ŠIAULIŲ BANKAS

CONFIRMATION FROM THE AUHTORIZED PERSONS

We, Chief Executive Officer of Šiaulių bankas AB Algirdas Butkus and Chief Financial Officer Vita Adomaitytė, confirm that provided consolidated financial statements of Šiaulių bankas AB for 2007 are formed in compliance with the applicable accounting standards, correspond the reality and correctly reflect the assets, liabilities, financial status and profit of Šiaulių bankas AB and the Group. We, also, confirm that review of the business development and activities, the status of the bank and the Group, together with the description of the major risks and indeterminations incurred, are correctly revealed in the consolidated annual report.

LIETUVOS RESPUBLIKA AB ŠIAULIŲ BANKAS

Chief Executive Officer	Algirdas Butkus
Chief Financial Officer	Vita Adomaitytė

Akcinė bendrovė Šiaulių bankas.
Tilžės g. 149, LT-76348 Šiauliai, Lietuva. Tel. 8~41 59 56 07. Faksas 8~41 43 0774.
SWIFT CBSBLT256. Įmonės kodas 112025254. PVM mokėtojo kodas LT120252515.
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ŠIAULIŲ BANKAS AB
FINANCIAL STATEMENTS
31 DECEMBER 2007

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PRICEWATERHOUSECOOPERS

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Independent auditor's report

To the Shareholders of Šiaulių bankas AB

Report on the financial statements

We have audited the accompanying consolidated financial statements of Šiaulių Bankas AB and its subsidiaries (the "Group") and the financial statements of Šiaulių Bankas AB (the 'Bank') set out in pages 5 - 75 which comprise the balance sheet as of 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the Bank as of 31 December 2007 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

PRICEWATERHOUSECOOPERS

Report on other legal and regulatory requirements

Furthermore, we have read the Consolidated Annual Report for the year ended 31 December 2007 set out on pages 76 – 110 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2007.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner

Rasa Radzevičienė
Auditor's Certificate No.000377

Vilnius, Republic of Lithuania
27 March 2008

(All amounts are in LTL thousand, unless otherwise stated)

THE GROUP'S AND THE BANK'S INCOME STATEMENT

		Year ended			
		31 December 2007		31 December 2006	
	Notes	Group	Bank	Group	Bank
Interest and similar income	1	101,348	94,570	64,489	59,896
Interest expense and similar charges	1	(52,387)	(51,960)	(29,157)	(29,547)
Net interest income		48,961	42,610	35,332	30,349
Provision for loan impairment losses	7	(5,918)	(5,108)	(1,597)	(423)
Net interest income after provision for loan impairment		43,043	37,502	33,735	29,926
Fee and commission income	2	14,438	14,840	11,910	12,293
Fee and commission expense	2	(5,499)	(5,404)	(3,873)	(3,768)
Net gain from operations with securities	3	4,329	532	694	476
Gain on disposal of subsidiary	4	8,525	8,421	-	-
Net foreign exchange gain		3,435	3,444	3,118	3,161
Proceeds from disposal of assets	6	2,115	26	39,759	36
Other income	7	2,580	499	3,544	583
Administrative and other operating expenses	5	(43,448)	(37,773)	(37,950)	(31,954)
Dividends from investments in subsidiaries		-	7,114	-	3,833
Profit before income tax		29,518	29,201	50,937	14,586
Income tax expense	9	(3,057)	(1,953)	(8,606)	(935)
Profit for the year		26,461	27,248	42,331	13,651
Profit attributable to:					
Equity holders of the Bank		24,402	27,248	22,829	13,651
Minority interest	27	2,059	-	19,502	-
Profit for the year		26,461	27,248	42,331	13,651
Basic and diluted earnings per share (in LTL per share)	10	0.19	0.21	0.22	0.13

The accounting policies and notes on pages 10 to 75 constitute an integral part of these financial statements.

(All amounts are in LTL thousand, unless otherwise stated)

THE GROUP'S AND THE BANK'S BALANCE SHEET

	Notes	31 December 2007 Group	31 December 2007 Bank	31 December 2006 Group	31 December 2006 Bank
ASSETS					
Cash and cash equivalents	11	230,540	230,528	121,558	121,546
Trading securities	13	41,134	9,539	24,583	12,574
Due from other banks	12	593	593	11,342	11,249
Loans to customers	15	1,385,835	1,540,637	902,970	990,939
Finance lease recevables	16	121,605	-	77,867	-
Investment securities:					
- available-for-sale	17	13,726	13,726	515	515
Investment securities:					
- held-to-maturity	17	164,163	164,163	162,470	162,470
Investments in subsidiaries	18	-	2,135	-	6,654
Intangible assets	19	1,251	1,227	1,600	1,539
Tangible fixed assets	20	51,279	45,204	48,454	36,357
Overpaid income tax		2,043	-	150	-
Derivative financial instruments		-	-	82	82
Other assets	21	40,208	5,394	33,441	4,108
Total assets		2,052,377	2,013,146	1,385,032	1,348,033
LIABILITIES					
Due to other banks and financial institutions	22	463,595	454,671	172,954	167,956
Due to customers	23	1,217,008	1,216,942	935,529	935,749
Debt securities in issue	25	28,550	28,550	27,778	45,561
Special and lending funds	24	36,550	36,092	42,805	42,007
Current income tax liabilities		1,156	930	5,635	581
Deferred income tax liabilities	9	225	225	243	136
Derivative financial instruments		119	119	-	-
Other liabilities	26	15,968	6,000	12,719	3,853
Total liabilities		1,763,171	1,743,529	1,197,663	1,195,843
EQUITY					
Capital and reserves attributable to equity holders of the Bank					
Share capital	28	161,033	161,033	109,039	109,039
Share premium	28	65,006	65,006	25,000	25,000
Reserve capital	28	2,611	2,611	2,611	2,611
Statutory reserve	28	1,743	1,445	927	700
Financial assets revaluation reserve		360	360	-	-
Retained earnings		49,824	39,162	28,419	14,840
		280,577	269,617	165,996	152,190
Minority interest	27	8,629	-	21,373	-
Total equity		289,206	269,617	187,369	152,190
Total liabilities and equity		2,052,377	2,013,146	1,385,032	1,348,033

These financial statements were approved by the Bank's Board and signed on behalf of the Board on 15 March 2008 by:

Algirdas Butkus
Chairman of the Board

Vita Adomaitytė
Chief Financial Officer

The accounting policies and notes on pages 10 to 75 constitute an integral part of these financial statements.

(All amounts are in LTL thousand, unless otherwise stated)

THE GROUP'S STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Bank							Minority interest	Total equity
	Notes	Share capital	Share premium	Reserve capital	Financial assets reva-luation	Statutory reserve	Retained earnings	Total		
31 December 2005		**74,720**	**8,400**	**2,611**	**-**	**357**	**8,773**	**94,861**	**8,015**	**102,876**
Dividends	30	-	-	-	-	-	(1,694)	(1,694)	-	(1,694)
Dividends to minority	27	-	-	-	-	-	-	-	(1,888)	(1,888)
Formation of statutory reserve		-	-	-	-	570	(570)	-	-	
Bonus issue of share capital	28	9,319	(8,400)	-	-	-	(919)	-	-	-
Issue of share capital	28	25,000	25,000	-	-	-	-	50,000	-	50,000
Decrease in share capital of minority shareholders in subsidiaries	27	-	-	-	-	-	-	-	(4,256)	(4,256)
Net profit for the year		-	-	-	-	-	22,829	22,829	19,502	42,331
31 December 2006		**109,039**	**25,000**	**2,611**	**-**	**927**	**28,419**	**165,996**	**21,373**	**187,369**
Dividends	30	-	-	-	-	-	(2,181)	(2,181)	-	(2,181)
Dividends to minority	27	-	-	-	-	-	-	-	(14,229)	(14,229)
Formation of statutory reserve		-	-	-	-	816	(816)	-	-	-
Bonus issue of share capital	28	11,994	(11,994)	-	-	-	-	-	-	-
Issue of share capital	28	40,000	52,000	-	-	-	-	92,000	-	92,000
Revaluation of financial assets		-	-	-	436	-	-	436	-	436
Recognition of deferred income tax		-	-	-	(76)	-	-	(76)	-	(76)
Decrease in share capital of minority shareholders in subsidiaries	27	-	-	-	-	-	-	-	(574)	(574)
Net profit for the year		-	-	-	-	-	24,402	24,402	2,059	26,461
31 December 2007		**161,033**	**65,006**	**2,611**	**360**	**1,743**	**49,824**	**280,577**	**8,629**	**289,206**

The accounting policies and notes on pages 10 to 75 constitute an integral part of these financial statements.

(All amounts are in LTL thousand, unless otherwise stated)

THE BANK'S STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Share premium	Reserve capital	Financial assets revaluation	Statutory reserve	Retained earnings	Total
31 December 2005		**74,720**	**8,400**	**2,611**	**-**	**328**	**4,174**	**90,233**
Dividends	30	-	-	-	-	-	(1,694)	(1,694)
Formation of statutory reserve		-	-	-	-	372	(372)	-
Bonus issue of share capital	28	9,319	(8,400)	-	-	-	(919)	-
Issue of share capital	28	25,000	25,000	-	-	-	-	50,000
Net profit for the year		-	-	-	-	-	13,651	13,651
31 December 2006		**109,039**	**25,000**	**2,611**	**-**	**700**	**14,840**	**152,190**
Dividends	30	-	-	-	-	-	(2,181)	(2,181)
Formation of statutory reserve		-	-	-	-	745	(745)	-
Bonus issue of share capital	28	11,994	(11,994)	-	-	-	-	-
Issue of share capital	28	40,000	52,000	-	-	-	-	92,000
Revaluation of financial assets					436			436
Recognition of deferred income tax		-	-	-	(76)	-	-	(76)
Net profit for the year		-	-	-	-	-	27,248	27,248
31 December 2007		**161,033**	**65,006**	**2,611**	**360**	**1,445**	**39,162**	**269,617**

The accounting policies and notes on pages 10 to 75 constitute an integral part of these financial statements.

(All amounts are in LTL thousand, unless otherwise stated)

THE GROUP'S AND THE BANK'S CASH FLOW STATEMENT

		Year ended			
		31 December 2007		31 December 2006	
	Notes	Group	Bank	Group	Bank
Operating activities					
Interest received		97,145	90,367	61,893	57,328
Interest paid		(50,004)	(49,577)	(27,389)	(27,779)
Fees and commissions received		14,438	14,840	11,910	12,293
Fees and commissions paid		(5,499)	(5,404)	(3,873)	(3,768)
Cash inflows from trade in trading securities		1,860	172	200	152
Net income from foreign exchange operations		1,991	2,019	1,592	1,623
Recoveries on loans previously written off		518	442	204	204
Salaries and related payments to and on behalf of employees		(20,745)	(17,908)	(19,149)	(16,136)
Other cash receipts, sale of assets		616	758	43,221	619
Other cash payments		(19,137)	(13,934)	(22,282)	(10,905)
Income tax paid		(9,523)	(1,591)	(2,882)	(218)
Net cash flow from operating activities before change in operating assets and liabilities		**11,660**	**20,184**	**43,445**	**13,413**
Change in operating assets and liabilities:					
(Increase)/decrease in trading securities		(16,670)	2,916	3,420	3,111
(Increase)/decrease in loans to credit and financial institutions		10,736	10,656	(11,309)	(22,985)
(Increase) in loans to customers		(526,072)	(548 618)	(267,656)	(240,548)
(Increase) in other current assets		(5,855)	(653)	(839)	2,738
Increase in liabilities					
Increase in liabilities to credit and financial institutions		290,596	286,670	49,257	43,330
Increase in deposits		282,358	278,855	144,757	150,448
Increase in special and lending funds		(6,255)	(5,915)	42,421	41,623
Increase in other liabilities		(4,279)	(1,894)	7,854	540
Change		**24,559**	**22,017**	**(32,095)**	**(21,743)**
Net cash flow from/ (used in) operating activities		**36,219**	**42,201**	**11,350**	**(8,330)**
Investing activities					
(Purchase) of tangible and intangible fixed assets		(14,892)	(12,133)	(13,290)	(11,556)
Disposal of tangible and intangible fixed assets		11,042	276	10,493	565
(Purchase) of held-to-maturity securities		(20,314)	(20,314)	(67,190)	(66,913)
Proceeds from redemption of held-to-maturity securities		18,621	18,621	12,322	12,322
Dividends received		2,355	7,360	293	3,966
(Purchase) of available-for-sale securities		(15,186)	(15,186)	-	-
Sale of available-for-sale securities		2,411	2,411	-	-
Proceeds from sale of subsidiary		12,940	12,940	-	-
Net cash flow used in investing activities		**(3,023)**	**(6,025)**	**(57,372)**	**(61,616)**
Financing activities					
Increase in share capital	28	92,000	92,000	50,000	50,000
Dividends paid		(16,412)	(2,183)	(3,585)	(1,697)
Payment to minority shareholders from reduced share capital of subsidiary		(574)	-	(4,252)	-
Debt securities in issue		30,208	30,208	67,240	85,023
Redemption of debt securities in issue		(29,436)	(47,219)	(59,096)	(59,096)
Net cash flow from financing activities		**75,786**	**72,806**	**50,307**	**74,230**
Net increase in cash and cash equivalents		**108,982**	**108,982**	**4,285**	**4,284**
Cash and cash equivalents at 1 January		**121,558**	**121,546**	**117,273**	**117,262**
Cash and cash equivalents at 31 December	**11**	**230,540**	**230,528**	**121,558**	**121,546**

The accounting policies and notes on pages 10 to 75 constitute an integral part of these financial statements.

(All amounts are in LTL thousand, unless otherwise stated)

GENERAL INFORMATION

Šiaulių Bankas AB was registered as a public company in the Enterprise Register of the Republic of Lithuania on 4 February 1992. The Bank is licensed by the Bank of Lithuania to perform all banking operations provided for in the Law on Commercial Banks of the Republic of Lithuania and the Statute of the Bank, except for operations with precious metals.

The Head Office of the Bank is located in Šiauliai, Tilžės str. 149, LT-76348. At the end of the reporting period the Bank had 14 branches and 37 client service units (2006: 14 branches and 35 client service units). As at 31 December 2007 the Bank had 483 employees (31 December 2006: 442). As at 31 December 2007 the Group had 535 employees (31 December 2006: 515 employees).

The Bank accepts deposits, issues loans, makes money transfers and documentary settlements, exchanges currencies for its clients, issues and processes debit and credit cards, is engaged in trade finance and is investing and trading in securities, as well as performs other activities set forth in the Law on Commercial Banks (except for operations with precious metals).

The Bank's shares are listed on the Official List of the National Stock Exchange of Lithuania (NSEL).

The Bank had the following subsidiaries:
- Šiaulių Banko Lizingas UAB (hereinafter – SB Lizingas, finance and operating lease activities),
- Šiaulių Banko Investicijų Valdymas UAB (hereinafter SB Investicijų Valdymas, investment management activities),
- Šiaulių Banko Turto Fondas UAB (hereinafter – SB Turto Fondas, real estate management activities),
- Pajūrio Alka UAB (hotel services). In April 2007 the Bank sold all shares of Pajurio Alka UAB, for more detailed information on this disposal see Note 4.

Investments in subsidiaries are described in more detail in Note 17 *Investments in subsidiaries.*

The Bank's shareholders structure is disclosed in Note 27 *Share capital*.

Recent volatility in financial markets. The last few months have seen sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond US housing market as global investors were forced to re-evaluate the risks they were taking which resulted in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The tighter credit markets may affect the ability of the Group to refinance its borrowings, deposits from customers or other liabilities and affect the value of its loan portfolio. Under IFRS, a decline in the fair value of a financial asset below its amortised cost that results from an increase in base interest rate is generally not evidence of impairment. Management is unable to estimate effects on the Group's financial position of any further possible deterioration in the financial markets liquidity and increased volatility.

ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

Basis of preparation

The financial statements of the Group and the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. The financial statements have been prepared under the historical cost convention as modified for the revaluation of available-for-sale investment securities, financial assets and financial liabilities held for trading and all derivative financial instruments.

The preparation of financial statements in conformity with International Financial Reporting Standards require the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

These financial statements combine the consolidated financial statements for the Group and stand-alone financial statements of the Bank. Such format of reporting was adopted to ensure consistency of presentation with the format prescribed by the Bank of Lithuania and applied for statutory reporting.

Amounts shown in these financial statements are presented in the local currency, Litas (LTL). Since 2 February 2002 the exchange rate of the litas was pegged to the euro at a rate of LTL 3.4528 = EUR 1.

(All amounts are in LTL thousand, unless otherwise stated)

ACCOUNTING POLICIES (CONTINUED)

Standards, amendments and interpretations effective in 2007:

- IFRS 7, Financial Instruments: Disclosure (effective for annual periods beginning on or after January 2007), and the complementary Amendments to IAS 1, Presentation of Financial Statements – Capital Disclosure were adopted by the Group in 2007. The IFRS introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these financial statements.
- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006). As none of the Group entities have a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group.
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 may 2006). This interpretation is not relevant to the Group.
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). As none of the Group entities have changed the terms of their contracts, IFRIC 9 is not relevant to the Group's operations.
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). This interpretation is not relevant to the Group.

Standards, amendments and interpretations that have been published but as at 31 December 2007 are not yet effective and have not been early adopted by the Group:

- IAS 23, Borrowing Costs (effective for annual periods beginning on or after 1 January 2009).
- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Group will apply this standard from 1 January 2009, but it is not expected to have significant effect on the Group's financial statements.
- IFRIC 11, Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). This interpretation is not relevant to the Group.
- IFRIC 12 Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008). This interpretation is not relevant to the Group.
- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). This interpretation is not relevant to the Group.
- IFRIC 14, IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirement and Their Interaction (effective for annual periods beginning on or after 1 January 2008). This interpretation is not relevant to the Group.
- IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). The Group will apply this interpretation from 1 January 2009, but it is not expected to have significant effect on the Group's financial statements.

Critical accounting estimates

Impairment losses on loans. The Bank and the Group review their loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement , the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience. To the extent that impairment provision for loan losses differs by +/- 5%, the impact on the provision at the Group and the Bank as at 31 December 2007 would be higher or lower by LTL 377 thousand (2006: LTL 103 thousand) and LTL 359 thousand (2006: LTL 89 thousand) respectively.

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than for certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost.

(All amounts are in LTL thousand, unless otherwise stated)

ACCOUNTING POLICIES (CONTINUED)

Critical accounting estimates (continued)

Taxes. The tax authorities have carried out a full-scope tax audit at the Bank for the years 1998 to 2001 (income tax audit was done for the period from 1998 to 2000). There were no significant remarks or disputes. The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Bank's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Finance leases and derecognition of financial assets. Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

Consolidation of subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Bank.

Subsidiaries in the stand-alone financial statements are accounted for at cost – that is the income from the investment is recognized only to the extent that the Bank receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

Foreign currency translation

(a) Functional and presentation currency
Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The consolidated financial statements are presented in the litas, which is the Bank’s functional and presentation currency.
(b) Transactions and balances
All monetary assets and liabilities denominated in foreign currencies are translated into the Lithuanian litas (LTL) at the official rate of the Bank of Lithuania prevailing at the end of the reporting period. Gains and losses arising from this translation are included in the income statement for the reporting period. All non-monetary liabilities and assets are translated using the exchange rate prevailing on the date of acquisition.

Foreign currency transactions are recorded in the litas using the exchange rate ruling on the date of the transaction. Exchange differences arising from the settlement of transactions denominated in foreign currency are charged to the income statement at the time of transaction using the exchange rate ruling at that date.

Derivative financial instruments

Derivative financial instruments including foreign exchange forwards, swaps, options (both written and purchased) and other derivative financial instruments are initially recognised in the balance sheet at their fair value on the date on which a derivative contract is entered into. Fair values are obtained from quoted market prices and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.
Changes in the fair value of derivatives held for trading are included in net trading income.
Certain derivative transactions, while providing effective economic hedges under the Group’s risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in income.

(All amounts are in LTL thousand, unless otherwise stated)

ACCOUNTING POLICIES (CONTINUED)

Off-setting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Recognition of income and expenses

Interest income and expense are recognised in the income statement on an accrual basis using the effective interest method based on the actual purchase price. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Loan origination fees are accounted for as an adjustment to the effective interest rate calculation for each issued loan separately. Other commission fees and other similar income and expenses are recognised as gained or incurred.

Cash received during an accounting period and not recognised as income of the accounting period is accounted for in the balance sheet as deferred income (liabilities), and costs incurred during an accounting period and not recognised as expenses of the accounting period are shown in the balance sheet as deferred charges (assets).

Dividend income

Dividends are recognised in the income statement when the Bank's right to receive payments is established.

Taxation

a) Income tax

In accordance with the Lithuanian Law on Corporate Profit Tax, taxable profit for 2007 period is subject to income tax at a rate of 18%. Expenses related to taxation charges and included in these financial statements are based on calculations made by the management in accordance with the Lithuanian regulatory legislation on taxes. Income tax rate valid for 2006 was 19%. As from 1 January 2008 income tax rate is 15%. Deferred tax assets and liabilities are calculated using 15% tax rate.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from revaluation of securities, difference between net book value and tax base of tangible fixed assets and accrued charges. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

b) Other taxes

Real estate tax rate is 1% on the tax value of tangible fixed assets and foreclosed assets. The Bank is also obliged to pay land and land lease taxes, make payments to guarantee fund and social security contributions. These taxes are included in other expenses in the income statement.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with the Bank of Lithuania, treasury bills and other eligible bills, amounts due from banks and financial institutions and short-term government securities.

