by the Ministry of Finance. Lithuania's budget planning commences on 1 January and runs until 31 December each year.

The budget approval process in Lithuania begins with the preparation of the State budget by the Ministry of Finance in October of the preceding year. The State budget is then considered and amended by the Seimas' budget committee. The Seimas votes on the State budget before the end of the preceding year. If the Seimas fails to approve the State budget by the beginning of the year to which it relates, the Government may continue to work on the basis of the monthly expenditure allocation of the State budget for the previous year.

In order to retain flexibility in its budget planning, the Government has tended to adjust certain budget targets after the State budget has been approved and the relevant year has begun. Such adjustments are made to prevent an increase in the budget deficit and provide for the reallocation of funds within the overall approved expenditure limits.

The Ministry of Finance organises the overall process of budget drafting through, for example, preparing macroeconomic and fiscal projections, providing technical and methodological guidance to appropriations managers, the drafting of the budget and the Public Investment Programme.

2019 State Budget

The 2020 State budget was approved by Law No. XIII-2695 on 17 December 2019. It provides for revenues of EUR 11,530 million, including EUR 1,982.3 million of EU assistance (an increase of 9.1 per cent. as compared to the 2019 State budget), and expenditures of EUR 12,778.5 million (an increase of 8.9 per cent. as compared to the 2019 State budget).

	2020 Budget Plan					Structure in State Budget
	State Budget (excluding EU funds)	Grants to municipalities	EU Funds	State Budget (total)	% of GDP ⁽¹⁾	
			(EUR millions)			
Revenue	9,547.9		1,982.4	11,530.3	23.6	100.0
Taxes	8,835.8			8,835.8	18.1	92.5
Personal income tax	1,997.9			1,997.9	4.1	20.9
Corporate profit tax	861.3			861.3	1.8	9.0
Property tax	5.4			5.4	0.0	0.1
Value added tax	4,148.8			4,148.8	8.5	43.5
Other taxes on goods and services	1,699.4			1,699.4	3.5	17.8
Taxes on international trade and transactions	123.0			123.0	0.3	1.3
Other	712.2			712.2	1.5	7.5
EU and other financial assistance			1,982.4	1,982.4	4.1	
Expenditure	9,365.3	1,177.8	2,235.5	12,778.6	26.1	100.0
General services of the State	1,445.7	13.7	44.7	1,504.1	3.1	15.4
Payments to the EU	482.1			482.1	1.0	5.1
Debt servicing	439.9			439.9	0.9	4.7
Other	523.7	13.7	44.7	582.1	1.2	5.6
Defence	1,098.6	2.2		1,100.8	2.3	11.7
Public order and society protection	630.0	30.5	257.9	918.4	1.9	6.7
Economy	935.4	139.1	1,351.5	2,426.0	5.0	10.0
Environment protection	130.4	0.5	149.1	280.0	0.6	1.4
Accommodation and municipal economy	37.5	0.0	29.7	67.2	0.1	0.4
Public health	821.2	25.6	47.1	893.9	1.8	8.8
Recreation, culture and religion	292.1	25.9	64.3	382.3	0.8	3.1
Education	613.5	826.7	177.5	1,617.7	3.3	6.6
Social security	3,360.9	113.6	113.7	3,588.2	7.3	35.9

Note:

⁽¹⁾ Based on the Ministry of Finance's March 2020 projection for 2020 GDP at current prices (EUR 48,918.6 million).

Source: Ministry of Finance.

Municipal Budgets

Municipalities enjoy considerable autonomy within the limits of the statutes that establish tax rates and tax allocations between the central and local governments.

The Law on the Methodology of Determination of Municipal Budgetary Revenues considers three categories of municipal income: tax revenues, non-tax-derived revenues and State budget grants. Since 1998, the revenue base of the municipalities has comprised mainly personal income tax (“PIT”). Each municipal budget is allocated a share of the PIT (in per cent.) falling on all municipal budgets from total PIT revenue to consolidated State budget and municipal budgets approved by the Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for the year. Since the fiscal capability of the respective municipal governments varies greatly, a revenue equalisation system is applied. In addition, revenue equalisation funds are used to promote redistribution of resources from more prosperous to less prosperous regions.

