

CONFIRMATION FROM THE RESPONSIBLE PERSONS

We, Chief Executive Officer of Šiaulių bankas AB Audrius Žiugžda and Chief Accountant Vita Adomaitytė, confirm that provided consolidated financial statements of Šiaulių bankas AB for 2011 are compiled in compliance with applicable accounting standards, correspond the reality and correctly reflect the assets, liabilities, financial status, activity result and cash flows of Šiaulių bankas AB and Group of Companies. 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.

Chief Executive Officer



Audrius Žiugžda

Chief Accountant



Vita Adomaitytė

08 March 2012



ŠIAULIŲ BANKAS AB
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
ANNUAL REPORT
31 DECEMBER 2011

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Our report has been prepared in Lithuanian and English languages. In all matters of interpretation of information, views or opinions, the Lithuanian language version of our report takes precedence over the English language version.

Independent Auditor's Report

To the shareholders of Šiaulių bankas AB

Report on the financial statements

We have audited the accompanying stand alone and consolidated financial statements (together 'the Financial statements') of Šiaulių bankas AB (the 'Bank') and its subsidiaries (collectively 'the Group') set out on pages 5 – 95 which comprise the stand alone and consolidated statement of financial position as of 31 December 2011 and the stand alone and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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.

PricewaterhouseCoopers UAB, J. Jasinskio 16B, LT-01112 Vilnius, Lithuania

T: +370 (5) 239 2300, F: +370 (5) 239 2301, E-mail: vilnius@lt.pwc.com, www.pwc.com/lt

PricewaterhouseCoopers UAB, company code 111473315, VAT payer's code LT114733113, registered office at J. Jasinskio 16B, LT-01112 Vilnius, is a private company registered with the Legal Entities' Register of the Republic of Lithuania. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.



Opinion

In our opinion, the accompanying Financial statements give a true and fair view of the financial position of the Bank and the Group as of 31 December 2011, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the consolidated Annual Report for the year ended 31 December 2011 set out on pages 96 - 152 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 2011.

On behalf of PricewaterhouseCoopers UAB

A handwritten signature in blue ink, appearing to read "C. Butler", written over a faint, larger signature.

Christopher C. Butler
Director

A handwritten signature in blue ink, appearing to read "Rasa Radzevičienė", written over a faint, larger signature.

Rasa Radzevičienė
Auditor's Certificate No.000377

Vilnius, Republic of Lithuania
8 March 2012

ŠIAULIŲ BANKAS AB
FINANCIAL STATEMENTS
31 DECEMBER 2011

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

THE GROUP'S AND THE BANK'S STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended			
		31 December 2011		31 December 2010	
		Group	Bank	Group	Bank
Continuing operations					
Interest and similar income	1	120,802	116,080	110,429	107,379
Interest expense and similar charges	1	(66,024)	(66,029)	(78,634)	(78,540)
Net interest income		54,778	50,051	31,795	28,839
Allowance for impairment losses	7	(10,621)	(9,561)	(46,205)	(43,915)
Allowance for impairment losses		(10,621)	(9,561)	(46,205)	(43,915)
Net interest income after allowance for impairment losses	7	44,157	40,490	(14,410)	(15,076)
Fee and commission income	2	14,208	14,152	12,478	12,325
Fee and commission expense	2	(5,724)	(5,703)	(4,467)	(4,387)
Net fee and commission income		8,484	8,449	8,011	7,938
Result from associate company		11	-	-	-
Net gain (loss) from operations with securities	3	(3,441)	(3,441)	3,088	3,088
Net foreign exchange gain		4,881	4,883	2,709	2,715
(Loss) gain from disposal of assets	5	2,164	31	1,212	165
Other income	6	2,899	736	1,695	787
Administrative and other operating expenses	4	(43,518)	(36,636)	(33,847)	(28,572)
Operating profit (loss)		15,637	14,512	(31,542)	(28,955)
Dividends from investments in subsidiaries and associates					
Profit (loss) from continuing operations before income tax		15,637	14,512	(31,542)	(28,955)
Discontinued operations					
Profit (loss) before income tax from discontinued operations	20	(685)	-	(1,594)	-
Income tax income (expenses)	8	(1,929)	(1,700)	4,844	4,806
Net profit (loss)		13,023	12,812	(28,292)	(24,149)
Other comprehensive income (loss)					
Gain (loss) from revaluation of financial assets		(3,410)	(4,781)	1,187	1,187
Gain (loss) from sale of financial assets		2,109	2,109	(353)	(353)
Amortisation of revaluation related to held-to-maturity investments		(355)	(355)	(235)	(235)
Deferred income tax on (loss) gain from revaluation of financial assets		476	476	180	180
Other comprehensive (loss) gain, net of tax		(1,180)	(2,551)	779	779
Total comprehensive income (loss)		11,843	10,261	(27,513)	(23,370)
Net profit (loss) attributable to:					
Equity holders of the Bank		13,023	12,812	(28,292)	(24,149)
From continuing operations		13,708	12,812	(26,698)	(24,149)
From discontinued operations		(685)	-	(1,594)	-
		13,023	12,812	(28,292)	(24,149)

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

Total comprehensive income (loss) attributable to:

Equity holders of the Bank		11,843	10,261	(27,513)	(23,370)
Non-controlling interest		-	-	-	-
		<u>11,843</u>	<u>10,261</u>	<u>(27,513)</u>	<u>(23,370)</u>

Basic and diluted (loss) earnings per share (in LTL per share)

9

0.06

0.06

(0.15)

(0.14)

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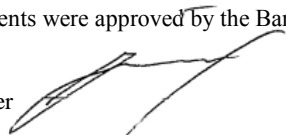
(All amounts are in LTL thousand, unless otherwise stated)

THE GROUP'S AND THE BANK'S STATEMENT OF FINANCIAL POSITION

		31 December 2011		31 December 2010	
	Notes	Group	Bank	Group	Bank
ASSETS					
Cash and cash equivalents	10	223,846	223,844	208,400	208,397
Trading securities	12	16,574	16,574	81,326	78,406
Due from other banks	11	4,147	4,147	4,147	4,147
Loans to customers	13	1,786,631	2,069,758	1,434,162	1,657,609
Finance lease receivables	14	163,741	-	103,988	-
Investment securities:					
- available-for-sale	15	35,617	32,068	103,598	89,375
- held-to-maturity	15	306,349	303,281	214,055	207,635
Investments in subsidiaries and associates	16	18,392	16,889	-	16,889
Intangible assets	17	916	894	608	606
Property, plant and equipment	18	46,874	39,632	46,414	39,355
Investment property	26	33,314	7,946	24,967	4,344
Income tax prepayment		10	-	1,615	1,598
Deferred tax asset	8	9,091	8,952	10,407	10,177
Inventories	19	44,327	-	42,961	-
Other financial assets	19	23,125	116	35,254	12,025
Other non-financial assets	19	10,351	7,465	10,257	4,091
Assets related to a subsidiary that is held for sale	20	13,999	-	12,455	-
Total assets		2,737,304	2,731,566	2,334,614	2,334,654
LIABILITIES					
Due to other banks and financial institutions	21	470,889	470,900	369,067	369,091
Due to customers	22	1,893,885	1,894,167	1,672,299	1,672,394
Debt securities in issue	24	45,284	45,284	5,291	5,291
Special and lending funds	23	16,900	16,900	28,011	28,011
Current income tax liabilities		138	-	-	-
Deferred income tax liabilities	8	-	-	-	-
Other financial liabilities	25	3,922	-	1,503	-
Other non-financial liabilities	25	10,772	6,707	6,380	3,720
Liabilities related to a subsidiary that is held for sale	20	1,296	-	882	-
Total liabilities		2,443,086	2,433,958	2,083,433	2,078,507
EQUITY					
Share capital	27	234,858	234,858	204,858	204,858
Share premium	27	47,861	47,861	46,661	46,661
Reserve capital	27	2,611	2,611	2,611	2,611
Other reserves	27	-	-	10,000	10,000
Statutory reserve	27	960	648	6,667	6,422
Financial assets revaluation reserve		(1,182)	(1,182)	(2)	1,369
Retained earnings		9,110	12,812	(19,614)	(15,774)
Total equity		294,218	297,608	251,181	256,147
Total liabilities and equity		2,737,304	2,731,566	2,334,614	2,334,654

These financial statements were approved by the Bank's Board and signed on behalf of the Board on 8 March 2012 by:

Audrius Žiugžda
Chief Executive Officer




Vita Adomaitytė
Chief accountant

The accounting policies and notes on pages 11 to 95 constitute an integral part of these financial statements.

ŠIAULIŲ BANKAS AB
FINANCIAL STATEMENTS
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(All amounts are in LTL thousand, unless otherwise stated)

THE GROUP'S STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Bank									
	Notes	Share capital	Share premium	Reserve capital	Financial assets revaluation	Statutory reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
31 December 2009		180,358	45,681	2,611	(781)	6,376	10,000	9,939	254,184	-	254,184
Formation of statutory reserve	27	-	-	-	-	441	-	(441)	-	-	-
Release of statutory reserve to cover losses		-	-	-	-	(150)	-	150	-	-	-
Increase in share capital	27	24,500	980	-	-	-	-	-	25,480	-	25,480
Retained earnings related to subsidiary previously not consolidated	20	-	-	-	-	-	-	(970)	(970)	-	(970)
Total comprehensive loss		-	-	-	779	-	-	(28,292)	(27,513)	-	(27,513)
31 December 2010		204,858	46,661	2,611	(2)	6,667	10,000	(19,614)	251,181	-	251,181
Release of statutory and other reserves to cover losses		-	-	-	-	(5,707)	(10,000)	15,707	-	-	-
Increase in share capital	27	30,000	1,200	-	-	-	-	-	31,200	-	31,200
Total comprehensive gain (loss)		-	-	-	(1,180)	-	-	13,017	11,837	-	11,837
31 December 2011		234,858	47,861	2,611	(1,182)	960	-	9,110	294,218	-	294,218

The accounting policies and notes on pages 11 to 95 constitute an integral part of these financial statements.

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(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	Other reserves	Retained earnings	Total
31 December 2009		180,358	45,681	2,611	590	5,981	10,000	8,816	254,037
Formation of statutory reserve	27	-	-	-	-	441	-	(441)	-
Formation of other reserves	27	24,500	980	-	-	-	-	-	25,480
Total comprehensive loss		-	-	-	779	-	-	(24,149)	(23,370)
31 December 2010		204,858	46,661	2,611	1,369	6,422	10,000	(15,774)	256,147
Release of statutory and other reserves to cover losses	27	-	-	-	-	(5,774)	(10,000)	15,774	-
Increase in share capital	27	30,000	1,200	-	-	-	-	-	31,200
Total comprehensive income (loss)		-	-	-	(2,551)	-	-	12,812	10,261
31 December 2011		234,858	47,861	2,611	(1,182)	648	-	12,812	297,608

The accounting policies and notes on pages 11 to 95 constitute an integral part of these financial statements.