(All amounts are in LTL thousand, unless otherwise stated)

ACCOUNTING POLICIES (CONTINUED)

Financial assets

Financial assets are classified into 4 categories: financial assets at fair value through profit and loss (the Group and the Bank have the only one sub-category here – held for trading), investments held to maturity, loans and receivables, financial assets available for sale. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Trading securities

Trading securities are securities which were acquired either for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at fair value, which is based on quoted bid prices or derived from a discounted cash flow model if market price is unreliable measure. All related realised and unrealised gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income. Dividends received are included in dividend income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date that the Group commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement occurs.

Securities available for sale and held to maturity

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss. Management determines the appropriate classification of its investments at the time of the purchase.

Available-for-sale securities are measured at fair value based on quoted bid prices or amounts derived from discounted cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are recognised directly in equity through the statement of changes in equity except for impairment losses and foreign exchange gains or losses. When the financial asset is derecognised the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However interest calculated using the effective interest rate is recognised in profit or loss.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective yield method, less any provision for impairment. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

If the Group were to sell other than an insignificant amount of held-to–maturity assets, the entire category would be reclassified as available for sale.

Interest earned whilst holding securities is reported as interest income. Dividends receivable are included separately in dividend income when the Bank's right to receive payments is established

All regular way purchases and sales of securities are recognised at trade date, which is the date that the Group commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward transactions until settlement.

Loans

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the bank upon initial recognition designates as at fair value through profit or loss; (b) those that the bank upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Loans are carried at amortised cost. All loans and advances are recognised when cash is advanced to borrowers.

(All amounts are in LTL thousand, unless otherwise stated)

ACCOUNTING POLICIES (CONTINUED)

Impairment losses on loans, held-to-maturity and available-for-sale investments and provisions for other assets

Losses on loan and held-to-maturity investment impairment are established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the impairment losses is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception.

The Group first assesses whether objective evidence of impairment exists individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans written off after all necessary procedures have been completed and the amount of the loss has been determined.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

In the case if investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

(All amounts are in LTL thousand, unless otherwise stated)

ACCOUNTING POLICIES (CONTINUED)

Reverse repurchase transactions

Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers, as appropriate. The difference between purchase and repurchase price is treated as interest and accrued over the life of agreement using the effective interest method. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

Reverse repurchase agreements are classified as loans and receivables and are accounted for using the amortised cost method.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation. Intangible assets are amortised using the straight-line method over their estimated useful life.

Tangible fixed assets

Tangible fixed assets are stated at historical cost plus revaluation less accumulated depreciation. Depreciation is provided on a straight-line basis to write off proportionally the cost of each asset over its estimated useful life.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains and losses on disposals of fixed assets are determined by reference to their carrying amount and are charged to the income statement.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Asset maintenance costs are charged to the income statement when they are incurred. Significant improvements of assets are capitalised and depreciated over the remaining useful life period of the improved asset.

Leases

a) *Group company is the lessee*

Operating leases
Leases where a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of lease.

b) *Group company is the lessor*

Operating leases
Assets leased out under operating leases are included in tangible fixed assets in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned fixed assets. Rental income is recognised on a straight-line basis over the lease term.

Finance leases
A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

ACCOUNTING POLICIES (CONTINUED)

Assets held for sale (including foreclosed assets) and real estate projects under development

Assets held for sale are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use. Real estate projects under development are stated at the lower of cost and fair value less expected costs to sell.

Borrowings

Borrowings (including debt securities in issue) are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. Subsequently borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are recognised on the day of settlement.

Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Dividends

Dividends on the Bank's shares are recorded in equity in the period in which they are declared.

Employee benefits

a) *Social security contributions*
The Group companies pay social security contributions to the state Social Security Fund (the Fund) on behalf of their employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs. Social security contributions each year are allocated by the Fund for pension, health, sickness, maternity and unemployment payments

b) *Termination benefits*
Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value. Termination benefits are included within staff costs in the income statement and within other liabilities in the balance sheet.

Segment information

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

Fair value of assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis.

(All amounts are in LTL thousand, unless otherwise stated)

ACCOUNTING POLICIES (CONTINUED)

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight-line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Strategy in using financial instruments

The Bank's and the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers and borrows from other financial institutions at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Bank and the Group also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-balance sheet loans and advances but the Group also enters into guarantees and other commitments such as letters of credit and other guarantees.

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT

The Group analyses, evaluates, accepts and manages the risk or combination of risks it is exposed to. Risk management at the Group aims at ensuring a sufficient return on equity following the conservative risk management policy. While implementing an advanced risk management policy the Group focuses not only on minimising potential risk but also on improving pricing and achieving efficient capital allocation.

The Risk Management Policy approved by the Bank Board as well as by the procedures to manage different types of risks prepared on its basis ensures the integrity of the risk management process in the Group.

The purpose of risk management policy is to define the risks as well as their management principles in the Bank's activities. Due to the fact that various risks experienced by the Group are interdependent their management is centralized. Arrangement and coordination of the experienced risk management system is one of the main goals of the Bank's Risk Management Committee.

The Group reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice on regular basis, at least annually.

The most important types of risk the Group is exposed to are credit risk, market risk, liquidity risk and operational risk. Concentration risk is treated as part of credit risk. Market risk includes currency risk, interest rate and equity price risk. Other types of risk are considered immaterial by the Group and, therefore, are not assessed.

In order to avoid a conflict of interest the Bank's subdivisions that implement risk management functions are separated from those subdivisions the direct activities of which are connected with the up rise of various types of banking risks.

1. Credit risk

Credit risk is defined as the risk for the Group to incur losses due to the Group's customers' failure to fulfil their financial obligations towards the Group. Credit exposures arise principally in lending activities and it is the most significant risk in the Group's business.

There is also credit risk in investment activities that arise from debt securities and in the Group's asset portfolio as well as in the off-balance sheet financial instruments, such as loan commitments, guarantees and letters of credit.

The Bank takes risks only in the fields, which are well known to it and where it has positive experience, trying to avoid excessive risk in transactions that can have negative influence to the big portion of shareholders' equity but seeks the sufficient profitability which, in terms of increasing competition, would ensure the Bank's constant status in the market and would increase the Bank's value.

The Bank lending policy is focused on small and medium-size business clients, seeking to provide them with the better funding terms and solid support.

1.1. Credit risk measurement

(a) Loans and advances

Credit risk management process, as any risk incurring in other banking activities, could be divided into the following four stages:

1) Risk identification (recognition);
2) Risk extent evaluation;
3) Risk monitoring;
4) Risk control.

The Bank applies credit risk management measures, which could relevantly be divided into two types:

1) Measures that help to avoid decisions to grant unsecured loans;
2) Measures ensuring the effective monitoring system of the Bank's asset quality.

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Measures that help to avoid decisions to grant unwarrantably risky credits include:
1) Multi-stage decision-making and its approval system;
2) Risk allocation among structural levels – limit establishment;
3) Security measures for credit repayment (collateral).

Multi-stage decision-making and its approval system has an aim not to make one-man decisions regarding credit granting by authorized persons but to make them be discussed by the collegial bodies of the Bank and, as the case may be, by the Bank's Loan Committee, the Bank's Board or Council. There are certain limits to authorized persons established regarding credit granting implementation as well as approval limits to collegial bodies. Limit establishment depends on the authorized persons' qualification, experience and the effectiveness of their managed branches; while in the Branch Committees and the Bank Loan Committee the attention is paid to the Committee members' qualification, experience and economic activity of the region, where the branch is located, the quality of loan portfolio and other factors.

It is very important to analyse the credit precisely before granting it. The goal of credit analysis is to do the best in evaluating the customer's status and prospects in the field where he/she provides his/her goods or services. The repayment of credits granted by the Bank must be enough secure in order to minimize possible credit repayment risks. A security measure is chosen in accordance with the credit type. Providing credit first of all the Bank analyses the borrower's financial capacity and credit repayment possibilities from the borrower's financial flows.

Credit administration and constant credit monitoring is the main principle in the Bank's security and reliability maintenance. The proper credit administration includes the timely updating of the borrower's credit file, providing with the latest financial information, the timely introduction of latest financial information to the database and preparation of the various documents and their amendments.

The Bank establishes and implements the procedures, improves information systems for monitoring separate credits as well as loan portfolio. These procedures include the criteria for early indication of potentially impaired loans and other transactions.

(b) Debt securities

Credit risk exposures with respect to debt securities are managed by carrying out counterparty analysis when decision for acquisition of securities is made. The concentration risk together with lending exposure arising from debt securities portfolio is analysed and monitored on a regular basis.

(c) Credit-related commitments

Other credit-related commitments assumed by the Group include guarantees, letters of documentary credit, commitments to grant a credit which expose the Group to the same credit risk as the loans do. The key aim of these instruments is to ensure that funds are available to a customer as required. The above guarantees and letters of documentary credit are usually collateralised by clients' funds in the Bank accounts. With regards to commitments to grant credit the Bank is exposed to loss equal to the unused commitment amount.

1.2. Risk limit control and mitigation policies

(a) Concentrations

The Group manages, limits and controls concentration of credit risk – in particular, to individual counterparties and groups of the associated counterparties as well as to economic sectors.

In addition to the Bank of Lithuania requirements to limit the exposures to a single borrower and large exposures, the Group also sets exposure requirement, which to a single borrower may not exceed 15 percent of the Bank's capital. The Bank's Council must approve the higher limits. The maximum exposure requirement to a single borrower established by the Bank of Lithuania is 25 percent.

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

The Group also sets limits to industry segments, i.e. a possible concentration in certain industries at the Group's level is restricted by the internal lending limits. The percentage and volume of lending limits are set for individual industries to ensure that the Group is not overly exposed to any particular economic sector in the country.

The geographical concentration risk is not recognised in the Group's business since the principle of focusing on domestic customers is followed.

Some other specific control and mitigation measures are outlined below.

(b) Collateral

The Group mitigates credit risk through taking of security for funds advances. The types of collateral considered by the Group as the most acceptable for loans and advances are the following:
• Real estate (mainly residential properties, commercial real estate);
• Business assets (equipment, inventory, transport vehicles);
• Property rights over financial instruments (debt securities, equities);
• Third party guarantees.

Long-term financing and lending to corporate entities are generally secured; revolving facilities and consumer loans to private individuals are generally unsecured. In order to minimize the credit loss as the impairment indicators for the relevant individual loans and advances are noticed the Group seeks for additional collateral from the counterparty.

While calculating a decrease in value for the loan the repayment of which is secured by the collateral, a cash flow from the security measure is also included into the loan cash flow. Taking into consideration the historical data, facts and probability to sell the object of the security measures and the expenses of its sales, the discount ratios applied at the Bank are provided. In case several loans are insured with the same security measure (collateral), then such security measure (collateral) is divided to every loan pro rata.

Debt securities, treasury and other eligible bills are generally unsecured.

For finance lease receivables the lender remains the owner of the leased object. Therefore, in case of customer's default the lender is able to gain control on the risk mitigation measures and realize them in rather short period.

1.3. Impairment and provisioning policies

Upon assessing impairment losses on loans, available-for-sale assets and other assets the Group follows the requirements of IAS 39 Financial Instruments: Recognition and Measurement. Impairment losses are recognized for financial reporting purposes only for those losses that have been impaired at the balance sheet date based on objective evidence of impairment.

The Group and the Bank carries out valuation of impaired assets on a monthly basis, based on valuation policies approved by the Board of the Bank. The amount of impairment provision is based on the individual assessment of specific assets using discounted cash flow method and effective interest rates. Collateral is also taken into consideration when estimating an impairment provision.

The following loss events are considered by the Group and the Bank when estimating provision for loan impairment.Events that may have caused loss in future on the loan evaluation day cannot be recognized as a loss event.

The list of loss events:
1) Significant borrower's or issuer's financial difficulties;
2) Loan agreement violation (periodical failures to pay either principal or interest);
3) Proceeds granted to the borrower are used not according to the loan purpose and the implementation terms of investment project are violated;
4) Decrease in collateral value, when the repayment terms of the loan under evaluation directly depend on the value of collateral;
5) Third parties related to the borrower do not fulfil their obligations, which impacts the borrower's ability to fulfil its financial obligations;
6) Other loss events (e.g. when the borrower's or issuer's, who operate under license, license validity is terminated or eliminated).

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

1.4. Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets are as follows:	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Cash and balances with central banks	187,215	187,205	90,938	90,938
Loans and advances to banks	593	593	11,342	11,249
Loans and advances to customers:	1,507,440	1,540,637	980,837	990,939
Loans and advances to financial institutions	27,060	149,142	20,425	94,592
Loans to individuals (Retail):	284,460	274,677	149,955	143,770
- Consumer loans	66,456	66,456	22,245	22,245
- Mortgages	120,545	120,545	64,396	64,396
- Credit cards	16,829	7,046	11,664	5,479
- Other (reverse repurchase agreements, other loans backed by securities, other)	80,630	80,630	51,650	51,650
Loans to business customers:	1,074,315	1,116,818	732,590	752,577
- Large corporates	62,651	59,571	29,132	29,132
- SME	981,182	1,026,765	675,698	695,685
Central and local authorities, administrative bodies and other	30,482	30,482	27,760	27,760
Finance lease receivables	121,605	-	77,867	-
- Individuals	33,365	-	31,105	-
- Business customers	88,240	-	46,762	-
Trading assets:				
- Debt securities	12,309	6,363	8,487	8,487
- Equity securities	28,825	3,176	16,096	4,087
Derivative financial instruments	-	-	82	82
Securities available for sale				
- Debt securities	12,170	12,170	-	-
- Equity securities	1,556	1,556	515	515
Investment securities held to maturity				
- Debt securities	164,163	164,163	162,470	162,470
Other financial assets	14,236	611	18,729	1,561
Credit risk exposures relating to off –balance sheet items are as follows:				
Financial guarantees	89,809	89,809	52,721	52,721
Letters of credit	8,387	8,387	1,707	1,707
Loan commitments and other credit related liabilities	118,074	112,868	88,056	84,525
At 31 December	**2,144,777**	**2,127,538**	**1,431,980**	**1,409,281**

The table above represents a worst case scenario of credit risk exposure at 31 December 2007 and 2006, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above on net carrying amount as reported in the balance sheet.

Large entities are defined as entities employing than 250 employees. Small and medium size entities are defined as entites employing less than 250 employees and the total balance sheet total does not exceed LTL 150 million or annual turnover does not exceed LTL 175 million.

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

1.5. Loans and advances

Loans and advances are summarised as follows:

31 December 2007

	2007			
	Group		Bank	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	1,250,943	27,060	1,286,314	149,142
Past due but not impaired	72,188	-	70,850	-
Impaired	43,190	-	41,501	-
Gross	1,366,321	27,060	1,398,665	149,142
Less: allowance for impairment	7,546	-	7,170	-
Net	1,358,775	27,060	1,391,495	149,142

31 December 2006

	2006			
	Group		Bank	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	839,099	20,425	854,162	94,592
Past due but not impaired	38,880	-	38,136	-
Impaired	6,619	-	5,823	-
Gross	884,598	20,425	898,121	94,592
Less: allowance for impairment	2,053	-	1,774	-
Net	882,545	20,425	896,347	94,592

During the year ended 31 December 2007, the Group's total loans and advances increased by 54%. The Group's total impairment provision for loans and advances is LTL 7,546 thousand (2006: LTL 2,053 thousand) and it accounts for 0.55% of the respective portfolio (2006: 0.23%). The Group's impaired loans and advances to customers comprise 3.16% of the total portfolio (2006: 0.75%).

Impaired loan - is a loan to which a loss event is recognized. The loss event is recognized when a borrower defaults with payment of loan principal and interest for more than 90 days and when the borrower's financial performance is poor or bad.

a) Loans and advances neither past due nor impaired

All loans and advances to financial institutions are considered as standard exposures for the purpose of credit quality analysis. There were neither past due nor impaired loans and advances to financial institutions.

31 December 2007

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Standard	59,588	107,679	14,080	76,580	257,927
Watch	-	43	-	-	43
Substandard	-	182	-	-	182
Doubtful	-	-	-	-	-
Total	59,588	107,904	14,080	76,580	258,152

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

	Group loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
Standard	62,344	654,302	29,376	746,022
Watch	-	220,931	66	220,997
Substandard	-	25,723	-	25,723
Doubtful	-	49	-	49
Total	62,344	901,005	29,442	992,791

31 December 2006

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Standard	20,425	59,335	10,378	48,209	138,347
Watch	8	431	-	97	536
Substandard	-	120	-	-	120
Doubtful	-	-	-	-	-
Total	20,433	59,886	10,378	48,306	139,003

	Group loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
Standard	29,132	613,699	20,742	663,573
Watch	-	25,558	6,920	32,478
Substandard	-	3,668	-	3,668
Doubtful	-	377	-	377
Total	29,132	643,302	27,662	700,096

31 December 2007

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Standard	59,588	107,679	6,948	76,580	250,795
Watch	-	43	-	-	43
Substandard	-	182	-	-	182
Doubtful	-	-	-	-	-
Total	59,588	107,904	6,948	76,580	251,020

	Bank loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
Standard	59,264	699,885	29,376	788,525
Watch	-	220,931	66	220,997
Substandard	-	25,723	-	25,723
Doubtful	-	49	-	49
Total	59,264	946,588	29,442	1,035,294

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

31 December 2006

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Standard	20,425	59,335	5,452	48,209	133,421
Watch	8	431	-	97	536
Substandard	-	120	-	-	120
Doubtful	-	-	-	-	-
Total	20,433	59,886	5,452	48,306	134,077

	Bank loans to business customers			
	Large corporates	**SME**	**Central and local authorities and other**	**Total**
Standard	29,132	633,688	20,742	683,562
Watch	-	25,558	6,920	32,478
Substandard	-	3,668	-	3,668
Doubtful	-	377	-	377
Total	29,132	663,291	27,662	720,085

Other loans to individuals (retail) are secured loans, which are not classified as consumer or mortgage credits and which are assigned e.g. for various personal expenses of the natural entities, for acquisition of real estate, movables or securities.

Loans and advances neither past due nor impaired are loans to which a loss events are not recognized and payments are not past due.

Standard loan is a loan when its repayment is not past due and the borrower's financial performance is either very good or good. Watch loan is a loan when its repayment is not past due and the borrower's financial performance is satisfactory. Substandard loan is a loan when its repayment is not past due and the borrower's financial performance is poor. Doubtful loan is a loan when its repayment is not pas due and the borrower's financial performance is bad.

The Group and the Bank examines the potential borrower's financial performance before issuing a loan and monitors any development in financial performance during the whole loan service period. The Group and the Bank evaluates the borrower's financial performance at least quarterly.

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

b) Loans and advances past due but not impaired

31 December 2007

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Past due up to 30 days	2,583	8,847	1,357	2,401	15,188
Past due 30-60 days	14	1,667	-	511	2,192
Past due 60-90 days	8	1,632	-	348	1,988
Total	2,605	12,146	1,357	3,260	19,368
Fair value of collateral	-	23,806	-	7,462	31,268

	Group loans to business customers			
	Large corporates	**SME**	**Central and local authorities and other**	**Total**
Past due up to 30 days	307	37,836	1,040	39,183
Past due 30-60 days	-	12,068	-	12,068
Past due 60-90 days	-	1,569	-	1,569
Total	307	51,473	1,040	52,820
Fair value of collateral	-	67,457	-	67,457

31 December 2006

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Past due up to 30 days	877	3,209	756	2,583	7,425
Past due 30-60 days	46	999	-	418	1,463
Past due 60-90 days	12	73	-	101	186
Total	935	4,281	756	3,102	9,074
Fair value of collateral	-	8,380	-	3,262	11,642

	Group loans to business customers			
	Large corporates	**SME**	**Central and local authorities and other**	**Total**
Past due up to 30 days	-	24,500	98	24,598
Past due 30-60 days	-	2,261	-	2,261
Past due 60-90 days	-	2,947	-	2,947
Total	-	29,708	98	29,806
Fair value of collateral	-	31,238	115	31,353

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

31 December 2007

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Past due up to 30 days	2,583	8,847	19	2,401	13,850
Past due 30-60 days	14	1,667	0	511	2,192
Past due 60-90 days	8	1,632	0	348	1,988
Total	2,605	12,146	19	3,260	18,030
Fair value of collateral	-	23,806	-	7,462	31,268

	Bank loans to business customers			
	Large corporates	**SME**	**Central and local authorities and other**	**Total**
Past due up to 30 days	307	37,836	1040	39,183
Past due 30-60 days	-	12,068	-	12,068
Past due 60-90 days	-	1,569	-	1,569
Total	307	51,473	1,040	52,820
Fair value of collateral	-	67,457	-	67,457

31 December 2006

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Past due up to 30 days	877	3,209	12	2,583	6,681
Past due 30-60 days	46	999	-	418	1,463
Past due 60-90 days	12	73	-	101	186
Total	935	4,281	12	3,102	8,330
Fair value of collateral	-	8,380	-	3,262	11,642

	Bank loans to business customers			
	Large corporates	**SME**	**Central and local authorities and other**	**Total**
Past due up to 30 days	-	24,500	98	24,598
Past due 30-60 days	-	2,261	-	2,261
Past due 60-90 days	-	2,947	-	2,947
Total	-	29,708	98	29,806
Fair value of collateral	-	31,238	115	31,353

Past due but not impaired loans are loans for which a loss event is not recognized, however, the repayment of the loan principal or interest is past due but no more than 90 days.