Also, municipalities receive transfers from the State budget in the form of grants, the precise amount of which again depends on the specific needs of the locality. From 2002, the implementation of a majority of the functions conducted by municipal governments (accounting for approximately 36.0 per cent. of planned budget revenue in 2020) that were previously funded from general revenue of municipal budgets have been funded by transfers from the State budget in the form of special target grants. The amount of these grants is allocated in accordance with the methodology used for the calculation of funds necessary for carrying out a certain function and the total for all municipal governments.

Municipal budgets had a surplus of 0.3 per cent. of GDP in 2015, 0.5 per cent. of GDP in 2016, 0.2 per cent. of GDP in 2017, 0.2 per cent. of GDP in 2018, and 0.1 per cent. of GDP in 2019.

Revenues

The principal source of revenue in the State budget and in the municipalities’ budgets is taxes, particularly value added tax (“VAT”), excise duties, personal income tax (“PIT”) and corporate income tax (“CIT”). The recent tax reforms were aimed at ensuring stable budgetary income, supporting sustainable economic growth and addressing social inequality. Those objectives were achieved by the following measures:

- the reduction of tax burden for low and middle-income earners and increase of progressiveness of tax system;
- the employment of tax incentives supporting innovation;
- the reduction of administrative burden; and
- the improvement of tax administration.

A predictable, fair, competitive and growth-friendly tax system leading to voluntary payment of due share of tax remains among future tax policy priorities.

PIT

PIT revenues are split between State budget and the municipalities’ budgets. In recent years, PIT has accounted for approximately 5.0 per cent. of State Budget revenues (EU assistance excluded) on average. Due to changes in labour taxation described below, it is expected that PIT revenues will account for approximately 20.0 per cent. of State budget revenue in 2019. Revenues from PIT remain the main source of revenues in the municipalities’ budgets amounting to approximately 77.0 per cent. of total revenue of these budgets.

On 1 January 2019 amendments to tax and social insurance legislation came into force. In order to disclose an actual gross salary and transfer taxation to the employee’s side, employee’s and employer’s social insurance contributions were consolidated. Due to the amendments made, the gross salary has been recalculated by 28.9 per cent. to compensate employees for the shift in the tax burden. Labour taxation overall decreased by 1.55 per cent. by reduction of personal income tax rate and social security contributions, accompanied by the review of PIT rates and social security contributions, along with the transfer of basic pension payment from the State Social Insurance Fund budget to the State budget.

The PIT rate applicable to employment related income (such as wages and bonuses received from employers) not exceeding 120 average wages (“AW”) per year has increased from 15.0 per cent. in 2018 to 20.0 per cent. in 2019. Income above 120 AW per year has been subjected to a 27.0 per cent. progressive PIT rate. Other income progressive PIT rates have been introduced: income above 120 AW

per year is subject to 20.0 per cent. PIT rate; income below 120 AW is subject to 15.0 per cent. PIT rate. Since 2020, this progressive rate has been increased to 32.0 per cent. PIT rate and is applied to the employment related income above 84 AW.

The tax burden on low and middle-wage earners is addressed by applying a non-taxable allowance, which gradually decreases as income earned increases. The benefit from non-taxable allowance as well as the scope of its application (from about 1.3 AW to 2 AW) has been increased from 1 January 2019.

In 2019, progressive PIT rates were introduced for other types of income (excluding income from self-employed activities, dividends): income above 120 AW per year is subject to 20.0 per cent. PIT rate (income below 120 AW remain taxed at a general 15.0 per cent. PIT rate).

The taxation of self-employment income and dividends remains unchanged. From 1 January 2018, income from individual business activities is taxed at a general 15.0 per cent. PIT tax rate with the option to apply a tax credit, adjusting the actual tax burden from 5.0 per cent. (on profits not exceeding EUR 20,000) to 15.0 per cent. (on profits exceeding EUR 35,000).

In order to encourage alternative financing from 1 January 2018, PIT relief is applied for the income received as interest from peer to peer and crowd funding platforms. Income not exceeding EUR 500 per year is treated as non-taxable. Also, interest income from deposits and debt securities and income from the alienation of financial instruments not exceeding EUR 500 per year are treated as non-taxable.

CIT

Over the past years, CIT has accounted for approximately 10.0 per cent. of State budget revenues (EU assistance excluded) on average.