ŠIAULIŲ BANKAS AB
FINANCIAL STATEMENTS
31 DECEMBER 2011

(All amounts are in LTL thousand, unless otherwise stated)
THE GROUP'S AND THE BANK'S STATEMENT OF CASH FLOWS

	Notes	Year ended			
		31 December 2011		31 December 2010	
		Group	Bank	Group	Bank
Operating activities					
Interest received		102,777	98,045	99,006	96,019
Interest paid		(62,359)	(62,364)	(78,390)	(78,296)
Fees and commissions received		14,208	14,152	12,478	12,325
Fees and commissions paid		(5,724)	(5,703)	(4,467)	(4,387)
Cash (outflows) inflows from trade in trading securities		(3,363)	(3,363)	4,352	4,352
Net inflows from foreign exchange operations		4,608	4,610	2,726	2,732
Recoveries on loans previously written off		1,756	1,157	1,240	790
Salaries and related payments to and on behalf of employees		(24,975)	(21,623)	(18,185)	(15,590)
Other cash receipts, sale of assets		2,873	710	1,695	787
Other cash payments		(16,365)	(12,451)	(14,256)	(10,652)
Income tax (paid) recovered		-	-	30	-
Net cash flow from operating activities before change in operating assets and liabilities		13,436	13,170	6,229	8,080
Change in operating assets and liabilities:					
(Increase) decrease in trading securities		66,425	63,505	(77,013)	(77,066)
Decrease (increase) in loans to credit and financial institutions		570	(55,520)	6,627	(1,375)
Increase in loans to customers		(423,859)	(366,698)	(68,914)	(102,253)
Decrease (increase) in other current assets		10,267	8,535	(32,376)	(11,046)
Increase in liabilities to credit and financial institutions		99,906	99,883	36,847	45,828
Increase in deposits		220,799	220,986	143,505	143,584
Increase (decrease) in special and lending funds		(11,210)	(11,210)	(3,281)	(3,281)
Increase (decrease) in other liabilities		7,824	4,175	2,529	873
Decrease (increase) of net assets of a subsidiary held for sale	20	(1,130)	-	-	-
Change		(30,408)	(36,344)	7,924	(4,736)
Net cash flow from (used in) operating activities		(16,972)	(23,174)	14,153	3,344
Investing activities					
(Purchase) of property, plant and equipment and intangible assets		(14,476)	(7,877)	(19,887)	(2,190)
Disposal of property, plant and equipment and intangible assets		5,256	1,876	4,202	1,356
(Purchase) of held-to-maturity securities		(31,424)	(28,356)	(32,111)	(28,664)
Proceeds from redemption of held-to-maturity securities		29,951	23,531	14,220	14,220
Dividends received		42	42	68	68
(Purchase) of available-for-sale securities		(211,236)	(210,667)	(176,218)	(176,148)
Sale of available-for-sale securities		189,732	189,732	122,977	122,977
(Purchase) of associated companys		(5,767)	-	-	(7,505)
Net cash flow from (used in) investing activities		(37,922)	(31,719)	(86,749)	(75,886)
Financing activities					
Increase in share capital	27	31,200	31,200	7,800	7,800
Proceeds from convertible loan obtained from the shareholder	33	-	-	103,584	103,584
Dividends paid		-	-	(2)	(2)
Dividends paid to non-controlling shareholders		-	-	-	-
Debt securities in issue		111,933	111,933	20,134	20,134
Redemption of debt securities in issue		(72,793)	(72,793)	(19,228)	(19,228)
Net cash flow (used in) financing activities		70,340	70,340	112,288	112,288
Net increase (decrease) in cash and cash equivalents		15,446	15,447	39,692	39,746
Cash and cash equivalents at 1 January		208,400	208,397	168,708	168,651
Cash and cash equivalents at 31 December	10	223,846	223,844	208,400	208,397

The accounting policies and notes on pages 11 to 95 constitute an integral part of these financial statements.

Šiaulių BANKAS AB
NOTES TO THE FINANCIAL STATEMENTS
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(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 38 client service units (2010: 14 branches and 37 client service units). As at 31 December 2011 the Bank had 494 employees (31 December 2010: 481). As at 31 December 2011 the Group had 559 employees (31 December 2010: 545 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 Vilnius Stock Exchange – AB NASDAQ OMX Vilnius.

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),
- Minera UAB (hereinafter – Minera, real estate management activities),
- ŠBTf UAB (hereinafter – ŠBTf, real estate management activities).

The Group also had the following associate and subsidiary:

- Associate Pavasaris UAB (hereinafter – Pavasaris, development of residential quarter),
- Subsidiary held for sale Kėdainių oda UAB (leather processing).

Investments in subsidiaries are described in more detail in Note 16 *Investments in subsidiaries*.

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

Financial crisis and its impact on Šiaulių banks

Nearly all industries in Lithuania, not excluding banks, were heavily affected by the financial crisis. The GDP contraction, rise in unemployment rates, heavier taxation, reduction of salaries and other benefits have had a visible impact on the financial stability of the clients. A portion of past due and impaired debts has increased as a result of impaired solvency of the Bank's clients. As a result, a more conservative approach has been adopted in assessing the financial position of borrowers and the ability to repay the loan.

Although in 2011 the Lithuanian economy was further effected by the financial crisis, the financial results of the Bank and the Group has improved marginally reflecting the tendencies in the country's economy.

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)

Basis of preparation (continued)

Amendments to existing standards and interpretations effective in 2011

During the reporting financial year, the Bank and the Group adopted the following newly announced and amended IFRS and IFRIC interpretations:

IAS 24 'Related Party Disclosures' (amended November 2009, effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition and by (b) providing a partial exemption from the disclosure requirements for government-related entities. As a result of the revised standard, the Bank and the Group now also discloses contractual commitments to purchase and sell goods or services to its related parties.

Improvements to International Financial Reporting Standards, issued in May 2010 – amendment to IFRS 7 (effective for annual periods beginning on or after 1 January 2011). IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period.

Amendments to existing standards and interpretations effective in 2011, but not relevant to the Bank and the Group

The following amendments to existing standards and interpretations have been adopted by the European Union (EU) and are mandatory for accounting periods beginning on or after 1 January 2011, but are not currently relevant to the Bank and the Group's operations:

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the statement of comprehensive income based on the fair value of the equity instruments compared to the carrying amount of the debt.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.

Classification of Rights Issues – Amendment to IAS 32 'Financial Instruments: Presentation' (effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

Limited Exemption From Comparative IFRS 7 Disclosures for First-time Adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7.

Improvements to International Financial Reporting Standards, issued in May 2010 (effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1, IFRS 3, IAS 1, to IAS 21, IAS 28, IAS 31, IAS 32, IAS 34, IAS 39 and IFRIC 13.

Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Bank and the Group

The following standards and amendments to existing standards have been published:

IFRS 9, Financial Instruments Part 1: Classification and Measurement (effective for annual periods beginning on or after 1 January 2015; not yet adopted by the EU). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features of the standard are as follows:

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through the statement of comprehensive income
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through
- the statement of comprehensive income
- For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to the statement of comprehensive income. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities; not yet adopted by the EU.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-Monetary Contributions by Ventures; not yet adopted by the EU.

IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 Investments in Associates; not yet adopted by the EU.

IFRS 13, Fair Value Measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs; not yet adopted by the EU.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements; not yet adopted by the EU.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures; not yet adopted by the EU.

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. The amendment is not expected to have impact on the Bank and the Group's financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income; not yet adopted by the EU.

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits; not yet adopted by the EU.

IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, (issued in October 2011 and effective for annual periods beginning on or after 1 January 2013). The interpretation clarifies that benefits from the stripping activity are accounted for in accordance with the principles of IAS 2, Inventories, to the extent that they are realised in the form of inventory produced; not yet adopted by the EU.

ŠIAULIŲ BANKAS AB
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2011

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

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria; not yet adopted by the EU.

Disclosures – Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off; not yet adopted by the EU.

Recovery of Underlying Assets – Amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2012). The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value; not yet adopted by the EU.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2011). The amendments will provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs, and guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time; not yet adopted by the EU.

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.

If transaction with non-controlling interest does not result in control being lost, the result from acquisition of non-controlling interest or sale of shares to non-controlling interest is recognized directly in equity of the Group.

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 less impairment. 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.

Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition.

The group's share of post-acquisition profit or loss is recognised in the statement of comprehensive income, and its share of postacquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

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 statement of comprehensive income for the reporting period. All non-monetary liabilities and assets are translated using the exchange rate prevailing on the date of acquisition.

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

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 comprehensive income at the time of transaction using the exchange rate ruling at that date.

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 comprehensive income 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 statement of comprehensive income when the Bank's or Group's right to receive payments is established.

Taxation

a) Income tax

In accordance with the Lithuanian Law on Corporate Profit Tax, taxable profit for 2010 and 2011 period is subject to income tax at a rate of 15%. 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.

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 taxable losses deferred for future periods, 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 up to 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 statement of comprehensive income.

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)

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 transaction price. Trading securities are subsequently measured at fair value 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. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

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 settlement date, which is the date when payment is made for assets purchased or sold. 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 other comprehensive income through the Statement of comprehensive income except for impairment losses and foreign exchange gains or losses. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is recognised in the statement of comprehensive income. However interest calculated using the effective interest rate is recognised in the Statement of comprehensive income

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 related to equity securities classified as trading or available for sale 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 settlement date, which is the date when payment is made for assets purchased or sold. 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. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of comprehensive income as 'Allowance for impairment losses.

Impairment of financial assets

The Group assesses whether objective evidence of impairment exists individually for financial assets that are individually significant as well as for those that are not individually significant. Losses on loan and held-to-maturity investment

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

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 future expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception. 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 Statement of comprehensive income. 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 after all the necessary procedures to recover the asset 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 Statement of comprehensive income 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 the statement of comprehensive income – is removed from other comprehensive income and recognised in the statement of comprehensive income.

Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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 (see note 17).

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

Property, plant and equipment

Tangible fixed assets are stated at historical cost 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. No property, plant and equipment were impaired as at 31 December 2010 and 31 December 2011.

Gains and losses on disposals of fixed assets are determined by reference to their carrying amount and are charged to the Statement of comprehensive income.

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 the statement of comprehensive income when they are incurred. Significant improvements of assets are capitalised and depreciated over the remaining useful life period of the improved asset. Borrowing costs that are directly attributable to the acquisition or construction of assets requiring substantial amount of time to get ready for their usage are capitalized. Useful lives of property, plant and equipment are disclosed in note 18.

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 Statement of comprehensive income on a straight-line basis over the period of lease.

a) 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.

Inventories

Inventories of the Group consist mainly of apartments held for sale and property for development. They are stated at the lower of cost and net realizable value. Net realizable value for apartments held for sale are calculated as based on market value of appartments less costs to sell Net realizable value of property for development are calculated as discounted cash inflows to be received from developed property less discounted cash outflows related to the development and selling of a property.

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 Statement of comprehensive income 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.

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

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 Statement of comprehensive income and within other liabilities in the balance sheet.

Segment information

Operating segments are reported in accordance with the information analysed by the Executive Board (the chief operating decision-maker) of the Group, which is responsible for allocating resources to the reportable segments and assesses its performance.

The Group has seven main business segments:

- Šiauliai region – includes banking operations (retail and corporate banking) performed in Šiauliai region;
- Vilnius region – includes banking operations (retail and corporate banking) performed in Vilnius region;
- Klaipėda region - includes banking operations (retail and corporate banking) performed in Klaipėda region;
- Headquarters – incorporates treasury and support services (IT, management, administration and other services) provided to other banking operations segments of the Group;
- Leasing activities – includes finance and operating lease services provided to customers of the Group;
- Investment management – includes management of investments in equity instruments held by the Group;
- Real estate development – includes development of real estate projects.

As the Group's segment operations, except for real estate development are all financial with a majority of revenues deriving from interest and the Group Executive Board relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments is presented on a net basis. Also all other main items of the statement of comprehensive income are analysed by the management of the Group on segment basis therefore they are presented in the segment reporting.

Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the Group Executive Board is measured in a manner consistent with that in the consolidated statement of comprehensive income. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments.

The Group's management reporting is based on a measure of profit before taxes and net profit comprising net interest income, net fee and commissions income, loan impairment charges, operating expenses, amortization and depreciation expenses and net other income.

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. The Group considers relevant and observable market prices in its valuations where possible.

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

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 Statement of comprehensive income 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 Statement of comprehensive income 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.

Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the entities in the consolidated group, are classified as investment properties. Investment properties comprise buildings for commercial activities and landplots for undetermined future use.

Some properties may be partially occupied by the Group, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Group can be sold separately, the Group accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40. When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. The Group considers the owner-occupied portion as insignificant when the property is more than 5% held to earn rental income or capital appreciation. In order to determine the percentage of the portions, the Group uses the size of the property measured in square metre.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the date of the statement of financial position. Gains or losses arising from changes in the fair value of investment properties are included in the statement of comprehensive income in the year in which they arise. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value is determined by comparable market prices, or, if these are unavailable, is calculated by discounting the expected net rentals at a rate that reflects the current market conditions as of the valuation date adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure. These valuations are performed annually by external or internal appraisers.

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

FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Bank's and the Group's activities are principally related to the use of financial instruments. 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.

Strategic decisions related to financing and investing activities of the Bank and the Group is made by the Board of the Bank. Operating financing and investment decisions are made on division level. Divisions of the Group are presented in Segment information. Decisions on risk management are made by the Risk Management Committee of the Bank. Risk Management Policy is approved and monitored by the Board of the Bank.

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.

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 Group's activities. Due to the fact that various risks experienced by the Group are interdependent their management is centralized. Organization 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 procedures 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, concentration risk and operational risk. Market risk includes currency risk, interest rate and securities 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.

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

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 banking activities.