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

c) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Group as security is as follows:

31 December 2007

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Impaired loans	4,964	505	1,931	824	8,224
Fair value of collateral	-	615	-	710	1,325

	Group loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
Impaired loans	-	34,957	9	34,966
Fair value of collateral	-	37,684	-	37,684

31 December 2006

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Impaired loans	1,104	229	837	245	2,415
Fair value of collateral	-	700	-	571	1,271

	Group loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
Impaired loans	-	4,167	37	4,204
Fair value of collateral	-	5,265	-	5,265

31 December 2007

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Impaired loans	4,964	505	242	824	6,535
Fair value of collateral	-	615	-	710	1,325

	Bank loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
Impaired loans	-	34,957	9	34,966
Fair value of collateral	-	37,684	-	37,684

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

31 December 2006

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Impaired loans	1,104	229	85	245	1,663
Fair value of collateral	-	700	-	571	1,271

	Bank loans to business customers			
	Large corporates	**SME**	**Central and local authorities and other**	**Total**
Impaired loans	-	4,123	37	4,160
Fair value of collateral	-	5,265	-	5,265

During 2007 the Bank's estimated interest income on impaired loans amounted to LTL 614 thousand (2006: LTL 164 thousand).

d) Loans and advances renegotiated

The Bank did not identify any renegotiated loans that after renegotiation became unimpaired. The Bank does not have system to ensure tracking of all renegotiated loans.

e) Information about collaterals of loans

The method for collateral valuation is selected by the Group and the Bank based on specifics of collateral and existing market conditions on the day of valuation. Based on collateral characteristics and the purpose of its valuation the following valuation methods are used: comparable sales price method or income capitalisation method.

Unsecured loans also include loans secured by other types of collateral (e.g. future inflow of funds into the borrowers' Bank accounts (controlled by the Bank), third party warrantees, bills of exchange, etc.). The total amount of loans to individuals and business customers secured by the above security measure, but disclosed as unsecured, as at 31 December 2007 amounted to LTL 248,159 thousand (2006: LTL 141,013 thousand) Totally unsecured loans comprise only consumer loans, credit cards and loans issued by the Bank to its subsidiaries.

31 December 2007

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Unsecured loans	67,157	2,701	7,209	15,819	92,886
Loans collateralised by:					
- residential real estate	-	104,065	-	18,067	122,132
- other real estate	-	7,428	-	22,301	29,729
- securities	-	246	-	23,299	23,545
- guarantees	-	6,015	-	-	6,015
- cash deposits	-	100	-	748	848
- other assets	-	-	-	430	430
Total	67,157	120,555	7,209	80,664	275,585

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

	Bank loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
Unsecured loans	24,251	287,397	26,637	338,285
Loans collateralised by:				
- residential real estate	5	41,993	1,124	43,122
- other real estate	10,864	500,646	299	511,809
- securities	3,570	32,668	-	36,238
- guarantees	462	94,962	2,112	97,536
- cash deposits	-	447	-	447
- other assets	20,419	74,905	319	95,643
Total	59,571	1,033,018	30,491	1,123,080

31 December 2007

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Unsecured loans	67,157	2,701	17,368	15,819	103,045
Loans collateralised by:					
- residential real estate	-	104,065	-	18,067	122,132
- other real estate	-	7,428	-	22,301	29,729
- securities	-	246	-	23,299	23,545
- guarantees	-	6,015	-	-	6,015
- cash deposits	-	100	-	748	848
- Other assets	-	-	-	430	430
Total	67,157	120,555	17,368	80,664	285,744

	Group loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
Unsecured loans	27,331	241,814	26,637	295,782
Loans collateralised by:				
- residential real estate	5	41,993	1,124	43,122
- other real estate	10,864	500,646	299	511,809
- securities	3,570	32,668	-	36,238
- guarantees	462	94,962	2,112	97,536
- cash deposits	-	447	-	447
- other assets	20,419	74,905	319	95,643
Total	62,651	987,435	30,491	1,080,577

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

31 December 2006

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Unsecured loans	22,467	2,793	5,549	8,706	39,515
Loans collateralised by:					
- residential real estate	5	54,661	-	12,491	67,157
- other real estate	-	3,517	-	13,425	16,942
- securities	-	80	-	15,715	15,795
- guarantees	-	3,245	-	-	3,245
- cash deposits	-	100	-	849	949
- other assets	-	0	-	467	467
Total	22,472	64,396	5,549	51,653	144,070

	Bank loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
Unsecured loans	4,594	181,880	21,903	208,377
Loans collateralised by:				
- residential real estate	5	30,545	2,460	33,010
- other real estate	10,808	337,451	445	348,704
- securities	-	24,839	99	24,938
- guarantees	-	54,500	2,290	56,790
- cash deposits	-	487	-	487
- other assets	13,725	67,420	600	81,745
Total	29,132	697,122	27,797	754,051

31 December 2006

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Unsecured loans	22,467	2,793	11,971	8,706	45,937
Loans collateralised by:					
- residential real estate	5	54,661	-	12,491	67,157
- other real estate	-	3,517	-	13,425	16,942
- securities	-	80	-	15,715	15,795
- guarantees	-	3,245	-	-	3,245
- cash deposits	-	100	-	849	949
- other assets	-	-	-	467	467
Total	22,472	64,396	11,971	51,653	150,492

	Group loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
Unsecured loans	4,594	161,935	21,903	188,432
Loans collateralised by:				
- residential real estate	5	30,545	2,460	33,010
- other real estate	10,808	337,451	445	348,704
- securities	-	24,839	99	24,938
- guarantees	-	54,500	2,290	56,790
- cash deposits	-	487	-	487
- other assets	13,725	67,420	600	81,745
Total	29,132	677,177	27,797	734,106

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

1.6. Finance lease receivables

Finance lease receivables are summarised as follows:

	2007			2006		
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
Neither past due nor impaired	28,065	70,496	98,561	26,684	40,370	67,054
Past due but not impaired	4,458	16,128	20,586	3,711	6,048	9,759
Impaired	1,601	1,981	3,582	1,323	390	1,713
Gross	34,124	88,605	122,729	31,718	46,808	78,526
Less: allowance for impairment	759	365	1,124	613	46	659
Net	33,365	88,240	121,605	31,105	46,762	77,867

During the year ended 31 December 2007, finance lease receivables portfolio increased by 56%. Total impairment provision for finance lease receivables is LTL 1,124 thousand (2006: LTL 659 thousand) and it accounts for 0.92% of the respective portfolio (2006: 0.84%).

a) Finance lease receivables neither past due nor impaired

Finance lease receivables from individuals are assessed based on application scorings when decision is made. After the loans are granted they are monitored based on their past due status. All loans to individuals, which are neither past due nor impaired are considered as standard loans from credit risk management view.

	2007			2006		
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
Standard	28,065	50,506	78,571	26,684	39,624	66,308
Watch	-	19,832	19,832	-	746	746
Substandard	-	158	158	-	-	-
Total	28,065	70,496	98,561	26,684	40,370	67,054

Standard lease receivable is a receivable when its repayment is not past due and the borrower's financial performance is either very good or good. Watch lease receivable is a receivable when its repayment is not past due and the borrower's financial performance is satisfactory. Substandard lease receivable is a receivable when its repayment is not past due and the borrower's financial performance is poor or bad.

b) Finance lease receivables past due but not impaired

	2007			2006		
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
Past due up to 3 days	697	2,547	3,244	426	453	879
Past due 4-40 days	2,920	12,278	15,198	2,597	5,037	7,634
Past due 41-90 days	841	1,303	2,144	688	558	1,246
Total	4,458	16,128	20,586	3,711	6,048	9,759
Fair value of collateral	8,117	23,111	31,228	6,787	9,085	15,872

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

c) Finance lease receivables individually impaired

	Individuals	Business customers	Total
31 December 2007			
Individually impaired	1,601	1,981	3,582
Fair value of collateral	2,601	3,168	5,769
31 December 2006			
Individually impaired	1,323	390	1,713
Fair value of collateral	2,074	686	2,760

d) Information about risk mitigation measures for finance lease receivables

Upon initial recognition of financial lease receivables, the fair value of risk mitigation measures is based on valuation approaches commonly used for the corresponding types of assets. Market values are used for real estate and movable assets serving as risk mitigation measures. In subsequent periods, the fair value of risk mitigation measures is updated based on its depreciation rates or when exposure becomes impaired.

If exposure is secured by several different types of risk mitigation measures, priority in their recognition is based on their liquidity. Transport vehicles are treated as having highest liquidity followed by residential real estate and then other real estate. Equipment and other assets are treated as having lowest liquidity.

The lender remains the owner of the leased object. Therefore, in case of customer default it is able to gain control on the risk mitigation measures and realize them in rather short period.

			2007			2006
	Individuals	Business customers	Total	Individuals	Business customers	Total
Unsecured finance lease receivables	-	-	-	-	-	-
Finance lease receivables secured by:						
- transport vehicles	2,446	25,369	27,815	959	11,822	12,781
- residential real estate	88	20,569	20,657	231	14,451	14,682
- airplanes	-	11,756	11,756	-	-	-
- production equipment	164	14,987	15,151	175	10,926	11,101
- other equipment	21,287	10,681	31,968	20,243	4,269	24,512
- other assets	10,139	5,243	15,382	10,110	5,340	15,450
Total	34,124	88,605	122,729	31,718	46,808	78,526

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

1.7. Concentration of risks of financial assets with credit risk exposure

Industry sectors

The Group and the Bank established lending limits to a particular industry (only for loans and advances), which are reviewed on a regular basis based on the Bank's decision. The following limits have been approved by the Bank's Board for 2007 and 2006: wholesale and retail – 26% of the total loan portfolio, loans to individuals – 25%, manufacturing – 20%, construction – 15%, real estate and rent – 15%, agriculture, hunting and forestry – 12%, transport storage and communication – 10%, hotels and restaurants – 7%, health and social work – 5%. As at 31 December 2007 the Group and the Bank were compliant with the above limits.

The following table breaks down the main credit exposures at their carrying amounts, as categorized by the industry sectors of our counterparties.

Bank

	Financial interme-diation	Wholesale and retail	Manufac-toring	Real estate and rent	Construc-tion	Agriculture, hunting and forestry	Hotels and restaurants	Transport, storage and communica-tion	Health and social work	Loans to individuals	Other	Total
Cash and balances with central banks	187,205	-	-	-	-	-	-	-	-	-	-	187,205
Loans and advances to banks	593	-	-	-	-	-	-	-	-	-	-	593
Loans and advances to customers:												
Loans and advances to financial institutions	149,142	-	-	-	-	-	-	-	-	-	-	149,142
Loans to individuals (Retail):												
- Consumer loans	-	-	-	-	-	-	-	-	-	66,456	-	66,456
- Mortgages	-	-	-	-	-	-	-	-	-	120,545	-	120,545
- Credit cards	-	-	-	-	-	-	-	-	-	7,046	-	7,046
- Other	-	-	-	-	-	-	-	-	-	80,630	-	80,630
Loans to business customers:												
- Large corporates	-	17,448	22,947	-	301	-	-	11,209	-	-	7,666	59,571
- SME	60,627	210,290	167,847	186,317	115,665	84,186	78,158	35,346	50,452	-	37,877	1,026,765
- Central and local authorities, administrative bodies and other	-	-	-	10	9,013	-	1,066	-	4,515	-	15,878	30,482
Trading assets:												
- Debt securities	-	-	-	-	-	-	-	-	-	-	6,363	6,363
- Equity securities	2,792	-	384	-	-	-	-	-	-	-	-	3,176
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Securities available for sale												
- Debt securities	-	-	-	-	-	-	-	-	-	-	12,170	12,170
- Equity securities	1,056	-	500	-	-	-	-	-	-	-	-	1,556
Investment securities held-to-maturity												
-debt securities	-	-	-	-	-	-	-	-	-	-	164,163	164,163
Other assets, advance	36	-	-	1,020	-	-	-	60	-	-	-	1,116
Credit risk exposures relating to off –balance sheet items are as follows:												
Financial guarantees	3,600	15,187	27,433	660	35,916	65	1,707	2,333	341	-	2,567	89,809
Letters of credit	3,708	-	4,679	-	-	-	-	-	-	-	-	8,387
Loan commitments and other credit related liabilities	2,152	27,969	10,636	11,969	22,552	7,971	1,610	2,454	2,247	13,028	10,280	112,868
At 31 December 2007	410,911	270,894	234,426	199,976	183,447	92,222	82,541	51,402	57,555	287,705	256,964	2,128,043
At 31 December 2006	224,238	234,403	139,865	103,305	177,305	73,006	45,355	31,079	19,775	156,313	203,629	1,408,273

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Group

	Financial interme-diation	Wholesale and retail	Manufac-toring	Real estate and rent	Construc-tion	Agriculture, hunting and forestry	Hotels and restaurants	Transport, storage and communica-tion	Health and social work	Loans to individuals	Other	Total
Cash and balances with central banks	187,215	-	-	-	-	-	-	-	-	-	-	187,215
Loans and advances to banks	593	-	-	-	-	-	-	-	-	-	-	593
Loans and advances to customers:		-	-	-	-	-	-	-	-	-	-	-
Loans and advances to financial institutions	27,060	-	-	-	-	-	-	-	-	-	-	27,060
Loans to individuals (Retail):												
- Consumer loans	-	-	-	-	-	-	-	-	-	66,456	-	66,456
- Mortgages	-	-	-	-	-	-	-	-	-	120,545	-	120,545
- Credit cards	-	-	-	-	-	-	-	-	-	16,829	-	16,829
- Other	-	-	-	-	-	-	-	-	-	80,630	-	80,630
Loans to business customers:												
- Large corporates	-	17,448	26,027	-	301	-	-	11,209	--		7,666	62,651
- SME	34,765	210,290	168,958	165,485	115,665	84,186	78,158	35,346	50,452	-	37,877	981,182
- Central and local authorities, administrative bodies and other	-	-	-	10	9,013	-	1,066	-	4,515	-	15,878	30,482
Finance lease receivables												
-individuals	106	9,869	13,841	3,772	7,379	5,949	700	36,532	5,408	-	4,684	88,240
-business customers	-	-	-	-	-	-	-	-	-	-	33,365	33,365
Trading assets:												
- Debt securities	-	-	5,946	-	-	-	-	-	-	-	6,363	12,309
- Equity securities	2,792	-	4,827	10,956	-	-	-	-	10,250	-	-	28,825
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Securities available for sale												
- Debt securities	-	-	-	-	-	-	-	-	-	-	12,170	12,170
- Equity securities	1,056	-	500	-	-	-	-	-	-	-	-	1,556
Investment securities held-to-maturity												
-debt securities	-	-	-	-	-	-	-	-	-	-	164,163	164,163
Other assets, advance	8,817	1,981	-	7,557	-	-	-	64	-	-	-	18,419
Credit risk exposures relating to off –balance sheet items are as follows:												
Financial guarantees	3,600	15,187	27,433	660	35,916	65	1,707	2,333	341	0	2,567	89,809
Letters of credit	3,708	-	4,679	-	-	-	-	-	-	-	-	8,387
Loan commitments and other credit related liabilities	56	27,969	10,636	11,639	22,552	7,971	1,610	2,454	2,247	20,660	10,280	118,074
At 31 December 2007	269,768	282,744	262,847	200,079	190,826	98,171	83,241	87,938	73,213	305,120	295,013	2,148,960
At 31 December 2006	141,372	246,490	156,045	115,334	178,503	78,584	43,261	48,473	21,722	200,898	206,095	1,436,777

2. Market risk

The Group takes on exposure to market risk, which means the risk for the Bank to incur losses due to the adverse fluctuations in the market parameters such as currency exchange rates (foreign currency risk), interest rates (interest rate risk) or equities prices (equity risk). The most significant market risk for a Group is interest rate risk while other market risks are of lower significance.

2.1. Foreign exchange risk

The foreign exchange risk management is regulated by the Procedures for Foreign Exchange Risk Management. They include the list of types of sale and purchase transactions executed by the Group. Also they establish principles which help the Group to minimize the exposure to foreign exchange risk. The Group does not implement any operations which could cause open currency positions expecting to earn due to the currency rate shift. The Bank's Board approves and reviews on a regular basis the maximum limits for open currency positions for the Bank's branches, subsidiaries and the Bank itself. The established limits are lower than those allowed by the Bank of Lithuania. The Bank's Treasury Department is responsible for the Group's compliance with the Procedures for Foreign Exchange Risk Management.

The Group and the Bank monitors the foreign currency risk by calculating open currency position. Open currency position (OCP) is equal to assets in the balance sheet and off-balance sheet less balance sheet and off-balance sheet liabilities in a single currency. There are two types of OCP, i.e. long and short. The Bank also calculates Total open position (TOP), which is the higher of the separately added short and long positions. Based on the Bank's policy TOP mau not exceed 3% of the total Bank's capital. As at 31 December 2007 the TOP to capital ratio was: Group's – 1.36% (2006: 1.37%), Bank's – 1.40% (2006: 1.39%)

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Sensitivity of foreign exchange risk
Foreign exchange (FX) risk is limited by amounts of open FX positions. For calculation of sensitivity to FX risk all exposures shall be converted into possible loss – i.e. open FX position is multiplied by possible FX rate change. After the evaluation of the maximum fluctuation among currency rates during 2007, the FX risk parameters for the Group have been chosen.

Currency	Annual reasonable shift, 2007	Annual reasonable shift, 2007
LVL	1%	1%
GBP	1%	1%
NOK	1%	1%
USD	5%	5%
SEK	1%	1%
Other currencies	3%	3%

The following table presents Group (Bank) sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant:

	At 31 December 2007		At 31 December 2006	
Group and Bank	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollars weakening by 5%	16	16	4	4
GBP strengthening by 1%	9	9	9	9
NOK strengthening by 1%	6	6	2	2
SEK strengthening by 1%	4	4	1	1
LVL strengthening by 1%	4	4	3	3
Other strengthening by 3%	30	30	10	10
Total	69	69	29	29

The presumable FX rate change creates acceptable impact on the Bank's and the Group's annual profit and makes LTL 69 thousand in 2007 (2006: LTL 29 thousand) higher/lower impact on profit.

The Bank's exposure to foreign currency exchange rate risk is summarised in Note 32. The Note reveals that the Group has exposure to EUR, exposures to other currencies are not significant. The Group follows a very conservative approach to foreign exchange risk and limits all positions with the limits.

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

2.2. Interest rate risk

An interest rate risk is a risk to incur losses because of the mismatch of re-evaluation possibility between the Bank's assets and liabilities. The risk management is regulated by the Procedures for Interest Rate Risk Management which establish methods of risk measurement and set up measures for risk management. These procedures define that:

- the Bank observes the principle to avoid the speculation with future interest rates;
- the risk size is evaluated applying a pattern of interest rate gap (GAP);
- Planning and Financial Risk Department provides the information on regular basis to Risk Management Committee about compliance with relative gap limits and submits proposals to the Bank's Board regarding the establishment of interest rates for credits and deposits.

Sensitivity of interest rate risk

Assessing the sensitivity of the Group's profit towards the change of interest rates, it has been assumed that interest is to change by 1 percentage point.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Non-monetary	Total
31 December 2007							
Total financial assets	217,149	434,270	639,114	116,981	292,606	352,333	2,052,453
Total financial liabilities	351,672	417,799	238,358	260,860	60,562	723,202	2,052,453
Net interest sensitivity gap at 31 December 2007	(134,523)	16,471	400,756	(143,879)	232,044	(370,869)	
Higher/lower impact on profit from balance sheet assets and liabilities	(1,289)	137	2,505	(360)			993
Higer/lower impact on profit from off-balance sheet liabilities							426
Total higher/lowe impact for 2007							1,419
31 December 2006							
Total financial assets	111,170	264,495	426,713	83,725	264,452	236,748	1,387,303
Total financial liabilities	168,822	226,570	175,584	197,185	76,197	542,945	1,387,303
Net interest sensitivity gap at 31 December 2006	(57,652)	37,925	251,129	(113,460)	188,255	(306,197)	
Higher/lower impact on profit from balance sheet assets and liabilities	(552)	316	1,570	(284)			1,050
Higer/lower impact on profit from off-balance sheet liabilities							211
Total higher/lowe impact for 2006							1,261

The shift of yield curve according to above mentioned parameters creates acceptable impact on Group's annual profit and makes LTL 1,419 thousand in 2007 (2006: LTL 1,261 thousand) higher/lower impact on profit.

2.4 Equity risk

Equity risk was not assessed due to immaterial volumes.

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

3. Liquidity risk

Liquidity risk means the risk that the Bank is unable to meet its financial obligations in time or that it will not manage to receive financial resources during a short time by borrowing or selling the assets.

3.1 Liquidity risk management process

The liquidity risk management depends on the Bank's ability to cover the cash shortage by borrowing from the market; and the liquidity of the market itself. While managing the liquidity risk the relatively small size of the Bank has both positive and negative features. On the one part, in case of liquidity problems, the demand for total funds is rather small in terms of banking system, therefore, they are solved easily. On the other part, in case of liquidity problems the Bank's ability to borrow from the market may decrease significantly. Due to that fact the Bank possesses a significant Debt Securities Portfolio, which is of high liquidity.

Liquidity risk management is regulated by the Procedures for Liquidity Risk Management approved by the Bank's Board where strategic and current liquidity risk management measures are distinguished. Strategic (up to 6 months) liquidity risk is evaluated by analyzing the dynamics of various liquidity ratios. A list of these ratios as well as recommended limits to their change are defined in the above-mentioned procedures. Decisions regarding liquidity management issues are made by the Bank's Risk Management Committee with reference to the information submitted by the Bank's Planning and Financial Risks Department or by the Bank's Board with reference to the information submitted by the Risk Management Committee. Current liquidity (up to 10 days) risk management is based on current cash flow analysis and projections. The Treasury Department is responsible for this.

The Group controls liquidity risk through established ratios and limits. For the purpose of managing liquidity risk, in addition to the liquidity ratio set by the Bank of Lithuania, which as at 31 December 2007 the Group's ratio was 39.48 (2006: 37.53) and the Bank's 44.05 (2006: 40.74), the Group uses the ratio of liquid assets to the total assets, which should not be lower than 20 per cent. Liquid assets used in calculation of the above ratio represents funds held at banks and financial institutions with maturity of less than three months. As at 31 December 2007 the above Group's ratio was 20.40 per cent (2006: 22.66 per cent), and the Banks – 20.80 (2006: 23.27).