The general corporate income tax rate is 15.0 per cent. However, the taxable profits of small enterprises are subject to a reduced corporate income tax rate of 5.0 per cent. (0.0 per cent. for the first taxable period where an enterprise is owned by individuals). Additional temporary CIT rate of 5.0 per cent. was imposed on the taxable profits of credit institutions (non-taxable amount of EUR 2,000,000 is applied) has been introduced for the period 2020-2022.

The main corporate income tax incentives are applied to enterprises, including small enterprises, investing into research and development (R&D) and into substantial technological improvements:

- expenses incurred carrying out R&D can be deducted from taxable income thrice;
- taxable profit can be reduced to 100 per cent. by the amount of expenses incurred acquiring new technologies. The expenses exceeding the amount of taxable profit can be carried forward for four years; and
- since 2018 a reduced 5.0 per cent. CIT rate is applied for income derived from commercialisation of inventions created as a result of R&D activities.

Favourable CIT conditions are applied for alternative capital market participants, as all income received by collective investment undertakings, prescribed venture and private equity entities as well as the return on investments for their participants – legal entities are exempt from corporate income tax, unless the income is received from a foreign entity registered or organised in a listed tax haven or from an individual resident in a listed tax haven or the income is related to investments in a listed tax haven.

Furthermore, a substantial CIT relief is applied for enterprises in free economic zones (for the first 10 years the tax rate is reduced by 100 per cent., and for additional 6 years – by 50.0 per cent.), if certain conditions defined by law (investment level, number of employees, etc.) are met.

VAT

Over the past years, VAT has accounted for approximately 50.0 per cent. of State budget revenues (EU assistance excluded) on average.

The standard VAT rate is 21.0 per cent. A reduced 5.0 per cent. VAT rate is applicable to the supply of some pharmaceuticals and medical aids, technical assistance aids and their maintenance for people with

disabilities, newspapers and periodicals. A reduced 9.0 per cent. VAT rate is applicable to books, central heating, passenger transport on regular routes services, accommodation services (until 31 December 2022) and firewood and wood products.

Excise Duties

Over the past years, excise duties have accounted for approximately 20.0 per cent. of State budget revenues (EU assistance excluded) on average.

In recent years excise duty rates on tobacco products, ethyl alcohol and alcoholic beverages have been increased gradually.

From 1 March 2019, excise duties on electronic cigarette liquids were introduced, and heated tobacco products were distinguished as a separate category for excise purposes.

From 1 March 2020, excise duty rates on unleaded petrol, gas oil (diesel fuel), gas oil for agricultural uses and commercial fishery have also been increased.

Immovable Property Tax

As of 2020, the annual tax rate may range from 0.5 per cent. to 3.0 per cent. of the average market value of privately owned buildings and facilities. The municipalities are delegated annually to set the specific tax rate for their respective territories taking into account the criteria defined by law.

An exception applies to the certain value of immovable property of individuals used for non-commercial purposes (including dwellings, garages, farms and real estate used for leisure). Such immovable property is subjected to progressive tax rates (0.5 – 2.0 per cent.) on its total average market value exceeding EUR 150,000 per person, as of 2020.

Land Tax

Land tax must be paid by owners of private land (both natural and legal persons). Land tax is applied on the average market value of the land. From 1 January 2013 a concrete tax rate is set annually by the municipalities within the ranges prescribed by the law, i.e. from 0.01 per cent. to 4.0 per cent.

Tax administration

In the area of tax administration, a key focus is the enhancing of voluntary compliance, particularly by developing e-services to taxpayers. For example, the “virtual accountant” (a remote semi-atomised system for recording income/expenses for individual entrepreneurs) was introduced at the beginning of 2019.

Moreover, the procedures to ensure the effective resolution of disputes concerning the double taxation were established by implementing the relevant EU legislation.

Targeted measures tackling evasion of taxes are consistently being introduced.

Expenditure

General Government Sector expenditures primarily relate to social protection, education, health and economic affairs. Approximately 90.0 per cent. of the General Government Sector expenditure is typically directed to current expenditure. Of this percentage, wages and salaries comprise approximately 30.0 per cent. Certain social benefits that are not covered under extra-budgetary funds are provided under the State budget. General Government Sector expenditure on average amounts to 34.0 per cent. of GDP.

