

OFFICIAL TRANSLATION

Republic of Lithuania

LAW ON FINANCIAL INSTITUTIONS

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Vilnius

CHAPTER I GENERAL PROVISIONS

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Article 1. Purpose of the Law

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

2. This Law shall be applied to all financial institutions legal persons of the Republic of Lithuania and the establishments of financial institutions of foreign states operating in the Republic of Lithuania and providing in the Republic of Lithuania the financial services referred to in Article 3 of this Law, unless international treaties of the Republic of Lithuania provide otherwise.

3. This Law shall not be applied to:

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

2) the providers of postal services providing domestic and international

postal remittance services;

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

Article 2. Definitions

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

1) are related by property relations;

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

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

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

3. “Person” shall mean a natural or legal person.

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

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

6. “Financial guarantee” shall mean a guarantee granted by a financial institution in accordance with the procedure set forth by laws, whereby it

enters into an irrevocable commitment to disburse the amount of funds specified in the guarantee provided all the conditions specified in the guarantee are fulfilled.

7. “Financial undertaking” shall mean an undertaking of the Republic of Lithuania or an establishment of a foreign state’s undertaking operating in the Republic of Lithuania in accordance with the procedure set forth by the laws regulating the provision of financial services and activities of financial institutions and engaged in the provision of one or more financial services referred to in subparagraphs 2, 3 and 5–17 of paragraph 1 of Article 3 of this Law.

8. “Client of a financial institution” shall mean a person that is provided financial services by a financial institution.

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

10. “Financial holding company” shall mean a financial institution, where all undertakings or the majority of the undertakings controlled by it are credit institutions or financial undertakings, and at least one of them is a credit institution.

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

12. “Financial mediation (activities of an agent)” shall mean the activities on behalf and for the benefit of one or several financial institutions which consist in receiving of deposits and other repayable funds, lending, accepting payments for the services provided by other persons, providing other financial services as well as the activities of a tied insurance intermediary pursued by financial institutions, with the exception of the administration of insured events.

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

14. “Parent undertaking” shall mean an undertaking controlling another undertaking.

15. “Net value” shall mean:

- 1) the value of investment acquisition (creation, increase of the value) reduced by the value of amortisation or depreciation and/or by the special provisions made for the amortisation of the risk of this investment;
- 2) the value of a financial institution's on-balance-sheet financial assets and/or off-balance-sheet claims at the market price on the open market or, where the on-balance-sheet financial assets and/or the off-balance-sheet claims are not an object of public circulation or where there is no reliable information about their market prices, the value of acquisition reduced by the special provisions made for the assets.

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

17. "Receipt of deposits and other repayable funds from non-professional participants of the market" shall mean the receipt of monetary funds from the persons not identified in advance for the purposes of management, use and/or disposal thereof subject to repayment with or without interest. The issuance of payment cards or other means which may be used as a means of payment for the purchase of goods or services only from the issuer of these cards or other means shall not be considered the receipt of deposits or other repayable funds from non-professional participants of the market.

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

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

- 1) directly and/or indirectly manages, alone or under an agreement concluded with the undertaking or with its participants, more than 50 per cent of the authorised capital and/or voting rights of the undertaking or may elect (appoint) and revoke (remove from office) more than 50 per cent of members of the management bodies of the undertaking;
- 2) according to financial, activity or organisational relations, may share earned profit or incurred losses with the undertaking or, aiming at the common

goal, may co-ordinate the management of this undertaking;

3) has a possibility to manage the undertaking through his own (where the person is a legal person) and the undertaking's management bodies of the identical or partially identical composition.

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

21. "Supervision on a consolidated basis" shall mean supervision of a parent undertaking and of a financial group controlled by it exercised on the basis of consolidated financial reports and other reports meant for supervision which shall be prepared and submitted to the supervisory institution by the parent undertaking.

22. "Controlled undertaking" shall mean an undertaking in which a person or a group of related persons holds a proportion of the authorised capital and/or voting rights granting the right to control the activities of the undertaking.

23. "Credit institution" shall mean an undertaking or institution of the Republic of Lithuania or an establishment of a foreign state's undertaking operating in the Republic of Lithuania which are authorised to engage in receiving of deposits and other repayable funds from non-professional participants of the market and in lending thereof and engage therein, have the right to provide a part of or all other services referred to in paragraph 1 of Article 3 of this Law and assume the risk and liability related thereto.

24. "Qualifying holding in the authorised capital and/or voting rights" shall mean a proportion of an undertaking's authorised capital and/or voting rights which is directly and/or indirectly managed by a single person or relations between the person and the undertaking, where due to these relations the person:

1) manages 10 per cent or more of the undertaking's authorised capital and/or voting rights;

2) may elect (appoint) and revoke (remove from office) more than 1/3 of members of the management bodies of the undertaking;

3) according to the undertaking's founding documents or concluded

transactions may exercise a decisive influence on the activities of the undertaking and on the decisions taken by the management bodies.

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

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

27. “Mixed-activity holding company” shall mean a parent undertaking (but not a financial holding company or a credit institution) at least one of the controlled undertakings whereof is a credit institution.

28. “Off-balance-sheet claims” shall mean the assets (claims) not specified on the balance sheet of a financial institution: the financial undertaking’s rights of claim to the sums of money payable to the financial institution and to other assets to be returned or otherwise transferred according to future, option and other transactions.

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

30. “Indirect control” shall mean the control arising through other controlled undertakings or through the undertakings controlled by the controlled undertakings.

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

32. “Option transaction” shall mean a transaction granting the right, but not the obligation, to purchase or sell the subject of the transaction at the agreed price on or prior to the agreed date.

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

- 1) the loan has been received in money' s worth;
- 2) under the loan agreement, the lender undertakes not to demand repayment of the loan from the borrower prior to the expiry of the time limit specified in the agreement for repayment thereof;
- 3) the repayment of the loan is not secured by any means ensuring the performance of obligations;
- 4) the loan agreement provides that, in the event of the winding up or bankruptcy of the borrower, the claim of the lender under the loan agreement shall be satisfied only upon the satisfaction of claims of other creditors of the borrower.

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

35. "Taking of risk (transactions having possible risk characteristics)" shall mean:

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

- 8) issuance and acquisition of financial derivatives;
- 9) keeping of funds in higher-risk credit institutions;
- 10) other actions specified in legal acts of the supervisory institution.

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

37. "Lending" shall mean:

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

38. "Special provisions" shall mean the amount by which the value of assets and off-balance-sheet claims is reduced and which corresponds to the probability of likely losses.

39. "Group of interrelated clients" shall mean two or more clients of a financial institution (or of several financial institutions belonging to the same financial group) who are interrelated on the grounds that:

- 1) one of the clients may, directly and/or indirectly, control other clients;
- 2) the clients are interrelated so that, if one of them failed to meet its obligations to the financial institution, the other client or other clients would also have difficulties in meeting their obligations to this financial institution. Such mutual relations shall be a person's assurances, guarantees or other means of securing the performance of obligations for another person or joint obligations arising from concluded transactions or direct business interdependence, where mutual business relations may not be terminated or replaced by other business relations, or the clients are related by blood as well as by marriage.

