

APPROVED BY  
Order of the Minister of Finance of the  
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## **THE LETTER ON THE OBJECTIVES PURSUED BY THE STATE IN THE NATIONAL DEVELOPMENT BANK AND EXPECTATIONS PLACED ON THE NATIONAL DEVELOPMENT BANK**

### **CHAPTER I GENERAL PROVISIONS**

1. The Letter on the Objectives Pursued by the State in the National Development Bank and Expectations Placed on the National Development Bank (hereinafter – the Letter) sets out the objectives pursued by the shareholder of the National Development Bank UAB ILTE (hereinafter – the Bank), – the State represented by the Ministry of Finance of the Republic of Lithuania as the manager of the State-owned shares (hereinafter – the Shareholder), in the Bank and its Group companies (hereinafter – the objectives of the State) and the expectations of the State placed on the Bank and its Group companies (hereinafter – the expectations of the State).

2. The Letter sets out the objectives and expectations of the State for the period 2026-2029.

3. Taking into account the modification of the Bank's mission, strategic goals, the amount of the authorised capital and business model, the Bank will implement promotional financing activities by:

3.1. carrying out the Bank's activities – providing financial products or consulting services in Lithuania with the Bank's equity funds and funds raised from private or institutional investors, including international financial institutions (hereinafter – the Bank's activities);

3.2. carrying out the Bank's mandate activities – promotional financial instruments financed by the State budget and municipal budgets, European Union funds (hereinafter – the Bank's mandate activities).

4. With this Letter, the Shareholder does not seek to restrict or extend the rights or obligations of the Bank or its governing bodies. The Bank and its governing bodies must conform to legislation, the Bank's Statute and other decisions taken by the Shareholder, the principles of good banking governance practice and assume responsibility for the decisions taken.

### **CHAPTER II THE MISSION OF THE BANK AND OBJECTIVES OF THE STATE**

5. The Bank, in carrying out promotional financing activities, shall:

5.1. promote Lithuania's economic growth, competitiveness, enhance access to finance in Lithuania, ensure financially viable and efficient investments and contribute to the country's economic, social and regional development;

5.2. make optimal use of the limited public resources, ensure the re-use of funds and increased efficiency. The Bank's financing shall ensure the targeted promotion of projects, channelling the funds to clearly identified market gaps and carrying out activities only to the extent necessary to achieve the set objectives;

5.3. increase access to finance for Lithuanian businesses, public sector and agriculture, and invest in areas or sectors where financing under market conditions is insufficient and/or sub-optimal;

5.4. invest in key sectors of the national economy, including the financing of large-scale public infrastructure projects and other strategic long-term projects of national importance;

5.5. manage the funds held by the Bank and attracted from private investors in a transparent and efficient manner;

- 5.6. provide advice and expertise to market participants and help prepare financially viable projects;
- 5.7. develop financial and capital markets in Lithuania;
- 5.8. in carrying out the Bank's mandate activities, implement promotional financial instruments, projects and programmes in areas of development cooperation or in other areas (e.g. financial instruments and programmes designed to engage businesses in the reconstruction and recovery processes of Ukraine or instruments of attracting diaspora investment capital, provided that they are financed by the appropriation managers);
- 5.9. seek to ensure that the Bank is not classified as general government sector.