The Government's investment strategy is reflected in the Public Investment Programme which defines the financing requirement for investment projects implemented as part of Government supported programmes, as well as the sources of financing and the timeframes for implementation of the investment projects concerned. The Public Investment Programme attributes a higher priority to those investment projects that are co-financed by the EU and that are in line with EU requirements, as well as to those that aim at developing national defence as a part of the collective security and defence system.

The Government Programme of the newly elected Government was approved by Law on 13 December 2016. The Government Programme action plan was adopted on 13 March 2017. The Government Programme sets forth the following priorities of the Government:

- Sustainable, responsible and healthy society;
- Enhancement of quality and efficiency of educational, cultural and science services;
- Enhancement of efficiency and transparency of public sector;
- Sustainable and competitive economic development; and
- Secure state.

Budget Deficits

Since its accession to the EU in 2004, Lithuania has been obliged to observe the Maastricht Euro convergence criteria, including a General Government Sector budget deficit limit of 3.0 per cent. of GDP.

In line with the Government's fiscal policy, between 2002 and 2007 the General Government Sector had a deficit which was significantly below the 3.0 per cent. of GDP limit established by the Maastricht Euro convergence criteria. Due to pressures resulting from the global economic crisis the deficit in 2008 amounted to 3.1 per cent. of GDP, which is higher than the 3.0 per cent. of GDP limit established by the Maastricht Euro convergence criteria, and in July 2008 the EU initiated an excessive deficit procedure against Lithuania, due to the fact that this limit was exceeded. In 2012, the General Government Sector had a deficit of 3.1 per cent. of GDP, however, the Council of the European Union stated that 0.2 per cent. of GDP was due to the systemic pension reform adjustment under the Stability and Growth Pact and the excessive deficit procedure against Lithuania was closed. General Government Sector deficit was 0.3 per cent. of GDP in 2015. In 2016, the General Government Sector balance of Lithuania was in surplus of 0.2 per cent. of GDP, in 2017, the surplus accounted for 0.5 per cent. of GDP, in 2018 it increased to 0.6 per cent. of GDP, and in 2019, the surplus was 0.3 per cent. of GDP.

Lithuania's medium-term objective is 1.0 per cent. of GDP general government structural deficit which, according to the Constitutional Law on the Implementation of Fiscal Treaty has to be set by the Parliament.

Lithuania has achieved, and continues to adhere to this, medium-term objective. Structural General Government deficit was 0.6 per cent. of GDP in 2017, 0.5 per cent. of GDP in 2018 and 1.4 per cent. of GDP in 2019.

Lithuania finances its budget deficit by issuing Government securities in domestic and foreign markets, borrowed funds from banks and using other debt instruments. Treasury bills are primarily used for cash management purposes, whereas long-term securities and loans are generally used to finance the State budget deficit. See “—Public Debt”.

Financing Requirements

The following table sets out certain information with respect to gross borrowing requirements and financing structure for the years indicated:

	2015	2016	2017	2018	2019	Plan for 2020
	<i>(EUR billion)</i>					
Gross borrowing requirement	3.4	1.5	2.8	1.1	3.1	7.9
Redemption of domestic debt	1.0	0.6	0.6	0.7	0.8	0.8
Redemption of foreign debt	1.3	1.3	0.7	1.6	0.1	1.7
Net borrowing requirement.....	1.0	(0.4)	1.4	(1.1)	2.2	5.4
Incl. prefunding for Eurobond redemption next year	1.0	-	1.3	-	1.3	1.1
Financing.....	3.1	1.5	2.8	1.1	3.1	7.9
Borrowing in the domestic market	1.3	1.0	0.9	1.0	1.3	1.8
Borrowing in international markets.....	1.5	0.5	1.9	0.0	1.5	5.1
Loans with IFIs.....	0.4	0.0	0.1	0.1	0.3	1.0

Source: Ministry of Finance

Funds Operating Outside of the State Budget

Social Security Funds

The Social Security Funds (which comprise the State Social Insurance Fund, the Compulsory Health Insurance Fund the Guarantee Fund and Long-Term Work Benefit Fund) operate outside of the State budget.