40. "Trade in precious metals" shall mean the trade in:

- 1) fine gold (the gold of a fineness of not less than 999,9 per thousand);

2) fine silver and platinum (the silver and platinum of a fineness not less than 999,9 per thousand);

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

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

41. "Currency exchange (in cash)" shall mean:

1) purchase of a foreign currency in exchange for Litas;

2) sale of a foreign currency in exchange for Litas.

42. "Pursuit of the provision of financial services" shall mean:

1) declaration of the provision of financial services in the documents regulating economic activities (founding documents, licences, patents, etc.);

2) the activities mainly consisting of the provision of financial services.

Article 3. Financial services

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1. Financial services shall be:

1) receipt of deposits and other repayable funds;

2) lending (including mortgage loans);

3) financial lease (leasing);

4) money transfer;

5) issuance of payment cards and other means of payment and/or carrying out of operations therewith;

6) provision of financial assurances and financial guarantees;

7) conclusion of transactions, at one's own or a client's expense, on the

money market instruments (cheques, bills, deposit certificates, etc.), a foreign currency, financial future and option transactions, the establishment of a currency exchange rate and interest rate, public securities and precious metals;

8) investment services;

9) financial mediation (activities of an agent);

10) administering of money;

11) provision of information as well as advice on issues of the granting and payment of a credit;

12) lease of safes;

13) currency exchange (in cash);

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

15) storage and administering of monetary funds;

16) provision of advice to undertakings on the capital structure, production strategy and related issues as well as the advice and services related to reorganisation, restructuring and purchase of the undertakings;

17) provision of the services related to securities emissions;

18) issuance and administering of electronic money;

19) administration of investment funds or investment companies with variable capital.

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

3. It shall be prohibited to provide licensed financial services without a licence.

4. Only a credit institution shall have the exclusive right to:

1) receive deposits and other repayable funds from non-professional participants of the market;

- 2) borrow from non-professional participants of the market in excess of the size of the equity capital;
 - 3) carry out money transfers;
 - 4) issue and administer electronic money.
5. Financial institutions may provide financial services in a foreign currency, where provided for by laws of the Republic of Lithuania.

Article 4. Financial Institution

Article 4. Financial Institution

1. A financial institution shall be a financial undertaking or a credit institution which meets both requirements set in paragraph 42 of Article 2 of this Law and engages in the provision of at least one of the financial services referred to in Article 3 of this Law.
2. (Repealed as of 1 May 2004)
3. The activities of a financial institution which is engaged in the provision of licensed financial services shall be supervised by the supervisory institutions specified in the laws of the Republic of Lithuania regulating pursuit of the activities of such institutions.
4. Financial institutions shall act in compliance with the Constitution of the Republic of Lithuania, this Law, the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions as well as a legal person of an appropriate legal form on the basis whereof a financial institution is established and operates and other legal acts.
5. Where the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions lay down other provisions than those laid down by this Law, the provisions of the laws regulating the provision of financial services and pursuit of the activities of financial institutions shall be applied.

CHAPTER II ESTABLISHMENT, REGISTRATION

AND LICENSING OF A FINANCIAL INSTITUTION

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Article 5. Establishment of a Financial Institution

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Financial institutions shall be established in compliance with the laws of the Republic of Lithuania regulating the establishment and pursuit of the activities of a legal person of an appropriate legal form as well as other laws of the Republic of Lithuania, unless this Law provides otherwise.

Article 6. Founders

Article 6. Founders

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

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

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

Article 7. Participants of a Financial Institution

Holding a Qualifying Holding in the Authorised Capital and/or Voting Rights

Article 7. Participants of a Financial Institution Holding a Qualifying Holding in the Authorised Capital and/or Voting Rights

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

- 1) alone or acting under the influence of another person, is not going to pose a threat to the safety and soundness of activities of the financial institution and who can guarantee the sound management and control of the activities of the financial institution as provided for by laws of the Republic of Lithuania;
- 2) by his property, management, blood as well as marriage and operational relations and the structure of participants, could not impair the control of activities of the financial institution exercised by the participants of the financial institution;
- 3) meets other requirements set by this Law as well as other legal acts of the Republic of Lithuania for participants of a financial institution.

2. Where a participant of a financial institution providing licensed services who holds a qualifying holding in the authorised capital and/or voting rights does not meet the requirements set in paragraph 1 of this Article or other legal acts, this financial institution shall be refused a licence (authorisation) to provide financial services, and a financial institution already holding a licence (authorisation) may be imposed the sanctions provided for by the laws of the Republic of Lithuania on the provision of financial services and pursuit of the activities of financial institutions or, in accordance with the procedure set forth by these laws, the voting right of such participants of the financial institutions to vote at the general meeting of participants of the financial institution may be suspended or other restrictions established by laws may be imposed.

3. A person wishing to manage a qualifying holding in the authorised capital and/or voting rights of a financial institution providing licensed financial services or to increase it so that the proportion of the authorised capital and/or voting rights held by him would make up 1/5, 1/3 or 1/2 of the holding or so that the financial institution would become controlled by him must obtain prior consent of the supervisory institution.

4. A person must also notify the supervisory institution prior to reducing a qualifying holding held by him in the authorised capital and/or voting rights of a financial institution providing licensed financial services so that the qualifying holding in the authorised capital and/or voting rights held by him would fall below 1/10, 1/5, 1/3 or 1/2 of the holding or so that the financial institution would cease to be controlled by him.

5. The procedure for granting a consent to manage a qualifying holding in the authorised capital and/or voting rights of a financial institution providing licensed financial services, the grounds for the refusal to grant the consent, the cases of and the procedure for consulting with foreign supervisory institutions shall be set forth by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions.

6. The relevant proportion of the authorised capital and/or voting rights held by a person who has started to manage a qualifying holding in the authorised capital and/or voting rights of a financial institution providing licensed financial services without prior consent of the supervisory institution shall be divested of the voting right at the general meeting of participants of the financial institution.

Article 8. Requirements to Ensure Activities of a Financial Institution

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

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

2. The provisions of paragraph 1 of this Article shall also be applied to the subsidiary undertakings of institutions, branches, other structural divisions or to the work stations located in a place other than the registered office of the financial institution and providing financial services to clients.

Article 9. Procedure for Registering a Financial Institution

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

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

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

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

5. Laws of the Republic of Lithuania may establish that an authorisation of the supervisory institution is necessary in order to:

- 1) register amendments to founding documents in the cases specified by this Law and other laws of the Republic of Lithuania;
- 2) reorganise a financial institution;

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

Article 10. Withdrawal of a Licence

Article 10. Withdrawal of a Licence

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

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

2. The supervisory institution shall have the right to withdraw a licence

issued to a financial institution to provide licensed financial services, where the financial institution:

- 1) has not made use of the licence within 12 months of the issuance of the licence to provide financial services;
- 2) pursues other activities not provided for in paragraph 1 of Article 3 of this Law;
- 3) does not meet the requirements set by this Law and other legal acts of the Republic of Lithuania for the safe and sound activities of respective financial institutions;
- 4) has breached the financial accounting, management and control requirements set by legal acts of the Republic of Lithuania, the provisions of this Law as well as other legal acts or instructions of the supervisory institution regarding the safe and sound activities of a financial institution;
- 5) has become insolvent and/or its activities pose a threat to interests of its clients or violate them, interfere or may interfere with the settlements or operations carried out on the money and capital markets;
- 6) does not pursue licensed activities for a period of time exceeding 6 months;
- 7) is unable to perform its obligations according to the commitments entered into or there are data indicating that it will not be able to do so in the future;
- 8) its participants take a decision on the return of the licence to provide licensed financial services;
- 9) in other cases specified by laws of the Republic of Lithuania.