### **CHAPTER III PRINCIPLES OF THE BANK'S ACTIVITIES**

- 6. The Bank, in carrying promotional financing activities, shall:
  - 6.1. provide finance only in cases where the financial market is not able to ensure sufficient funding or where market conditions do not allow businesses and the public sector to access finance at all;
  - 6.2. develop and deliver financial products based on a market funding gap identified in a timely manner. The Bank's promotional financing activities shall be based on ex ante, impact strategy and market study assessment;
  - 6.3. effectively attract private funds in order to widen access to finance for all market participants and reduce the market funding gap, as well as seek that the Bank's participation in the transaction does not exceed 50 % of the project costs, and the rest of the funding is ensured by private market participants, unless private market participants are unable to provide such funding, and where such funding is impossible, follow a reasoned ex ante, impact strategy, market study assessment;
  - 6.4. strengthen Lithuania's financial and capital markets and act as a complement to the entire financial market seeking to avoid distorting the market, cooperate and not compete with financial and capital market participants, as well as developing financial instruments or products designed to complement the means offered by financial and capital market participants;
  - 6.5. create the structure of the financial products offered by the Bank in such a way as to avoid crowding-out of private finance providers and to comply with the State aid rules;
  - 6.6. consolidate the promotional financial instruments administered by the Bank and the Bank's financial products and exploit synergies between them;
  - 6.7. combine different sources of financing, i.e. carry out promotional financing activities from the Bank's own funds, funds raised from private or institutional investors as well as from the State budget and municipal budgets, European Union funds;
  - 6.8. no longer offer new financing in specific areas or sectors when the market situation changes and the identified market gap ceases to exist;
  - 6.9. provide advice for all market participants on financing options in the market, potential financing products, partnerships and/or other assistance;
  - 6.10. ensure that the Bank's (own-fund) financing is reasonable, proportionate and focused only on the implementation of financially sound projects;
  - 6.11. ensure that the Bank's (own-funded) financial products are implemented in line with the market economy operator principle, i.e. that financing decisions are based on economic considerations (which would also be followed by a private finance provider);
  - 6.12. apply the highest standards of transparency and the principles of depoliticised activities. The Bank shall take responsible account of the risks posed by financing provided to politically exposed persons (PEPs);
  - 6.13. become a strategic partner for both state institutions and business, agricultural and public sectors, actively and constructively cooperate with stakeholders, including the ministries of the Republic of Lithuania, which allocate appropriations for the implementation of the Bank's mandate activities.

## **CHAPTER IV INVESTMENT DIRECTIONS OF THE BANK**

7. The Bank will carry out promotional financing activities – provision of financial services in the State’s strategic areas that need development and financing under market conditions is insufficient and/or sub-optimal. In order to increase access to finance and in line with the Bank's impact strategies, the Bank will channel investments in the following main directions:

- 7.1. promotion of competitive and innovative business;
- 7.2. sustainable business and agricultural development;
- 7.3. infrastructure development and strengthening of national security;
- 7.4. development and strengthening of Lithuania’s financial and capital markets.

## **CHAPTER V PRODUCTS AND LIMITS OF THE BANK**

8. The Bank's financial instruments or products will be targeting major activity lines and sectors, including the promotion of business start-ups, business development, the promotion of agricultural activities, major investments in Lithuania's infrastructure, as well as defense infrastructure, the development of defense and security industry and municipal initiatives.

9. The Bank's product terms such as price, duration, collateral will be set taking into account the credit risk of the beneficiary based on the Bank's risk assessment methodologies and pricing methodology.

10. The Bank's products will not have a fixed duration, but will be reviewed in the light of changing market needs and adequacy of funds.

11. The Bank will provide the following financial products:

- 11.1. portfolio and individual guarantees;
- 11.2. loans provided through financial intermediaries;
- 11.3. direct loans;
- 11.4. equity investments through financial intermediaries (through international financial institutions (e.g. the European Investment Bank, European Investment Fund) and/or Funds managed by private fund managers);
- 11.5. direct investments in equity or venture capital;
- 11.6. implement other financing instruments and other financial products agreed with the Shareholder (e.g. blended finance instruments).

12. The Bank should not refinance the projects directly where this is incompatible with the objectives set for the Bank, including the principle to avoid crowding-out of private investors and to comply with the State aid rules set out in point 6.5 of the Letter.

13. The Bank making investments in equity directly with its own funds or through financial intermediaries, cannot exceed the limit of 30 % of the Bank's equity and built up buffers, at least 10% of which must be invested through financial products or instruments managed by international financial institutions.

14. The Bank making investments in equity with its own funds through financial intermediaries, will not invest more than 30 % of the fund size.

15. The Bank making investments in equity with its own funds, must ensure the leverage effect of at least 1:2 investments in Lithuania by investing in Lithuania.

16. The Bank making investments in equity with the Bank’s mandate activity funds, can invest in accordance with schemes agreed with the appropriation managers.