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 regularly reviews its credit risk management policies which include lending policies, credit risk limit control, other credit risk mitigation measures as well as the internal control and internal audit of credit risk management.

The Bank's Board has approved the credit risk management policies and procedures which lay down the principles for credit risk management, establish an acceptable level of credit risk and credit risk's structure and determine credit risk mitigation measures and their interaction. This ensures a uniform understanding of the principles for taking on exposure to credit risk and allows achieving consistency with the nature and complexity of the Bank's lending policy and the requirements of the Bank of Lithuania.

The Bank takes risks only in the fields, which are well known to it and where it has long-term 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 stable Bank's position in the market and would increase the Bank's value. In assessing exposure to credit risk, the Bank adheres to the principle of prudence.

The Bank lending policy is focused on small and medium-size business clients, seeking to provide them with the better funding terms and long-term support, at the same time paying attention to Bank's potential to grow.

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 148 million or annual turnover does not exceed LTL 173 million.

New types of activities or products are launched only after the assessment of the arising risk. All lending products and processes at the Bank are regulated and documented pursuant to the requirements of risk assessment and internal control policy. Special procedures are established with respect to each lending product.

The aim of the Bank's credit risk management policy is to ensure that the conflict between interests of staff or structural units is avoided. With respect to provision of credits to clients, the principle stating that profit should not be earned at the expense of excessive credit risk is observed.

The Bank's credit risk management policy is based on the best practice in risk management of other banks. Therefore, the Bank's employees continuously enhance their knowledge of credit risk management systems of Lithuanian and foreign banks and the results of their application.

1.1. Credit risk measurement

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.

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 precisely analyse all the information about the customer before granting the credit. 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

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services. The repayment of credits granted by the Bank must be enough secure in order to minimize possible credit repayment risks. A security measure has to be 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 cash 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's Credit Risk Department collects and, if necessary, provides to responsible managerial personnel information on external conditions, the growth of the credit portfolio and fulfilment of targeted profit, expenses associated with risks, the largest amounts due from clients, distribution of credits by the type of economic activity, repayment terms past due, the largest clients with default possibilities, analysis of the credit portfolio by risk groups, changes in risk groups over a certain time period.

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 by the Risk Management Committee of the Bank.

(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. Concentration of credit risk of the Bank is disclosed in note 34.

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 by taking security for loans granted. 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 and industrial 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.

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

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. If several loans are insured with the same security measure (collateral), 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 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 cause loss in future cannot be recognized as a loss event on the loan evaluation day.

The list of loss events:

- 1) significant financial difficulties of the debtor or issuer, i.e. the borrower's financial status is evaluated as poor or bad;
- 2) violation of the loan agreement (non-payment of the periodic loan payments (the part of the loan or interest)) for more than 30 days;
- 3) the loan is being recovered;
- 4) funds granted to the borrower are used not according to the loan purpose, the implementation terms of investment project are violated or decrease in collateral value, when repayment terms of the evaluated loans directly depend on the value of the object of security measure;
- 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 (termination or cancellation of the licence validity of the borrower or issuer engaged in licensed activity; the death of the borrower or issuer).

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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:	2011		2010	
	Group	Bank	Group	Bank
Loans and advances to banks	4,147	4,147	4,147	4,147
Loans and advances to customers:	1,786,631	2,069,758	1,434,162	1,657,609
Loans and advances to financial institutions	1,319	174,886	570	119,342
Loans to individuals (Retail):	205,297	193,071	202,569	191,321
- Consumer loans	18,030	12,726	14,467	14,467
- Mortgages	103,516	103,516	107,773	107,773
- Credit cards	10,424	3,502	14,867	3,876
- Other (reverse repurchase agreements, other loans backed by securities, other)	73,327	73,327	65,462	65,205
Loans to business customers:	1,580,015	1,701,801	1,231,023	1,346,946
- Large corporates	176,391	176,391	142,541	142,541
- SME	1,293,075	1,417,006	997,850	1,113,773
- Central and local authorities, administrative bodies and other	110,549	108,404	90,632	90,632
Finance lease receivables	163,741	-	103,988	-
- Individuals	7,210	-	13,983	-
- Business customers	156,531	-	90,005	-
Trading assets:	16,216	16,216	81,228	78,308
- Debt securities	16,216	16,216	81,228	78,308
Derivative financial instruments	-	-	-	-
Securities available for sale	30,379	30,379	87,626	87,626
- Debt securities	30,379	30,379	87,626	87,626
Investment securities held to maturity	306,349	303,281	214,055	207,635
- Debt securities	306,349	303,281	214,055	207,635
Other financial assets	23,125	116	35,254	12,025
Credit risk exposures relating to off –balance sheet items are as follows:				
Financial guarantees	73,351	73,396	62,025	62,070
Letters of credit	5,064	5,064	4,472	4,472
Loan commitments and other credit related liabilities	126,281	122,860	96,486	91,836
At 31 December	2,529,688	2,623,170	2,107,373	2,203,881

The table above represents a worst case scenario of credit risk exposure at 31 December 2011 and 2010, 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.

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1.5. Loans and advances

Loans and advances are summarised as follows:

31 December 2011

	2011			
	Group		Bank	
	Loans and advances to customers	Loans and advances to banks and financial institutions	Loans and advances to customers	Loans and advances to banks and financial institutions
Neither past due nor impaired	1,594,398	1,319	1,708,322	174,886
Past due but not impaired	104,745	-	103,245	-
Impaired	176,752	-	171,841	-
Gross	1,875,895	1,319	1,983,408	174,886
Less: allowance for impairment	90,583	-	88,536	-
Net	1,785,312	1,319	1,894,872	174,886

31 December 2010

	2010			
	Group		Bank	
	Loans and advances to customers	Loans and advances to banks and financial institutions	Loans and advances to customers	Loans and advances to banks and financial institutions
Neither past due nor impaired	1,276,235	570	1,383,475	119,342
Past due but not impaired	73,768	-	72,535	-
Impaired	163,969	-	160,112	-
Gross	1,513,972	570	1,616,122	119,342
Less: allowance for impairment	80,380	-	77,855	-
Net	1,433,592	570	1,538,267	119,342

During the year ended 31 December 2011, the Group's total loans and advances increased by 23.95%. The Group's total impairment provision for loans and advances is LTL 90,583 thousand (2010: LTL 80,380 thousand) and it accounts for 4.83% of the respective portfolio (2010: 5.31%). The Group's impaired loans and advances to customers comprise 9.42% of the total portfolio (2010: 10.83%).

Impaired loan - is a loan to which a loss event is recognized and allowance for impairment is made. The list of loss events is presented in Impairment and provisioning policies part above.

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. 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 or bad

31 December 2011

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Standard	14,847	57,324	8,504	43,990	124,665
Watch	772	15,699	41	18,122	34,634
Substandard	35	13,610	-	5,690	19,335
Total	15,654	86,633	8,545	67,802	178,634

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	Group loans to business customers				Total
	SME	Large corporates	Financial institutions	Central and local authorities and other	
Standard	455,593	61,477	1,319	99,183	617,572
Watch	558,232	103,767	-	6,833	668,832
Substandard	120,603	9,093	-	983	130,679
Total	1,134,428	174,337	1,319	106,999	1,417,083

31 December 2010

	Group loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Standard	11,308	59,483	12,358	40,693	123,842
Watch	129	12,332	36	6,372	18,869
Substandard	-	16,855	-	10,794	27,649
Total	11,437	88,670	12,394	57,859	170,360

	Group loans to business customers				Total
	SME	Large corporates	Financial institutions	Central and local authorities and other	
Standard	187,527	42,645	570	79,355	310,097
Watch	532,326	86,623	-	6,259	625,208
Substandard	153,622	13,273	-	4,245	171,140
Total	873,475	142,541	570	89,859	1,106,445

31 December 2011

	Bank loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Standard	10,233	57,324	3,303	43,990	114,850
Watch	580	15,699	41	18,122	34,442
Substandard	35	13,610	-	5,690	19,335
Total	10,848	86,633	3,344	67,802	168,627

	Bank loans to business customers				Total
	SME	Large corporates	Financial institutions	Central and local authorities and other	
Standard	575,692	61,477	174,886	99,183	911,238
Watch	562,064	103,767	-	6,833	672,664
Substandard	120,603	9,093	-	983	130,679
Total	1,258,359	174,337	174,886	106,999	1,714,581

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31 December 2010

	Bank loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Standard	11,308	59,483	3,558	40,436	114,785
Watch	129	12,332	36	6,372	18,869
Substandard	-	16,855	-	10,794	27,649
Total	11,437	88,670	3,594	57,602	161,303

	Bank loans to business customers				Total
	SME	Large corporates	Financial institutions	Central and local authorities and other	
Standard	307,545	42,645	119,342	79,355	548,887
Watch	528,605	86,623	-	6,259	621,487
Substandard	153,622	13,273	-	4,245	171,140
Total	989,772	142,541	119,342	89,859	1,341,514

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 which are not impaired and payments of which are not past due.

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.

For analysis of debt securities according to the credit quality see notes 12 and 15.

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b) Loans and advances past due but not impaired. Past due but not impaired loans are loans for which principal or interest is past due but no allowance for impairment is recognized

31 December 2011

	Group loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Past due up to 30 days	1,537	6,988	980	2,082	11,587
Past due 30-60 days	73	1,593	67	308	2,041
Past due 60-90 days	7	530	74	24	635
Past due more than 90 days	-	2,057	-	930	2,987
Total	1,617	11,168	1,121	3,344	17,250
Fair value of collateral	-	19,909	-	6,464	26,373

	Group loans to business customers			Total
	SME	Large corporates	Central and local authorities and other	
Past due up to 30 days	53,725	2,054	1,022	56,801
Past due 30-60 days	1,318	-	-	1,318
Past due 60-90 days	2,901	-	122	3,023
Past due more than 90 days	26,092	-	261	26,353
Total	84,036	2,054	1,405	87,495
Fair value of collateral	132,086	3,313	1,532	136,931

31 December 2010

	Group loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Past due up to 30 days	1,747	7,026	1,126	1,751	11,650
Past due 30-60 days	205	3,609	230	673	4,717
Past due 60-90 days	61	701	16	504	1,282
Past due more than 90 days	47	1,707	-	669	2,423
Total	2,060	13,043	1,372	3,597	20,072
Fair value of collateral	-	19,132	-	6,382	25,514

	Group loans to business customers			Total
	SME	Large corporates	Central and local authorities and other	
Past due up to 30 days	32,608	-	229	3,837
Past due 30-60 days	7,199	-	-	7,199
Past due 60-90 days	1,544	-	-	1,544
Past due more than 90 days	11,572	-	544	12,116
Total	52,923	-	773	53,696
Fair value of collateral	9,939	-	2,224	96,163

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	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Past due up to 30 days	1,101	6,988	76	2,082	10,247
Past due 30-60 days	61	1,593	-	308	1,962
Past due 60-90 days	-	530	-	24	554
Past due more than 90 days	-	2,057	-	930	2,987
Total	1,162	11,168	76	3,344	15,750
Fair value of collateral	-	19,909	-	6,464	26,373

	Bank loans to business customers			
	SME	Large corporates	Central and local authorities and other	Total
Past due up to 30 days	53,725	2,054	1,022	56,801
Past due 30-60 days	1,318	-	-	1,318
Past due 60-90 days	2,901	-	122	3,023
Past due more than 90 days	26,092	-	261	26,353
Total	84,036	2,054	1,405	87,495
Fair value of collateral	132,086	3,313	1,532	136,931

31 December 2010

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Past due up to 30 days	1,747	7,026	139	1,751	10,663
Past due 30-60 days	205	3,609	-	673	4,487
Past due 60-90 days	61	701	-	504	1,266
Past due more than 90 days	47	1,707	-	669	2,423
Total	2,060	13,043	139	3,597	18,839
Fair value of collateral	-	19,132	-	6,382	25,514

	Bank loans to business customers			
	SME	Large corporates	Central and local authorities and other	Total
Past due up to 30 days	32,608	-	229	32,837
Past due 30-60 days	7,199	-	-	7,199
Past due 60-90 days	1,544	-	-	1,544
Past due more than 90 days	11,572	-	544	12,116
Total	52,923	-	773	53,696
Fair value of collateral	93,939	-	2,224	96,163

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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 2011

Group loans to individuals (retail)					
	Consumer loans	Mortgages	Credit cards	Other	Total
Impaired loans	2,656	13,036	3,111	5,906	24,709
Fair value of collateral	-	8,516	-	2,584	11,100

Group loans to business customers				
	Large corporates	SME	Central and local authorities and other	Total
Impaired loans	-	149,644	2,399	152,043
Fair value of collateral	-	88,804	2,399	91,203

31 December 2010

Group loans to individuals (retail)					
	Consumer loans	Mortgages	Credit cards	Other	Total
Impaired loans	2,312	12,209	3,807	7,777	26,105
Fair value of collateral	-	8,030	-	6,157	14,187

Group loans to business customers				
	Large corporates	SME	Central and local authorities and other	Total
Impaired loans	-	137, 864	-	137, 864
Fair value of collateral	-	95,456	-	95,456

31 December 2011

Bank loans to individuals (retail)					
	Consumer loans	Mortgages	Credit cards	Other	Total
Impaired loans	2,604	13,036	807	5,906	22,353
Fair value of collateral	-	8,516	-	2,584	11,100

Bank loans to business customers				
	SME	Large corporates	Central and local authorities and other	Total
Impaired loans	149,488	-	-	149,488
Fair value of collateral	88,804	-	-	88,804

31 December 2010

Bank loans to individuals (retail)					
	Consumer loans	Mortgages	Credit cards	Other	Total
Impaired loans	2,312	12,209	792	7,777	23,090
Fair value of collateral	0	8,030	0	6,157	14,187

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	Bank loans to business customers			
	SME	Large corporates	Central and local authorities and other	Total
Impaired loans	137,022	-	-	137,022
Fair value of collateral	94,770	-	-	94,770

During 2011 the Bank's estimated interest income on impaired loans amounted to LTL 3,557 thousand (2010: LTL 4,009 thousand).