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

CHAPTER III FINANCIAL INSTITUTIONS OF FOREIGN STATES

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Article 11. Activities of Financial Institutions of Foreign States in the Republic of Lithuania

Article 11. Activities of Financial Institutions of Foreign States in the Republic of Lithuania

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

2. A financial institution of foreign states may provide financial services in the Republic of Lithuania only upon the receipt of an authorisation and/or licence to provide financial services issued by an institution specified by laws of the Republic of Lithuania (where the laws establish that such an authorisation or licence is necessary). Prior to the granting of an authorisation or licence to provide financial services to a financial institution of a foreign state in the cases specified by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions, the foreign institution exercising supervision thereof must be consulted with in advance.

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

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

Article 12. Right of the Financial Institutions Licensed in the Member States of the European Union to Provide Financial Services in the Republic of Lithuania

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1. A financial institution licensed in a Member State of the European Union may establish a branch in the Republic of Lithuania, where the foreign supervisory institution has forwarded to the supervisory institution of financial institutions of the Republic of Lithuania an operating plan of the institution and has specified the types of activities, the intended address of the branch, the structure as well as information about the heads of the branch. Upon the receipt of such a notification, the supervisory institution of financial institutions of the Republic of Lithuania shall prepare for the exercise of supervision and specify to the financial institution the activity requirements which it must comply with. The branch may be established upon the receipt by the financial institution of the said notification from the supervisory institution of financial institutions of the Republic of Lithuania, and where no notification is received 2 months from the submission of the information provided for in this paragraph by the foreign supervisory institution to the supervisory institution of financial institutions of the Republic of Lithuania.

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

3. A financial institution licensed in a Member State of the European Union may commence the provision of financial services in the Republic of Lithuania without establishing a branch one month from the submission of an operating plan of the financial institution by the foreign supervisory institution to the supervisory institution of financial institutions of the Republic of Lithuania.

4. In the event of a change in any of the particulars on a financial institution referred to in paragraph 1 of this Article, the institution must notify thereof the supervisory institution of financial institutions of the Republic of Lithuania at least one month in advance. A financial institution

which provides services without establishing a branch must notify the supervisory institution of financial institutions of the Republic of Lithuania of a change in its operating plan in advance.

CHAPTER IV PARTICIPANTS OF A FINANCIAL INSTITUTION

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Article 13. Participant of a Financial Institution

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

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

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

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

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

of the day of registration of the amendments to the financial institution' s founding documents related to the increase of the authorised capital and/or voting rights;

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

Article 14. Rights and Duties of Participants of a Financial Institution

Article 14. Rights and Duties of Participants of a Financial Institution

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

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

- 1) to pay additional contributions in order to increase the authorised capital of the financial institution or to cover the losses incurred by it;
- 2) to sell, reorganise, restructure or wind up the financial institution;
- 3) to reduce the authorised capital of the financial institution; to sell or to otherwise transfer the proportion held in the financial institution' s authorised capital and/or voting rights.

Article 15. List of Participants of a Financial Institution

Article 15. List of Participants of a Financial Institution

1. The administration of a financial institution must draw up and manage a

list of participants of the financial institution. The list must contain the following information:

- 1) on a participant of the financial institution: the surname, name, address of the place of residence, citizenship, personal code and/or name and number of a personal identification document of a natural person; the business name, the undertaking's registration code, location of the registered office, surname and name of the head of the administration of a legal person;
- 2) where a proportion of the authorised capital and/or voting rights of the financial institution is held by several persons the data referred to in subparagraph 1 of paragraph 1 of this Article on every participant and a person representing him;
- 3) the number of the proportions shares or units of interest held by a participant in the authorised capital and/or voting rights of the financial institution, par value of the shares or size of the units of interest, other possible identification data (the type and class of the shares, emission number, its registration number) as well as the property and non-property rights granted;
- 4) the date of the acquisition of proportions of the authorised capital and/or voting rights;
- 5) the date of entering of the data on the acquisition of proportions of the authorised capital and/or voting rights in the list of participants of the financial institution;
- 6) data on a decision taken by the supervisory institution to allow to acquire and hold a qualifying holding in the authorised capital and/or voting rights of the financial institution, to increase or to reduce it, where provided for by laws of the Republic of Lithuania.

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

3. The data required to identify the indirect holding of 5 per cent or more of the authorised capital and/or voting rights of a financial institution must be entered in a list of participants of the financial institution. The persons holding or acquiring 5 per cent or more of the authorised capital and/or

voting rights of the financial institution must notify the administration of the financial institution of the proportion of the authorised capital and/or voting rights which is indirectly held by them and the data required for identification thereof.

CHAPTER V BODIES OF A FINANCIAL INSTITUTION

CHAPTER V BODIES OF A FINANCIAL INSTITUTION

Article 16. Bodies of a Financial Institution

Article 16. Bodies of a Financial Institution

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

Article 17. General Meeting of Participants of a Financial Institution

Article 17. General Meeting of Participants of a Financial Institution

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

1) owners of a qualifying holding in the authorised capital and/or voting rights of the financial institution without an authorisation of the supervisory institution to acquire or hold a qualifying holding in the authorised capital and/or voting rights of the financial institution, where this authorisation is necessary under the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities

of financial institutions;

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

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

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

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

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

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

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

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

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

Article 18. Collegial Management Bodies of a Financial Institution

Article 18. Collegial Management Bodies of a Financial Institution

1. The collegial management bodies of a financial institution shall be the supervisory board and the board.
2. Minutes shall be taken of sittings of the supervisory board and the board of a financial institution in accordance with the procedure set forth by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions as well as by other laws.

Article 19. Administration of a Financial Institution

Article 19. Administration of a Financial Institution

1. The procedure for forming the administration of a financial institution, powers, functions and duties as well as working procedure thereof shall be specified by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions as well as pursuit of the activities of a legal person of an appropriate legal form on the basis whereof the financial institution operates.
2. The administration of a financial institution, unless the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions provide otherwise, must be made up of two persons the head of the administration and his deputy (hereinafter referred to as “the heads of the administration”), who, in accordance with the founding documents, job descriptions, resolutions of the higher management bodies and the rules of procedure of the administration, have the right to conclude transactions on behalf of the financial institution. The founding documents of a financial institution and the rules of procedure of the administration must specify the areas of activities in which:
 - 1) only both heads of the administration acting jointly and in concert may act and conclude transactions;

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

Article 20. Heads of a Financial Institution

Article 20. Heads of a Financial Institution

1. Heads of a financial institution shall be:

1) members of the supervisory board;

2) members of the board;

3) examiner;

4) heads of the administration;

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

6) head of the internal audit service.