17. In 2026-2029, taking into account the rules of fiscal discipline, the limit for loans disbursed by the Bank to finance municipal projects is set at EUR 100 million. This limit could be reviewed by a separate letter of the Shareholder.

18. The Bank investing funds must comply with the sustainability requirements laid down in the European Union legislation and agreements with the European Commission. In addition, the volumes of the Bank's activities in financing the projects aimed to support strategic green investments under intervention fields, which in accordance with Annex VI to Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility are assigned a 100 % coefficient for the calculation of support to climate change objectives, shall be at least EUR 78,901 million.

## **CHAPTER VI**

### **THE BANK'S INTERNAL CONTROL FRAMEWORK, RISK MANAGEMENT AND AUDIT**

19. The risk management and internal control framework of the Bank and the Bank's subsidiaries must ensure effective, independent and transparent performance of risk management, internal audit and compliance functions at the level of the Bank's Group companies (based on the principles of corporate governance), as well as a clear distribution of responsibilities between management bodies and prevention of conflicts of interest and control of related party transactions. The risk management must be based on the Three Lines of Defence model and the Bank's governing bodies must be actively involved in risk management processes, including risk identification, monitoring and control processes.

20. The Bank shall have in place and foster an open risk management culture based on information sharing and conscious risk management at all levels.

21. The Bank must implement a Risk Appetite Framework (RAF) and Risk Appetite Statements (RAS) covering financial and non-financial risks for the Bank's activities financed from the Bank's own funds. The risk appetite of the Bank's mandate activities shall be determined at funds level.

22. The Bank's risk management framework must ensure capital adequacy in accordance with the prudential requirements established by the Bank of Lithuania. The Bank must put in place the Internal Capital Adequacy Assessment Process (ICAAP) with a particular focus on capital planning and risk shielding with equity, assumptions for the scenarios used in order to determine sensitivity and impact on capital in the event of economic shocks and other adverse conditions.

23. The liquidity risk management of the Bank must ensure that it is able to meet its obligations under both normal and stressed market conditions. The Bank's Internal Liquidity Adequacy Assessment Process (ILAAP) must ensure the quality and adequacy of liquidity buffers, the quality of long-term and sustainable funding structure, the diversification of funding sources and reduce reliance on unstable funding instruments and ensure business continuity in the event of a liquidity crisis.

24. The Bank shall have in place a consistent credit risk management process that is aligned with risk appetite, business model and macroeconomic conditions, covering on- and off-balance sheet exposures. The rules should be laid down for granting, assessing, approving, documenting, securing, pricing, limits and monitoring of credits throughout the credit lifecycle, as well as for identifying and classifying problematic exposures. The credit risk management framework must ensure a reasonable assessment of the adequacy of the Expected Credit Loss (ECL) and provisions.

25. The Bank shall carry out a regular credibility assessment of the quantitative methods used. Methodological aspects of the credibility assessment process and the results of actual regular credibility assessments shall be documented and regularly reported to the Bank's management bodies.

26. The Bank shall apply the procedures and internal control measures to ensure the compliance with the requirements of the Republic of Lithuania Law on the Prevention of Money Laundering and Terrorist Financing, Republic of Lithuania Law on International Sanctions as well as instructions of the institutions supervising the implementation of these laws and their fulfilment. Taking into account the Bank's business model, the inherent and/or identified risks of money

laundering and terrorist financing, breach of international sanctions, fraud risks, the Bank must apply sufficient measures to manage those risks vis-à-vis customers, partners and suppliers.

27. The Bank shall have in place the information and data management systems to ensure the security, reliability of data and information, as well as timely identification, measurement, monitoring, aggregation, limitation and other management of financial and non-financial risks.

28. The Bank must ensure the external independent audit of financial statements, also external audit services must be subject to the requirements of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC, which provide for more stringent independent audit procedures and additional verification obligations.