Impairment loss by class of financial assets for loans has been disclosed in note 13.

d) Loans and advances renegotiated

Loans and advances that are not past due or impaired at year end and which at the time of their renegotiation were of a substandard risk as at 31 December 2011 amounted to LTL 50 million (2010: LTL 95 million).

Renegotiated loans according to the class of financial assets

31 December 2011

Bank loans to individuals (retail)						
	Consumer loans	Mortgages	Credit cards	Other	Total	
Renegotiated loans	8	743	-	2,842	3,593	

Bank loans to business customers				
	SME	Large corporates	Central and local authorities and other	Total
Renegotiated loans	43,517	2,856	-	46,373

31 December 2010

Bank loans to individuals (retail)						
	Consumer loans	Mortgages	Credit cards	Other	Total	
Renegotiated loans	-	1,231	-	2,090	3,321	

Bank loans to business customers				
	SME	Large corporates	Central and local authorities and other	Total
Renegotiated loans	88,767	-	2,887	91,654

e) Information about loan collateral

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.

If loan is secured by several different types of collateral, priority in their recognition is based on their liquidity. Cash deposits are treated as having the highest liquidity followed by guarantees, residential real estate and then other real estate. Securities and other assets are treated as having the lowest liquidity.

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 2011 amounted to LTL 298 million (2010: LTL 328 million). Totally unsecured loans comprise only consumer loans, credit cards and loans issued by the Bank to its subsidiaries.

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	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Unsecured loans	19,909	8,998	12,777	39,538	81,222
Loans collateralised by:	18	101,839	-	37,514	139,371
- residential real estate	18	87,596	-	13,426	101,040
- other real estate	-	6,557	-	21,186	27,743
- securities	-	180	-	698	878
- guarantees	-	6,558	-	69	6,627
- cash deposits	-	948	-	1,384	2,332
- other assets	-	-	-	751	751
Total	19,927	110,837	12,777	77,052	220,593

	Group loans to business customers				
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Unsecured loans	308,990	51,153	1,319	96,592	458,054
Loans collateralised by:	1,059,118	125,238	-	14,211	1,198,567
- residential real estate	58,625	930	-	2,319	61,874
- other real estate	714,731	78,007	-	7,039	799,777
- securities	43,392	258	-	-	43,650
- guarantees	146,184	4,902	-	4,604	155,690
- cash deposits	10,370	10,881	-	65	21,316
- other assets	85,816	30,260	-	184	116,260
Total	1,368,108	176,391	1,319	110,803	1,656,621

31 December 2010

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Unsecured loans	15,782	8,886	17,573	21,612	63,853
Loans collateralised by:	27	105,036	-	47,621	152,684
- residential real estate	26	90,726	-	10,737	101,489
- other real estate	-	6,824	-	14,026	20,850
- securities	-	67	-	21,144	21,211
- guarantees	-	7,001	-	102	7,103
- cash deposits	1	418	-	1,564	1,983
- Other assets	-	-	-	48	48
Total	15,809	111, 922	17,573	69,233	216,537

	Group loans to business customers				
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Unsecured loans	287,252	45,022	570	76,395	409,239
Loans collateralised by:	777,010	97,519	-	14,237	888,766
- residential real estate	37,943	-	-	3,431	41,374
- other real estate	495,627	63,187	-	5,075	563,889
- securities	64,023	8,273	-	-	72,296
- guarantees	110,989	4,294	-	5,227	120,510
- cash deposits	5,495	1,853	-	170	7,518
- other assets	62,933	19,912	-	334	83,179
Total	1,064,262	142,541	570	90,632	1,298,005

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Bank loans to individuals (retail)					
	Consumer loans	Mortgages	Credit cards	Other	Total
Unsecured loans	14,596	8,998	4,227	39,538	67,359
Loans collateralised by:	18	101,839	-	37,514	139,371
- residential real estate	18	87,596	-	13,426	101,040
- other real estate	-	6,557	-	21,186	27,743
- securities	-	180	-	698	878
- guarantees	-	6,558	-	69	6,627
- cash deposits	-	948	-	1,384	2,332
- other assets	-	-	-	751	751
Total	14,614	110,837	4,227	77,052	206,730

Bank loans to business customers					
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Unsecured loans	449,200	51,155	174,886	96,592	771,832
Loans collateralised by:	1,042,682	125,238	-	11,812	1,179,732
- residential real estate	58,625	930	-	2,019	61,574
- other real estate	714,760	78,007	-	4,940	797,707
- securities	25,849	258	-	-	26,107
- guarantees	146,184	4,902	-	4,604	155,690
- cash deposits	10,370	10,881	-	65	21,316
- other assets	86,894	30,260	-	184	117,338
Total	1,491,882	176,393	174,886	108,404	1,951,564

31 December 2010

Bank loans to individuals (retail)					
	Consumer loans	Mortgages	Credit cards	Other	Total
Unsecured loans	15,782	8,886	4,525	21,612	50,805
Loans collateralised by:	27	105,036	-	47,364	152,427
- residential real estate	26	90,726	-	10,737	101,489
- other real estate	-	6,824	-	14,026	20,850
- securities	-	67	-	20,887	20,954
- guarantees	-	7,001	-	102	7,103
- cash deposits	1	418	-	1,564	1,983
- other assets	-	-	-	48	48
Total	15,809	113,922	4,525	68,976	203,232

Bank loans to business customers					
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Unsecured loans	415,352	45,022	119,342	76,395	656,111
Loans collateralised by:	764,365	97,519	-	14,237	876,121
- residential real estate	37,943	-	-	3,431	41,374
- other real estate	495,627	63,187	-	5,075	563,889
- securities	51,378	8,273	-	-	59,651
- guarantees	110,989	4,294	-	5,227	120,510
- cash deposits	5,495	1,853	-	170	7,518
- other assets	62,933	19,912	-	334	83,179
Total	1,179,717	142,541	119,342	90,632	1,532,232

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1.6. Finance lease receivables

Finance lease receivables are summarised as follows:

	2011			2010		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Neither past due nor impaired	5,790	120,118	125,908	11,490	62,658	74,148
Past due but not impaired	975	34,358	35,333	1,754	24,981	26,735
Impaired	988	3,152	4,140	1,731	3,326	5,057
Gross	7,753	157,628	165,381	14,975	90,965	105,940
Less: allowance for impairment	543	1,097	1,640	992	960	1,952
Net	7,210	156,531	163,741	13,983	90,005	103,988

During the year ended 31 December 2011, finance lease receivables portfolio increased by 56.11% (2010: increased by 1.93%). Total impairment provision for finance lease receivables is LTL 1,640 thousand (2010: LTL 1,952 thousand) and it accounts 0.99% for of the respective portfolio (2010: 1.84%).

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.

	2011			2010		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Standard	5,682	45,529	51,211	11,490	13,207	24,697
Watch	-	65,930	65,930	-	45,833	45,833
Substandard	108	8,659	8,767	-	3,618	3,618
Total	5,790	120,118	125,908	11,490	62,658	74,148

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

	2011			2010		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Past due up to 3 days	260	15,226	15,486	311	3,509	3,820
Past due 4-40 days	584	18,478	19,062	1,251	20,538	21,789
Past due 41-90 days	122	654	776	118	934	1,052
Past due more than 90 days	9	-	9	74	-	74
Total	975	34,358	35,333	1,754	24,981	26,735
Fair value of collateral	333	21,388	21,721	464	15,560	16,024

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c) *Finance lease receivables individually impaired*

	Individuals	Business customers	Total
31 December 2011			
Individually impaired	988	3,152	4,140
Fair value of collateral	78	1,475	1,553
31 December 2010			
Individually impaired	1,731	3,326	5,057
Fair value of collateral	178	1,647	1,825

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 their depreciation rates.

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.

	2011			2010		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Unsecured finance lease receivables	-	-	-	-	-	-
Finance lease receivables secured by:	-	-	-	-	-	-
- transport vehicles	2,653	37,058	39,711	1,239	12,424	13,663
- residential real estate	139	70,583	70,722	443	41,370	41,813
- airplanes	-	8,092	8,092	-	9,306	9,306
- railroad transport	-	-	-	-	774	774
- production equipment	27	23,838	23,865	94	14,303	14,397
- other equipment	482	8,847	9,329	1,136	5,068	6,204
- other assets	4,452	9,210	13,662	12,063	7,720	19,783
Total	7,753	157,628	165,381	14,975	90,965	105,940

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1.7. Amounts receivable

	2011		2010	
	Group Business customers	Bank Business customers	Group Business customers	Bank Business customers
Neither past due nor impaired	17,593	116	32,145	12,025
Past due but not impaired	782	-	-	-
Impaired	6276	-	4,180	-
Gross	24,651	116	36,325	12,025
Less: allowance for impairment	1,526	-	1,071	-
Net	23,125	116	35,254	12,025

a) Amounts receivable neither past due nor impaired

	2011		2010	
	Group Business customers	Bank Business customers	Group Business customers	Bank Business customers
Standard	17,593	116	19,650	12,025
Watch	-	-	-	-
Sub-standard	782	-	12,495	-

b) Impaired amounts receivable

Real estate assets are received as a collateral for impaired amounts receivable.