2. Where supervision of the activities of a financial institution is exercised, in accordance with the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions, by the supervisory institution, only the persons holding an authorisation granted therefor in advance by the supervisory institution may become heads of financial institutions. The supervisory institution shall have the right to specify the cases when a prior authorisation of the supervisory institution to become the head of a financial institution shall not be required. Powers of the head of a financial institution may be suspended by a decision of the supervisory institution, he may be removed from the office of the head of the financial institution, or the body of the financial institution which has elected, appointed or authorised him may be imposed an obligation to revoke the said person from office, to terminate an employment contract concluded therewith, to divest him of the powers, and the financial

institution may be imposed a sanction, where he has been elected, appointed or granted powers without a prior authorisation of the supervisory institution or this authorisation has been cancelled upon the transpiration of at least one circumstance specified in paragraph 3 of this Article.

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

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

2) once or on several occasions violated the provisions of this Law or of other laws and legal acts of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions and has been imposed an administrative penalty more than once per year (with the exception of the cases when, according to other laws of the Republic of Lithuania, it is considered that he has not been imposed the administrative penalty) or convicted of particularly serious or serious crimes, crimes against the financial system, crimes against the economy and business practice, crimes against property, property rights and property interests or of other crimes, where his conviction has not expired or, by a decision of the supervisory institution, he has been removed from the office of the head of the financial institution and 5 years have not lapsed since then;

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

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

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

Article 21. Liability of Members of the Supervisory Board and the Board of a Financial Institution

Article 21. Liability of Members of the Supervisory Board and the Board of a Financial Institution

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

Article 22. Competence of the Management Bodies of a Financial Institution and the Granting of Powers

Article 22. Competence of the Management Bodies of a Financial Institution and the Granting of Powers

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

Article 23. Internal Control of the Activities of a Financial Institution

Article 23. Internal Control of the Activities of a Financial Institution

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

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

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

2) adequate internal information system;

- 3) the personnel liability and competence specified in internal regulatory documents;
- 4) double internal control of activity procedures;
- 5) top management information system permitting timely decision-making;
- 6) risk control and risk management.

3. Aims of the internal audit service shall be as follows:

- 1) to assess compliance with the requirements set by legal acts of the Republic of Lithuania and internal regulations;
- 2) to verify and assess the adequacy and efficiency of the financial institution's internal control system;
- 3) to evaluate whether the accounts of the financial institution reflect the actual situation;
- 4) to assist the board of the financial institution in defining orientations and their implementation measures;
- 5) to determine whether the activities of the financial institution are efficient, whether its selected policies are reasonable and whether the application of its selected measures is sufficiently efficient;
- 6) to submit to the board of the financial institution analysis as well as evaluation materials and recommendations on issues of the management of the financial institution, organisation of the activities of establishments being audited and efficiency thereof.

4. The functions, liability, rights, duties and working procedure of employees of the internal audit service and the permanent internal control system of a financial institution shall be specified by laws of the Republic of Lithuania, the legal acts issued by the supervisory institution, the founding documents of the financial institution, the rules of procedure thereof, employment contracts, job descriptions and other internal documents of the financial institution.

5. The internal audit service must forthwith notify the management bodies of a financial institution and, where necessary, the supervisory institution of discovered infringements of laws and other legal acts of the Republic of Lithuania which pose a threat to interests of the clients of the financial

institution and to safe and sound activities of the financial institution.

CHAPTER VI CAPITAL OF A FINANCIAL INSTITUTION AND APPROPRIATION OF PROFIT

CHAPTER VI CAPITAL OF A FINANCIAL INSTITUTION AND APPROPRIATION OF PROFIT

Article 24. Capital of a Financial Institution

Article 24. Capital of a Financial Institution

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

Article 25. Loan Capital

Article 25. Loan Capital

The loan capital of a financial institution shall be made up of the funds which the financial institution has acquired by the right of ownership through borrowing by issuing long-term debt securities (bonds) or concluding loan agreements where the term to maturity of the borrowed funds is longer than 1 year and the agreements have all characteristics of a subordinated loan.

Article 26. Equity Capital

Article 26. Equity Capital

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

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

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

Article 27. Authorised Capital

Article 27. Authorised Capital

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

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

3. A financial institution operating in accordance with the procedure set forth by the Republic of Lithuania Law on Companies shall be allowed to acquire its issued shares in its own name, where a special non-distributable

reserve was built-up for this purpose from the profit of the previous financial year. However, the sum of the par values of the shares already held and being acquired may not exceed 5 per cent of the authorised capital, and expenditure thereon may not exceed the amount of the special retained reserve built-up.

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

Article 28. Reserves

Article 28. Reserves

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

2. The capital reserves of a financial institution shall be formed from a difference in earnings obtained after selling new proportions of the authorised capital and/or voting rights at issue price above their par value or from other cash contributions by owners of the financial institution to obtain the right to a proportion of the authorised capital of the financial institution and/or to participation in management thereof, where the contributions are not part of the authorised capital.

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

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

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

6. A change in the value of the assets acquired by a financial institution from its client or from a third party that has provided an assurance or guarantee or pledged the assets for the liabilities of the financial institution's client in order to satisfy the right of claim according to the client's financial liabilities may not be included in the revaluation reserve.
7. The revaluation reserves may be reduced during the financial year without the consent of participants of a financial institution, in the event the revaluated assets are written off, written down or transferred into the ownership of other persons. In such a case, the revaluation reserves shall be reduced by the amount which has been included in the revaluation reserves at the time of the revaluation of the assets.
8. A financial institution may not use the assets revaluation reserve to cover operating losses and to include it into the result available for appropriation.
9. The mandatory reserve or reserve capital of a financial institution shall be formed in accordance with the procedure set forth by the laws of the Republic of Lithuania regulating pursuit of the activities of a legal person of an appropriate legal form on the basis whereof the financial institution operates.
10. Prior to allocating the net profit of the accounting year for other purposes, a financial institution must make deductions therefrom to the loss reserve, where provided for by the laws of the Republic of Lithuania regulating pursuit of the activities of a legal person of an appropriate legal form on the basis whereof the financial institution operates, in accordance with the procedure set forth by these laws.
11. A financial institution may, by a decision of owners thereof, use the loss reserve only to cover the losses incurred by it.
12. Other reserves of a financial institution shall consist of the non-distributable and distributable reserves. The purpose as well as the procedure for forming, using and liquidating thereof shall be set forth by the founding documents of a legal person as well as by the laws of the Republic of Lithuania regulating the provision of financial services, pursuit of the activities of financial institutions and the legal form of the activities of a legal person on the basis whereof the financial institution operates.

Article 29. Retained Earnings (Loss)

Article 29. Retained Earnings (Loss)

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

Article 30. Profit and Appropriation Thereof

Article 30. Profit and Appropriation Thereof

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

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

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

4. The net financial result (profit or loss) of annual activities for the financial year must be appropriated not later than within 3 months of the close of the financial year by a decision of participants of the financial institution approving annual accounts.