## **CHAPTER VII FINANCIAL EXPECTATIONS OF THE STATE**

29. The expectation of the State – the Bank to operate without incurring losses.

30. Taking into account the size of the Bank's equity, the scope of the growth of its activities from equity and projections, the following indicators of the Bank's Return on Equity (ROE) are established:

<b>Year</b>	<b>Indicator</b>
2026	≥ 2 %
2027	≥ 2 %
2028	≥ 2 %
2029	≥ 2 %

The Bank may incur costs only in the course of its activities related to the Bank's investment directions referred to in point 7 of the Letter and to the activities of the Bank's Expert Advisory Hub. Other activities may be financed solely by the funds of the appropriations managers.

31. Taking into account the exceptions provided for the Bank in the Republic of Lithuania Law on the National Development Bank and the Republic of Lithuania Law on Corporate Income Tax regarding the payment of the corporate income tax and dividends, in order to build up mandatory and special capital buffers in the shortest possible time, the Bank must effectively manage all financial resources in order to build up mandatory and special capital buffers in the shortest possible time. All profits will be distributed by the Bank to the buffers built up by the Bank. The buffers built up to date for investments in the Bank's activities will be redistributed by the Bank to the mandatory and special capital buffers.

32. In view of the significant increase in the Bank's costs in 2026–2028 in relation to the preparation for the use of the Bank's new supervisory model, installation and updating of information systems, the fundamental review, development and improvement of the Bank's internal processes (risk and internal control management, financial product development, studies of market needs and impact assessment, treasury management, consultations, etc.) and in order to enable the Bank to properly fulfil the expectations of the State, the following Cost Income Ratio indicators shall be established for the Bank:

<b>Year</b>	<b>Indicator</b>
2026	85 %
2027	80 %
2028	75 %
2029	70 %

33. The Bank's disbursements to project promoters shall not be less than:

<b>Year</b>	<b>Indicator, total (EUR million)</b>
2026	1,150

2027	1,640
2028	1,640
2029	1,640

34. The Bank's raised private funds shall not be less than:

Year	Indicator, total (EUR million)
2026	620
2027	700
2028	960
2029	1,390

35. The Bank's Expert Advisory Hub, acting as an open advisory platform for partnerships, will help project promoters and financial institutions develop bankable projects with the investment value of at least:

Year	(EUR million)	Other indicators
2026	300	To provide consultations on at least 50 projects per year, of which at least 25 projects would have applied for funding to the financial institution(s).  To train at least 200 specialists from public and private sectors per year.
2027	500	
2028	500	
2029	500	

36. Volumes of activities financed by the Bank using guarantees from international financial institutions and the European Commission:

Year	(EUR million)
2026	0
2027	100
2028	200
2029	250

## CHAPTER VIII NON-FINANCIAL EXPECTATIONS OF THE STATE

37. The following non-financial expectations of the State shall be placed on the Bank:

37.1. *in the area of the Bank's business strategy and internal policies:*

37.1.1. On the basis of the Letter, to prepare the Bank's 5-year business strategy (hereinafter – the Bank's business strategy), the Bank's 3-year medium-term business plan and annual business implementation plans and to carry out a mid-term review of the Bank's business strategy;

37.1.2. to prepare the Bank's impact strategies and the Bank's internal policies in line with the Bank's business strategy;

37.1.3. on the basis of the Bank's impact strategies, to ensure smooth coherence and complementarity (synergy) between the funds of the State budget and municipal budgets, the funds of the European Union, international financial institutions and the Bank's own funds;

37.1.4. to update the Bank's impact strategies at least every 3 years;

37.1.5. respecting the principles of corporate governance and aiming at the highest transparency, ethics and social responsibility, to ratify the descriptions of internal policies and procedures which will govern the effective operation of the Bank;

37.1.6. to review the Bank's internal policies at least every 3 years;

37.1.7. to approve the list of the Bank's publicised policies and to publicise these policies on the Bank's website in accordance with the procedure laid down by the Bank. Further publicise the Bank's credit risk identification principles;

*37.2. in the area of raising private funds and guarantees for the Bank's activities:*

37.2.1. to actively cooperate with international financial institutions in raising private funds and to use loans and guarantees from international financial institutions and the European Commission to finance own activities. In order to cooperate more closely with international financial institutions, the Bank may, in agreement with the Shareholder, invest in shares of international financial institutions;