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1.8. 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 2011 and 2010: wholesale and retail – 25% of the total loan portfolio, loans to individuals – 25%, manufacturing – 25%, construction – 20%, real estate and rent – 20%, agriculture, hunting and forestry – 15%, transport storage and communication – 15%, hotels and restaurants – 20%, health and social work – 10%. As at 31 December 2011 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- turing	Real estate and rent	Construc- tion	Agriculture, hunting and forestry	Hotels and restau- rants	Transport, storage and communica- tion	Health and social work	Loans to individuals	Other	Total
Loans and advances to banks	4,147											
Loans and advances to customers:	223,311	252,837	322,320	393,492	173,785	104,882	91,053	32,935	54,345	193,071	227,727	2,069,758
Loans and advances to financial institutions	174,886	-	-	-	-	-	-	-	-	-	-	174,886
Loans to individuals (Retail):	-	-	-	-	-	-	-	-	-	193,071	-	193,071
- Mortgages	-	-	-	-	-	-	-	-	-	103,516	-	103,516
- Consumer loans	-	-	-	-	-	-	-	-	-	12,726	-	12,726
- Credit cards	-	-	-	-	-	-	-	-	-	3,502	-	3,502
- Other	-	-	-	-	-	-	-	-	-	73,327	-	73,327
Loans to business customers:	48,425	252,837	322,320	393,492	173,785	104,882	91,053	32,935	54,345	-	227,727	1,701,801
- SME	48,425	241,290	234,872	393,492	154,237	104,882	90,947	28,078	8,695	-	112,088	1,417,006
- Large corporates	-	11,547	87,448	-	19,548	-	-	4,374	41,463	-	12,011	176,391
- Central and local authorities, administrative bodies and other	-	-	-	-	-	-	106	483	4,187	-	103,628	108,404
Trading assets:	145	-	6	-	-	-	-	207	-	-	16,216	16,574
- Debt securities	-	-	-	-	-	-	-	-	-	-	16,216	16,216
- Equity securities	145	-	6	-	-	-	-	207	-	-	-	358
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Securities available for sale	313	-	39	-	-	-	-	-	-	-	31,716	32,068
- Equity securities	313	-	39	-	-	-	-	-	-	-	1,337	1,689
- Debt securities	-	-	-	-	-	-	-	-	-	-	30,379	30,379
Investment securities held-to-maturity	-	-	692	-	-	-	-	15,400	-	-	287,189	303,281
- debt securities	-	-	692	-	-	-	-	15,400	-	-	287,189	303,281
Other financial assets	116	-	-	-	-	-	-	-	-	-	-	116
Credit risk exposures relating to off –balance sheet items are as follows:												
Financial guarantees	-	12,637	7,800	2,777	42,548	80	33	1,986	5	-	5,530	73,396
Letters of credit	3,560	276	1,228	-	-	-	-	-	-	-	-	5,064
Loan commitments and other credit related liabilities	7,748	20,040	18,079	8,445	17,389	11,139	2,875	7,801	1,182	4,651	23,511	122,860
At 31 December 2011	239,340	285,790	350,164	404,714	233,722	116,101	93,961	58,329	55,532	197,722	591,889	2,627,575
At 31 December 2010	226,022	251,993	280,418	279,229	182,759	84,195	72,704	30,772	58,236	195,637	545,610	2,207,575

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Group

	Financial interme- diation	Wholesale and retail	Manufac- turing	Real estate and rent	Construc- tion	Agricultur e, hunting and forestry	Hotels and restaurants	Transport, storage and commu- nication	Health and social work	Loans to individuals	Other	Total
Loans and advances to banks	4,147											4,147
Loans and advances to customers:	19,721	252,837	318,488	289,167	174,034	104,882	91,053	32,935	56,490	205,297	241,727	1,786,631
Loans and advances to financial institutions	1,319	-	-	-	-	-	-	-	-	-	-	1,319
Loans to individuals (Retail):	-	-	-	-	-	-	-	-	-	205,297	-	205,297
- Consumer loans	-	-	-	-	-	-	-	-	-	103,516	-	103,516
- Mortgages	-	-	-	-	-	-	-	-	-	18,030	-	18,030
- Credit cards	-	-	-	-	-	-	-	-	-	10,424	-	10,424
- Other	-	-	-	-	-	-	-	-	-	73,327	-	73,327
Loans to business customers:	18,402	252,837	318,488	289,167	174,034	104,882	91,053	32,935	56,490	-	241,727	1,580,015
- SME	18,402	241,290	231,040	289,167	154,486	104,882	90,947	28,078	8,695	-	126,088	1,293,075
- Large corporates	-	11,547	87,448	-	19,548	-	-	4,374	41,463	-	12,011	176,391
- Central and local authorities, administrative bodies and other	-	-	-	-	-	-	106	483	6,332	-	103,628	110,549
Finance lease receivables	2,656	8,637	50,262	35,109	2,539	5,908	531	42,634	6,649	7,210	1,606	163,741
- individuals	-	-	-	-	-	-	-	-	-	7,210	-	7,210
- business customers	2,656	8,637	50,262	35,109	2,539	5,908	531	42,634	6,649	-	1,606	156,531
Trading assets:	145	-	6	-	-	-	-	207	-	-	16,216	16,574
- Debt securities	-	-	-	-	-	-	-	-	-	-	16,216	16,216
- Equity securities	145	-	6	-	-	-	-	207	-	-	-	358
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Securities available for sale	313	-	2,949	70	-	-	-	-	569	-	31,716	35,617
- Debt securities	-	-	2,910	70	-	-	-	-	569	-	-	3,549
- Equity securities	313	-	39	-	-	-	-	-	-	-	31,716	32,068
Investment securities held-to-maturity	-	-	3,760	-	-	-	-	15,400	-	-	287,189	306,349
- Debt securities	-	-	3,760	-	-	-	-	15,400	-	-	287,189	306,349
Other assets	116	262	760	17,853	-	1,914	-	16	241	126	1,837	23,125
Credit risk exposures relating to off –balance sheet items are as follows:												
Financial guarantees	-	12,637	7,755	2,777	42,548	80	33	1,986	5	-	5,530	73,351
Letters of credit	3,560	276	1,228	-	-	-	-	-	-	-	-	5,064
Loan commitments and other credit related liabilities	4,938	20,040	19,407	6,812	17,480	11,139	2,875	7,828	1,182	10,502	24,078	126,281
At 31 December 2011	35,596	294,689	404,615	351,788	236,601	123,923	94,492	101,006	65,136	223,135	609,899	2,540,880
At 31 December 2010	69,053	256,277	303,277	232,795	196,707	90,650	73,101	64,882	60,505	229,777	562,489	2,139,520

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 Currency 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 carry out speculative FX operations expecting to gain from favourable changes in currency exchange. 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 Currency 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. As at 31 December 2011 the TOP to capital ratio was: Group's – 0.49% (2010: 0.55%), Bank's – 0.49% (2010: 0.55%).

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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. The FX risk parameters for the Group (Bank) have been established in view of the maximum fluctuations of currency exchange rate in 2011 and prognosis that exchange rate fluctuations will decrease in 2012. The Group does not evaluate FX risk on open EUR position as LTL is pegged to EUR at a fixed rate (see Basis of preparation).

Currency	Annual reasonable shift, 2012	Annual reasonable shift, 2011
LVL	1%	1%
GBP	4.5%	6%
DKK	0.5%	1%
USD	7%	9%
SEK	3%	7%
Other currencies	6.5%	6%

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 2011	At 31 December 2010
<i>Group</i>	Impact on profit or loss and equity	Impact on profit or loss and equity
US Dollars	6	36
GBP	1	4
DKK	1	2
SEK	13	11
LVL	2	1
Other currencies	31	31
Total	54	85

	At 31 December 2011	At 31 December 2010
<i>Bank</i>	Impact on profit or loss and equity	Impact on profit or loss and equity
US Dollars	6	41
GBP	1	4
DKK	1	2
SEK	13	11
LVL	2	1
Other currencies	31	31
Total	54	90

The presumable FX rate change creates acceptable impact on the Group's and the Bank's annual profit and makes LTL 54 thousand in 2011 higher/lower impact for the Group and the Bank (2010: LTL 85 thousand and LTL 90 thousand respectively).

The Bank's and Group's exposure to foreign currency exchange rate risk is summarised in Note 31. 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.

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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.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank and the Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

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 are approved by the Board of the Bank and 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.

Sensitivity of interest rate risk

The table below summarises interest rates sensitive assets and liabilities based on repricing dates based on which cash flow interest rate risk is estimated.

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Non IR-sensitive	Total
31 December 2011							
Total financial assets	398,784	560,439	772,547	139,569	384,241	304,450	2,560,030
Total financial liabilities	415,875	397,950	490,184	488,218	110,208	511,230	2,413,665
Net interest sensitivity gap at 31 December 2011	(17,091)	162,489	282,363	(348,649)	274,033	(206,780)	146,365
31 December 2010							
Total financial assets	266,843	487,776	671,754	59,730	394,279	304,548	2,184,930
Total financial liabilities	303,182	402,234	461,783	384,335	59,414	465,223	2,076,171
Net interest sensitivity gap at 31 December 2010	(36,339)	85,542	209,971	(324,605)	334,865	(160,675)	108,759

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

The table below summarises the effect on the Group's profit and other comprehensive income of interest rate risk as at 31 December 2011 and 31 December 2010.

	31 December 2011		31 December 2010	
	Increase (decrease) in profit	Increase (decrease) in other comprehensive income	Increase (decrease) in profit	Increase (decrease) in other comprehensive income
Interest rate increase by 1p.p.	1,915	(1,918)	(620)	(4,285)
Interest rate decrease by 1p.p.	(1,915)	1,918	620	4,285

The shift of yield curve according to above mentioned parameters creates acceptable impact on Group's total comprehensive income and makes LTL 1,915 thousand in 2011 (2010: LTL 620 thousand) higher/lower impact on profit and LTL 1,918 thousand in 2011 (2010: LTL 4,285 thousand) higher/lower impact on other comprehensive income.

The table below summarises interest rates sensitive assets and liabilities based on repricing dates based on which cash flow interest rate risk is estimated.

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	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Non IR- sensitive	Total
31 December 2011							
Total financial assets	416,797	574,807	756,739	247,141	380,596	273,708	2,649,788
Total financial liabilities	415,875	397,950	490,184	488,218	110,208	507,601	2,410,036
Net interest sensitivity gap at 31 December 2011	922	176,857	266,555	(241,077)	270,388	(233,893)	239,752
31 December 2010							
Total financial assets	287,795	488,439	706,037	119,611	394,568	261,144	2,257,594
Total financial liabilities	303,182	402,234	461,783	384,335	59,414	459,735	2,070,683
Net interest sensitivity gap at 31 December 2010	(15,387)	86,205	244,254	(264,724)	335,154	(198,591)	186,911

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

The table below summarises the effect on the Bank's profit and other comprehensive income of interest rate risk as at 31 December 2011 and 31 December 2010.

	31 December 2011		31 December 2010	
	Increase (decrease) in profit	Increase (decrease) in other comprehensive income	Increase (decrease) in profit	Increase (decrease) in other comprehensive income
Interest rate increase by 1p.p.	2,378	(1,918)	63	(4,285)
Interest rate decrease by 1p.p.	(2,378)	1,918	(63)	4,285

The shift of yield curve according to above mentioned parameters creates acceptable impact on Bank's total comprehensive income and makes LTL 2,378 thousand in 2011 (2010: LTL 63 thousand) higher/lower impact on profit and LTL 1,918 thousand in 2011 (2010: LTL 4,285 thousand) higher/lower impact on other comprehensive income.

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

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 one hand, in the event of liquidity problems, the demand for total funds is rather small in terms of banking system, therefore, they are solved easily. On the other hand, in the event 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. 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 7 days) risk management is based on short-term 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 2011 the Group's ratio was 37.26 (2010: 44.61) and the Bank's 38.36 (2010: 46.00), the Group uses the ratio of *mobile* assets to the total assets. According to the documentation of the liquidity risk management of the Bank, *the mobile* assets used in calculation of the above ratio represents funds held at banks and financial institutions with maturity of less than three months, cash, placements with Central Bank and liquid treasury bills. As at 31 December 2011 the above Group's ratio was 21.05 per cent (2010: 24.92 per cent), and the Bank's – 21.09 per cent (2010: 24.92 per cent). It is aimed that recommended lower limit of this ratio is 16 per cent.

To follow the solvency status the Group and the Bank monitors availability of *mobile* funds needed to cover *mobile* liabilities with a maturity of less than 30 days. Based on the Group's liquidity management policy this ratio (i.e. *mobile* funds / *mobile* liabilities of less than 30 days) should not be lower than 100 per cent. As at 31 December 2011 the above ratio on the Group's and the Bank's level was 160.01 (2010: 183.77 per cent) per cent and 159.97 (2010: 183.74 per cent) per cent respectively. The Group and the Bank aim that *mobile* liabilities with a maturity of less than 30 days would form a share in the total liabilities that is not higher than 23 per cent. As at 31 December 2011 *mobile* liabilities formed a share in the total liabilities on the Group's level equal to 14.74 per cent (2010: 15.19 per cent), on the Bank's level – 14.80 per cent (2010: 15.23 per cent).

The Group and the Bank also monitors liquidity gap ratios. Based on the Bank's liquidity risk management policy the lowest recommended limit of this ratio is -40 per cent. Recommended limit of ratio is not stated for the Group. As at 31 December 2011 the Group's and the Bank's ratio was -41.88 per cent (2010: -34.17 per cent) and -33.59 per cent (2010: -24.38 per cent) respectively.