The following table sets out certain information with respect to the Social Security Funds for the periods indicated, prepared according to the GFSM 2014 methodology:

	Year ended 31 December									
	2015		2016		2017		2018		2019	
	(EUR million)	(% of GDP)	(EUR million)	(% of GDP)	(EUR million)	(% of GDP)	(EUR million)	(% of GDP)	(EUR million)	(% of GDP)
Revenue	4,534.3	12.1	4,759.7	12.2	5,284.2	12.5	9,638.0	21.3	6,513.0	13.5
Taxes.....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social contributions.....	4,340.1	11.6	4,715.8	12.1	5,175.7	12.2	5,756.2	12.7	4,709.2	9.7
Grants.....	138.0	0.4	16.0	0.0	75.3	0.2	3,841.6	8.5	1,758.5	3.6
Other revenue.....	56.2	0.2	27.9	0.1	33.2	0.1	40.2	0.1	45.3	0.1
Expense	4,533.7	12.1	4,741.1	12.2	5,085.6	12.0	5,641.8	12.5	6,166.2	12.8
Compensation of employees.....	51.7	0.1	50.9	0.1	53.6	0.1	58.6	0.1	67.1	0.1
Use of goods and services.....	28.8	0.1	29.4	0.1	29.7	0.1	23.8	0.1	20.0	0.0
Consumption of fixed capital.....	4.5	0.0	5.3	0.0	6.3	0.0	5.6	0.0	6.4	0.0
Interest.....	148.9	0.4	133.7	0.3	110.6	0.3	0.0	0.0	0.0	0.0
Subsidies.....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants.....	862.4	2.3	912.8	2.3	971.3	2.3	1,089.9	2.4	1,192.0	2.5
Social benefits.....	3,437.4	9.2	3,609.0	9.3	3,914.1	9.3	4,459.3	9.9	4,875.3	10.1
Other expense.....	0.0	0.0	0.0	0.0	0.0	0.0	4.6	0.0	5.4	0.0
Net Operating Balance	0.6	0.0	18.6	0.0	198.6	0.5	3,996.2	8.8	346.8	0.7
Net Acquisition of Nonfinancial Assets	1.4	0.0	2.8	0.0	(2.0)	(0.0)	2.6	0.0	2.7	0.0
Net Lending (+)/Borrowing (-)	(0.8)	(0.0)	15.8	0.0	200.6	0.5	3,993.6	8.8	344.1	0.7
GDP	37,321.8	100.0	38,893.4	100.0	42,269.4	100.0	45,264.4	100.0	48,339.2	100.0

Source: Ministry of Finance.

Extra-Budgetary Funds

In addition to the Social Security Funds, Lithuania has other funds that operate outside of the State budget, the largest and attributed to the central government subsector are the Reserve (Stabilisation) Fund, Deposit and Investment Insurance Fund, and the Fund for Decommissioning of the Ignalina NPP, a list of public health care and higher education institutions. Moreover, Turto Bankas, state enterprise Regitra, Invega AB (Investment and Business Guarantees), Agricultural Credit Guarantee Fund AB, Lithuanian National Radio and Television, Ignalina NPP, Lithuanian Oil Products Agency, National Centre of Remote Sensing and Geoinformatics "GIS-Centras" and Agriculture Information and Rural Business Centre are entities that are attributed to the Central Government subsector. During the Government finance statistics benchmark revision made in 2019, there were more State and Municipal enterprises included to the General government sector.

The following table sets out certain information regarding the extra-budgetary fund subsector (not including the Social Security Funds) for the periods indicated, prepared according to the GFSM 2014 methodology:

	Year ended 31 December									
	2015		2016		2017		2018		2019	
	(EUR million)	(% of GDP)	(EUR million)	(% of GDP)	(EUR million)	(% of GDP)	(EUR million)	(% of GDP)	(EUR million)	(% of GDP)
Revenue	1,062.3	2.8	968.1	2.5	952.8	2.3	1,117.5	2.5	1,179.3	2.4
Taxes.....	81.5	0.2	48.5	0.1	38.0	0.1	30.8	0.1	30.6	0.1
Social contributions.....	15.6	0.0	16.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants.....	570.6	1.5	630.2	1.6	672.4	1.6	848.7	1.9	873.7	1.8
Other revenue.....	394.6	1.1	272.7	0.7	242.4	0.6	238.0	0.5	275.0	0.6
Expense	770.5	2.1	803.4	2.1	858.8	2.0	930.6	2.1	949.8	2.0
Compensation of employees.....	377.3	1.0	409.0	1.1	450.3	1.1	510.0	1.1	565.8	1.2
Use of goods and services.....	268.2	0.7	275.4	0.7	280.8	0.7	283.8	0.6	288.1	0.6
Consumption of fixed capital.....	63.2	0.2	72.3	0.2	74.4	0.2	75.7	0.2	77.6	0.2