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

1) retained earnings (loss) at the beginning of the financial year;

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

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

- 1) the loss left uncovered from the previous financial year has been brought forward to the beginning of the financial year;
- 2) compulsory deductions to the mandatory reserve or reserve capital and loss reserve as specified by laws of the Republic of Lithuania have been carried out;
- 3) deductions to the reserves specified in the founding documents of the financial institution have been carried out;
- 4) upon the payment of dividends and use of a part of profit for other purposes, the capital of the financial institution meets the requirements set by laws and other legal acts.

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

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

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

3) transferred from the loss reserve;

4) transferred from the capital reserve.

8. Where these amounts as transferred from reserves are insufficient for the covering of a loss:

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

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

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

CHAPTER VII A FINANCIAL INSTITUTION' S BUSINESS RISK AND PRUDENTIAL TREATMENT THEREOF

CHAPTER VII A FINANCIAL INSTITUTION' S BUSINESS RISK AND PRUDENTIAL TREATMENT
THEREOF

Article 31. Taking of Business Risk

Article 31. Taking of Business Risk

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

- 1) the financial institution operates safely and soundly when concluding transactions on the provision of financial services and investing funds;
 - 2) the financial institution is capable of timely identifying the possible risk arising from the conclusion of transactions, appropriately assessing and reducing it as well as continuously monitoring and managing it.
2. The transactions concluded by a financial institution and having possible risk characteristics must be concluded in writing. A financial institution operating on the capital and money markets may also conclude oral transactions, however, information on the conclusion of such transactions must be subsequently presented in writing or in another form permitting the identification of the transactions.
3. Prior to taking a decision on the acquisition of the capital or money market instruments, lending or assumption of obligations for a client, a financial institution must ascertain that:
- 1) the financial assets being acquired, the assets being pledged or other assets wherefrom a claim of the financial institution may be satisfied in the future actually exist and the acquired claim of the financial institution may be satisfied therefrom;
 - 2) the client's financial as well as economic situation and forecasts about it allow to expect that the client will be capable of performing his obligations;
 - 3) the client performed and performs his financial obligations to financial institutions.
4. A financial institution must, in accordance with the procedure set forth by the Republic of Lithuania Law on Archives, store all documents on the basis whereof a decision was taken on the conclusion of a transaction as well as other documents specified by legal acts.
5. In order to secure the performance of a client's obligations, a financial institution may not accept:
- 1) the pledge of the client's or a third party's assets already pledged under another transaction, with the exception of the case when the pledge of these assets is registered in the mortgage register;
 - 2) the pledge of the client's or a third party's assets the pledge whereof is registered in the mortgage register, where the client's obligation to

other creditors (creditor' s claim) as secured by this pledge exceeds 70 per cent of the value of the pledged assets;

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

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

5) (Repealed as of 26 September 2003).

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

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

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

2) data on the client;

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

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

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

Article 32. Assessment of Business Risk and Prudential Treatment Thereof

Article 32. Assessment of Business Risk and Prudential Treatment Thereof

1. A financial institution must assess and apply prudential treatment of the risk arising:

- 1) due to the provision of financial services to the heads of the financial institution and/or to the persons related thereto by blood as well as by marriage or being otherwise closely related thereto;
- 2) due to the provision of financial services to the owners of the qualifying holding in the authorised capital and/or voting rights of the financial institution and/or to the persons related thereto by blood as well as by marriage or being otherwise closely related thereto;
- 3) due to the provision of financial services to a single client or to a group of interrelated clients;
- 4) due to investments in proportions of the authorised capital and/or voting rights of other undertakings;
- 5) due to investments in land or other immovable property;
- 6) due to operations on the money and capital markets.

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

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

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

provisions to reduce operational risk”).

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

CHAPTER VIII LIQUIDITY AND SOLVENCY OF A FINANCIAL INSTITUTION

CHAPTER VIII LIQUIDITY AND SOLVENCY OF A FINANCIAL INSTITUTION

Article 33. Liquidity and Solvency of a Financial Institution

Article 33. Liquidity and Solvency of a Financial Institution

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

2. A financial institution must carry out the requirements set for liquidity by legal acts of the Republic of Lithuania by agreeing the maturity dates and amounts of acquired claims with the maturity dates and amounts of assumed obligations and taking account of the type, scope and risk of its activities as well as the requirements set by the supervisory institution for the liquidity of financial institutions.

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

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

CHAPTER IX CONTROLLED UNDERTAKINGS,

ESTABLISHMENTS AND FINANCIAL GROUPS OF A FINANCIAL INSTITUTION

CHAPTER IX CONTROLLED UNDERTAKINGS, ESTABLISHMENTS AND FINANCIAL GROUPS OF A FINANCIAL INSTITUTION

Article 34. Controlled Undertakings of a Financial Institution

Article 34. Controlled Undertakings of a Financial Institution

A financial institution may, in compliance with the laws of the Republic of Lithuania regulating its activities, establish, acquire and manage controlled undertakings.

Article 35. Establishments of a Financial Institution

Article 35. Establishments of a Financial Institution

1. A financial institution shall have the right, where this is not prohibited by the laws of the Republic of Lithuania regulating pursuit of the activities thereof, to provide financial services in its establishments operating in the same location or a location other than the registered office of the financial institution in accordance with the procedure set forth by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions.

2. A financial institution may establish branches, representative offices and other establishments specified in paragraph 2 of Article 37 of this Law.

Article 36. Branches of a Financial Institution

Article 36. Branches of a Financial Institution

1. A financial institution shall have the right, where this is not prohibited by the laws of the Republic of Lithuania regulating pursuit of the activities

thereof, to establish branches in the Republic of Lithuania and in foreign states.

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

Article 37. Representative Offices and Other Establishments of Financial Institutions

Article 37. Representative Offices and Other Establishments of Financial Institutions

1. The financial institutions of the Republic of Lithuania may for the representation of their interests, where this is not prohibited by the laws of the Republic of Lithuania regulating pursuit of the activities thereof, establish representative offices in foreign states, and the financial institutions of foreign states representative offices in the Republic of Lithuania.

2. Financial institutions may, where this is provided for in founding documents and is not prohibited by the laws of the Republic of Lithuania regulating pursuit of the activities thereof, provide financial services in a location other than their own or that of the registered office of their branch upon the setting up of separate establishments, work stations or automated outlets.

Article 38. Financial Groups

Article 38. Financial Groups

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

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

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

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

2) ensure that the financial institutions of the financial group have sufficient capital and the whole financial group carries out the requirements set for the safety and soundness of activities of these institutions.

Article 39. Right of the Financial Institutions Licensed in the Republic of Lithuania to Provide Financial Services in the Member States of the European Union

Article 39. Right of the Financial Institutions Licensed in the Republic of Lithuania to Provide Financial Services in the Member States of the European Union

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

2. The Republic of Lithuania supervisory institution of financial institutions must forward the information referred to in paragraph 3 of this Article within 3 months to the foreign supervisory institution. The Republic of Lithuania supervisory institution of financial institutions must not allow to establish a branch and must refuse the forwarding of the information provided for only where the organisational structure of the intended branch or the financial situation of the undertaking does not meet the requirements set by the Republic of Lithuania supervisory institution of financial institutions for pursuit of such activities. The financial institution must be forthwith notified of the forwarding of the information or refusal to transfer it.