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3.2. Non - derivative cash flows

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

Group

31 December 2011	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Due to banks	-	54,924	45,021	77,940	274,685	42,474	495,044
Due to customers	-	680,285	260,912	851,505	101,969	7,818	1,902,489
Debt securities in issue	-	-	-	23,574	23,778	-	47,352
Special and lending funds	-	6,218	36	6,351	4,677	-	17,282
Total liabilities (contractual maturity dates)	-	741,427	305,969	959,370	405,109	50,292	2,462,167

Group

31 December 2010	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Due to banks	-	32,428	21,950	65,752	239,658	34,799	394,587
Due to customers	-	617,086	273,085	729,833	56,221	4,836	1,681,061
Debt securities in issue	-	-	-	5,392	-	-	5,392
Special and lending funds	-	10,160	167	1,309	16,318	637	28,591
Total liabilities (contractual maturity dates)	-	659,674	295,202	802,286	312,197	40,272	2,109,631

Bank

31 December 2011	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Due to banks	-	54,935	45,021	77,940	274,685	42,474	495,055
Due to customers	-	680,567	260,912	851,505	101,969	7,818	1,902,771
Debt securities in issue	-	-	-	23,574	23,778	-	47,352
Special and lending funds	-	6,218	36	6,351	4,677	-	17,282
Total liabilities (contractual maturity dates)	-	741,720	305,969	959,370	405,109	50,292	2,462,460

Bank

31 December 2010	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Due to banks	-	32,428	21,950	65,752	239,658	34,799	394,587
Due to customers	-	617,153	273,085	729,833	56,221	4,836	1,681,128
Debt securities in issue	-	-	-	5,392	-	-	5,392
Special and lending funds	-	10,160	167	1,309	16,318	637	28,591
Total liabilities (contractual maturity dates)	-	659,741	295,202	802,286	312,197	40,272	2,109,698

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3.3. Remaining contractual maturity off - balance sheet items

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

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 2011							
Loan commitments	120,847	-	-	-	-	-	120,847
Finance lease commitments	32	2,173	-	-	-	-	2,205
Guarantees	73,351	-	-	-	-	-	73,351
Other commitments	3,403	-	-	5,064	-	-	8,467
Total	197,633	2,173	-	5,064	-	-	204,870
At 31 December 2010							
Loan commitments	85,861	-	-	-	-	-	85,861
Finance lease commitments	1,161	345	731	1,789	4,258	-	8,284
Guarantees	62,025	-	-	-	-	-	62,025
Other commitments	2,478	174	267	4,298	-	-	7,217
Total	151,525	519	998	6,087	4,258	-	163,387
Bank							
At 31 December 2011							
Loan commitments	119,631	-	-	-	-	-	119,631
Guarantees	73,396	-	-	-	-	-	73,396
Other commitments	3,403	-	-	5,064	-	-	8 467
Total	196,430	-	-	5,064	-	-	201,494
At 31 December 2010							
Loan commitments	89,495	-	-	-	-	-	89,495
Guarantees	62,070	-	-	-	-	-	62,070
Other commitments	2,478	174	267	4,298	-	-	7,217
Total	154,043	174	267	4,298	-	-	158,782

For additional information on assets used for liquidity management purposes see note 30 Liquidity risk.

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4. Fair value of financial assets and liabilities

4.1. Financial assets and liabilities not measured at fair value

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. The valuation methods for the assets and liabilities are summarized below.

a) Loans and advances to banks

The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value.

The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

b) Loans and advances to customers and finance lease receivables

Loans and advances and finance lease receivables are net of charges for impairment. The estimated fair value of loans, advances and finance lease receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

c) Investment securities

The fair value for held-to-maturity assets is based on market prices or broker/dealer price quotations.

d) Deposits from banks and due to customers and special lending funds

The estimated fair value of deposits with no stated maturity, which includes non-interestbearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and special and lending funds not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

e) Debt securities in issue

The estimated fair value of debt securities in issue is consider to be similar to the carrying value as the yield on these securities is the similar to the market yield on 31 December 2011.

f) Other assets and other liabilities

The estimated fair value of other assets and other liabilities is similar to the carrying value due to short marturities of these assets and liabilities.

Bank

As at 31 December 2011

	Book value	Fair value
Assets		
Loans	2,069,758	1,955,557
Loans to individuals:	193,071	163,842
- Consumer loans	12,726	12,044
- Mortgages	103,516	78,353
- Credit cards	3,502	3,455
- Other	73,327	69,990
Loans to business customers	1,876,687	1,791,715
- Central and other authorities	108,404	103,360
- Large corporates	176,391	169,347
- SME	1,417,006	1,346,114
Loans and advances to financial institutions	174,886	172,894
Investment securities held-to-maturity	303,281	299,737
Other financial assets	116	116
Liabilities		
Due to other banks and financial institutions	470,900	499,080

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Due to customers	1,894,167	1, 896,567
Due to individuals	1,309,689	1,311,462
Due to private companies	372,923	373,438
Due to other enterprises	211,555	211,667
Debt securities in issue	45,284	45,586
Special and lending funds	16,900	16,715

As at 31 December 2010

	Book value	Fair value
Assets		
Loans	1,657,609	1,532,876
Loans to individuals:	191,321	151,758
- Consumer loans	14,467	13,609
- Mortgages	107,773	74,518
- Credit cards	3,876	3,870
- Other	65,205	59,761
Loans to business customers	1,346,946	1,262,410
- Central and other authorities	90,632	85,420
- Large corporates	142,541	138,070
- SME	1,113,773	1,038,920
Loans and advances to financial institutions	119,342	118,708
Investment securities held-to-maturity	207,635	208,121
Other financial assets	12,025	10,938
Liabilities		
Due to other banks and financial institutions	369,091	391,693
Due to customers	1,672,394	1,676,140
Due to individuals	1,118,915	1,122,320
Due to private companies	282,530	282,722
Due to other enterprises	270,949	271,098
Debt securities in issue	5,291	5,313
Special and lending funds	28,011	28,271

Group

As at 31 December 2011

	Book value	Fair value
Assets		
Loans	1,950,372	1,814,242
Loans to individuals:	205,297	176,319
- Consumer loans	18,030	17,164
- Mortgages	103,516	78,353
- Credit cards	10,424	10,812
- Other	73,327	69,990
Loans to business customers	1,581,334	1,496,307
- Central and other authorities	110,549	105,505
- Large corporates	176,391	169,347
- SME	1,293,075	1,221,455
Loans and advances to financial institutions	1,319	-
Finance lease receivables	163,741	141,616
Investment securities held-to-maturity	306,349	303,041
Other financial assets	23,125	20,568
Liabilities		

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Due to other banks and financial institutions	470,889	499,069
Due to customers	1,893,885	1,896,285
Due to individuals	1,309,689	1,311,462
Due to private companies	372,641	373,156
Due to other enterprises	211,555	211,667
Debt securities in issue	45,284	45,586
Special and lending funds	16,900	16,715

As at 31 December 2010

	Book value	Fair value
Assets		
Loans	1,542,375	1,399,505
Loans to individuals:	202,569	162,116
- Consumer loans	14,467	13,609
- Mortgages	107,773	74,518
- Credit cards	14,867	14,228
- Other	65,462	59,761
Loans to business customers	1,235,248	1,151,542
- Central and other authorities	90,632	85,420
- Large corporates	142,541	138,070
- SME	1,002,075	928,052
Loans and advances to financial institutions	570	570
Finance lease receivables	103,988	85,277
Investment securities held-to-maturity	214,055	214,984
Other financial assets	35,254	30,142
Liabilities		
Due to other banks and financial institutions	369,067	391,669
Due to customers	1,672,299	1,676,045
Due to individuals	1,118,915	1,122,320
Due to private companies	282,435	282,627
Due to other enterprises	270,949	271,098
Debt securities in issue	5,291	5,313
Special and lending funds	28,011	28,271
Other financial liabilities	1,503	1,503

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

4.2. Financial assets and liabilities measured at fair value

a) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Lithuanian Stock Exchange, London Stock Exchange, Frankfurt Stock Exchange).
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The Group does not have financial assets measured at fair value calculated based on Level 2 inputs.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes Group's investments into unlisted equity securities. Fair value for financial assets measured at fair value according to level 3 principles is established based on expected discounted net future cash flows from activities of these companies. Discount rate is based on the cost of financing used for investments in these companies.

The Bank and the Group does not have financial liabilities measured at fair value.

b) Measurement of financial assets and liabilities according to the fair value hierarchy

	2011		2010	
	Group	Bank	Group	Bank
LEVEL I				
Financial assets at fair value through profit or loss				
Corporate bonds	-	-	-	-
Listed equity securities	267	267	-	-
Units of investment funds	85	85	96	96
Bonds of the Government of the Republic of Lithuania	16,216	16,216	63,444	63,444
Local corporate debt securities	-	-	17,784	14,864
Available for sale financial assets				
Bonds of the Government of the Republic of Lithuania	10,602	10,602	46,594	46,594
Local corporate debt securities	-	-	3,216	3,216
Bonds of foreign countries governments	19,777	19,777	27,595	27,595
Bonds of foreign countries corporates	-	-	10,221	10,221
Investment fund units	298	298	358	358
TOTAL LEVEL I	47,245	47,245	169,308	166,388
LEVEL III				
Financial assets at fair value through profit or loss				
Unlisted equity securities	6	6	2	2
Available for sale financial assets				
Unlisted equity securities	4,940	1,391	15,614	1,391
TOTAL LEVEL III	4,946	1,397	15,616	1,393

During year 2011 the Group has recognized LTL 14 thousand increase (2010: LTL 857 thousand increase) in fair value in unlisted equity securities. The increase/reduction in fair value has been included into Gain (loss) from revaluation of financial assets line of other comprehensive income. No other movements in financial assets measured at fair value according to Level III principles has taken place during the year.

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

5. Operational risk

The Bank's operational risk management objectives include as follows: proper identification and assessment of operational risk; implementation of effective internal controls, prevention of major events and losses; proper organisation and maintenance of internal control environment by regular reviews of internal control methods and learning lessons from past experience; concentration of financial and time resources to identification of key sources of operational risk and to its management across all lines of activities of the Bank.

In view of operational risk management system, the Bank's activities can be grouped into the following categories: credit facilities, other financial services to customers, cash and other valuables, property, plant and equipment, categories not related to the provision of financial services to customers, and information security.

The following sources of operational risk can be distinguished at the Bank:

1. Information systems (failures of hardware, software, telecommunication systems, etc.).
2. Human factor effect.
3. Working conditions (violation of safe work conditions, etc.).
4. Natural forces.

The Bank accumulates information about operational risk events. For this purpose the Bank has established a system with the description of its operation included in the Procedure for Registration of Operational Risk Events approved by the Bank's Board.

Organisation and monitoring of internal control environment form an integral part of the Bank's operational risk management process. The Bank's internal control is a continuous process in day-to-day activities at the Bank, during which the Bank's personnel aim to ensure: effective operation of the Bank; prevention of the Bank from potential losses as a result of operational risk events; reliable, relevant and timely financial and other information used internally or for regulatory purpose, or by third parties; the Bank's compliance with the laws, regulatory legislation of the Bank of Lithuania and other legal acts, the Bank's strategy and internal policy.

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.

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), concentration 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. Stress testing for all of the risks is performed once a year in accordance with the requirements set by the Bank of Lithuania. Additional stress testing for credit and liquidity risks is performed in a middle of a year.

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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 EUR 5 million;
- 2) minimum capital adequacy ratio should be not lower than 8 per cent. Capital adequacy (solvency) ratio is calculated as a ratio of the capital of the Bank and the capital required to cover credit, trading book and operating risks multiplied by 0.08 and presented in percentage points.

Additional capital need for credit risk, operational risk, market risk, concentration risk, strategic risk, reputation risk 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, reserve capital (share premium), additional reserve capital, retained earnings of the previous financial year, loss of the current year, other reserves and statutory reserve less the intangible assets and negative revaluation reserve of financial assets;
- 2) Tier 2 capital consists of 85 per cent of revaluation reserves of financial assets provided that these reserves are positive.

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

The risk-weighted assets are measured under a standardised approach using nine 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. Capital requirements for operational risk are calculated using the Basic Indicator Approach.

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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.