To follow the solvency status the Group and the Bank monitors availability of liquid funds needed to cover liabilities with a maturity of less than 30 days. Based on the Group's liquidity management policy this ratio (i.e. liquid funds / liabilities of less than 30 days) should not be lower than 100 per cent. As at 31 December 2007 the above ratio on the Group's and the Bank's level was 107.50 (2006: 110.14 per cent) per cent and 127.37 (2006: 130.02 per cent) per cent respectively.

The Group and the Bank also calculates 3-months liquidity ratio to monitor longer term liquidity risk. Based on the Group's liquidity risk management policy this ratio should not be lower than 36 per cent. As at 31 December 2007 the Group's and the Bank's ratio was 48.27 per cent (2006: 42.09 per cent) and 58.72 per cent (2006: 49.96 per cent) respectively.

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

3.2. Non - derivative cash flows

Undiscounted cash flows in the table below describe presumable liability side outflows which are represented by nominal cantract amounts together with accrued interest till the end of the contract.

Bank

31 December 2007 Liabilities	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Due to banks	-	128,516	5,754	125,125	188,596	51,401	499,392
Due to customers	-	510,098	223,815	448,190	56,833	37	1,238,973
Debt securities in issue	-	-	-	29,157	-	-	29,157
Special and lending funds	-	2,458	489	4,127	29,215	5,008	41,297
Total liabilities (contractual maturity dates)	**-**	**640,172**	**230,058**	**606,599**	**274,644**	**56,446**	**1,808,819**

Group

31 December 2007 Liabilities	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Due to banks	-	137,451	5,754	125,125	188,596	51,401	508,327
Due to customers	-	510,102	223,815	448,294	56,833	37	1,239,081
Debt securities in issue	-	-	-	29,157	-	-	29,157
Special and lending funds	-	2,087	489	4,127	29,215	5,008	40,926
Total liabilities (contractual maturity dates)	**-**	**649,640**	**230,058**	**606,703**	**274,644**	**56,446**	**1,817,491**

Bank

31 December 2006 Liabilities	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Due to banks	-	45,672	8,399	34,708	88,851	-	177,630
Due to customers	-	424,786	154,732	320,246	48,122	14	947,900
Debt securities in issue	-	-	-	13,951	33,949	-	47,900
Special and lending funds	-	2,737	493	5,189	16,586	22,100	47,105
Total liabilities (contractual maturity dates)	**-**	**473,195**	**163,624**	**374,094**	**187,508**	**22,114**	**1,220,535**

Group

31 December 2006 Liabilities	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Due to banks	-	50,676	8,399	34,708	88,851	-	182,634
Due to customers	-	424,566	154,732	320,246	48,122	14	947,680
Debt securities in issue	-	-	-	13,951	16,211	-	30,162
Special and lending funds	-	2,765	549	5,441	17,048	22,100	47,903
Total liabilities (contractual maturity dates)	**-**	**478,007**	**163,680**	**370,010**	**170,232**	**22,114**	**1,208,379**

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

3.3. Derivative cash flows

Cash infloes and outflows on derivatives settled on a gross basis are presented below (there are no derivatives settled on a net basis). All of the below cash flows are settled within one month after the year end.

Group and Bank

Foreign exchange derivatives	**2007**	**2006**
Outflow	11,786	14,467
Inflow	11,905	14,385

3.4. Off - balance sheet items

Analysis of off-balance sheet items by the remaining maturity is as follows:

Bank	**Up to one month**	**From 1 to 3 months**	**From 3 to 12 months**	**Up to one year**	**From 1to 5 years**	**Over 5 years**	**Total**
At 31 December 2007							
Loan commitments	20,109	15,188	17,250	31,137	22,410	6,489	112,583
Other commitments	285	-	-	-	-	-	285
Total	20,394	15,188	17,250	31,137	39,339	6,489	211,064
At 31 December 2006							
Loan commitments	13,507	10,298	4,479	12,214	39,756	4,136	84,390
Other commitments	135	-	-	-	-	-	135
Total	13,642	10,298	4,479	12,214	49,465	4,136	138,953

Group	**Up to one month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
At 31 December 2007							
Loan commitments	20,906	15,188	17,250	31,137	25,929	6,489	116,899
Finance lease commitments	890	-	-	-	-	-	890
Other commitments	285	-	-	-	-	-	285
Total	22,081	15,188	17,250	31,137	42,858	6,489	216,270
At 31 December 2006							
Loan commitments	14,118	10,298	4,479	12,214	41,557	4,136	86,802
Finance lease commitments	1,190	-	-	-	-	-	1,119
Other commitments	135	-	-	-	-	-	135
Total	15,443	10,298	4,479	12,214	51,266	4,136	141,484

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

4. Fair value of financial assets and liabilities

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value. Current market interest rates (VILIBOR or LIBOR) plus or minus current margin for similar products were used for calculation of fair value.

Bank

As at 31 December 2007

Assets	**Balance sheet value**	**Fair values**
Loans	1,540,637	1,539,957
Loans to individuals:	274,677	270,516
- Consumer loans	66,456	62,700
- Mortgages	120,545	120,036
- Credit cards	7,046	7,017
- Other	80,630	80,351
Loans to business customers	1,265,960	1,269,441
- Central and other authorities	30,482	29,814
- Large corporates	59,571	59,220
- SME	1,026,765	1,025,995
- Loans and advances to financial institutions	149,142	149,142
Investment securities held-to-maturity	164,163	159,608
Liabilities		
Due to other banks and financial institutions	454,671	453,543
Due to customers	1,216,942	1,215,151
Debt securities in issue	28,550	28,550
Special and lending funds	36,092	35,381

As at 31 December 2006

Assets	**Balance sheet value**	**Fair values**
Loans	990,939	991,337
Loans to individuals:	143,770	143,539
- Consumer loans	22,245	22,028
- Mortgages	64,396	64,330
- Credit cards	5,479	5,458
- Other	51,650	51,723
Loans to business customers	847,169	847,798
- Central and other authorities	27,760	27,365
- Large corporates	29,132	29,194
- SME	695,685	696,647
- Loans and advances to financial institutions	94,592	94,592
Investment securities held-to-maturity	162,470	163,939
Liabilities		
Due to other banks and financial institutions	167,956	167,105
Due to customers	935,749	935,855
Debt securities in issue	45,561	45,561
Special and lending funds	42,007	41,207

Fair value of loans and advances to banks is very close to carrying value because of short maturity of theses contracts.

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

5. Operational risk

The aim of the Bank's operational risk management is to clearly define the operational risk, reduce the operational risk at the Bank to an acceptable level and use the results of the operational risk analysis as the base for the implementation of the risk reduction processes and their assessment, i.e. to refuse the inefficient measures, implement new ones and maintain the existing means of operational risk management.

The operational risk management system at the Bank includes all the significant fields of the banking operations: work with cash, lending, establishment and application of fees, payments and settlements, IT, accounting, public trading intermediary, etc.

Taking into consideration the nature and scope of the banking activities, the following operational risk sources may be distinguished: information systems, human impact and loss of tangible assets.

The operational risk management and control system focuses on the identification of the most problematic places at the Bank in terms of the operational risk. The good functioning within the Bank's internal control system is the main factor mitigating the operational risk at the Bank.

Since 2005 the Bank has created the registration system to follow the operational risk events. The registration of the operational risk events is a foundation used for disclosing the major sources of the operational risks with the bank.

The Bank's operational risk management system is complimented by the Information Security and Emergency Management System created and installed by the IT agency "Blue Bridge", which increased the reliability of e-banking services and reduced the risks that the Bank's activities might be disturbed using the IT. New regulations regarding the secure work with the IT have been established and started to be applied in all the outlets of the Bank and for separate bank officers, which allows significantly mitigate the risks of crisis related to information security.

Taking into consideration the scope of its activities and opportunity to use the historic data related to the operational risk, the Bank has decided to use a basic indicator method to calculate the additional capital requirements.

6. Stress tests

Besides the regular assessment of the risks and the capital requirement calculation the Group also performs stress tests for the credit, liquidity, market (interest rate and currency), and operational risks. During this process it is determined if the Bank's capital is sufficient to cover the possible losses which may occur because of the financial status impairment. The stress testing is performed once a year in accordance with the requirements set by the Bank of Lithuania.

7. Capital management

The capital of the Group is calculated and allocated for the risk coverage following the General Regulations for the Calculation of Capital Adequacy approved by the Bank of Lithuania Board. The Group's objectives when managing capital are as follows:

1) to comply with the capital requirements set by the Bank of Lithuania as well as the higher target capital requirements set by the major shareholder,
2) to safeguard the Bank's and the Group's ability to continue as a going concern so that it can provide returns for shareholders and benefits for other stakeholders,
3) to support the development of the Group's business with the help of the strong capital base.

Capital adequacy and the use of the regulatory capital are monitored on a daily basis and information regarding capital adequacy is submitted to the supervising authority quarterly in accordance with the Bank of Lithuania requirements.

The Bank of Lithuania has set the following minimum capital requirements:
1) minimum level of capital held must be no less than 5 mill EUR,
2) Minimum capital adequacy ratio, calculated as the regulatory capital to the risk-weighted assets, must be no less than 8%.

(All amounts are in LTL thousand, unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

Additional capital need for credit, operational, market and liquidity risk is subject to the regular stress-testing and Internal Capital Adequacy Assessment processing.
The Group's regulatory capital is divided into two tiers:
1) Tier 1 capital consists of the share capital, share premium, reserve capital, retained earnings of the previous financial year and less the intangible assets,
2) Tier 2 capital consists of the revaluation reserves of the fixed and financial assets, other reserves.

The regulatory capital is calculated as the sum of the previously mentioned tier 1 and tier 2 capital less the investments in other credit or financial institution.

The risk-weighted assets are measured by means of four risk weights classified according to the nature of each assets and counterpart, taking into account collaterals and guarantees eligible for risk mitigation. A similar treatment with some adjustments is adopted for the off-balance sheet exposures.

The table below summarizes the composition of regulatory capital and the ratios of the Bank and Group for the years ended 31 December. During those two years, the Group complied with capital requirements to which it is subject.

	2007		**2006**	
	Group	**Bank**	**Group**	**Bank**
Tier 1 capital				
Ordinary shares	161,033	161,033	109,039	109,039
Share premium	65,006	65,006	25,000	25,000
Reserve capital	2,611	2,611	2,611	2,611
Previous year's retained earnings	25,422	11,914	5,590	1,189
Less: Intangible assets	(1,251)	(1,227)	(1,600)	(1,539)
Total Tier 1 capital	**252,821**	**239,337**	**140,640**	**136,300**
Tier 2 capital				
Other reserves	1,743	1,445	927	700
Financial assets revaluation reserve	360	360	-	-
Total Tier 2 capital	**2,103**	**1,805**	**927**	**700**
Less Investments in other credit or financial institutions	-	(900)	-	(900)
Total capital	**254,924**	**240,242**	**141,567**	**136,100**
Risk weighted items of banking book:				
On – balance sheet	1,470,151	1,470,198	958,135	925,446
Off – balance sheet	83,523	81,770	55,585	53,985
Total risk – weighted items of banking book	**1,553,674**	**1,551,967**	**1,013,720**	**979,431**
Total risk – weighted items of trading book	**75,561**	**17,788**	**12,022**	**12,025**
Total risk weighted assets and off-balance sheet items	**1,629,235**	**1,569,756**	**1,025,742**	**991,456**
Capital ratio, %	**15.65**	**15.30**	**13.80**	**13.73**

(All amounts are in LTL thousand, unless otherwise stated)

SEGMENT INFORMATION

Primary reporting format – business segments

Below, there is a summary of major indicators for the main business segments of the Group included in the balance sheet as at 31 December 2007 and in the income statement for the year then ended:

	Banking	Leasing	Investment management	Real estate development	Eliminations	Total Group
Internal	6,015	(4,341)	(808)	(866)	-	-
External	36,595	10,948	179	1,239	-	48,961
Net interest income	42,610	6,607	(629)	373	-	48,961
Internal	6,488	(4,811)	(809)	(868)	-	-
External	45,558	10,861	240	1,241	-	57,900
Net interest, fee and commissions income	52,046	6,050	(569)	373	-	57,900
Provision expenses	(5,108)	(950)	44	96		(5,918)
Internal	36	(239)	(25)	(31)	259	-
External	(34,528)	(2,591)	(858)	(1,324)	-	(39,301)
Operating expenses	(34,492)	(2,830)	(883)	(1,355)	259	(39,301)
Amortisation charges	(617)	(35)	-	(2)	-	(654)
Depreciation charges	(2,664)	(650)	(37)	(142)	-	(3,493)
Internal	7,404	(24)	-	(7)	(7,373)	-
External	12,632	,662	3,011	4,679	-	20,984
Net other income	20,036	638	3,011	4,672	(7,373)	20,984
Profit before tax	29,201	2,223	1,566	3,642	(7,114)	29,518
Income tax	(1,953)	(468)	(112)	(524)	-	(3,057)
Profit per segment after tax	27,248	1755	1,454	3,118	(7,114)	26,461
Minority interest	-	-	(576)	(1,483)	-	(2,059)
Profit for the year attributable to equity holders of the Bank	27,248	1,755	878	1,635	(7,114)	24,402
Total segment assets	2,013,146	143,412	29,428	37,469	(171,078,)	2,052,377
Total segment liabilities	1,743,529	140,480	26,817	21,288	(168,943)	1,763,171
Net segment assets (shareholders' equity)	269,617	2,932	2,611	16,181	(2,135)	289,206
Acquisitions of non-current assets	12,133	2,730	12	17	-	14,892

(All amounts are in LTL thousand, unless otherwise stated)

SEGMENT INFORMATION (CONTINUED)

Below, there is a summary of major indicators for the main business segments of the Group included in the balance sheet as at 31 December 2006 and in the income statement for the year then ended:

	Banking	Leasing	Investment management	Real estate development	Eliminations	Total Group
Internal	3,553	(2,906)	(469)	(178)	-	-
External	26,796	8,217	158	161	-	35,332
Net interest income	30,349	5,311	(311)	(17)	-	35,332
Internal	3,987	(3,333)	(470)	(184)	-	-
External	34,887	8,119	206	157	-	43,369
Net interest, fee and commissions income	38,874	4,786	(264)	(27)	-	43,369
Provision expenses	(423)	(680)	82	(576)		(1,597)
Internal	-	(240)	(25)	(28)	293	-
External	(28,670)	(2,100)	(560)	(2,395)	(293)	(34,018)
Operating expenses	(28,670)	(2,340)	(585)	(2,423)	-	(34,018)
Amortisation charges	(673)	(56)	-	(9)	-	(738)
Depreciation charges	(2,611)	(464)	(46)	(366)	-	(3,487)
Internal	7,988	(1,000)	(1,450)	(1,412)	(4,126)	-
External	101	1,410	2,654	42,950	293	47,408
Net other income	8,089	410	1,204	41,538	(3,833)	47,408
Profit before tax	14,586	1,656	391	38,137	(3,833)	50,937
Income tax	(935)	(414)	-	(7,257)	-	(8,606)
Profit per segment after tax	13,651	1,242	391	30,880	(3,833)	42,331
Minority interest	-	-	(155)	(19,347)	-	(19,502)
Profit for the year attributable to equity holders of the Bank	13,651	1,242	236	11,533	(3,833)	22,829
Total segment assets	1,348,033	89,053	14,444	52,387	(118,885)	1,385,032
Total segment liabilities	1,195,843	86,676	12,287	15,088	(112,231)	1,197,663
Net segment assets (shareholders' equity)	152,190	2,377	2,157	37,299	(6,654)	187,369
Acquisitions of non-current assets	11,556	1,408	2	324	-	13,290

Secondary reporting format – geographical segments

Geographical concentrations of the Group and Bank assets were as follows:

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Lithuania (home country)	1,983,692	1,944,461	1,328,701	1,291,702
Denmark	971	971	496	496
Czechia	3,548	3,548	3,528	3,528
Hungary	10,336	10,336	10,302	10,302
Italy	2,493	2,493	3,266	3,266
Latvia	669	669	80	80
Germany	16,943	16,943	16,807	16,807
Russia	1,789	1,789	1,470	1,470
Austria	1,765	1,765	-	-
Poland	9,171	9,171	8,901	8,901
United Kingdom	2,081	2,081	1,965	1,965
France	962	962	600	600
USA	11,881	11,881	5,315	5,315
Other foreign countries	6,085	6,085	3,601	3,601
Total	**2,052,377**	**2,013,146**	**1,385,032**	**1,348,033**

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 NET INTEREST INCOME

	2007		2006	
	Group	Bank	Group	Bank
Interest income:				
on loans to other banks and financial institutions and placements with credit institutions	4,274	8,615	2,853	5,766
on loans to customers	78,717	78,159	47,706	47,797
on debt securities	8,029	7,796	6,333	6,333
on finance leases	10,328	-	7,597	-
Total interest income	101,348	94,570	64,489	59,896
Interest expense:				
on liabilities to other banks and financial institutions and amounts due to credit institutions	(15,373)	(14,944)	(5,519)	(5,474)
on customer deposits and other repayable funds	(35,463)	(35,465)	(22,612)	(22,661)
on debt securities issued	(1,551)	(1,551)	(1,026)	(1,412)
Total interest expense	(52,387)	(51,960)	(29,157)	(29,547)
Net interest income	48,961	42,610	35,332	30,349

NOTE 2 NET FEE AND COMMISSION INCOME

	2007		2006	
	Group	Bank	Group	Bank
Fee and commission income:				
for money transfer operations	8,496	8,631	7,381	7,503
for payment card services	2,042	2,047	1,447	1,453
for base currency exchange	1,270	1,272	876	877
for operations with securities	671	671	253	253
other fee and commission income	1,959	2,219	1,953	2,207
Total fee and commission income	14,438	14,840	11,910	12,293
Fee and commission expense:				
for payment card services	(3,399)	(3,399)	(2,285)	(2,283)
for money transfer operations	(1,562)	(1,561)	(1,140)	(1,140)
for operations with securities	(410)	(410)	(274)	(274)
for base currency exchange	(4)	(4)	(5)	(5)
other fee and commission expenses	(124)	(30)	(169)	(66)
Total fee and commission expense	(5,499)	(5,404)	(3,873)	(3,768)
Net fee and commission income	8,939	9,436	8,037	8,525

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 NET GAIN (LOSS) ON OPERATIONS WITH SECURITIES

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Trading securities				
Realised gain on trading equity securities	2,123	435	422	364
Unrealised gain on trading equity securities	63	63	305	305
Realised gain (loss) on trading debt securities	(30)	(30)	38	38
Unrealised (loss) on trading debt securities	(182)	(182)	(414)	(414)
Net gain on trading securities	1,974	286	351	293
Realised gain on available-for-sale securities	-	-	50	50
Dividend and other income from equity securities held for trading	2,355	246	293	133
Total	4,329	532	694	476

NOTE 4 GAIN ON DISPOSAL OF SUBSIDIARY

Based on the agreement signed on 24 April 2007, the Bank sold all its shares previously owned in Pajūrio Alka UAB. For the purpose of consolidated financial statements of the Group for the year 2007, revenue and expenses of the disposed subsidiary were included in the Group's income statement until the date of sale, as follows:

	In kLTL
Sales revenue	272
Operating and administrative expenses	(393)
Tax charge (deferred tax)	107
Result of operations	*(14)*

Net assets and liabilities of the subsidiary at the time of disposal comprised as follows:

Assets:	
Fixed immovable property	6,177
Other fixed tangible assets	273
Amounts receivable	72
Other assets	39
Cash	16
Total	6,577
Liabilities:	
Short-term borrowings	2,001
Other amounts payable	38
Other liabilities	123
Total	2,162
Total net assets (assets less liabilities)	4,415
Acquisition cost	4,519
Sale proceeds	12,940
Realised gain on disposal (Group)	8,525
Realised gain on disposal (Bank)	8,421

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 5 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Salaries, social security and other related expenses	22,757	19,799	19,330	16,317
Compulsory insurance of deposits	5,036	5,036	3,955	3,955
Rent and maintenance of premises	4,041	3,849	3,793	3,470
Depreciation of fixed tangible assets	3,494	2,664	3,487	2,611
Transportation, post and communications expenses	2,032	1,669	1,934	1,571
Amortisation of intangible assets	654	617	738	673
Real estate tax and other taxes	918	680	698	478
Advertising and marketing expenses	926	757	649	524
Training and business trip expenses	265	183	232	199
Charity	329	292	307	285
Service organisation expenses	461	381	400	315
Other operating expenses	2,535	1,846	2,427	1,556
Total	43,448	37,773	37,950	31,954

NOTE 6 GAIN ON DISPOSAL OF ASSETS

Gain on disposal of assets at the Group level in 2006 includes the total amount of gains of LTL 39,612 thousand on sale of a number of real estate items (land and buildings) to third parties by the Bank's subsidiary Šiaulių Banko Turto Fondas UAB (real estate trading and development company). All the sale transactions were fully completed in 2006. In 2007 proceeds from sale of real estate at the Group amounted to LTL 2,115 thousand.