37.2.2. by 31 December 2026 at the latest, to seek a credit rating of no more than 2 notches below the credit rating of the Republic of Lithuania. To prepare the securities issuance programme and issue securities, thus contributing to the financing of the Bank's activities;

37.2.3. to endeavour to launch the first bond issue by 31 December 2027 at the latest. The conditions for the issuance of bonds and the total price of the funds received shall meet the best market conditions at the time of issuance, making use of all possible cost-optimising solutions (e.g. through rating or other tools) for each issue and for the entire financial cycle. The Bank shall assess different alternatives to bond issuance (e.g. private placement) if this would create new financing instruments, attract new capital market participants, fill potential funding gaps or make pricing more attractive than public placement;

37.2.4. by 31 December 2028 at the latest, to seek the implementation of the second securitisation project;

*37.3. in the area of the Bank's consulting activities:*

37.3.1. to provide technical and project preparation assistance to help the public sector prepare projects and provide advice on funding;

37.3.2. to provide advice to all market participants on market financing opportunities, potential financing products, partnerships and/or other assistance;

37.3.3. to cooperate with state institutions and bodies in submitting proposals for the improvement of the legal framework necessary for providing financing;

37.3.4. to cooperate and share expertise with state institutions and bodies when they prepare proposals for improving the legal framework required for the provision of funding in accordance with their procedure laid down by law;

*37.4. in the area of promotion and development of capital markets:*

37.4.1. to actively contribute to the development of the Lithuanian financial and capital market, to act as an issuer, investor and product facilitator, to contribute to the promotion of the financial literacy of businesses and public sector entities, i.e. place issues on both international and domestic markets, offer short-term money market instruments to the market, to participate in transactions in both traditional and innovative securities, to offer a wider range of financial instruments (e.g. financing of infrastructure projects through bonds, not just loans), to issue guarantees for financial instruments of other issuers, to implement securitisation transactions, etc.;

37.4.2. to improve the financial literacy of businesses and public sector, institutions and organisations;

37.4.3. to submit proposals and expert assistance to institutions responsible for financial and capital markets on the necessary solutions to improve the investment environment and access to finance in Lithuania;

*37.5. Non-financial expectations of the State placed on the Bank:*

37.5.1. to recruit highly qualified and competent employees in the Bank to carry out the Bank's activities;

37.5.2. to put in place a transparent, high-level, risk-managed remuneration system comprising managers, members of supervisory bodies and employees whose professional activities and/or decisions may have a significant impact on the risks taken by the Bank;

37.5.3. to align the remuneration policy with the Bank's strategic objectives, values and long-term interests, while ensuring the prevention of conflicts of interest. The Bank's remuneration

policy should clearly identify the categories of employees whose activities have the greatest impact on risk and determine the ratio between the fixed and variable component of remuneration (incentive). In order to enhance transparency, the disclosure of information on variable component of remuneration should be carried out in accordance with the requirements set;

37.5.4. to strengthen the Bank's units responsible for risk and compliance management, to ensure effective information delivery, reporting and escalation channels to the Shareholder, to periodically provide information about not only essential risk and compliance information and incidents, but also planned, strategic and other important information;

37.5.5. in view of the scope and differences between the Bank's mandate and on-balance sheet activities, sufficient human resources must be allocated to the internal audit function;

37.5.6. to strengthen the Bank's unit responsible for equity investments, by 1 January 2028 to put in place a framework for the management of equity investments in line with the private capital investment policy requirements and to strengthen the necessary capacity;

37.5.7. to strengthen the Bank's unit responsible for the market gap analysis and to develop expertise in impact assessment of the Bank's financial products and projects (investments) and to integrate into the market gap and funding impact assessment process;

37.5.8. to develop a methodology for measuring the impact indicator(s) of the Bank's investments on the Lithuanian economy and to start publishing the impact of the Bank's investments by 1 January 2027 at the latest;

37.5.9. to prepare for the implementation of the requirements of the Bank's Supervisory Authority by 1 January 2027, to ensure not less application of the digital operational resilience requirements than that in the financial sector and to apply Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011 in the activities of the Bank;

37.5.10. by 31 December 2028, to implement the information technology and risk management system(s) adapted to the Bank's business model, which would ensure appropriate security requirements, be consistent with the Bank's business model, fully cover the functions performed by the Bank;

37.5.11. to constantly assess the application of AI products in the Bank's business processes;

37.5.12. to seek at least Good Governance Index "A", also to follow performance standards of the Organisation for Economic Co-operation and Development, international financial institutions and the best practice standards of the European national development banks and/or national development institutions.