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

4. In order to provide financial services in a foreign state without establishing a branch, a financial institution must notify thereof the Republic of Lithuania supervisory institution of financial institutions. This institution must also submit an operating plan setting out the financial services to be provided. The Republic of Lithuania supervisory institution of financial institutions must, within 1 month, forward this notification to the foreign supervisory institution and notify thereof the financial institution.

5. In the event of a change in any of the particulars communicated by a financial institution when effecting a notification of the establishment of a branch, the institution must notify thereof the Republic of Lithuania supervisory institution of financial institutions at least 1 month in advance. In such a case and on the ground referred to in paragraph 2 of this Article, the Republic of Lithuania supervisory institution of financial institutions must instruct that activities of the branch are terminated. In the event of a change in an operating plan of a financial institution providing financial services without establishing a branch, it must give advance notice thereof to the Republic of Lithuania supervisory institution of financial institutions and the foreign supervisory institution.

CHAPTER X SUPERVISION OF FINANCIAL GROUPS ON A CONSOLIDATED BASIS

CHAPTER X SUPERVISION OF FINANCIAL GROUPS ON A CONSOLIDATED BASIS

Article 40. Scope of Supervision on a Consolidated Basis

Article 40. Scope of Supervision on a Consolidated Basis

Supervision on a consolidated basis shall be exercised in respect of:

1) a financial institution, including a financial holding company, which is the parent institution of other financial institutions of a financial group, where the supervision of activities of at least one of the financial

institutions of the financial group is established by laws of the Republic of Lithuania;

2) a financial institution belonging to a financial group, where the supervision of activities of at least one of the financial institutions of the financial group is established by laws of the Republic of Lithuania;

3) a financial institution not belonging to a financial group, although 20 per cent or more of the authorised capital and/or voting rights thereof are directly and/or indirectly held by a financial institution belonging to the financial group subject to supervision on a consolidated basis, where, in the opinion of the institution exercising supervision on a consolidated basis, it is relevant for the exercise of supervision of the financial group on a consolidated basis;

4) a financial institution not belonging to a financial group, where the former is controlled by a participant of the parent financial institution of the financial institutions of the financial group or of one of the financial institutions of the financial group, where the supervision of activities of the said financial institution is established by laws of the Republic of Lithuania.

Article 41. Drawing up of Consolidated Accounts

Article 41. Drawing up of Consolidated Accounts

1. The parent financial institution of other financial institutions belonging to a financial group must draw up consolidated accounts.

2. The persons referred to in subparagraphs 2, 3 and 4 of Article 40 of this Law and falling under the jurisdiction of the Republic of Lithuania must submit to the parent financial institution of other financial institutions belonging to a financial group reports, data and the information necessary for the drawing up of consolidated accounts and the exercise of supervision on a consolidated basis.

3. The parent financial institution of other financial institutions belonging to a financial group must prepare and submit to the supervisory institution annual consolidated accounts and the opinion of an independent auditor within 4 months of the close of the financial year.

Article 42. Supervision on a Consolidated Basis

Article 42. Supervision on a Consolidated Basis

1. Where at least one of the financial institutions of a financial group is a credit institution, supervision of the whole financial group on a consolidated basis shall be exercised by the institution exercising supervision of credit institutions. Where the financial group does not contain a credit institution, supervision of such a group on a consolidated basis shall be exercised in accordance with the procedure set forth by laws of the Republic of Lithuania.

2. The supervisory institution exercising supervision of the whole financial group on a consolidated basis may, for the purposes of consolidated supervision, request that the persons specified in Article 40 of this Law as well as a mixed-activity holding company and the undertakings controlled by the company submit, and they must submit, the reports, data or information necessary for the supervisory institution. The reports and financial data submitted upon the request of the supervisory institution must be approved by an auditor.

3. The prudential requirements set for a financial institution by laws of the Republic of Lithuania shall, on a consolidated basis, be applied to the whole financial group.

4. The consolidated supervision of the financial institutions which are in different states of the European Union and belong to a financial group shall be established by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions.

CHAPTER XI ACCOUNTING AND AUDIT OF A FINANCIAL INSTITUTION

CHAPTER XI ACCOUNTING AND AUDIT OF A FINANCIAL INSTITUTION

Article 43. Accounting

Article 43. Accounting

1. A financial institution must keep accounts in compliance with laws of the

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

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

- 1) accounts reflect the actual financial situation and operating results of the financial institution;
- 2) it provides conditions for the heads of the financial institution to safely and soundly use and manage the financial institution' s assets and to dispose thereof;
- 3) it provides conditions for participants of the financial institution and the institutions authorised by law to carry out verifications and to control the activities of the financial institution, heads and other employees thereof having the right to take decisions which give rise to the financial institution' s obligations to other persons and the financial situation of the financial institution.

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

- 1) within 3 months of the close of the financial year, but not later than 10 days prior to the annual general meeting of participants of the financial institution, provide access for the participants of the financial institution to and, where provided for by laws of the Republic of Lithuania, submit to the supervisory institution the annual accounts (annual financial reports) checked by an audit firm, a draft decision on the appropriation of profit and the auditor' s opinion;
- 2) not later than within 3 months of the close of the financial year, approve annual accounts by a decision of the general meeting of the financial institution' s participants and take a decision on the appropriation of profit;
- 3) within 3 days of the taking of a decision by the general meeting of the financial institution' s participants on the approval of annual accounts, submit to the supervisory institution the annual accounts approved by the meeting and a decision on the appropriation of profit, where the supervision of the activities of the financial institution is established by laws of the Republic of Lithuania;
- 4) within 4 months of the close of the financial year, provide to the public annual accounts and an auditor' s opinion in accordance with the procedure set

forth by laws of the Republic of Lithuania and other legal acts, where provided for by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions;

5) within 4 months of the close of the financial year, the parent financial institution of other financial institutions belonging to a financial group must publish consolidated annual accounts in accordance with the procedure set forth by laws of the Republic of Lithuania and other legal acts.

4. The general meeting of a financial institution' s participants may not consider and approve the annual accounts which have not been audited.

5. A decision taken by the general meeting of participants of a financial institution on the appropriation of profit shall be invalid, where annual accounts have not be audited.

Article 44. Audit

Article 44. Audit

1. An audit firm must audit a financial institution' s annual accounts and consolidated accounts and, on the basis of the audit, provide an auditor' s opinion on these accounts, that is, an opinion on whether the financial institution and financial group:

1) have correctly and accurately showed in their annual accounts the annual operating results and the financial situation;

2) have drawn up the accounts in compliance with the legal acts regulating accounting as well as international or business accounting standards and general accounting principles and currently in force in the Republic of Lithuania;

3) have accurately and in a qualified manner valued the assets in compliance with the legal acts currently in force in the Republic of Lithuania;

4) have made mandatory adjustments of the value of the assets and performed write-offs;

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

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

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

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

2. The general meeting of a financial institution's participants shall select an audit firm to perform audit of the annual accounts of the current year and not more than two subsequent financial years.

3. A financial institution must, until the end of the first half of the current financial year, conclude a contract with the audit firm selected at the general meeting of the financial institution's participants on the performance of the audit of annual accounts and submit it to the supervisory institution, where the supervision of the activities of the financial institution is established by laws of the Republic of Lithuania.