NOTE 7 OTHER INCOME

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Income from lease of assets	996	389	2,103	372
Other income	1,584	110	1,441	211
Total	2,580	499	3,544	583

NOTE 8 IMPAIRMENT LOSSES ON LOANS

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Impairment losses on loans:				
Impairment charge for the year	5,776	5,679	652	413
Recoveries of loans previously written off	(442)	(442)	(204)	(204)
Total impairment losses on loans	5,334	5,237	448	209
Impairment losses on finance lease receivables:				
Impairment charge for the year	806	-	476	-
Recovered previously written-off finance lease receivables	(76)	-	(33)	-
Total impairment losses on finance lease	730	-	443	
Expenses for provisions on:				
Other assets	(146)	(129)	706	214
Total	5,918	5,108	1,597	423

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 9 INCOME TAX

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Current tax	3,195	1,966	8,477	799
Deferred taxes	(94)	13	131	136
Adjustments of previous year income tax	(44)	(26)	(2)	-
Total	3,057	1,953	8,606	935

The tax on the Bank's and the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Profit before income tax	29,518	29,201	50,937	14,586
Tax calculated at a tax rate of 18% for 2007 (2006: 19%)	5,313	5,256	9,678	2,771
Income not subject to tax	(3,461)	(3,754)	(1,513)	(1,733)
Expenses not deductible for tax purposes	1,346	660	991	513
Adjustment of previous year income tax	(44)	(26)	-	-
Utilisation of tax losses for which no deferred tax asset was recognized	(7)	(97)	(238)	(304)
Utilisation of tax exemption on dividends	(90)	(86)	(312)	(312)
Income tax charge	3,057	1,953	8,606	935

Deferred tax assets	Group			Bank		
	Tax losses	**Accruals**	**Total**	**Tax losses**	**Accruals**	**Total**
At 31 December 2005	(453)	-	(453)	(285)	-	(285)
To be credited/(charged) to net profit	453	(217)	236	285	(217)	68
At 31 December 2006	-	(217)	(217)	-	(217)	(217)
To be credited/(charged) to net profit	-	(4)	(4)	-	(4)	(4)
At 31 December 2007	-	(221)	(221)	-	(221)	(221)

Deferred tax liabilities	Group			Bank		
	Revaluation of securities	**Fixed assets**	**Total**	**Revaluation of securities**	**Fixed assets**	**Total**
At 31 December 2005	178	387	565	8	277	285
To be credited/(charged) to net profit	(98)	(7)	(105)	72	(4)	68
At 31 December 2006	80	380	460	80	273	353
To be credited/(charged) to net profit	(33)	(57)	(90)	(33)	50	(17)
To be credited/ (charged) to equity	76	-	76	76	-	76
At 31 December 2007	123	323	446	123	323	446

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Deferred tax assets	221	221	217	217
Deferred tax liabilities	(446)	(446)	(460)	(353)
Net deferred tax liability	(225)	(225)	(243)	(136)

NOTE 10 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period by the weighted average number of ordinary shares in issue during the period. The Group and the Bank have no dilutive potential ordinary shares, therefore, diluted earnings per share are the same as basic earnings per share.

Weighted average number of shares in issue for the year ended 31 December 2007 was 131,473 thousand (269 days – 121,033 thousand shares, 95 days – 161,033 thousand shares). Weighted average number of shares for the year ended 31 December 2006 was 105,569 thousand (38 days – 96,034 thousand shares, 313 days – 106,034 thousand shares, 14 days – 121,034 thousand shares).

Earnings per share

Group	**2007**	**2006**
Net profit (in LTL thousand)	24,402	22,829
Weighted average number of shares in issue during the period (thousand units)	131,473	105,568
Earnings per share (LTL per share)	0.19	0.22

Bank	**2007**	**2006**
Net profit (in LTL thousand)	27,248	13,651
Weighted average number of shares in issue during the period (thousand units)	131,473	105,568
Earnings per share (LTL per share)	0.21	0.13

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 CASH AND CASH EQUIVALENTS

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Cash and other valuables	43,325	43,323	30,620	30,608
Balances in bank deposit accounts	12,574	12,564	-	-
Balances in bank correspondent accounts	26,727	26,727	27,414	27,414
Placements with Central Bank:				
Correspondent account with Central Bank	73,426	73,426	6,269	6,269
Mandatory reserves in national currency	74,488	74,488	57,255	57,255
Total placements with Central Bank	147,914	147,914	63,524	63,524
Total	230,540	230,528	121,558	121,546

Mandatory reserves in Central Bank comprise the funds calculated on a monthly basis as a 6% share of the average balance of deposits of the previous month. The mandatory reserves are held with the Bank of Lithuania in the form of deposits. The Bank of Lithuania pays interest for the required reserves.

NOTE 12 AMOUNTS DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Balances in bank deposit accounts	593	593	11,342	11,249

NOTE 13 TRADING SECURITIES

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Debt securities:				
Government bonds	6,363	6,363	8,487	8,487
Corporate bonds	5,946	-	-	-
Equity securities:				
Listed	393	393	2,060	2,060
Unlisted	25,688	39	12,049	40
Units of investment funds	2,744	2,744	1,987	1,987
Total equity securities	28,825	3,176	16,096	4,087
Total	41,134	9,539	24,583	12,574
Breakdown of securities by their maturity:				
Short-term (up to 1 year)	28,825	3,176	16,096	4,087
Long-term (over 1 year)	12,309	6,363	8,487	8,487
Total	41,134	9,539	24,583	12,574

Trading securities have not been pledged as at 31 December 2006 and 2007.

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Breakdown of the Bank‘s trading securities as at 31 December 2007 and 2006:

Rating	**Treasury bills**		**Corporate debt securities**		**Corporate equity securities**		**Investment fund units**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
AAA	-	-	-	-	-	-	-	-
From AA- to AA+	-	-	-	-	-	-	-	-
From A- to A+	6,363	8,487	-	-	-	-	-	-
Below A-	-	-	-	-	-	-	-	-
No rating	-	-	-	-	432	2,100	2,744	1,987
Total	6,363	8,487	-	-	432	2,100	2,744	1,987

Breakdown of the Group‘s trading securities as at 31 December 2007 and 2006:

Rating	**Treasury bills**		**Corporate debt securities**		**Corporate equity securities**		**Investment fund units**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
AAA	-	-	-	-	-	-	-	-
From AA- to AA+	-	-	-	-	-	-	-	-
From A- to A+	6,363	8,487	-	-	-	-	-	-
Below A-	-	-	-	-	-	-	-	-
No rating	-	-	5,946	-	26,081	14,109	2,744	1,987
Total	6,363	8,487	5,946	-	26,081	14,109	2,744	1,987

NOTE 14 DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into transactions involving currency forwards and foreign exchange swap deals.

The nominal amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The foreign exchange derivatives contracts (forwards and swaps) entered into as at 31 December 2007 and settled on a gross (the Bank has no derivative financial instruments settled on a net basis) basis (all settlements will take place within one month) are set out in the following table:

Group (Bank)	**2007**	**2006**
Contractual amount		
Purchase	11,786	14,467
Sale	11,905	14,385
Fair values:		
Assets (liabilities)	(119)	82

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 15 LOANS TO CUSTOMERS

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Gross loans to customers	1,393,381	1,547,807	905,023	992,713
Allowance for loan impairment	7,546	7,170	2,053	1,774
Net loans to customers	1,385,835	1,540,637	902,970	990,939

	Group	Bank
Allowance for loan impairment as at 31 December 2005	1,914	1,626
Allowance for impairment of loans written off during the year as uncollectible	(500)	(252)
Currency translation differences and other adjustments	(13)	(13)
Increase in allowance for loan impairment (Note 8)	652	413
Allowance for loan impairment as at 31 December 2006	2,053	1,774
Allowance for impairment of loans written off during the year as uncollectible	(259)	(259)
Currency translation differences and other adjustments	(24)	(24)
Increase in allowance for loan impairment (Note 8)	5,776	5,679
Allowance for loan impairment as at 31 December 2007	7,546	7,170

Movements in allowance for loan impairment by separate class is provided below:

31 December 2007

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
As at 1 Jan 2007	227	-	307	3	537
Change in allowance for loan impairment	474	10	232	31	747
Loans written off during the year	-	-	-	-	-
As at 31 Dec 2007	701	10	539	34	1,284

	Group loans to business customers			
	Large corporates	**SME**	**Central and local authorities and other**	**Total**
As at 1 Jan 2007	-	1,479	37	1,516
Change in allowance for loan impairment		5,029	-	5,029
Loans written off during the year	-	(231)	(28)	(259)
Influence of FX rate shift	-	(24)	-	(24)
As at 31 Dec 2007	-	6,253	9	6,262

31 December 2006

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
As at 1 Jan 2006	132	-	26	-	160
Change in allowance for loan impairment	95		281	3	377
Loans written off during the year	-	-	-	-	-
As at 31 Dec 2006	227	-	307	3	537

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2006

	Group loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 1 Jan 2006	-	1,493	9	1,502
Change in allowance for loan impairment		247	28	275
Loans written off during the year as uncollectible	-	(248)	-	(248)
Influence of FX rate shift	-	(13)	-	(13)
As at 31 Dec 2006	-	1,479	37	1,516

31 December 2007

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 1 Jan 2007	227	-	70	3	300
Change in allowance for loan impairment	474	10	93	31	608
Loans written off during the year	-	-	-	-	-
As at 31 Dec 2007	701	10	163	34	908

	Bank loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 1 Jan 2007	-	1,437	37	1,774
Change in allowance for loan impairment	-	5,071	-	5,071
Loans written off during the year		(231)	(28)	(259)
	-	(24)	-	(24)
As at 31 Dece 2007	-	6,253	9	6,253

31 December 2006

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 1 Jan 2006	132	-	26	2	160
Change in allowance for loan impairment	95	-	44	1	140
Loans written off during the year	-	-	-	-	-
As at 31 Dec 2006	227	-	70	3	300

	Bank loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 1 Jan 2006	-	1,457	9	1,466
Change in allowance for loan impairment		245	28	273
Loans written off during the year		(252)	-	(252)
	-	(13)	-	(13)
As at 31 Dece 2006	-	1,437	37	1,474

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 16 FINANCE LEASE RECEIVABLES

	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Gross investments in leasing:				
Balance at 31 December 2006	43,915	34,917	9,808	88,640
Change during 2007	12,077	31,121	11,877	55,075
Balance at 31 December 2007	55,992	66,038	21,685	143,715
Unearned finance income on finance leases:				
Balance at 31 December 2006	4,394	4,719	1,001	10,114
Change during 2007	3,100	6,420	1,352	10,872
Balance at 31 December 2007	7,494	11,139	2,353	20,986
Net investments in leasing before provisions:				
At 31 December 2006	39,521	30,198	8,807	78,526
At 31 December 2007	48,498	54,899	19,332	122,729
Changes in provisions:				
Balance as at 31 December 2006	-	659	-	659
Additional provisions charged	-	806	-	806
Provisions for finance lease debts written off	-	(341)	-	(341)
Balance at 31 December 2007	-	1,124	-	1,124
Net investments in leasing after provisions:				
At 31 December 2006	39,521	29,539	8,807	77,867
At 31 December 2007	48,498	53,775	19,332	121,605

Movements in provision for impairment of finance lease receivables by class are as follows:

	2007			2006		
	Individuals	Business customers	Total	Individuals	Business customers	Total
As at 1 January	613	46	659	514	77	591
Change in allowance for finance lease impairment	486	320	806	476	-	476
Amounts written off during the year	(341)	-	(341)	(377)	(31)	(408)
As at 31 December	758	366	1,124	613	46	659

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 17 INVESTMENT SECURITIES

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Securities available for sale:				
Equity securities:				
Unlisted equity securities (with no rating)	515	515	515	515
Investment fund units (with no rating)	1,041	1,041	-	-
Total	1,556	1,556	515	515
Debt securities:				
Treasury debt securities of foreign countries (rating AAA)	12,170	12,170	-	-
Total securities available for sale	13,726	13,726	515	515
Securities held to maturity:				
Foreign corporate bonds	8,358	8,358	6,531	6,531
Foreign government bonds	23,429	23,429	23,379	23,379
Local corporate bonds	11,648	11,648	6,597	6,597
Local government bonds	120,728	120,728	125,963	125,963
Total securities held to maturity	164,163	164,163	162,470	162,470
Total investment securities	177,889	177,889	162,985	162,985

The carrying amounts and fair values of held-to-maturity securities:

	2007		2006	
	Fair value	**Carrying amount**	**Fair value**	**Carrying amount**
Local government bonds	117,352	120,728	127,351	125,963
Local corporate bonds	11,556	11,648	6,591	6,597
Foreign government bonds	22,781	23,429	23,535	23,379
Foreign corporate bonds	7,919	8,358	6,462	6,531
Total held-to-maturity securities	159,608	164,163	163,939	162,470

No investment securities were pledged as at 31 December 2007 and 2006.

In 2007 and 2006 there were no securities with overdue coupon payments or delayed redemption dates.

Breakdown of held-to-maturity securities:

Rating	**Treasury bills**		**Municipality debt securities**		**Corporate debt securities**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
AAA		-	-	-	-	-
From AA- to AA+		-	-	-	-	-
From A- to A+	143,413	148,586		-	2,681	1,654
Below A-	-	-	744	756	6,532	6,531
No rating	-	-	-	-	10,793	4,943
Total	143,413	148,586	744	756	20,006	13,128

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 18 INVESTMENTS IN SUBSIDIARIES

Bank	2007			2006		
	Share in equity	Acquisition cost	Carrying amount	Share in equity	Acquisition cost	Carrying amount
Investments in consolidated subsidiaries:						
ŠB Lizingas UAB	100.0%	1,000	1,000	100.0%	1,000	1,000
ŠB Investicijų Valdymas UAB	60.4%	604	604	60.4%	604	604
ŠB Turto Fondas UAB	53.1%	531	531	53.10%	531	531
Pajūrio Alka UAB			-	99.86%	4,519	4,519
Total			2,135			6,654

On 31 May 2007, the shares of Pajūrio Alka UAB were sold. Profit earned amounted to LTL 8,421 thousand.

NOTE 19 INTANGIBLE ASSETS

	Group	Bank
	Software and licences	Software and licences
As at 31 December 2005:		
Cost	5,141	4,786
Accumulated amortisation	(2,981)	(2,748)
Net book value	2,160	2,038
Year ended 31 December 2006:		
Net book value at 1 January	2,160	2,038
Acquisitions	178	174
Amortisation charge	(738)	(673)
Net book value at 31 December	1,600	1,539
As at 31 December 2006:		
Cost	5,269	4,960
Accumulated amortisation	(3,669)	(3,421)
Net book value	1,600	1,539
Year ended 31 December 2007:		
Net book value at 1 January	1,600	1,539
Acquisitions	313	305
Write-offs	(8)	-
Amortisation charge	(654)	(617)
Net book value at 31 December	1,251	1,227
As at 31 December 2007:		
Cost	5,516	5,265
Accumulated amortisation	(4,265)	(4,038)
Net book value	1,251	1,227
Economic life (in years)	1-9	1-9

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 20 TANGIBLE FIXED ASSETS

Group	Buildings and premises	Vehicles	Office equipment	Construction in progress	Total
As at 31 December 2005:					
Cost/revalued amount	43,684	4,790	13,079	345	61,898
Accumulated depreciation	(4,229)	(1,016)	(7,460)	-	(12,705)
Net book value	39,455	3,774	5,619	345	49,193
Year ended 31 December 2006:					
Net book value at 1 January	39,455	3,774	5,619	345	49,193
Acquisitions	6,742	2,484	2,597	1,289	13,112
Disposals and write-offs	(9,256)	(581)	(90)	(437)	(10,364)
Depreciation charge	(706)	(751)	(2,030)	-	(3,487)
Net book value at 31 December	36,235	4,926	6,096	1,197	48,454
As at 31 December 2006:					
Cost/revalued amount	41,022	6,123	14,640	1,197	62,982
Accumulated depreciation	(4,787)	(1,197)	(8,544)	-	(14,528)
Net book value	36,235	4,926	6,096	1,197	48,454
Year ended 31 December 2007:					
Net book value at 1 January	36,235	4,926	6,096	1,197	48,454
Acquisitions	4,149	1,509	3,627	5,294	14,579
Disposals and write-offs	(7,667)	(330)	(263)	-	(8,260)
Reclassification	2,813	3	(1,039)	(1,777)	-
Depreciation charge	(704)	(846)	(1,944)	-	(3,494)
Net book value at 31 December	34,826	5,262	6,477	4,714	51,279
As at 31 December 2007:					
Cost	38,172	6,897	14,959	4,714	64,742
Accumulated depreciation	(3,346)	(1,635)	(8,482)	-	(13,463)
Net book value	34,826	5,262	6,477	4,714	51,279
Economic life (in years)	15-50	5-12	3-20	-	

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 20 TANGIBLE FIXED ASSETS (CONTINUED)

The total balance of the Group's assets in the table above includes assets leased under operating lease agreements as at 31 December 2007, as follows:

Group	**Buildings and premises**	**Vehicles**	**Equipment**	**Total**
As at 31 December 2005:				
Cost	560	2 240	164	2,964
Accumulated depreciation	(65)	(187)	(46)	(298)
Net book value	495	2,053	118	2,666
Year ended 31 December 2006:				
Net book value at 1 January	495	2,053	118	2,666
Acquisitions	500	224	164	888
Disposals and write-offs	(21)	-	(33)	(54)
Depreciation charge	(53)	(225)	(79)	(357)
Net book value at 31 December	921	2,052	170	3,143
As at 31 December 2006:				
Cost	1 036	2,464	269	3,769
Accumulated depreciation	(115)	(412)	(99)	(626)
Net book value	921	2,052	170	3,143
Year ended 31 December 2007:				
Net book value at 1 January	921	2,052	170	3,143
Acquisitions	-	1,332	24	1,356
Disposals and write-offs	-	(63)	(91)	(154)
Depreciation charge	(77)	(347)	1	(423)
Net book value at 31 December	844	2,974	104	3,922
As at 31 December 2007:				
Cost	1 036	3,733	202	4,971
Accumulated depreciation	(192)	(759)	(98)	(1,049)
Net book value	844	2,974	104	3,922
Economic life (in years)	1-5	3-5	3-5	

As at 31 December 2007 and 31 December 2006, there were no tangible fixed assets pledged to third parties.

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 20 TANGIBLE FIXED ASSETS (CONTINUED)

Bank	Buildings and premises	Vehicles	Office equipment	Construction in progress	Total
As at 31 December 2005:					
Cost/revalued amount	24,478	2,110	11,005	345	37,938
Accumulated depreciation	(2,069)	(681)	(6,754)	-	(9,504)
Net book value	22,409	1,429	4,251	345	28,434
Year ended 31 December 2006:					
Net book value at 1 January	22,409	1,429	4,251	345	28,434
Acquisitions	6,732	1,760	1,601	1,289	11,382
Disposals and write-offs	-	(380)	(31)	(437)	(848)
Depreciation charge	(509)	(452)	(1,650)	-	(2,611)
Net book value at 31 December	28,632	2,357	4,171	1,197	36,357
As at 31 December 2006:					
Cost/revalued amount	31,210	3,015	11,748	1,197	47,170
Accumulated depreciation	(2,578)	(658)	(7,577)	-	(10,813)
Net book value	28,632	2,357	4,171	1,197	36,357
Year ended 31 December 2007:					
Net book value at 1 January	28,632	2,357	4,171	1,197	36,357
Acquisitions	3,393	979	2,162	5,294	11,828
Disposals and write-offs	-	(298)	(19)	-	(317)
Reclassification	1,777	3	(3)	(1,777)	-
Depreciation charge	(563)	(547)	(1,554)	-	(2,664)
Net book value at 31 December	33,239	2,494	4,757	4,714	45,204
As at 31 December 2007:					
Cost	36,380	3,358	12,530	4,714	56,982
Accumulated depreciation	(3,141)	(864)	(7,773)	-	(11,778)
Net book value	33,239	2,494	4,757	4,714	45,204
Economic life (in years)	20-50	5-6	3-20	-	

As at 31 December 2007, the Bank had premises given on lease with the value of LTL 1,245 thousand (2006: LTL 1,245 thousand). In 2007 income from lease of these premises amounted to LTL 64 thousand (2006: LTL 64 thousand).

NOTE 21 OTHER ASSETS

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Financial assets:				
Amounts receivable	14,236	611	18,729	1,561
Non-financial assets:				
Assets held for sale	16,531	-	5,203	-
Deferred charges	3,378	3,337	2,045	1,992
Prepayments	4,699	1,021	5,967	162
Other	1,364	425	1,497	393
Total	40,208	5,394	33,441	4,108

Assets held for sale relate to real estate projects under development by the Bank's subsidiaries Šiaulių Banko Turto Fondas UAB and Šiaulių Banko Investicijų Valdymas UAB.

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 22 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Correspondent accounts and deposits of other banks and financial institutions:				
Correspondent accounts and demand deposits	89,938	90,014	17,951	17,953
Time deposits	65,437	65,437	57,473	57,473
Total correspondent accounts and deposits of other banks and financial institutions	155,375	155,451	75,424	75,426
Loans received from:				
Other banks	223,837	214,837	32,798	27,798
International organisations	84,383	84,383	64,732	64,732
Total loans received	308,220	299,220	97,530	92,530
Total	463,595	454,671	172,954	167,956

NOTE 23 DUE TO CUSTOMERS

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Demand deposits:				
National government institutions	3,571	3,571	8,949	8,949
Local government institutions	24,579	24,579	34,791	34,791
Governmental and municipal companies	5,856	5,856	14,880	14,880
Corporate entities	136,984	137,022	123,504	123,564
Non-profit organisations	7,583	7,583	5,647	5,647
Individuals	117,239	117,239	92,797	92,797
Unallocated amounts due to customers	11,033	11,033	14,250,	14,250
Total demand deposits	306,845	306,883	294,818	294,878
Time deposits:				
National government institutions	15,378	15,378	13,730	13,730
Local government institutions	9,606	9,606	1,479	1,479
Governmental and municipality companies	86,499	86,499	72,214	72,214
Corporate entities	113,588	113,484	68,006	68,166
Non-profit organisations	4,875	4,875	2,921	2,921
Individuals	680,217	680,217	482,361	482,361
Total time deposits	910,163	910,059	640,711	640,871
Total	1,217,008	1,216,942	935,529	935,749

See effective interest rate on deposits disclosed in Note 33 *Interest rate risk*.