	Group	2011 Bank	Group	2010 Bank
Tier 1 capital				
Ordinary shares	234,858	234,858	204,858	204,858
Share premium	47,861	47,861	46,661	46,661
Reserve capital	2,611	2,611	2,611	2,611
Previous year's retained earnings	(3,913)	-	8,678	8,375
Current year loss	-	-	(28,292)	(24,149)
Other reserves (statutory reserve)	960	648	16,667	16,422
Negative financial assets revaluation reserve	(1,182)	(1,182)	(2)	-
Less: Intangible assets	(916)	(894)	(608)	(606)
Total Tier 1 capital	280,279	283,902	250,573	254,172
Tier 2 capital				
85 % financial assets revaluation reserve	-	-	-	1,164
Total Tier 2 capital	-	-	-	1,164
Less Investments in other credit or financial institutions	-	(1,647)	-	(1,762)
Total capital	280,279	282,255	250,573	253,574
Capital requirements for:				
(Credit risk) of groups of positions under the Standardised Approach	157,588	158,179	131,006	131,810
Debt financial instruments	140	140	2,039	1,784
Equity securities	57	57	12	12
Foreign exchange positions	7,149	7,097	1,882	3,050
Operational risk under the Basic Indicator Approach	8,199	7,500	8,084	7,600
Total capital requirements	173,133	172,973	143,023	144,256
Capital adequacy (solvency) ratio, %	12,95	13,05	14,02	14,06

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CRITICAL ACCOUNTING ESTIMATES

Impairment losses on loan and finance lease receivables. The Bank and the Group review their loan and finance lease portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the Statement of comprehensive income, 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 and finance lease before the decrease can be identified with an individual loan or lease receivable 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 loans and receivables 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 and finance lease losses differs by +/- 5%, the impact on the provision at the Group and the Bank as at 31 December 2011 would be higher or lower by LTL 4,529 thousand (2010: LTL 4,019 thousand) and LTL 4,427 thousand (2010: LTL 3,893 thousand) respectively.

Impairment losses on investments in subsidiaries. The Bank tests investments in its subsidiaries for impairment when impairment indicators are identified. The Bank establishes recoverable amount of investments in subsidiary companies based on discounted future estimated net cash flows to be earned by a subsidiary. Future net cash flows to be earned by investment management and real estate development subsidiaries are based on estimated inflow from sales of financial and other assets held by these subsidiaries less estimated cash outflow related to management and development costs. Future net cash flows from subsidiary involved in leasing operations are estimated based on future expected interest income to be earned on lease portfolio less cash outflows related to financing activities and administration costs. Discount rates are based on current cost of capital used for investments in these subsidiaries. The Group's management applies judgement in estimating cash flows and discount rates used in impairment testing.

Inventories. Net realizable value of apartments held for sale and property for development is based either on current estimated sales price of an asset or on expected discounted future cash flows from future development and realization of an asset based on the Group's management plans with respect to a certain asset. Inputs in estimating sales price and future cash flows from development of an asset are based on current market prices. The Group's management applies judgement in estimating cash flows and discount rates used in impairment testing.

Impairment losses on receivables. The Group test receivables for impairment when loss events (delays in payments or significant financial difficulties or a debtor) are identified. Recoverable amount of receivables is established individually based on discounted expected future payments to be received. The management applies judgement in estimating timing, amounts and probabilities of future cash flows to be received from debtors.

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.

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.

The deferred tax assets recognised at 31 December 2011 have been based on future profitability assumptions of the Bank over a five year horizon. In the event of changes to these profitability assumptions, the tax assets recognised may be adjusted.

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.

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SEGMENT INFORMATION

Below, there is a summary of major indicators for the main business segments of the Group included in the Statement of financial position as at 31 December 2011 and in the statement of comprehensive income for the year then ended:

	Šiauliai region	Vilnius region	Klaipėda region	Head- quarters, including Kaunas	Investment Leasing management	Real estate development	Eliminations	Total Group
Internal	(168)	11,987	5,319	(7,657)	(4,628)	(1,319)	(3,534)	-
External	21,599	(34)	4,982	14,023	10,091	1,075	3,042	-
Net interest income	21,431	11,953	10,301	6,366	5,463	(244)	(492)	-
Internal	(545)	11,967	5,246	(16,668)	(4,772)	(1,320)	(3,555)	-
External	26,217	2,328	7,431	22,521	10,072	1,195	3,142	-
Net interest, fee and commissions income	25,672	14,295	12,677	5,853	5,300	(125)	(410)	-
Internal	-	-	-	-	-	-	-	-
External	(4,333)	(1,113)	(729)	(3,386)	(599)	313	(774)	-
Impairment expenses	(4,333)	(1,113)	(729)	(3,386)	(599)	313	(774)	-
Internal	-	-	-	(198)	(194)	(50)	(46)	488
External	(4,258)	(3,619)	(3,885)	(21,264)	(2,966)	(634)	(2,556)	-
Operating expenses	(4,258)	(3,619)	(3,885)	(21,462)	(3,160)	(684)	(2,602)	488
Amortisation charges	-	(2)	(3)	(230)	(7)	-	(1)	-
Depreciation charges	(469)	(313)	(401)	(1,994)	(1,000)	(14)	(98)	-
Internal	(656)	151	(218)	986	167	17	41	(488)
External	1,350	575	629	(608)	592	555	3,421	-
Net other income	694	726	411	378	759	572	3,462	(488)
Profit (loss) before tax	17,306	9,974	8,070	(20,838)	1,293	62	(230)	-
(Loss) before income tax from the subsidiary that is held for sale	-	-	-	-	-	-	-	(685)
Income tax	-	-	-	(1,700)	(147)	-	(82)	-
Profit (loss) per segment after tax	17,306	9,974	8,070	(22,538)	1,146	62	(312)	(685)
Non-controlling interest	-	-	-	-	-	-	-	-
Profit (loss) for the year attributable to equity holders of the Bank	17,306	9,974	8,070	(22,538)	1,146	62	(312)	(685)
Total segment assets	794,265	715,899	454,784	766,618	184,457	38,330	114,974	(330,332)
Total segment liabilities	776,959	705,925	446,714	504,360	180,931	33,041	109,140	(312,877)
Net segment assets (shareholders' equity)	17,306	9,974	8,070	262,258	3,526	5,289	5,834	(17,455)

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SEGMENT INFORMATION (CONTINUED)

Below, there is a summary of major indicators for the main business segments of the Group included in the Statement of financial position as at 31 December 2010 and in the statement of comprehensive income for the year then ended:

	Šiauliai region	Vilnius region	Klaipėda region	Head- quarters	Investment Leasing	Investment management	Real estate development	Eliminations	Total Group
Internal	2,490	14,615	5,293	(12,557)	(5,950)	(1,663)	(2,228)	-	-
External	11,363	(7,684)	2,542	12,777	10,470	840	1,487	-	31,795
Net interest income	13,853	6,931	7,835	220	4,520	(823)	(741)	-	31,795
Internal	2,272	14,572	5,229	(12,025)	(6,151)	(1,664)	(2,233)	-	-
External	15,468	(2,978)	4,587	9,652	10,395	870	1,812	-	39,806
Net interest, fee and commissions income	17,740	11,594	9,816	(2,373)	4,244	(794)	(421)	-	39,806
Impairment expenses	(8,606)	(29,350)	(5,959)	-	(1,916)	3	(477)	-	(46,205)
Internal	-	-	-	36	(164)	(35)	(32)	195	-
External	(2,883)	(6,644)	(3,187)	(12,572)	(1,858)	(605)	(1,885)	-	(29,634)
Operating expenses	(2,883)	(6,644)	(3,187)	(12,536)	(2,022)	(640)	(1,917)	195	(29,634)
Amortisation charges	-	(7)	(3)	(252)	(2)	-	(2)	-	(266)
Depreciation charges	(421)	(1,049)	(456)	(1,134)	(945)	(14)	72	-	(3,947)
Internal	(1,072)	(343)	(113)	1,726	(1)	3,507	(64)	(3,640)	-
External	1,255	1,165	620	3,517	809	(251)	1,589	-	8,704
Net other income	183	822	507	5,243	808	3,256	1,525	(3,640)	8,704
Profit (loss) before tax	6,013	(24,634)	718	(11,052)	167	1,811	(1,120)	(3,445)	(31,542)
(Loss) before income tax from the subsidiary that is held for sale	-	-	-	-	-	-	-	(1,594)	(1,594)
Income tax	-	-	-	4,806	38	-	-	-	4,844
Profit (loss) per segment after tax	6,013	(24,634)	718	(6,246)	205	1,811	(1,120)	(5,039)	(28,292)
Non-controlling interest	-	-	-	-	-	-	-	-	-
Profit (loss) for the year attributable to equity holders of the Bank	6,013	(24,634)	718	(6,246)	205	1,811	(1,120)	(5,039)	(28,292)
Total segment assets	597,937	1,088,993	408,610	239,114	124,204	45,062	96,812	(266,118)	2,334,614
Total segment liabilities	591,924	1,113,627	407,892	(34,936)	121,824	42,223	90,108	(249,229)	2,083,433
Net segment assets (shareholders' equity)	6,013	(24,634)	718	274,050	2,380	2,839	6,704	(16,889)	251,181

Distribution of the Group's assets and revenue according to geographical segmentation

All Bank's and Group's non current assets other than financial instruments are located in Lithuania. No material revenue is earned by the Group in foreign countries.

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NOTE 1 NET INTEREST INCOME

	2011		2010	
	Group	Bank	Group	Bank
Interest income:				
on loans to other banks and financial institutions and placements with credit institutions	2,059	6,693	1,122	7,072
on loans to customers	91,576	91,882	83,838	84,193
on debt securities	19,192	17,505	16,942	16,114
- held to maturity	11,582	9,895	8,561	7,968
- available for sale	5,940	5,940	5,677	5,677
- at fair value through profit or loss	1,670	1,670	2,704	2,469
on finance leases	7,975	-	8,527	-
Total interest income	120,802	116,080	110,429	107,379
Interest expense:				
on liabilities to other banks and financial institutions and amounts due to credit institutions	(13,693)	(13,693)	(7,300)	(7,206)
on customer deposits and other repayable funds	(43,166)	(43,168)	(63,713)	(63,713)
compulsory insurance of deposits	(8,312)	(8,312)	(7,378)	(7,378)
on debt securities issued	(853)	(853)	(243)	(243)
on finance leases	-	(3)		
Total interest expense	(66,024)	(66,029)	(78,634)	(78,540)
Net interest income	54,778	50,051	31,795	28,839

NOTE 2 NET FEE AND COMMISSION INCOME

	2011		2010	
	Group	Bank	Group	Bank
Fee and commission income:				
for money transfer operations	8,918	9,008	7,456	7,565
for payment card services	1,858	1,872	1,618	1,621
for base currency exchange	1,672	1,681	1,373	1,373
for operations with securities	145	145	130	130
other fee and commission income	1,615	1,446	1,901	1,636
Total fee and commission income	14,208	14,152	12,478	12,325
Fee and commission expense:				
for payment card services	(4,108)	(4,108)	(3,089)	(3,089)
for money transfer operations	(1,518)	(1,497)	(1,297)	(1,217)
for operations with securities	(80)	(80)	(69)	(69)
for base currency exchange	(3)	(3)	(2)	(2)
other fee and commission expenses	(15)	(15)	(10)	(10)
Total fee and commission expense	(5,724)	(5,703)	(4,467)	(4,387)
Net fee and commission income	8,484	8,449	8,011	7,938

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NOTE 3 NET GAIN (LOSS) ON OPERATIONS WITH SECURITIES

	2011		2010	
	Group	Bank	Group	Bank
Trading securities				
Realised gain on trading equity securities	(9)	(9)	-	-
Unrealised gain on trading equity securities	(91)	(91)	14	14
Realised gain (loss) on trading debt securities	(302)	(302)	3,424	3,424
Unrealised (loss) on trading debt securities	(30)	(30)	(1,346)	(1,346)
Net gain on trading securities	(432)	(432)	2,092	2,092
Realised gain on debt securities held to maturity	(1,962)	(1,962)	-	-
Realised gain on available-for-sale debt securities	(1,089)	(1,089)	928	928
Dividend and other income from equity securities held for trading	15	15	-	-
Dividend and other income from available-for-sale equity securities	27	27	68	68
Total	(3,441)	(3,441)	3,088	3,088

NOTE 4 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2011		2010	
	Group	Bank	Group	Bank
Salaries, social security and other related expenses	25,649	22,059	18,059	15,464
Rent and maintenance of premises	4,182	4,074	3,531	3,451
Office equipment maintenance	1,068	1,047	983	974
Depreciation of fixed tangible assets	4,093	3,177	3,947	3,060
Amortisation of intangible assets	243	235	266	262
Transportation, post and communications expenses	2,230	1,982	2,044	1,762
Real estate tax and other taxes	1,603	280	1,014	246
Advertising and marketing expenses	819	772	358	330
Training and business trip expenses	120	75	38	30
Charity	238	207	121	96
Service organisation expenses	665	617	627	591
Legal costs incurred due to debt recovery	590	517	1,020	831
Other operating expenses	2,018	1,594	1,839	1,475
Total	43,518	36,636	33,847	28,572

NOTE 5 GAIN ON DISPOSAL OF ASSETS

In 2011 gain on disposal of real estate assets at the Group amounted to LTL 2,164 thousand (Bank LTL 31 thousand gain). In 2010 gain on disposal of real estate assets at the Group amounted to LTL 1,212 thousand (Bank LTL 165 thousand gain).