## **CHAPTER IX TRANSPARENCY OF THE BANK'S ACTIVITIES, ETHICAL PRINCIPLES AND ACCOUNTABILITY**

38. The Supervisory Board of the Bank shall approve the Bank's Code of Ethics for the members of the Executive Board and employees of the Bank, establish principles for the management of Revolving Door situations and adopt a cooling-off policy. This policy shall include the provisions limiting the ability of former employees or managers of the Bank to invest in securities issued by the Bank or otherwise use confidential information, thus ensuring the prevention of market abuse.

39. The Bank shall establish and implement a system of cooperation with responsible national and European supervisory authorities, including, the Special Investigation Service of the Republic of Lithuania and the Financial Crime Investigation Service under the Ministry of the Interior of the Republic of Lithuania, in order to ensure the transparency of activities, the prevention of corruption, including, but not limited, bribery of foreign officials in international business transactions, as well as the prevention of fraud, money laundering and terrorist financing.

40. Once a year, the Bank together with the Shareholder will provide the Committee on Budget and Finance of the Seimas of the Republic of Lithuania with information on the annual results

of the Bank's activities, including implemented anti-corruption, transparency and compliance measures. This information shall be provided to the extent and in a manner that ensure the non-politicisation of economic decisions taken by the Bank and the protection of confidential information of the Bank.

41. The Bank will responsibly assess the risks posed by financing of PEPs. Where the Bank, following the legal requirements and the risk assessment criteria adopted by the Bank, determines that the risks posed by a particular PEP are unacceptable and that there are no measures to contain them, the Bank will not provide such financing.

42. The Bank shall keep financial accounts in accordance with the legal requirements and draw up annual financial statements, which must be audited by an independent internationally recognised audit firm.

43. The Bank shall make public all recipients of funding and Ultimate Beneficials Owner (UBO) on its website in accordance with the procedure laid down by law.

44. The Bank must publish information on its performance and remuneration on an annual basis. Also, the Bank shall assess the possibilities of publishing information on its financial position, risk management and corporate governance principles.

## **CHAPTER X FINAL PROVISIONS**

45. The Supervisory Board of the Bank shall maintain regular (at least quarterly) contacts with the Shareholder. The Shareholder shall be provided periodically (at least quarterly) and on demand with information on the Bank's activities, the implementation of the Bank's strategic documents (the Bank's business strategy, the 3-year medium-term business plan and annual implementation plans), the Bank's financial position and key performance indicators, as well as information on the implementation of the expectations set out in the Letter, risk management (financial and non-financial risks).

46. The Bank's governing bodies will continue to pursue good corporate governance practice and carry out an annual assessment of their activities, as well as take further steps to improve the functioning of the Bank's governing bodies.

47. The governing bodies of the Bank shall act independently, but shall notify the Shareholder of significant risks or non-conformities related to the interests of the Shareholder:

47.1. change of the CEO of the Bank;

47.2. current and potential conflicts of interest of the members of the Supervisory Board of the Bank;

47.3. current and potential litigation with the Bank which may be relevant to the activities of the Bank;

47.4. significant weaknesses and/or material risks identified during internal or external audits (about significant weaknesses– immediately);

47.5. suspected fraud by workers of the Bank or third parties related to the Bank according to contracts;

47.6. potential harm to the society, environment, economy or national security;

47.7. press releases which may require comments from the Shareholder;

47.8. corruption of any kind or political intervention;

47.9. other material risks posing threats to the continuity of the Bank's activities;

47.10. other important decisions of the Bank, possibly related to the interests of the Shareholder.

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