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 24 SPECIAL AND LENDING FUNDS

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Special funds	217	217	326	326
Lending funds	36,333	35,875	42,479	41,681
Total	36,550	36,092	42,805	42,007

Special funds consist of compulsory social security and health insurance funds. Special funds have to be available to their contributors on their first demand.

Lending funds consist of loans from banks and financial institutions for granting special purpose credits.

NOTE 25 DEBT SECURITIES IN ISSUE

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
370 day bonds denominated in LTL with discount rate of 5.2 %, maturity date 5 August 2008	9,382	9,382	-	-
369 day bonds denominated in LTL with discount rate of 4.1 %, maturity date 1 August 2007	-	-	12,168	12,168
Two year bonds denominated in EUR with coupon rate of 4.6 %, maturity date 17 May 2008	19,168	19,168	15,610	33,393
Total	28,550	28,550	27,778	45,561

NOTE 26 OTHER LIABILITIES

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Financial liabilities:				
Finance lease liabilities	4,977	-	3,652	-
Advance amounts received from the buyers of assets	3,180	-	3,594	-
Non-financial liabilities:				
Accrued charges	4,922	4,422	3,601	3,183
Deferred income	1,636	437	1,034	353
Other liabilities	1,253	1,141	838	317
Total	15,968	6,000	12,719	3,853

NOTE 27 MINORITY INTEREST

	2007	2006
	Group	**Group**
Balance at 1 January	21,373	8,015
Profit for the accounting period	2,059	19,502
Effect of dividends paid	(14,229)	(1,888)
Increase (decrease) in minority interest	(574)	(4,256)
Balance at 31 December	8,629	21,373

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 28 SHARE CAPITAL

As at 31 December 2007, the Bank's share capital comprised 161,033,512 ordinary registered shares with par value of LTL 1 each.
On 11 May 2006, the Bank has registered the amendments to the Bank's Bylaws with the Register of Legal Entities regarding the increase of the Bank's authorised share capital by LTL 9,319 thousand by bonus issue of share capital. 9,319 new shares have been issued with a par value of LTL 1 each and distributed proportionally to all shareholders based on their number of shares held. On 18 December 2006, the Bank has registered the amendments to the Bank's Bylaws with the Register of Legal Entities regarding the increase of the Bank's authorised share capital by LTL 25,000 thousand by issuing 25,000 thousand ordinary registered shares with a par value of LTL 1 each. The new shares have been issued at LTL 2.0 each. All shares were subscribed and fully paid for.

On 14 May 2007, the Bank registered amendments to the Bank's Bylaws with the Register of Legal Entities, based on which the Bank's authorised share capital was increased by LTL 11,994 thousand by bonus issue of share capital. 11,994 new shares have been issued with a par value of LTL 1 each. On 28 September 2007, the Bank registered amendments to the Bank's Bylaws with the Register of Legal Entities, based on which the Bank's authorised share capital was increased by LTL 40,000 thousand by issuing 40,000 thousand ordinary registered shares with a par value of LTL 1 each. The new shares were issued at a price of LTL 2.3 each. All the shares were subscribed and fully paid for.

As of 31 December 2007, the shareholders holding over 5% of tBank's shares with voting rights are listed in the table below:

Shareholders	Percentage of shares with voting rights, %
European Bank for Reconstruction and Development	16.06
Gintaras Kateiva	5.86
Trading House Aiva UAB and related parties	5.64
Total	27.56

Another 20 shareholders had less than 5% but more than 1% of the Bank's share capital. The remaining shareholders on an individual basis had less than 1% of the Bank's shares and voting rights.

Seven shareholders of the Bank – European Bank for Reconstruction and Development, Trading House Aiva UAB, Mintaka UAB, Alita AB, Algirdas Butkus, Gintaras Kateiva and Arvydas Salda – acting jointly in accordance with the Agreement of Shareholders, together with related persons at the end of the year held 39.73 per cent of the Bank's shares and voting rights. Based on its Resolution No. 103 dated 23 June 2005, the Bank of Lithuania gave its consent for this group of shareholders to acquire a qualified share of the authorised share capital and voting rights. According to the shareholders' contract 34% of the total shares of the Bank held by above seven shareholders are locked and can not be sold.

As at 31 December 2007, the Bank had 3,495 shareholders (31 December 2006: 2,539).

Share premium

The share premium represents the difference between the issue price and nominal value of the shares issued by the Bank.
Share premium can be used to increase the Bank's authorised share capital.

Reserve capital

The reserve capital is formed from the Bank's profit and its purpose is to ensure the financial stability of the Bank. The shareholders may decide to use the reserve capital to cover losses incurred.

Statutory reserve

According to the Law of the Republic of Lithuania on Banks, allocations to the statutory reserve shall be compulsory and shall not be less than 1/20 of the profit available for appropriation. The statutory reserve may, by a decision of extraordinary general meeting of the shareholders, be used only to cover losses of the activities.

NOTE 29 CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2007 and as at 31 December 2006 no provisions were established for possible costs related to off-balance sheet commitments.

Contingent tax liabilities

The Tax Authorities have not carried out a full-scope tax audit of the Bank for the period from 2001 to 2006. The Tax Authorities may at any time during 5 successive years after the end of the reporting tax year carry out an inspection of the Bank's books and accounting records and impose additional taxes or fines. Management is not aware of any circumstances that might result in a potential material liability in this respect.

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Guarantees issued, letters of credit, commitments to grant loans and other commitments

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Financial guarantees issued	89,809	89,809	52,721	52,721
Letters of credit	8,387	8,387	1,707	1,707
Commitments to grant loans	116,899	112,583	86,802	84,390
Commitments to grant finance lease and acquire assets	890	-	1,119	-
Other commitments	285	285	135	135
Total	216,270	211,064	142,484	138,953

NOTE 30 DIVIDENDS

Dividends are declared during the annual general meeting of shareholders of the Bank when appropriation of profit for the reporting period is performed. In March 2007, the annual general meeting of shareholders decided to pay dividends of LTL 2,181 thousand (2006: LTL 1,694 thousand) or LTL 0.2 per share (2006: LTL 0.2 per share) to the holders of ordinary shares, which have been fully paid in the same reporting period as announced. There were no dividends payable as at 31 December 2007 and 31 December 2006 in the Bank.

NOTE 31 LIQUIDITY RISK

The structure of the Group's assets and liabilities by maturity as at 31 December 2007 was as follows:

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
Assets									
Cash and cash equivalents	217,976	12,564	-	-	-	-	-	-	230,540
Trading securities	-	-	1,550	-	7,217	-	3,542	28,825	41,134
Due from other banks	-	34	10	501	-	-	-	48	593
Loans granted to customers, finance lease receivables	16,987	93,734	139,405	117,610	201,766	509,206	428,732	-	1,507,440
Investment securities									
- available-for-sale securities	-	-	-	-	-	5,317	6,853	1,556	13,726
- held-to-maturity securities	-	1,044	4,347	1,027	12,512	8,885	136,348	-	164,163
Intangible assets	-	-	-	-	-	-	-	1,251	1,251
Tangible fixed assets	-	-	-	-	-	-	-	51,279	51,279
Other assets	218	6,886	434	12,529	4,399	10,810	934	6,041	42,251
Total assets	235,181	114,262	145,746	131,667	225,894	534,218	576,409	89,000	2,052,377
Liabilities and shareholders' equity									
Due to other banks and financial institutions	89,938	47,354	3,159	55,100	59,916	130,132	77,996	-	463,595
Due to customers	306,935	199,157	218,628	195,168	243,209	50,240	3,671	-	1,217,008
Special and lending funds	217	2,468	444	1,065	2,482	6,713	23,161	-	36,550
Debt securities in issue	-	-	-	19,168	9,382	-	-	-	28,550
Other liabilities	2,996	7,569	1,561	475	1,804	1,286	169	1,608	17,468
Shareholders' equity	-	-	-	-	-	-	-	280,577	280,577
Minority interest	-	-	-	-	-	-	-	8,629	8,629
Total liabilities and shareholders' equity	400,086	256,548	223,792	270,976	316,793	188,371	104,997	290,814	2,052,377
Net liquidity gap	(164,905)	(142,286)	(78,046)	(139,309)	(90,899)	345,847	471,412	(201,814)	

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

The structure of the Group's assets and liabilities by maturity as at 31 December 2006 was as follows:

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
Total assets	122,156	75,056	117,748	103,146	153,237	368,283	383,077	62,329	1,385,032
Total liabilities and shareholders' equity	300,783	182,921	161,778	153,959	216,622	125,731	54,530	188,708	1,385,032
Net liquidity gap	(178,627)	(107,865)	(44,030)	(50,813)	(63,385)	242,552	328,547	(126,379)	-

The structure of the Bank's assets and liabilities by maturity as at 31 December 2007 was as follows:

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
Assets									
Cash and cash equivalents	217,964	12,564	-	-	-,	-	-	-	230,528
Trading securities	-	-	1,550	-	1,271	-	3,542	3,176	9,539
Due from other banks	-	34	10	501	-	-	-	48	593
Loans granted to customers, finance lease receivables	14,019	166,278	167,850	155,357	176,279	469,265	391,589	-	1,540,637
Investment securities									
- available-for-sale securities	-	-	-	-	-	5,317	6,853	1,556	13,726
- held-to-maturity securities	-	1,044	4,347	1,027	12,512	8,885	136,348	-	164,163
Investments in subsidiaries	-	-	-	-	-	-	-	2,135	2,135
Intangible assets	-	-	-	-	-	-	-	1,227	1,227
Tangible fixed assets	-	-	-	-	-	-	-	45,204	45,204
Other assets	218	873	336	705	527	1,139	859	737	5,394
Total assets	232,201	180,793	174,093	157,590	190,589	484,606	539,191	54,083	2,013,146
Liabilities and shareholders' equity									
Due to other banks and financial institutions	90,014	38,354	3,159	55,100	59,916	130,132	77,996	-	454,671
Due to customers	306,973	199,157	218,628	195,168	243,105	50,240	3,671	-	1,216,942
Special and lending funds	217	2,250	414	984	2,353	6,713	23,161	-	36,092
Debt securities in issue	-	-	-	19,168	9,382	-	-	-	28,550
Other liabilities	588	2,075	1,337	141	1,378	161	45	1,549	7,274
Shareholders' equity	-	-	-	-	-	-	-	269,617	269,617
Total liabilities and shareholders' equity	397,792	241,836	223,538	270,561	316,134	187,246	104,873	271,166	2,013,146
Net liquidity gap	(165,591)	(61,043)	(49,445)	(112,971)	(125,545)	297,360	434,318	(217,083)	

The structure of the Bank's assets and liabilities by maturity as at 31 December 2006 was as follows:

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
Total assets	122,051	105,808	138,543	101,550	131,381	333,348	366,589	48,763	1,348,033
Total liabilities and shareholders' equity	300,845	171,220	161,573	153,174	210,888	142,338	54,466	153,529	1,348,033
Net liquidity gap	(178,794)	(65,412)	(23,030)	(51,624)	(79,507)	191,010	312,123	(104,766)	-

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 32 FOREIGN EXCHANGE TRANSACTIONS AND OPEN CURRENCY POSITIONS

The Bank's open positions of prevailing currencies as at 31 December 2007 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets						
Cash and cash equivalents	8,942	5,917	14,859	31,249	184,420	230,528
Trading securities	-	-	-	4,458	5,081	9,539
Due from other banks	-	-	-	576	17	593
Loans granted to customers, finance lease receivables	16,550	-	16,550	293,927	1,230,160	1,540,637
Investment securities						
- available-for-sale securities	8,667	-	8,667	4,132	927	13,726
- held-to-maturity securities	-	-	-	76,075	88,088	164,163
Investments in subsidiaries	-	-	-	-	2,135	2,135
Intangible assets	-	-	-	-	1,227	1,227
Tangible fixed assets	-	-	-	-	45,204	45,204
Other assets	28	-	28	1,899	3,467	5,394
Total assets	34,187	5,917	40,104	412,316	1,560,726	2,013,146
Liabilities and shareholders' equity						
Due to other banks and financial institutions	275	-	275	306,436	147,960	454,671
Due to customers	44,574	2,533	47,107	199,869	969,966	1,216,942
Special and lending funds	-	-	-	11,008	25,084	36,092
Held-to-maturity investment securities	-	-	-	19,168	9,382	28,550
Other liabilities	56	18	74	77	7,123	7,274
Shareholders' equity	437	-	437	37	269,143	269,617
Total liabilities and shareholders' equity	45,342	2,551	47,893	536,595	1,428,658	2,013,146
Net balance sheet position	(11,155)	3,366	(7,789)	(124,279)	132,068	-
Currency swaps	10,843	-	10,843	940	(11,905)	(122)
Net open position	**(312)**	**3,366**	**3,054**	**(123,339)**	**120,163**	**(122)**

The Bank's open positions of prevailing currencies as at 31 December 2006 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets	28,785	2,703	31,488	222,441	1,094,104	1,348,033
Liabilities and shareholders' equity	43,339	809	44,148	253,799	1,050,086	1,348,033
Net balance sheet position	(14,554)	1,894	(12,660)	(31,358)	44,018	-
Currency swaps	14,467	-	14,467	-	(14,374)	93
Net open position	**(87)**	**1,894**	**1,807**	**(31,358)**	**29,644**	**93**

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

The Group's open positions of prevailing currencies as at 31 December 2007 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets						
Cash and cash equivalents	8,942	5,917	14,859	31,249	184,432	230,540
Trading securities	-	-	-	4,458	36,676	41,134
Due from other banks	-	-	-	576	17	593
Loans granted to customers, finance lease receivables	16,550	-	16,550	290,353	1,200,537	1,507,440
Investment securities						
- available-for-sale securities	8,667	-	8,667	4,132	927	13,726
- held-to-maturity securities	-	-	-	76,075	88,088	164,163
Investments in subsidiaries	-	-	-	-	-	-
Intangible assets	-	-	-	-	1,251	1,251
Tangible fixed assets	-	-	-	-	51,279	51,279
Other assets	29	-	29	1,899	40,323	42,251
Total assets	34,188	5,917	40,105	408,742	1,603,530	2,052,377
Liabilities and shareholders' equity						
Due to other banks and financial institutions	275	-	275	306,436	156,884	463,595
Due to customers	44,574	2,533	47,107	199,869	970,032	1,217,008
Special and lending funds	-	-	-	11,008	25,542	36,550
Held-to-maturity investment securities	-	-	-	19,168	9,382	28,550
Other liabilities	56	18	74	77	17,317	17,468
Shareholders' equity	437	-	437	37	280,103	280,577
Minority's equity	-	-	-	-	8,629	8,629
Total liabilities and shareholders' equity	45,342	2,551	47,893	536,595	1,467,889	2,052,377
Net balance sheet position	(11,154)	3,366	(7,788)	(127,853)	135,641	-
Currency swaps	10,843	-	10,843	940	(11,905)	(122)
Net open position	(311)	3,366	3,055	(126,913)	123,736	(122)

The Group's open positions of prevailing currencies as at 31 December 2006 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets	28,786	2,703	31,489	225,663	1,127,880	1,385,032
Liabilities and shareholders' equity	43,339	809	44,148	236,016	1,104,868	1,385,032
Net balance sheet position	(14,553)	1,894	(12,659)	(10,353)	23,012	-
Currency swaps	14,467	-	14,467	-	(14,374)	93
Net open position	(86)	1,894	1,808	(10,353)	8,638	93

*According to the regulations approved by the Bank of Lithuania, the overall open foreign currency position should not exceed 25% of the bank's capital and the open position of each individual foreign currency should not exceed 15% of the bank's capital. This requirement does not apply to EUR and LTL positions.

The Bank has also granted loans in foreign currency. Although they are usually financed in the same currency, depending on the main currency of the debtor's cash flows, the strengthening of foreign currency against the litas may adversely affect the debtors' ability to repay the loans, which increases the probability of future losses from loans.

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 33 INTEREST RATE RISK

The table below summarizes the Group's and the Bank's interest rate risks as at 31 December 2007. The Bank's assets and liabilities shown at their carrying amounts categorized by the earlier of contractual repricing or maturity dates. Details of the Group's interest rate risk as at 31 December 2007 are given below:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Non interest bearing	Total
Assets							
Cash and cash equivalents	12,400	-	-	-	-	218,140	230,540
Trading securities	-	1,550	-	7,217	3,542	28,825	41,134
Due from other banks	44	-	501	-	-	48	593
Loans granted to customers, finance lease receivables	203,661	428,373	637,586	97,252	131,661	8,907	1,507,440
Investment securities							
- available-for-sale securities	-	-	-	-	12,170	1,556	13,726
- held-to-maturity securities	1,044	4,347	1,027	12,512	145,233	-	164,163
Investments in subsidiaries	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	1,251	1,251
Tangible fixed assets	-	-	-	-	-	51,279	51,279
Other assets	-	-	-	-	-	42,251	42,251
Total assets	217,149	434,270	639,114	116,981	292,606	352,257	2,052,377
Liabilities and shareholders' equity							
Due to other banks and financial institutions	141,041	184,019	23,110	20,912	1,700	92,813	463,595
Due to customers	198,709	218,366	195,097	228,843	53,445	322,548	1,217,008
Special and lending funds	-	-	19,168	9,382	-	-	28,550
Held-to-maturity investment securities	11,922	15,414	983	1,723	5,417	1,091	36,550
Other liabilities	-	-	-	-	-	17,468	17,468
Shareholders' equity	-	-	-	-	-	280,577	280,577
Minority's equity	-	-	-	-	-	8,629	8,629
Total liabilities and shareholders' equity	351,672	417,799	238,358	260,860	60,562	723,126	2,052,377
Interest rate sensitivity gap	(134,523)	16,471	400,756	(143,879)	232,044	(370,869)	

Details of the Group's interest rate risk as at 31 December 2006 are given below:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Non interest bearing	Total
Total assets	111,170	264,495	426,713	83,725	264,452	234,477	1,385,032
Total liabilities and shareholders' equity	168,822	226,570	175,584	197,185	76,197	540,674	1,385,032
Interest rate sensitivity gap	(57,652)	37,925	251,129	(113,460)	188,255	(306,197)	

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

The table below summarizes the effective interest rate by major currencies for monetary financial instruments not carried at fair value through profit or loss:

31 December 2007		%	
	USD	**EUR**	**LTL**
Assets			
Due from other banks and financial institutions	0.47	3.33	5.08
Debt securities	4.95	4.64	4.76
Finance lease receivables	-	6.80	8.00
Loans granted (before provisions)	6.22	6.42	7.31
Liabilities			
Due to other banks and financial institutions	0.5	5.58	4.54
Deposits	4.42	4.36	3.76

Details of the Bank's interest rate risk as at 31 December 2007 are given below:

	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**More than 1 year**	**Non interest bearing**	**Total**
Assets							
Cash and cash equivalents	12,400	-	-	-	-	218,128	230,528
Trading securities	-	1,550	-	1,271	3,542	3,176	9,539
Due from other banks	44	-	501	-	-	48	593
Loans granted to customers, finance lease receivables	273,849	426,814	651,655	62,530	119,118	6,671	1,540,637
Investment securities							
- available-for-sale securities	-	-	-	-	12,170	1,556	13,726
- held-to-maturity securities	1,044	4,347	1,027	12,512	145,233	-	164,163
Investments in subsidiaries	-	-	-	-	-	2,135	2,135
Intangible assets	-	-	-	-	-	1,227	1,227
Tangible fixed assets	-	-	-	-	-	45,204	45,204
Other assets	-	-	-	-	-	5,394	5,394
Total assets	287,337	432,711	653,183	76,313	280,063	283,539	2,013,146
Liabilities and shareholders' equity							
Due to other banks and financial institutions	132,041	184,019	23,110	20,912	1,700	92,889	454,671
Due to customers	198,709	218,366	195,097	228,739	53,445	322,586	1,216,942
Special and lending funds	11,922	15,414	983	1,723	5,417	633	36,092
Held-to-maturity investment securities	-	-	19,168	9,382	-	-	28,550
Other liabilities	-	-	-	-	-	7,274	7,274
Shareholders' equity	-	-	-	-	-	269,617	269,617
Total liabilities and shareholders' equity	342,672	417,799	238,358	260,756	60,562	692,999	2,013,146
Interest rate sensitivity gap	(55,335)	14,912	414,825	(184,443)	219,501	(409,460)	

Details of the Bank's interest rate risk as at 31 December 2006 are given below:

	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**More than 1 year**	**Non interest bearing**	**Total**
Total assets	145,180	296,455	431,574	64,291	224870	185663	1,348,033
Total liabilities and shareholders' equity	168,956	221,514	175,500	197,017	93,518	491,528	1,348,033
Interest rate sensitivity gap	(23,776)	74,941	256,074	(132,726)	131,352	(305,865)	

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

The table below summarizes the effective interest rate by major currencies for monetary financial instruments not carried at fair value through profit or loss:

31 December 2006			%
	USD	**EUR**	**LTL**
Assets			
Due from other banks and financial institutions	0.49	2.01	4.08
Debt securities	-	4.35	4.47
Finance lease receivables	-	6.19	9.89
Loans granted (before provisions)	6.30	6.16	5.85
Liabilities			
Due to other banks and financial institutions	0	4.57	3.54
Deposits and special and lending funds	3.25	3.28	2.68

NOTE 34 RELATED-PARTY TRANSACTIONS

Related parties with the Bank include the members of the Bank's Supervisory Council and Board, shareholders acting jointly in accordance with the Agreement of Shareholders (see Note 27), the close family members of these related parties and subsidiary companies of the Bank.