Interest	6.8	0.0	2.3	0.0	1.1	0.0	0.1	0.0	0.0	0.0
Grants	11.3	0.0	7.5	0.0	5.9	0.0	6.3	0.0	5.1	0.0
Social benefits	8.2	0.0	7.5	0.0	0.0	0.0	0.1	0.0	0.1	0.0
Other expense	35.5	0.1	29.4	0.1	46.3	0.1	54.6	0.1	13.1	0.0
Net Operating Balance	291.8	0.8	164.7	0.4	94.0	0.2	186.9	0.4	229.5	0.5
Net Acquisition of										
Nonfinancial Assets.....	36.4	0.1	6.7	0.0	36.8	0.1	114.0	0.3	96.7	0.2
Net Lending (+)/										
Borrowing (-)	255.4	0.7	158.0	0.4	57.2	0.1	72.9	0.2	132.8	0.3
GDP	37,321.8	100.0	38,893.4	100.0	42,269.4	100.0	45,264.4	100.0	48,339.2	100.0

Source: Ministry of Finance.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in Lithuania or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Republic of Lithuania

The following is a summary of certain Lithuanian tax consequences of ownership and disposition of Notes to a non-resident individual who is not acting through a fixed base in Lithuania or non-resident entity which is not acting through a permanent establishment in Lithuania that holds such Notes ("**Non-Lithuanian Holder**").

As used in the preceding sentence, a "**non-resident individual**" means an individual whose permanent place of residence is outside Lithuania, and whose personal, social or economic interests are located outside Lithuania, and who is present in Lithuania for less than 183 days in the relevant tax period and less than 280 days in two consecutive tax periods, or an individual (being a citizen of the Republic of Lithuania) whose remuneration under an employment contract or corresponding contracts is not paid and whose costs of living in another country are not covered from the state or municipal budgets of Lithuania, and a "**non-resident entity**" means an entity which is not legally established in Lithuania.

The summary does not purport to be a comprehensive description of all the tax consequences that may be relevant for making a decision to purchase, own or dispose of Notes. The summary is based on the tax laws of Lithuania as of the date of this Offering Circular.

Taxation of Payments

Payments in respect of principal and interest on the Notes to a Non-Lithuanian Holder will not be subject to Lithuanian withholding tax.

Taxation on Disposition of Notes

The disposition of Notes by a Non-Lithuanian Holder will not be subject to any Lithuanian income or capital gains tax.

Registration and Stamp Duty

Transfers of Notes will not be subject to any registration or stamp duty in Lithuania. Prospective purchasers of Notes are advised to consult their own tax advisers concerning the overall Lithuanian tax consequences of the ownership of Notes.

The Proposed Financial Transaction Tax ("FTT")

On 14 February 2013, the Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (each other than Estonia a "**participating Member State**"). However, Estonia has ceased to participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in

a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of Barclays Bank Ireland PLC, Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Europe AG, Citigroup Global Markets Limited, Erste Group Bank AG, Goldman Sachs International, J.P. Morgan Securities plc and Société Générale as permanent dealers for the Notes under the Programme (the "**Permanent Dealers**", and, together with any other dealers that may be appointed from time to time in relation to one or more tranches, the "**Dealers**"). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in the amended and restated dealer agreement dated 24 April 2020 (the "**Dealer Agreement**") and made between the Issuer and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

Selling Restrictions

United States of America

The Notes have not been, and will not be, registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or its possessions or to, or for the account or benefit of, U.S. persons. Each Dealer has agreed that it will not offer or sell any Notes within the United States or its possessions or to, or for the account or benefit of, U.S. persons, except in accordance with Rule 903 of Regulation S.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Notes in bearer form having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