Article 45. Requirements for an Auditor and an Audit Firm

Article 45. Requirements for an Auditor and an Audit Firm

1. The audit of annual accounts of a financial institution may be performed only by an auditor that meets the following requirements:

1) holds a valid certificate of the certified auditor;

2) does not have property obligations to the financial institution being audited;

3) is not closely related to any owner of a qualifying holding in the authorised capital and/or voting rights of the financial institution being audited;

4) is influenced by other conditions specified by the Republic of Lithuania Law on Audit which may affect his independence.

2. The audit of annual accounts of a financial institution may be performed only by an audit firm that meets the following requirements:

- 1) its civil liability has been insured in accordance with the procedure set forth by laws of the Republic of Lithuania;
 - 2) the annual income received from one financial institution being audited for auditing services does not exceed 20 per cent of the total income received by the audit firm for 2 successive years;
 - 3) other requirements set by the Republic of Lithuania Law on Audit.
3. An auditor of the same audit firm shall be prohibited from performing audit as well as another person shall be prohibited from participating, together with the auditor, in the performance of the audit in the same financial institution for more than 3 successive financial years.
4. The supervisory institution may take a decision to prohibit the financial institutions the supervision of activities whereof is established by laws of the Republic of Lithuania from concluding contracts for audit of accounts with the audit firms which do not meet (carry out) the requirements of this Article.

Article 46. Duties of an Auditor and Audit Firm

Article 46. Duties of an Auditor and Audit Firm

1. An audit firm must, within the time limits laid down in a contract of a financial institution and the audit firm, but not later than 15 days prior to the annual general meeting of participants of the financial institution, submit an auditor's opinion to the financial institution.
2. An audit firm shall forthwith give written notice to the management bodies of a financial institution and, upon the receipt of their opinion (comments) on the following issues, to the supervisory institution (where the supervision of the activities of a financial institution being audited is established by laws of the Republic of Lithuania), where it establishes the facts:
 - 1) due to which the auditor will have to refuse to express an opinion on the annual accounts of the financial institution or to express a qualified or adverse opinion;
 - 2) testifying to a criminal act, the serious breaches of internal regulations which have been committed or are likely to be committed;

- 3) of infringements of the laws of the Republic of Lithuania and other legal acts setting requirements for safe and sound activities;
- 4) of insufficient securing of claims of the financial institution according to concluded transactions or insufficient safeguarding of the assets owned (managed) by it against depreciation (loss);
- 5) of considerable shortcomings of the internal control system or inadequate control;
- 6) due to which the auditor and heads of the financial institution are clearly of a different opinion regarding the ability to meet all their obligations (solvency), income or profit, the collection and processing of information and the soundness of the information system or the financial accounting;
- 7) which may have a considerable effect on the financial situation of the financial institution and on the administrative or accounting organisation thereof.

3. An audit firm shall be bound by the duty specified in paragraph 2 of this Article also in the case when it comes to know the mentioned facts while performing its work in another undertaking closely related to the financial institution.

4. An audit firm may provide advice to the supervisory institution or warn it of the results of a verification in the cases not provided for by paragraph 2 of this Article.

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

Article 47. Liability of an Audit Firm and Auditor

Article 47. Liability of an Audit Firm and Auditor

1. An audit firm and auditor shall be held liable for the performance of an audit and for the submission of the auditor's opinion on the exhaustiveness, authenticity and accuracy of the data contained in the annual accounts of a financial institution which has been audited in accordance with the procedure set forth by laws of the Republic of Lithuania and a contract signed by the

audit firm and the customer on the performance of the audit.

2. An audit firm must compensate for the losses incurred by a customer, a financial institution which has been audited or third parties in accordance with the procedure set forth by laws and a contract signed by the audit firm and the customer on the performance of the audit.

CHAPTER XII SUPERVISION OF THE ACTIVITIES OF THE FINANCIAL INSTITUTIONS PROVIDING LICENSED FINANCIAL SERVICES

CHAPTER XII SUPERVISION OF THE ACTIVITIES OF THE FINANCIAL INSTITUTIONS
PROVIDING LICENSED FINANCIAL SERVICES

Article 48. Supervision of the Activities of the Financial Institutions Providing Licensed Financial Services

Article 48. Supervision of the Activities of the Financial Institutions
Providing Licensed Financial Services

1. The activities of the financial institutions providing licensed financial services shall be supervised by the supervisory institutions specified by laws of the Republic of Lithuania.

2. The establishment and activities, rights and duties, accountability and liability of the supervisory institutions of the activities of financial institutions shall be specified by laws of the Republic of Lithuania and other legal acts.

3. Mutual co-operation and interconnection of the supervisory institutions exercising the State supervision of the activities of financial institutions in supervising the financial institutions shall be co-ordinated by the Commission for Co-ordination of Regulation and Supervision of the Activities of Financial Institutions.

Article 49. Commission for Co-ordination of Regulation and Supervision of the Activities of Financial Institutions and Insurance Undertakings

Article 49. Commission for Co-ordination of Regulation and Supervision of the Activities of Financial Institutions and Insurance Undertakings

1. The standing Commission for Co-ordination of Regulation and Supervision of the Activities of Financial Institutions and Insurance Undertakings shall be formed and work in accordance with the procedure set forth by the regulations approved by a resolution of the Seimas.
2. The Commission for Co-ordination of Regulation and Supervision of the Activities of Financial Institutions and Insurance Undertakings shall:
 - 1) prepare and submit proposals to the Seimas Committee on Budget and Finance on the amendment and supplement of the laws and other legal acts establishing the provision of financial and insurance services, pursuit of the activities of financial institutions and insurance undertakings and supervision thereof and, where necessary, assist in the drafting of these legal acts;
 - 2) issue recommendations to supervisory institutions on the co-ordination of activities and mutual co-operation thereof.

Article 50. Duties and Rights of the Supervisory Institution

Article 50. Duties and Rights of the Supervisory Institution

1. In exercising the supervision of the financial institutions within the limits of its powers, the supervisory institution must:
 - 1) evaluate the applications submitted according to this Law and other laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions and take decisions thereon;
 - 2) determine whether the management, internal control and information systems of the financial institutions meet the requirements set by laws of the Republic of Lithuania, other legal acts, founding documents of a financial

institutions and the internal documents issued by the financial institution and whether they are appropriate for the management of the financial institution in such a way as to ensure the safety and soundness of activities thereof;

3) set prudential requirements for the activities of the financial institutions and specific ratios and control compliance therewith by the financial institutions;

4) set for the financial institutions subject to supervision accounting requirements, the form of accounts and accounts for supervision purposes, contents and time limits for submission thereof to the supervisory institution;

5) assess the reliability and accuracy of the information which is provided for the purposes of supervision of a financial institution and must be provided to the public according to laws or other legal acts;

6) evaluate whether the policy, practice and procedure of a financial institution allow timely identification, assessment, monitoring and management of the risk arising from investment and provision of financial services;

7) assess the policy, practice and procedures which the financial institution applies to determine the net value of its assets;

8) evaluate whether the information system of a financial institution permits heads thereof to timely identify, assess and manage the risk level;

9) control that the compliance of a financial institution with the requirements of legal acts of the Republic of Lithuania set for the provision of financial services within the financial institution and to the persons closely related thereto;

10) evaluate whether the financial institution has formed sufficient provisions and reserves to reduce the risk arising from investment and provision of financial services;

11) evaluate whether the internal control system in place in the financial institution meets the contents and volume (scope) of the activities of the financial institution;

12) assess the policy, practice and procedures which the financial institution applies to familiarise with its client, to ensure financial discipline and to prevent the exploitation of the financial institution for criminal purposes;

13) where it has at its disposal the information that the financial services which are subject to a licence of the supervisory institution are provided by the persons not holding such a licence, notify thereof appropriate law enforcement institutions;

14) give written notice to appropriate law enforcement institutions of the facts established in the financial institution and testifying to a possible criminal act.