In the ordinary course of business the Bank performs banking transactions with major shareholders, members of the Council and the Board, as well as with the subsidiaries.

During 2007, a certain number of banking transactions were entered into with related parties in the ordinary course of business. These transactions include settlements, loans, deposits and foreign currency transactions.

The year-end balances of loans granted to and deposits accepted from the Bank's related parties, except for subsidiaries, and their average annual interest rates (calculated as weighted average) were as follows:

	Balances of deposits		**Average annual interest rates**		**Balances of loans**		**Average annual interest rates**	
	31 December 2007	**31 December 2006**	**2007**	**2006**	**31 December 2007**	**31 December 2006**	**2007**	**2006**
Members of the Council and the Board	3,058	956	4.18	2.71	3,204	1,226	6.55	5.44
Other related parties (excluding subsidiaries of the Bank)	1,750	154	2.37	0.29	51,725	24,462	6.80	5.23

Transactions with EBRD:

The Bank received a syndicated loan from the EBRD with its balance as at 31 December 2007 amounting to EUR 24 million, of which EBRD's share as at 31 December 2007 was LTL 34,804 thousand. Gross loan of EBRD as at 31 December 2007 was LTL 84,383 thousand (2006: LTL 17,507 thousand). Interest and other expenses related to the loan during 2007 amounted to LTL 3,845 thousand (2006: LTL 763 thousand).

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Balances of transactions with the subsidiaries are given below:

	Balances of deposits		Average annual interest rates		Balances of loans		Average annual interest rates	
	31 December 2007	31 December 2006	2007	2006	31 December 2007	31 December 2006	2007	2006
Non-financial institutions	38	220	0.00	0.45	46,694	19,989	5.93	4.50
Financial institutions	76	2	0.00	0.00	122,082	74,167	5.10	4.17

Transactions with subsidiaries: Šiaulių Banko Turto Fondas UAB (the Bank's holding is 53.10 %, LTL 531 thousand), Pajūrio Alka UAB (the Bank's holding is 99.85 %, LTL 4,519 thousand – sold in May 2007), Šiaulių Banko Investicijų Valdymas UAB (the Bank's holding is 60.4%, LTL 604 thousand), Šiaulių Banko Lizingas UAB (the Bank's holding is 100%, LTL 1,000 thousand).

Assets	**2007**	**2006**
Demand deposits		-
Loans	168,776	94,156
Debt securities	-	17,783
Equity securities	-	-
Other assets	41	43
Liabilities and shareholders' equity		
Demand deposits	114	222
Loans	-	-
Debt securities	-	-
Other liabilities	-	-
Bank's investment	2,135	6,654

Income and expenses arising from transactions with subsidiaries:

Income	**2007**	**2006**
Interest	6,017	3,994
Commission income	473	434
Income from foreign exchange operations	31	29
Other income	295	293
Expenses		
Interest	2	441
Commission charges	-	-
Operating expenses	-	-

Remuneration of the management of the Bank

During 2007, the total amount of salaries and bonuses, including social security contributions and guarantee fund payments, to the Bank's Board members was LTL 1,898 thousand (2006: LTL 1,410 thousand). The total amount of payments to the Bank's Supervisory Council members was LTL 450 thousand in 2007 (2006: LTL 280 thousand).

NOTE 35 CONCENTRATION EXPOSURE

As at 31 December 2007, the largest single exposure comprising loans to several related borrowers treated as a single borrower not secured by the Lithuanian Government guarantees, amounted to LTL 31.9 million (the whole amount represents commitments to provide credit facilities), i.e. 13.29 % of the Bank's calculated capital (2006: LTL 24.1 million and 17.74 % of the Bank's calculated capital).

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 36 FINANCIAL GROUP INFORMATION

According to local legislation the Bank is required to prepare financial groupconsolidated financial statements. Financial group includes the Bank and its leasing subsidiary. Financial group consolidated financial statements are presented in this note below:

BALANCE SHEET

	31 December 2007		31 December 2006	
	Fin. group	**Bank**	**Fin. group**	**Bank**
ASSETS				
Cash and cash equivalents	230,538	230,528	121,547	121,546
Due from other banks	593	593	11,311	11,249
Trading securities	9,539	9,539	12,574	12,574
Derivative financial instruments	-	-	82	82
Loans to customers	1,428,350	1,540,637	922,984	990,939
Finance lease receivables	121,605	-	77,867	-
Investment securities:				
- available-for-sale	13,726	13,726	515	515
- held to maturity	164,163	164,163	162,470	162,470
Investments in subsidiarines	1,135	2,135	5,654	6,654
Intangible assets	1,243	1,227	1,590	1,539
Tangible fixed assets	50,962	45,204	40,129	36,357
Other assets	11,509	5,394	5,155	4,108
Total assets	**2,033,363**	**2,013,146**	**1,361,878**	**1,348,033**
LIABILITIES				
Due to other banks and financial institutions	463,595	454,671	172 ,954	167,956
Due to customers	1,216,942	1,216,942	935,749	935,749
Special and lending funds	36,550	36,092	42,805	42,007
Debt securities in issue	28,550	28,550	45,561	45,561
Current incom tax liabilities	1,156	930	797	581
Deferred income tax liabilities	225	225	136	136
Derivative financial instruments	119	119	-	-
Other liabilities	14,677	6,000	10,309	3,853
Total liabilities	**1,761,814**	**1,743,529**	**1,208,311**	**1,195,843**
EQUITY				
Capital and reserves attributable to equity holders of the Bank				
Share capital	161,033	161,033	109,039	109,039
Share Premium	65,006	65,006	25,000	25,000
Reserve capital	2,611	2,611	2,611	2,611
Statutory rezerve	1,545	1,445	800	700
Financial assets revaluation rezerve	360	360	-	-
Retained earnings	40,994	39,162	16,117	14,840
Total equity	**271,549**	**269,617**	**153,567**	**152,190**
Total liabilities and equity	**2,033,363**	**2,013,146**	**1,361,878**	**1,348,033**

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

INCOME STATEMENT

	2007		2006	
	Fin. group	**Bank**	**Fin. group**	**Bank**
Interest and similar income	101,606	94,570	65,249	59,896
Interest expense and similar charges	(52,389)	(51,960)	(29,589)	(29,547)
Net interest income	**49,217**	**42,610**	**35,660**	**30,349**
Provision for impairment losses	(6,058)	(5,108)	(1,103)	(423)
Net interest income	**43,159**	**37,502**	**34,557**	**29,926**
Fee and commission income	14,378	14,840	11,869	12,293
Fee and commission expense	(5,499)	(5,404)	(3,869)	(3,768)
Net gain from operations with securities	428	532	476	476
Gain on disposal of subsidiary	8,525	8,421	-	-
Net foreign exchange gain	3,431	3,444	3,159	3,161
Proceeds from disposal of assets	41	26	47	36
Other income	925	499	744	583
Administrative and other operating expenses	(41,078)	(37,773)	(34,618)	(31,954)
Dividends from investments in subsidiaries	5,914	7,114	2,833	3,833
Profit before income tax	**30,224**	**29,201**	**15,198**	**14,586**
Income tax expense	(2,421)	(1,953)	(1,349)	(935)
Profit for the year	**27,803**	**27,248**	**13,849**	**13,651**
Profit attributable to:				
Equity holders of the Bank	**27,803**	**27,248**	**13,849**	**13,651**
Minority interest	**-**	**-**	**-**	**-**
Profit for the year	**27,803**	**27,248**	**13,849**	**13,651**
Basic and diluted earnings per share (in LTL per share)	0.21	0.21	0.13	0.13

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

CASH FLOW STATEMENT

	31 December 2007		31 December 2006	
Operating activities	**Fin. group**	**Bank**	**Fin. group**	**Bank**
Interest received	105,950	90,367	65,236	57,328
Interest paid	(54,099)	(49,577)	(29,589)	(27,779)
Fee and commission income	518	442	237	204
Fee and commission expenses	1,998	2,019	1,621	1,623
Cash inflows from trade in trading securities	172	172	152	152
Net income from foreign exchange operations	14,378	14,840	11,869	12,293
Recoveries on loans previously written off	(5,499)	(5,404)	(3,869)	(3,768)
Salaries and related payments to and on behalf of employees	(19,550)	(17,908)	(17,527)	(16,136)
Other cash receipts	1,199	758	781	619
Other cash payments	(15,176)	(13,934)	(11,865)	(10,905)
Net cash floe from operating activities before changes in short term assets and liabilities	**29,891**	**21,775**	**17,046**	**13,631**
Decrease (increase) in assets:				
Decrease (increase) in loans to financial institutions	4,085	10,656	(15,058)	(22,985)
Decrease (increase) in loans to customers	(550,853)	(548,618)	(257,533)	(240,548)
Decrease in trading securities	2,916	2,916	3,111	3,111
Decrease (increase) in other short term assets	(5,432)	(653)	2,462	2,738
Increase in liabilities				
Increase in liabilities to financial institutions	291,672	286,670	49,257	43,330
Increase in deposits	281,872	278,855	150,510	150,448
Increase in special and lending funds	(6,255)	(5,915)	42,421	41,623
Increase in other liabilities	293	(1,894)	2,267	540
Change in assets and liabilities from operating activities:	**18,298**	**22,017**	**(22,563)**	**(21,743)**
Net cash flow from operating activities before tax	48,189	43,792	(5,517)	(8,112)
Ingome tax paid	(2,049)	(1,591)	(416)	(218)
Net cash flow from operating activities	**46,140**	**42,201**	**(5,933)**	**(8,330)**
Investing activities				
(Purchase) of tangible and intangible assets	(14,863)	(12,133)	(12,964)	(11,556)
Disposal of tangible and intangible assets	276	276	565	565
(Purchase) of trading securities	(15,186)	(15,186)	-	-
Disposal of trading securities	2,411	2,411	-	-
(Purchase) of held-to-maturity investments	(20,314)	(20,314)	(66,913)	(66,913)
Proceeds from redemption of held-to-maturity securities	18,621	18,621	12,322	12,322
Proceeds from sale of subsidiary	12,940	12,940	-	-
Dividends received	6,160	7,360	2,966	3,966
Net cash flow used in investing activities	**(9,955)**	**(6,025)**	**(64,024)**	**(61,616)**
Financing activities				
Increase in share capital	92,000	92,000	50,000	50,000
Dividends paid	(2,183)	(2,183)	(1,697)	(1,697)
Debt securities issued	30,208	30,208	85,023	85,023
Redemption of debt securities	(47,219)	(47,219)	(59,096)	(59,096)
Net cash flow from financing activities	**72,806**	**72,806**	**74,230**	**74,230**
Net increase in cash and cash equivalents	**108,991**	**108,982**	**4,273**	**4,284**
Cash and cash equivalents as 1 January	**121,547**	**121,546**	**117,274**	**117,262**
Cash and cash equivalents as 31 December	**230,538**	**230,528**	**121,547**	**121,546**

(All amounts are in LTL thousand, unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserve capital	Financial assets revaluation	Statutory reserve	Retained earnings	Total
31 December 2005	**74,720**	**8,400**	**2,611**	**-**	**429**	**5,252**	**91,412**
Dividends	-	-	-	-	-	(1,694)	(1,694)
Formation of statutory reserve	-	-	-	-	371	(371)	-
Bonus issue of share capital	9,319	(8,400)	-	-	-	(919)	-
Issue of share capital	25,000	25,000	-	-	-	-	50,000
Net profit for the year	-	-	-	-	-	13,849	13,849
31 December 2006	**109,039**	**25,000**	**2,611**	**-**	**800**	**16,117**	**153,567**
Dividends	-	-	-	-	-	(2,181)	(2,181)
Formation of statutory reserve	-	-	-	-	745	(745)	-
Bonus issue of share capital	11,994	(11,994)	-	-	-	-	-
Issue of share capital	40,000	52,000	-	-	-	-	92,000
Revaluation of financial assets				436			436
Recognition of deferred income tax	-	-	-	(76)	-	-	(76)
Net profit for the year	-	-	-	-	-	27,803	27,803
31 December 2007	**161,033**	**65,006**	**2,611**	**360**	**1,545**	**40,994**	**271,549**

ŠIAULIŲ BANKAS AB
CONSOLIDATED ANNUAL REPORT
2007

CONTENTS

1. Accounting period covered in the Consolidated Annual Report

The Consolidated Annual Report covers a period of time beginning on January 1st 2007 and ending on December 31st 2007.

2. Contact information of Šiaulių bankas AB

Name – Šiaulių bankas AB
Legal form – a stock company
Date of registration – February 4th 1992
Manager of register – public company Registrų centras
Company's code - 112025254
Domicile address – Tilžės st. 149, LT – 76348 Šiauliai
Telephone: (+ 370 41) 522 117, 595 602, 595 653
Authorized capital – LTL 109 039 200
Fax: (+ 370 41) 430774
E-mail: info@sb.lt
Internet website: www.sb.lt

3. Contact information of Šiaulių bankas' Group

Name – "Šiaulių banko lizingas" UAB
Legal form – a joint stock company
Date of registration – August 16th 1999
Manager of register – public company Registrų centras
Company's code - 145569548
Domicile address – Vilniaus 167, LT – 76352 Šiauliai
Telephone: (+ 370 41) 420 855,502 990
Fax: (+ 370 41) 423 437
E-mail: lizingas@sb.lt
Internet website: www.sblizingas.lt

Name – "Šiaulių banko turto fondas" UAB
Legal form – a joint stock company
Date of registration – August 13th 2002
Manager of register – public company Registrų centras
Company's code - 1455855439
Domicile address – Vilniaus 167, LT – 76352 Šiauliai
Telephone: (+ 370 41) 525 322
Fax: (+ 370 41) 525 321
E-mail: turtofondas@sb.lt
Internet website: www.sbturtofondas.lt

Name – "Šiaulių banko investicijų valdymas" UAB
Legal form – a joint stock company
Date of registration – August 31st 2000
Manager of register – public company Registrų centras
Company's code - 1455855439
Domicile address – Vilniaus 167, LT – 76352 Šiauliai
Telephone: (+ 370 41) 429 227
Fax: (+ 370 41) 525 285

E-mail: valdymas@sb.lt
Internet website: www.sbiv.lt

4. Nature of Šiaulių bankas' main business

The main business of Šiaulių bankas AB includes commercial banking.
The Bank performs the following operations under the law and legal acts of the Republic of Lithuania and the Charter:

- accepts deposits and other returnable funds into accounts opened by the customers and manages them;
- grants and takes loans;
- issues monetary warranties, guarantees and other warranty liabilities;
- issues and performs operations with payable documents (cheques, letters of credits, bills of exchange, etc.);
- performs operations with securities (shares, bonds, etc.);
- performs operations in foreign currency;
- takes customers' valuables for safeguarding and rents safes located at the bank's vault to safeguard valuables and documents;
- provides services and consultations regarding banking activities, finance and customers' investment management issues;
- issues and manages monetary instruments of credit;
- performs other operations in compliance with nature of business of credit institutions defined in the legal acts of the Bank of Lithuania.

5. Šiaulių bankas' Subsidiaries Group

"Šiaulių banko lizingas" UAB:

- Assets – LTL 143,4 million;
- Share of the capital managed by the bank – 100 per cent;
- Nature of business – financial and operational lease.

"Šiaulių banko turto fondas" UAB:

- Assets – LTL 37,5 million;
- Share of the capital managed by the bank – 53,1 per cent;
- Nature of business – long-term investments into land, change of its purpose and way of usage, preparation of infrastructure, investments into other real estate, purchase of constructions and buildings, reconstruction, change of their purpose, organization of construction of the own objects, rent of buildings, premises and land, consultations regarding the implementation of the long-term investment projects and monitoring issues.

"Šiaulių banko investicijų valdymas" UAB:

- Assets – LTL 29,4 million;
- Share of the capital managed by the bank – 60,4 per cent;
- Nature of business – privatization of companies, restructuring and funding of reorganization projects, investments into debt and equity securities as well as into small and medium-sized business, rendering of financial management experience.

During the accounting period Šiaulių bankas' Group consisted of Šiaulių bankas AB, which had 52 outlets as of December 31st 2007, as well as three subsidiaries.

6. Bank's authorized capital

Type of shares	Number of shares, unt.	Par value, LTL	Total par value, LTL
Ordinary registered shares ISIN LT0000102253	161 033 512	1	161 033 512

7. Data on trading in shares of the subsidiaries belonging to the Group in regulated markets

Only the bank's shares are quoted on the Main List of Vilnius Stock Exchange. ISIN code: LT0000102253, number of shares – 161 033 512 units.
In the course of 2007 the biggest trading in bank's shares was registered during the trading session on January 18th 2007, when 4 843 897 units of shares had been purchased/sold. The highest price per share was registered in March 2007, i.e. LTL 4.30, while the lowest – in December 2007, i.e. LTL 3.23.
Late in 2007 the two-year bank's bond issue was on the debt securities list of Vilnius Stock Exchange (ISIN LT0000402016). The amount of issue – EUR 10 million, the redemption day – May 17th 2008. 81 701 unit of bonds had been purchased-sold in the course of 2007. Yield – from 4.48 per cent to 4.95 per cent.

8. Information about agreements entered with public trading intermediaries

Šiaulių bankas has entered into agreements with the following intermediaries engaged in public trading of securities regarding securities accounting (custody) and acceptance and performance of transfers:

AB FMĮ "Finasta";
DnB NORD;
AB bankas Snoras FMS;
AB "Hansabankas";
UAB Medicinos bankas FMS;
FMĮ UAB "Suprema";
AB SEB Vilniaus bankas Securities Accounting and Custody Department.

9. Share acquisition

During the accounting period there were no shares belonging to the bank itself, its subsidiaries entities acting on the behalf of subsidiaries. The bank has not acquired its own shares and has not transferred them to others.

10. Shareholders

As of December 31st 2007 the total number of shareholders comprises 3495. 71 per cent of the capital was owned by the residents.
Shareholders, who owned more than 5 per cent of the bank's capital on 31-12-2007.

No	Shareholder	Number of shares under ownership	Number of shares owned by persons operating together	Portion of shares under the right of ownership	Portion of shares owned by persons operating together
1.	European Bank for Reconstruction and Development (EBRD), One Exchange Square, London EC2A 2JN, Great Britain	25 861 914	38 113 673	16,06	16,06
2.	Gintaras Kateiva	9 429 919	38 113 673	5,86	39,73
3.	Trading House "Aiva" UAB,Vilniaus st.167, LT – 76352 Šiauliai Company code 144031190	9 090 330	38 113 673	5,64	39,73

The Bank's shareholders such as the European Bank for Reconstruction and Development, Trading House **"**Aiva" UAB, Algirdas Butkus, Gintaras Kateiva and Arvydas Salda operating together form the Group. As of 31-12-2007 this Group together with the related persons owned 39.73 per cent of the Bank's authorized capital and votes.

11. Information about implementation of all the standards limiting the bank's activities

In 2007 Šiaulių bankas implemented all the standards limiting the activity risk established by the Bank of Lithuania.

12. Ratings provided by the International rating agencies and their amendments

The financial stability and strength of Šiaulių bankas AB have been favourably assessed by the independent experts - in February 2007 the international rating agency "Moody's" have provided the following higher ratings to Šiaulių bankas:

- Long-term deposit rating – Ba2;
- Financial strength rating – D;
- Short-term deposit rating – NP
- Long-term rating outlook – stable

13. Information about the activity results

All the subsidiaries of Šiaulių bankas worked profitably in 2007: "Šiaulių banko lizingas" earned LTL 1,755 million, "Šiaulių banko turto fondas" - LTL 3,163 million, "Šiaulių banko investicijų valdymas" – LTL 1,454 million in net profits. Calculating according to the international accounting standards an especially big profit, i.e. almost twice as big as in 2006, when the audited net profit reached LTL 13,6 million, was earned by Šiaulių bankas as last year it earned LTL 27,248 million in net profits.

Last year the assets managed by Šiaulių bankas' Group increased by one and a half time or by LTL 667 million in comparison with 2006 and late in the year reached LTL 2,052 billion. In 2007 the Group earned LTL 24,4 million of net profit or almost by 7 per cent more than in 2006, when LTL 22,8 million was earned.

As of December 31st 2007 the equity of the Bank Group's shareholders comprised LTL 281 million – i.e. the 69 per cent growth per annum was recorded. At the end of the accounting period Šiaulių bankas' Group managed the loan portfolio totaling LTL 1,386 billion, which has increased by 53 per cent in the course of the year, and the leasing portfolio of LTL 121,6 million, which has increased by 56 per cent in the course of the year.

As of December 31st 2007 the assets of Šiaulių bankas comprised LTL 2,013 billion – during the year it has grown by 49 per cent or by LTL 665 million. According to the share of the managed assets in the Lithuanian banking sector Šiaulių bankas has taken the 8th place.

Though loan granting conditions were stiffened in 2007 and, besides it, loan interest rate was constantly increasing, however Šiaulių bankas has increased its share in the total loan market of the country – in 2007 the customers' loan portfolio increase by 55 per cent and late in the year reached almost LTL 1,541 billion. The major share of the loan portfolio, i.e. 66 per cent, consisted of loans granted to small and medium-sized business. The residents' loan portfolio has grown by more than 91 per cent and reached LTL 274 million.

The clients' deposits with the bank have also grown during 2007. Last year for the first time the deposit amount exceeded one billion and reached LTL 1,217 billion – calculating from December 31st 2006 to the last day of the previous year the deposit amount increased by 30 percent. The residents' deposit portfolio has grown by 39 per cent up to LTL 797 million.

In comparison with the last year net interest income grew by 40 per cent up to LTL 42,6 million. The bank's liquidity ratio comprised 44.05 per cent while the capital adequacy ratio reached 15,3 per cent.

Last year Šiaulių bankas disseminated two share issues the total par value of which is LTL 52 million. The authorized capital of Šiaulių bankas was LTL 161 million at the end of the year.