United Kingdom

Each Dealer has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Republic of Lithuania

Each Dealer has represented, warranted and agreed that neither the Offering Circular nor any other material relating to the offering of the Notes may be utilised in connection with any offer of the Notes within the Republic of Lithuania, except in compliance with all applicable laws of the Republic of Lithuania.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused any Notes to be made the subject of an invitation for subscription or purchase and it will

not offer or sell any Notes or cause any Notes to be made the subject of an invitation for subscription or purchase, and it has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities based derivative contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA, except:

- i. to an institutional investor or to a relevant person or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- ii. where no consideration is or will be given for the transfer;
- iii. where the transfer is by operation of law;
- iv. as specified in Section 276(7) of the SFA; or
- v. as specified in Regulation 37A of the Securities and Futures (Offers of Investment) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Switzerland

This Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in the Notes. Each Dealer will be required to represent and agree that the Notes may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act ("FinSA") and no application has or will be made to admit the Notes to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Notes constitutes a prospectus pursuant to the FinSA, and neither this Offering Circular nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

General

Each purchaser of Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells Notes or possesses or distributes this Offering Circular or any Pricing Supplement or any part of it and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales and neither the Issuer nor any Dealer shall have any responsibility therefor.

Some of the Dealers and agents who participate in the securities distribution may engage in other transactions with, or perform other services for, the Issuer in the ordinary course of business, for which they have received or will continue to receive customary compensation.

GENERAL INFORMATION

Listing

1. Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of Directive 2014/64/EU on markets in financial instruments.

Authorisation

2. The establishment of the Programme was authorised in accordance with Law No. I-1508 of 22 August 1996 on State Debt of the Republic of Lithuania as amended and restated by the Law No. XI-1162 of 23 November 2010 and as further amended (the "**State Debt Law**"), as may be amended or restated from time to time, and any other applicable Lithuanian law. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes thereunder.

Issue of Notes

3. The issue of Notes under the Programme may not exceed the respective limit for the net change in debt liabilities specified in the Law on Adoption of State Budget of the Republic of Lithuania and of Financial Indicators for Municipal Budgets for the relevant year, as may be amended or replaced from time to time, and any other applicable Lithuanian law. Any issue of Notes will be made in accordance with the State Debt Law, as may be amended from time to time, and any other applicable Lithuanian law.

Legal and Arbitration Proceedings

4. The Issuer is not involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes nor, so far as the Issuer is aware, is any such litigation or arbitration pending or threatened.

Documents on Display

5. Copies of the following documents may be inspected during normal business hours at the offices of the Paying Agents at the addresses set out below for 12 months from the date of this Offering Circular:
 - (a) the current Offering Circular in relation to the Programme, together with any amendments or supplements thereto;
 - (b) the Agency Agreement;
 - (c) the Deed of Covenant;
 - (d) the Programme Manual dated 24 April 2020;
 - (e) the Issuer-ICSDs Agreement (which is entered into between the Issuer and Euroclear and/or Clearstream, Luxembourg with respect to the settlement in Euroclear and/or Clearstream, Luxembourg of Bearer Notes in New Global Note form and Registered Notes to be held under the New Safekeeping Structure); and
 - (f) any Pricing Supplement relating to Notes which are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system. (In the case of any Notes which are not admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system, copies of the relevant Pricing Supplement will only be available for inspection by the relevant Noteholders.)

In addition, copies of this Offering Circular, each Pricing Supplement relating to Notes which are admitted to trading on the Luxembourg Stock Exchange's regulated market and each document

incorporated by reference are available on the website of the Luxembourg Stock Exchange at www.bourse.lu

Clearing of the Notes

6. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Tranche will be specified in the relevant Pricing Supplement. The relevant Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

Notes

7. Each Bearer Note having a maturity of more than one year, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

Dealers' Interests

8. Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and their affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially any Notes issued under the Programme. Any such short positions could adversely affect future trading prices of any Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

OFFICIAL STATEMENTS

Information included herein which is identified as being derived from information published by Lithuania or one of its agencies or instrumentalities is included herein on the authority of such publication as a public official document of Lithuania. All other information herein with respect to Lithuania is included herein as a public official statement made on the authority of the Minister of Finance of Lithuania.

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