2. In performing the duties specified in paragraph 1 of this Article, the supervisory institution shall have the right:

1) to issue legal acts on the establishment, pursuit of business, reorganisation, winding up, accounting and procedure for the drawing up of accounts of the financial institutions subject to supervision;

2) for supervision purposes, to request and to obtain from a financial institution subject to supervision the entire information as well as documents about the establishment, participants, heads, management, activities, implementation of prudential requirements and financial situation of the financial institution, establishments and subsidiary undertakings, creditors, debtors as well as other clients thereof;

3) to verify, in part or in whole, the procedures for establishing a financial institution and activities within the financial institution, establishment or subsidiary undertaking thereof;

4) to request and obtain from State government, municipal as well as law enforcement institutions, other undertakings, agencies and organisations the information at their disposal regarding the founders, participants, creditors or other clients of a financial institution, establishments or subsidiary undertakings thereof as well as other information necessary for the performance of the duties specified in this Law or other laws;

5) to impose the sanctions provided for by laws of the Republic of Lithuania, where a financial institution infringes the requirements of laws as well as the legal acts issued by the supervisory institution regarding safe and sound activities of the financial institution or a threat is posed, due to activities of the financial institution or the financial situation, to public interests and/or interests of clients of the financial institution or to the functioning of the financial system of the Republic of Lithuania, or participants of the financial services market might obtain incorrect information about the financial situation of the financial institution;

6) to conclude agreements with supervisory institutions on co-operation in exchanging the information obtained for supervision purposes, where the supervisory institutions ensure that this information will not be communicated to other persons, as well as in exercising supervision of the branches of financial institutions of foreign states which have the right to provide financial services in the Republic of Lithuania or the establishments of financial institutions of the Republic of Lithuania which have the right to operate and provide financial services in a foreign state;

7) to be a member of the international organisations of supervisory institutions;

8) to have other rights provided for by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions and the supervisory institutions of financial institutions.

3. The supervisory institution shall not have the right:

1) to communicate the information obtained for supervisory purposes from financial institutions and other persons without their consent to third parties, with the exception of the cases specified by laws of the Republic of Lithuania and related to the investigation of a criminal act;

2) to communicate to other persons the information obtained from another supervisory institution without consent thereof.

4. The laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions as well as supervisory institutions may set forth a procedure for forwarding information other than specified in paragraph 3 of this Article.

Article 51. Ways of Supervision of Financial Institutions

Article 51. Ways of Supervision of Financial Institutions

Unless laws of the Republic of Lithuania provide otherwise, supervision of financial institutions shall be exercised in the following ways:

1) licensing: consideration of applications and taking of decisions on the establishment of financial institutions, issuance of licences to engage in the

provision of financial services, acquisition or holding of a qualifying holding in the authorised capital and/or voting rights of a financial institution, reorganisation and in other cases provided for by this Law and related to the formalisation of activities of the financial institutions;

2) documentary supervision: activities of a financial institution are analysed and assessed on the basis of the accounts submitted by it and other information obtained from financial institutions as well as from other sources;

3) verification (inspection) of financial institutions. It shall be carried out by verifying (inspecting) the procedures for establishing and pursuing of the activities of financial institutions in accordance with the procedure set forth by the laws of the Republic of Lithuania regulating the provision of financial services and pursuit of the activities of financial institutions.

CHAPTER XIII TERMINATION AND RESTRUCTURING OF AND OPENING OF BANKRUPTCY PROCEEDINGS AGAINST A FINANCIAL INSTITUTION

CHAPTER XIII TERMINATION AND RESTRUCTURING OF AND OPENING OF BANKRUPTCY
PROCEEDINGS AGAINST A FINANCIAL INSTITUTION

Article 52. Termination of a Financial Institution

Article 52. Termination of a Financial Institution

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

Article 53. Reorganisation and Restructuring of a Financial Institution

Article 53. Reorganisation and Restructuring of a Financial Institution

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

Article 54. Winding up of a Financial Institution

Article 54. Winding up of a Financial Institution

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

Article 55. Winding up of a Financial Institution at the Initiative of Participants Thereof

Article 55. Winding up of a Financial Institution at the Initiative of Participants Thereof

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

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

3. Where the liquidator (liquidation commission) of a financial institution establishes during the winding up that the institution is unable to fully settle according to assumed obligations (hereinafter referred to as “insolvent”), he must terminate the satisfaction of creditors’ claims as well as other winding-up proceedings and apply to the courts on the opening of bankruptcy proceedings against the financial institution.

Article 56. Compulsory Winding-up of a Financial Institution

Article 56. Compulsory Winding-up of a Financial Institution

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

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

Article 57. Bankruptcy of a Financial Institution

Article 57. Bankruptcy of a Financial Institution

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

2. A financial institution’ s bankruptcy proceedings may be conducted only in court.

3. Bankruptcy proceedings may be opened, in accordance with the procedure set forth by laws of the Republic of Lithuania, only against an insolvent

financial institution providing licensed financial services, where its licence to provide financial services has been withdrawn by a decision of the supervisory institution.

4. The conditions under which a financial institution providing licensed financial services may be recognised insolvent and the procedure for calculating and assessing the insolvency of this financial institution shall be set forth by the supervisory institution.

5. The right to apply to the court on the opening of bankruptcy proceedings against a financial institution shall be vested in participants thereof, the liquidator (liquidation commission), head of the administration, creditor (creditors) and, in respect of a financial institution providing licensed financial services, the supervisory institution.

6. The court shall hand down a ruling on the opening of bankruptcy proceedings against a financial institution or refusal to open the proceedings within 15 days of the receipt of an application.

CHAPTER XIV FINAL PROVISIONS

CHAPTER XIV FINAL PROVISIONS

Article 58. Entry into Force of the Law

Article 58. Entry into Force of the Law

1. With the exception of Article 58, this Law shall enter into force on 1 July 2003.

2. Provisions of this Law shall also be applied to the financial undertakings and credit institutions already in operation as of its entry into force.

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

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

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

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

A proposal shall be submitted to the Government and the Bank of Lithuania to draft and to submit, until 1 November 2003, to the Seimas drafts of the laws amending and/or supplementing the laws not meeting provisions of the Law on Financial Institutions as well as to draft the secondary legislation required for the implementation of this Law.

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

PRESIDENT OF THE REPUBLIC VALDAS ADAMKUS