During 2007 the number of Šiaulių bankas' clients has increase by 17 thou – over 113 thou of natural and legal entities have been using the bank's services. During the whole accounting period the biggest attention has been paid to the financial services that have strengthened the name of Šiaulių bankas in the market as the partner for small and medium-sized business. However, the bank has strengthened its position not only in the corporate but also in retail banking market. In April 2007 a new payment card "Visa Electron" issued together with "Lietuvos draudimas" AB ("Lithuanian Insurance") and having the insurance service valid both abroad and in Lithuania was introduced to the market. Also, new services such as ordering of a payment card and submission of a credit application, which are provided via the Interned, were created.

The number of the Internet banking – 'SB linija"- users increased from 13930 to 21927, i.e. by 57 per cent during the year. The clients of Šiaulių bankas have executed almost 70 per cent of their total payment through "SB linija".

The number of users of the bank's services provided via the mobile telephone has almost doubled and late in the year reached 4523. The number of payment cards grew by 21 per cent – the bank had disseminated more than 43 thou of payment cards at the end of the year. Early in 2007 Šiaulių bankas started developing its ATM network and it had 16 AMTs operating in the biggest towns of Lithuania at the end of the accounting period.

The bank has been expanding the share of the occupied market by attracting new credit lines from the world banks. That allowed providing the better conditions to the clients to develop their businesses and to grant more favourable funding for regional and municipal projects. In March 2007 Šiaulių bankas signed the agreement with the Council of Europe Development Bank regarding the credit line of EUR 10 million to finance small and medium-sized business. The same year in June the bank received the syndicated loan of EUR 30 million which was granted by thirteen European banks and which was assigned to finance general banking activities.

Since December 11th 2006 the shares of Šiaulių bankas are traded on the Main Trading List of Vilnius Stock Exchange. Last year in July the bank's shares were enrolled into the trading index OMX Baltic 10 (OMXB 10) of the securities market of the Baltic States and, also, were included into the quadruplet of the most liquid Lithuanian shares. The growth of country's economy had an impact on the increasing clients' demand for financial intermediation, investment banking, new saving possibilities and not subsiding interest in pension funds.

In 2007 the bank made big investments developing the network of the bank's client service centers – new outlets were opened in Vilnius, Šiauliai, and Zarasai. Taking clients' needs into consideration the several outlets of the bank were reconstructed and the new standard of the updated interior designed was started to be used. Late in 2007 there were 52 outlets of Šiaulių bankas in Lithuania rendering their services to the clients in 30 towns of the country.

Other financial information related to the bank and the bank's group is provided in the explanatory note of the consolidated financial statements.

14. Business plans and prognosis

In 2008 the Bank is further implementing the set goals, which include seeking profit, fostering the existing clients and attracting the new ones, efficiently using the financial services, seeking to provide the clients with the high quality services, forming positive image of the Bank and banking system, introducing society with the financial services and services related to them, providing material and other help or support to separate the entities and separate fields, and paying exclusive attention to the culture, art, education and sports.

The mentioned goals as well as the bank's business principles shall further lean on the same keystones such as attention to servicing and service quality, closer relationship with clients and focus on modern technologies. The increasing pace of Šiaulių bankas' business is projected for the coming year as well – in 2008 it is planned to earn LTL 32 million in net profits, to strengthen its capital base, to intensify collaboration with foreign banks seeking to attract more resources, to develop the regional network of outlets, to create and offer the attractive banking services and to diversify their range. Šiaulių bankas shall further stand for the progressive development of the country's economy, and remain the sustainable bank loyal to its clientele.

15. Other information about the bank

Structure of the Issuer's authorized capital

Type of shares	Number of shares, unt.	Par value, LTL	Total par value, LTL
Ordinary registered shares ISIN LT0000102253	161 033 512	1	161 033 512

The increased authorized capital registered in the public company Registrų centras on September 28th 2007.

There are no restrictions to securities transfer. The shareholders are entitled to property and non-property rights and have their duties foreseen by the Law on Stock Companies of the Republic of Lithuania.

Shareholders, having special control rights and description of these rights. The shareholders control the bank through the elected Supervisory Council. Its functions are defined by the Law on Stock Companies of the Republic of Lithuania.

Restrictions to voting rights. All the bank's shares granting a voting right are of the equal par value and each share gives one vote in the general shareholders' meeting.

A shareholder has no right to vote in making decisions regarding the prerogative right to acquire the shares issued by the bank or regarding the recall of the converted bonds, in case the agenda of the general shareholders' meeting foresees that such a right to acquire these securities is to be granted to him, his close relative, shareholder's spouse or to cohabitant, when the partnership is registered under the applicable law, and to the spouse's close relative, in case the shareholders is a natural entity, as well as to the shareholder's parent company or shareholder's subsidiary, in case the shareholders is a legal entity.

An entity wishing to acquire 1/10 of the bank's authorized capital and (or) such a share of the voting rights or to increase it to the extent when the share of the possessed authorized capital and (or) of voting rights would comprise 1/5, 1/3, ½ or to the extent the bank would become controlled by him, should receive the consent from the Bank of Lithuania in advance. In case the entity acquires 1/10 of the bank's authorized capital and (or) such a share of the voting rights without a supervisory consent from the Bank of Lithuania when such a consent is necessary or when the supervisory institution comes to the resolution to cancel the right to use voting rights, then all the possessed share of the authorized capital and (or) such a share of the voting rights loose the voting right in the general shareholders' meeting.

16. Employees

As of December 31st 2007 , Šiaulių bankas employed 483 staff members, 68 per cent of which had the university education, 2 per cent had not finished university education, 26 per cent had college and 4 per cent secondary education. In comparison with 2006, the number of employees increased by 9 per cent and such a growth was mainly caused by the very intense development of the bank's network started at the end of 2007. As of December 31st 2007 , Šiaulių bankas' Group employed 535 employees in total (as of December 31st 2006 – 515 employees).

Last year Šiaulių bankas was awarded as "The most attractive employer of Šiauliai'2007".

Average salary per month of the relevant employees' group before taxes.

Employees' group	2006		2007	
	Number of employees	Average salary per month, LTL	Number of employees	Average salary per month, LTL
Leadership	8	13 843	8	18 027
Staff	413	2 088	450	2 292

The bank has not entered into agreements with its employees regarding compensation in case they resign or are dismissed without the reasonable cause or in case the their work is over because of the change in the bank's control.

Also, the bank is not a party of the significant agreements, which would come into effect, would change or be broken in case of the change in the bank's control.

17. Information on the compliance with the Corporate Governance Code

The bank works in compliance with big number of standards set by the Corporate Governance Code. The information regarding the bank's compliance with the particular sections of the Corporate Governance Code is provided in the annex of this report together with the financial statements for 2007. The whole information is available on Šiaulių bankas' Internet site www.sb.lt.

18. Procedures regarding amendments in the Charter

The Bank's Charter may be amended only by the resolution of the general shareholders' meeting made by 2/3 of votes excluding exceptional cases foreseen by the law.

19. Bank's Bodies

The Bank's Bodies are as follows: General Meeting of the Shareholders of the Bank, Supervisory Council of the Bank, Board of the Bank and Chief Executive Officer of the Bank (Head of the Bank). The Board and Head of the Bank are managing bodies of the Bank.
The Council is a collegial body supervising the activities of the Bank. It is directed by its Chairman. The General Meeting of the Shareholders elects the Supervisory Council, consisting of 7 members.
The Board is a collegial Bank management body consisting of 5 members. It manages the bank, handles its matters and answers under the laws foe execution of the bank's financial services. Order of the board's work is set by the Board work regulations. The Board is elected by the Council for a term of 4 years.
The Head of the Bank arranges everyday activities of the bank and performs other actions necessary to perform his functions, to implement decisions of the Bank's

bodies and to secure the bank's activities.
Managing bodies of the bank observe laws and other legal acts of the Republic of Lithuania and follow the requirements of the Charter of the Bank.

20. Members of the Collegial bodies, CEO, Chief Financial Officer

Name, surname Beginning-end of the tenure	Offiice hold at Šiaulių bankas AB	Share of capital owned under the right of ownership	Share of votes owned together with related persons
Arvydas Salda Pradžia 2004-03-29 Pabaiga 2008 m.	Chairman of the Council	2,27	39,73
Sigitas Baguckas Pradžia 2004-03-29 Pabaiga 2008 m.	Deputy Chairman of the Council	0,55	39,73
Ričardas Valskis Pradžia 2004-03-29 Pabaiga 2008 m.	Member of the Council	0,60	39,73
Kastytis Jonas Vyšniauskas Pradžia 2004-03-29 Pabaiga 2008 m.	Member of the Council	0,98	39,73
Vigintas Butkus Pradžia 2004-03-29 Pabaiga 2008 m.	Member of the Council	0,03	39,73
Vytautas Junevičius Pradžia 2005-11-17 Pabaiga 2008 m.	Member of the Council	0,09	39,73
Salvatore Candido Pradžia 2005-11-17 Pabaiga 2008 m.	Member of the Council	-	-
Algirdas Butkus Pradžia 2004-03-29 Pabaiga 2008 m.	Chairman of the Board Chief Executive Officer	2,45	39,73
Donatas Savickas Pradžia 2004-03-29 Pabaiga 2008 m.	Member of the Board, Deputy Chief Executive Officer, Head of Finance and Credit Division	<0,01	39,73
Vita Adomaitytė Pradžia 2004-06-05 Pabaiga 2008 m.	Member of the Board, Chief Financial Officer, Head of Accounting and Reporting Division	0,02	39,73
Daiva Kiburienė Pradžia 2005-08-31 Pabaiga 2008 m.	Member of the Board, Head of Corporate and Retail Banking Division	<0,01	39,73
Jonas Bartkus Pradžia 2005-08-31 Pabaiga 2008 m.	Member of the Board, Head of Business Development Division	<0,01	39,73

Amounts of funds in total and average amounts per members of the collegial body calculated during the accounting period:

Members of management bodies	Number of people	Total amounts, LTL	Average amounts, LTL
Council members	7	450 000	64 286
Board members	5	410 000	82 000
Members of Administration	2	696 565	34 8283

There were no guarantees or warranties issued in 2007 regarding the fulfillment of liabilities of management bodies' members.

21. Transactions with related parties

There were many banking transactions entered with related parties in the course of general activities in 2007. The related parties of the bank are as follows: the members of the Bank's Supervisory Council and the Bank's Board, shareholders acting together under the Shareholders' Agreement, close family members of the mentioned related parties as well the bank's subsidiaries. All the transactions have been entered in the general market terms. The comprehensive description of the transactions is provided in the explanatory note of the consolidated annual financial statement of Šiaulių bankas for 2007.

22. Data on the publicly disclosed information

The following information was publicly disclosed in 2007:

- 22-01-2007– preliminary pre-audited activity result of Šiaulių bankas for 2006;
- 23-02-2007 – summoning of the general shareholders' meeting;
- 26-02-2007 – summoning of the general shareholders' meeting (the date of the meeting was amended);
- 08-02-2007 – preliminary pre-audited activity result of Šiaulių bankas' Group for 2006;
- 14-03-2007 – draft resolutions of the general shareholders' meeting dated 29-03-2007;
- 14-03-2007 – AB East Capital Asset Management lost a block of shares of Šiaulių bankas AB;
- 23-03-2007 – audited financial statements and annual report of Šiaulių bankas' Group for 2006;
- 29-03-2007 – resolutions of the general shareholder's meeting dated 29-03-2007;
- 12-04-2007 – preliminary pre-audited financial activity result of Šiaulių bankas for 1st quarter;
- 25-04-2007 – an agreement signed with regard to sales of the subsidiary;
- 2007-05-03 – preliminary pre-audited financial activity result of Šiaulių bankas' Group for 1st quarter;
- 15-05-2007– registration of the amended Charter after the increase of the authorized capital from the bank's own funds.

- 28-05-2007 – loss of a share block;
- 31-05-2007 – interim financial statements of Šiaulių bankas AB for 1st quarter of 2007;
- 28-06- 2007 –Šiaulių bankas AB received a syndicated loan of EUR 30 million;
- 09-07-2007 – preliminary pre-audited financial activity result of Šiaulių bankas for 1st half-year of 2007
- 13-07-2007 – an offer to shareholders to acquire shares exercising the prerogative right;
- 17-07-2007– (date amended) an offer to shareholders to acquire shares exercising the prerogative right;
- 27-07-2007 – preliminary pre-audited financial activity result of Šiaulių bankas' Group for 1st half-year of 2007;
- 07-08-2007 – share issue has been disseminated;
- 09-08-2007– regarding the II stage of share dissemination;
- 31-08-2007– consolidated financial statements and interim report of Šiaulių bankas AB;
- 03-09-2007 – share issue has been disseminated and fully paid;
- 01-10-2007 – registration of the amended Charter after the increase of the authorized capital;
- 10-10-2007 – preliminary pre-audited financial activity result of Šiaulių bankas AB for the three quarters of 2007;
- 31-10-2007 – preliminary pre-audited financial activity result of Šiaulių bankas' Group for the three quarters of 2007;
- 23-11-2007 – Interim financial statements of Šiaulių bankas AB for the nine months of 2007 and confirmation from the authorized persons;
- reports on the transactions with the bank's shares made by the bank's senior management.

Šiaulių bankas AB has informed the Securities Commission and Vilnius Stock Exchange about all the stock events in accordance with the procedures set by the Charter and the legal acts of the Republic of Lithuania, also, announced this information in the daily newspapers "Lietuvos rytas" and "Šiaulių kraštas" and provided it on the Šiaulių bankas' website **www.sb.lt**. Other regulated information (reports on a share block acquisition and loss as well as on transactions of the senior management) was announced on the websites of the Vilnius Stock Exchange and Securities Commission.

Chief Executive Officer Algirdas Butkus

ŠIAULIŲ BANKAS AB
Report on the compliance with the Governance Code for the companies listed on the regulated market

Šiaulių bankas AB, following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 20.5 of the Trading Rules of the Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes/No	The Bank prepares (activity) business plans and provides them to the Bank of Lithuania. Only made and already implemented particular decisions are declared publicly. The Bank's activity goals include seeking profit by providing financial services, fostering the clients and those who could become the clients to use the financial services efficiently, seeking to provide the clients with the high quality services, forming positive image of the Bank and banking system, introducing society with the financial services and services related to them, providing material and other help or support to separate the entities and separate fields, and paying exclusive attention to the culture, art, education and sports.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The rights and interest of the shareholders, employees, clients and other entities related to the bank's activities are respected; the bank works in compliance with requirements set by the Labour Code as well as with the provisions stated in the agreements between clients and suppliers.
Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		

2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	The Bank's bodies include a general shareholders' meeting, the Bank's Supervisory Council, the Bank's Board and the chief executive officer.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	At the Bank the recommended function is performed by the collegial supervisory body - the Bank's Supervisory Council.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Not applicable	Both bodies are formed at the Bank - the Bank's Supervisory Council and the Bank's Board.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.[1]	Yes/No	See the information stated in principals III and IV
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.[2]	Yes	The Bank's Board consists of 5 members; the Supervisory Council consists of 7 members. Taking into consideration the Bank's size, scope of activities and the number of shareholders such number of members is the most optimal.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	The term of tenure of the Bank's Board and Supervisory Council members is 4 years. According to the Bank's Charter members of management and supervisory bodies can be re-elect for the next tenure.

[1].

[2]

2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Chairman of Supervisory Council have never been the Bank's chief executive officer.
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.[3]**		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	No	While electing the members of the Supervisory Council, their particular competences relevant to his/her service are disclosed. The Bank supposes that it is suffice to meet the standards and provisions set in the Acts of Law of the Republic of Lithuania including the requirement approved by the resolutions of the Bank of Lithuania which indicates that people who are being elected and assigned into senior management have to receive the permission from the Bank of Lithuania.

3

3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	No	See section 3.3
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	No	See section 3.3
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient[4] number of independent[5] members.	No	The members of the Supervisory Council were elected in 2004 when the independence of the members was not assessed.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other	Not applicable	See section 3.6

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performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. 3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.		

3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Not applicable	
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Not applicable	
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.[6]. The general shareholders' meeting should approve the amount of such remuneration.	Not applicable	
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring[7] of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance	Yes	The Supervisory Council performs all the control and monitoring functions within its competence assigned by the company regarding the management performance.

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[7]

4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes/No	The members of the Supervisory Council act in good faith with regard to the Bank and according to its interest not of their own one or of the third parties trying to maintain their independence while making decisions. The independence of the members was not assessed.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half[8] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes/No	The members of the Supervisory Council actively participate in the meetings and devote sufficient time to perform his duties as a member of the collegial body. The Bank does not provide information to its shareholders regarding the members' participation in meetings during the last financial year.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes/No	All the transactions are concluded according standard conditions performing usual banking activities. Not all transactions are approved by the collegial body.

[8].

4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies[9]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	Yes	The work and decisions of the Supervisory Council are not influenced by people who elected the members of this body.
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	Yes/No	The Bank has formed the Audit Committee. The Nomination and Remuneration Committees are not formed. The functions of these committees are performed by the Supervisory Council itself.

[9].

4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes/No	The Audit Committee submits the Supervisory Council recommendations regarding its decisions. The Nomination and Remuneration Committees are not formed. The functions of these committees are performed by the Supervisory Council itself.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	Yes/No	The Audit Committee consists of 3 members. The Nomination and Remuneration Committees are not formed.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes/No	The authority delegated to the Audit Committee as well as its accounting are set in the Committee's provisions approved by the Supervisory Council. The Bank does not provide information regarding the number of held meetings and the committee's members' participation there.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes	Other members of the management bodies who are not Committee's members participate in the meetings in case the Committee invites.

4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: • Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; • Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; • Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; • Properly consider issues related to succession planning; • Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	No	There is no Nomination Committee at the Bank.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: • Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; • Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; • Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; • Assist the collegial body in overseeing how the company	No	There is no Remuneration Committee at the Bank.

complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); • Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: • Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; • Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; • Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: • Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); • At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; • Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; • Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; • Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's	Yes	

compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; • Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should		

ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	The Bank does not have practice of assessment of the Supervisory Council's performance and making it public.
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		

5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The Supervisory Council is chaired by the Chairman of the Supervisory Council, the Bank's Board is chaired by the Chairman of the Bank's Board.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month[10].	Yes	The Meetings of the Supervisory Council are carried not less than quarterly, the Meetings of the Bank's Board are carried not less than monthly.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and**		

[10] The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

foreign shareholders. The corporate governance framework should protect the rights of the shareholders.		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The ordinary registered shares that comprise the Bank's authorized capital grant the same rights all their holders.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The rights provided by the newly issued shares are described in the Securities prospectus.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.[11] All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	The decisions regarding the long-term assets the balance value of which exceeds 1/20 of the Bank's authorized capital , purchase, pledge or hypothec as well as liabilities of other persons the amount of which exceeds 1/20 of the Bank's authorized capital are made by the Bank's Board.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	Yes	
6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance[12]. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The Bank's shareholders may participate in the general shareholders' meeting in person or through their representative. The voting is possible by filling the general voting bulletin.

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6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	No	The Bank is not ready and does not suppose it is necessary to use the modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications.
Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	
Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the**		

company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	No	The Bank does not prepare a statement of the company's remuneration policy and does not declares it publicly being of the opinion that such information is not to be published. In the scope set by the valid requirements, the average salaries are declared in the Bank's annual reports and share issue prospects.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	See section 8.1.
8.3. Remuneration statement should leastwise include the following information: • Explanation of the relative importance of the variable and non-variable components of directors' remuneration; • Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; • Sufficient information on the linkage between the remuneration and performance; • The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; • A description of the main characteristics of supplementary pension or early retirement schemes for directors.	No	See section 8.1.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	See section 8.1.
8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	See section 8.1.

8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	See section 8.1.
8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.7.1. The following remuneration and/or emoluments-related information should be disclosed: • The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; • The remuneration and advantages received from any undertaking belonging to the same group; • The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; • If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; • Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; • Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: • The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; • The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; • The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; • All changes in the terms and conditions of existing share options occurring during the financial year. 8.7.3. The following supplementary pension schemes-related information should be disclosed: • When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; • When the pension scheme is defined-contribution scheme,	No	See section 8.1.

detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	No	The Bank's senior management is not remunerated for their work in shares, share options or any other right to purchase shares.
8.9. The following issues should be subject to approval by the shareholders' annual general meeting: • Grant of share-based schemes, including share options, to directors; • Determination of maximum number of shares and main conditions of share granting; • The term within which options can be exercised; • The conditions for any subsequent change in the exercise of the options, if permissible by law; • All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	No	The Bank's senior management is not remunerated for their work in shares, share options or any other right to purchase shares.
8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.	No	The Bank's senior management is not remunerated for their work in shares, share options or any other right to purchase shares.
8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.	No	The Bank's senior management is not remunerated for their work in shares, share options or any other right to purchase shares

8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.	No	The Bank's senior management is not remunerated for their work in shares, share options or any other right to purchase shares.
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.	Yes	
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	
Principle X: Information disclosure and transparency **The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		

10.1. The company should disclose information on: • The financial and operating results of the company; • Company objectives; • Persons holding by the right of ownership or in control of a block of shares in the company; • Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; • Material foreseeable risk factors; • Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; • Material issues regarding employees and other stakeholders; • Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.	Yes	The information disclosed in this section is in the amount foreseen by the standard documents, annual reports and share issue prospects.
10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.	Yes	
10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.	Yes	
10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	No	The Banks does not prepare information about the links between the bank and its shareholders, including employees, creditors, suppliers, local community.
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	.

10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The Banks declares all the information listed in this recommendation
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes/No	Supposes the managing board, but supervisory board approves it
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Not applicable	The Bank's firm of auditors does not render non-audit services to the bank and was not paid for this by the Bank.

Chairman of the Bank's Board Algirdas Butkus