NOTE 6 OTHER INCOME

	2011		2010	
	Group	Bank	Group	Bank
Income from lease of assets	1,776	367	1,111	342
Other income	1,123	369	584	445
Total	2,899	736	1,695	787

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NOTE 7 IMPAIRMENT LOSSES ON LOANS

	2011		2010	
	Group	Bank	Group	Bank
Impairment losses on loans:				
Impairment charge for the year	11,046	10,718	45,774	44,629
Recoveries of loans previously written off	(1,402)	(1,157)	(964)	(790)
Total impairment losses on loans	9,644	9,561	44,810	43,839
Impairment losses on finance lease receivables:				
Impairment charge for the year	589	-	516	-
Recovered previously written-off finance lease receivables	(354)	-	(276)	-
Total impairment losses on finance lease	235	-	240	-
Expenses for provisions on:				
Investments in subsidiaries	-	-	-	-
Assets for selling and other assets	742	-	1,155	76
Total expenses for provisions	742	-	1,155	76
Total	10,621	9,561	46,205	43,915

NOTE 8 INCOME TAX

	2011		2010	
	Group	Bank	Group	Bank
Current tax	138	-	-	-
Deferred taxes	1,791	1,700	(4,811)	(4,773)
Adjustments of previous year income tax	-	-	(33)	(33)
Total	1,929	1,700	(4,844)	(4,806)

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:

	2011		2010	
	Group	Bank	Group	Bank
Profit before income tax	15,637	14,513	(31,542)	(28,955)
Tax calculated at a tax rate of 15%	2,346	2,177	(4,731)	(4,343)
Income not subject to tax	(1,936)	(551)	(1,206)	(560)
Expenses not deductible for tax purposes	1,453	74	981	370
Adjustment of previous year income tax	-	-	(33)	(33)
Utilisation of tax losses for which no deferred tax asset was recognized	66	-	145	(240)
Effect of change in income tax rate	-	-	-	-
Income tax charge (income)	1,929	1,700	(4,844)	(4,806)

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NOTE 8 INCOME TAX (CONTINUED)

Deferred tax assets

	Group				Bank			
	Revaluation of securities and other assets	Accruals	Taxable losses carried forward	Total	Revaluation of securities	Accruals	Taxable losses carried forward	Total
At 31 December 2009	(175)	(191)	(5,725)	(6,091)	(6)	(191)	(5,623)	(5,820)
To be credited/(charged) to net profit	8	18	(4,840)	(4,814)	6	18	(4,840)	(4,816)
To be credited/(charged) to equity	-	-	-	-	-	-	-	-
At 31 December 2010	(167)	(173)	(10,565)	(10,905)	-	(173)	(10,463)	(10,636)
To be credited/(charged) to net profit	171	(65)	1,709	1,815	(22)	(65)	1,811	1,724
To be credited/(charged) to equity	(461)	-	-	(461)	(461)	-	-	(461)
At 31 December 2011	(457)	(238)	(8,856)	(9,551)	(483)	(238)	(8,652)	(9,373)

Deferred tax liabilities

	Group			Bank		
	Revaluation of securities	Fixed assets	Total	Revaluation of securities	Fixed assets	Total
At 31 December 2009	235	440	635	195	401	596
To be credited/(charged) to net profit	-	3	3	40	3	43
To be credited/ (charged) to equity	(180)	-	(180)	(180)	-	(180)
At 31 December 2010	55	443	458	55	404	459
To be credited/(charged) to net profit	(40)	16	(24)	(40)	16	(24)
To be credited/ (charged) to equity	(15)	-	(15)	(15)	-	(15)
At 31 December 2011	-	459	459	-	420	420

Taxable losses of the Group and the Bank are carried forward for indefinite term through the use of future taxable profits. Management of the Bank has estimated that future taxable profits of the Bank and Group will be sufficient to realize the accumulated taxable losses. Therefore deferred tax asset from the accumulated taxable losses was recognized.

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:

	2011		2010	
	Group	Bank	Group	Bank
Deferred tax assets	(9,551)	(9,373)	(10,905)	(10,636)
Deferred tax liabilities	459	420	498	459
Net deferred tax (asset) liability	(9,092)	(8,953)	(10,407)	(10,177)

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NOTE 9 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 dilutive potential ordinary shares that are related to convertible loan, obtained from a shareholder (see note 33 Related-party Transactions). As net loss has been accounted in 2010, the potential ordinary shares would be anti-dilutive for 2010. Therefore, diluted earnings per share are the same as basic earnings per share in 2011.

Weighted average number of shares in issue for the year ended 31 December 2011 was 217,104 thousand (216 days – 204,858 thousand shares, 149 days – 234,857 thousand shares). Weighted average number of shares in issue for the year ended 31 December 2010 was 193,245 thousand (173 days – 180,358 thousand shares, 192 days – 204,858 thousand shares).

Earnings per share

Group	2011	2010
Net profit from continuing operations	13,708	(26,698)
Net loss from discontinued operations	(685)	(1,594)
Net profit (loss) attributable to equity holders	13,023	(28,292)
Weighted average number of shares in issue during the period (thousand units)	217,104	193,245
Basic and diluted earnings (loss) per share (LTL)	0.06	(0.15)
Basic and diluted earnings (loss) per share (LTL) from discontinued operations	(0.003)	(0.008)
Bank	2011	2010
Net profit (loss) from continuing operations	12,812	(24,149)
Net loss from discontinued operations	-	-
Net profit (loss) attributable to equity holders	12,812	(24,149)
Weighted average number of shares in issue during the period (thousand units)	217,104	193,245
Basic and diluted earnings (loss) per share (LTL)	0.06	(0.14)
Basic and diluted earnings (loss) per share (LTL) from discontinued operations	-	-

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NOTE 10 CASH AND CASH EQUIVALENTS

	2011		2010	
	Group	Bank	Group	Bank
Cash and other valuables	29,990	29,988	34,605	34,602
Balances in bank deposit accounts	15,001	15,001	68,006	68,006
Balances in bank correspondent accounts	85,530	85,530	12,744	12,744
Placements with Central Bank:				
Deposits in Central Bank	1,500	1,500	-	-
Correspondent account with Central Bank	14,822	14,822	25,664	25,664
Mandatory reserves in national currency	77,003	77,003	67,381	67,381
Total placements with Central Bank	93,325	93,325	93,045	93,045
Total	223,846	223,844	208,400	208,397

Mandatory reserves in Central Bank comprise the funds calculated on a monthly basis as a 4% 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 11 AMOUNTS DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	2011		2010	
	Group	Bank	Group	Bank
Balances in bank deposit accounts	4,147	4,147	4,147	4,147
Total	4,147	4,147	4,147	4,147

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NOTE 12 TRADING SECURITIES

	2011		2010	
	Group	Bank	Group	Bank
Debt securities:				
Government bonds	16,216	16,216	63,444	63,444
Corporate bonds	-	-	16,496	13,576
State controlled entities' bonds	-	-	1,288	1,288
Total debt securities	16,216	16,216	81,228	78,308
Equity securities:				
Listed	267	267	-	-
Unlisted	6	6	2	2
Units of investment funds	85	85	96	96
Total equity securities	358	358	98	98
Total	16,574	16,574	81,326	78,406
Breakdown of securities by their maturity:				
Short-term (up to 1 year)	14,401	14,401	52,209	49,289
Long-term (over 1 year)	1,815	1,815	29,117	29,117
Total	16,216	16,216	81,326	78,406

Trading securities have not been pledged as at 31 December 2011 and 2010.

Except of unlisted securities all of the trading securities are accounted at fair value that is determined using level 1 requirements as described in fair value hierarchy in Note 4.2, i.e. fair value is based on quoted prices in active markets for identical assets and liabilities.

Breakdown of the Bank's trading securities as at 31 December 2011 and 2010:

Rating	Treasury bills		Corporate debt securities		Corporate equity securities		Investment fund units	
	2011	2010	2011	2010	2011	2010	2011	2010
From AA- to AA+	-	-	-	1,689	-	-	-	-
From A- to A+	-	-	-	4,170	-	-	-	-
From BBB- to BBB+	16,216	63,444	-	8,173	-	-	-	-
From BB- to BB+	-	-	-	832	-	-	-	-
Lower than BB-	-	-	-	-	60	-	-	-
No rating	-	-	-	-	213	2	85	96
Total	16,216	63,444	-	14,864	273	2	85	96

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NOTE 12 TRADING SECURITIES (CONTINUED)

Breakdown of the Group's trading securities as at 31 December 2011 and 2010:

Rating	Treasury bills		Corporate debt securities		Corporate equity securities		Investment fund units	
	2011	2010	2011	2010	2011	2010	2011	2010
From AA- to AA+	-	-	-	1,689	-	-	-	-
From A- to A+	-	-	-	4,170	-	-	-	-
From BBB- to BBB+	16,216	63,444	-	8,173	-	-	-	-
From BB- to BB+	-	-	-	832	-	-	-	-
Lower than BB-	-	-	-	-	60	-	-	-
No rating	-	-	-	2,920	213	2	85	96
Total	16,216	63,444	-	17,784	273	2	85	96

NOTE 13 LOANS TO CUSTOMERS

	2011		2010	
	Group	Bank	Group	Bank
Gross loans to customers	1,8 77, 214	2,158,294	1, 514,542	1,735,464
Allowance for loan impairment	(90,583)	(88,536)	(80,380)	(77,855)
Net loans to customers	1,786,631	2,069,758	1, 434,162	1,657,609
Breakdown of loans to customers according to maturity				
Short-term (up to 1 year)	547,725	809,443	501, 836	727,310
Long-term (over 1 year)	1,238,906	1,260,315	932, 326	930,299
Total	1,786,631	2,069,758	1, 434,162	1,657,609
Allowance for loan impairment as at 31 December 2009			42,360	40,282
Allowance for impairment of loans written off during the year as uncollectible			(7,800)	(7,102)
Currency translation differences and other adjustments			46	46
Increase in allowance for loan impairment (Note 7)			45,774	44,629
Allowance for loan impairment as at 31 December 2010			80,380	77,855
Allowance for impairment of loans written off during the year as uncollectible			(940)	(134)
Currency translation differences and other adjustments			97	97
Increase in allowance for loan impairment (Note 7)			11, 046	10,718
Allowance for loan impairment as at 31 December 2011			90,583	88,536

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

31 December 2011

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 31 Dec 2010	1,342	6,149	2,706	3,771	13,968
Change in allowance for loan impairment	933	1,173	76	86	2,268
Loans written off during the year	(377)	-	(429)	(134)	(940)
As at 31 Dec 2011	1,898	7,322	2,353	3,723	15,296

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NOTE 13 LOANS TO CUSTOMERS (CONTINUED)

	Group loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 31 Dec 2010	-	66,412	-	66,412
Change in allowance for loan impairment	-	8,778	-	8,778
Loans written off during the year	-	-	-	-
Influence of FX rate shift	-	97	-	97
As at 31 Dec 2011	-	75,287	-	75,287

31 December 2010

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 31 Dec 2009	4,090	2,398	2,288	1,626	10,402
Change in allowance for loan impairment	1,134	3,767	1,437	2,358	8,696
Loans written off during the year	(3,882)	(16)	(1,019)	(213)	(5,130)
As at 31 Dec 2010	1,342	6,149	2,706	3,771	13,968

31 December 2010

	Group loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 31 Dec 2009	-	31,947	11	31,958
Change in allowance for loan impairment	-	37,089	(11)	37,078
Loans written off during the year as uncollectible	-	(2,670)	-	(2,670)
Influence of FX rate shift	-	46	-	46
As at 31 Dec 2010	-	66,412	-	66,412

31 December 2011

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 31 Dec 2010	1,342	6,149	649	3,771	11,911
Change in allowance for loan impairment	547	1,173	76	86	1,882
Loans written off during the year	-	-	-	(134)	(134)
As at 31 Dec 2011	1,889	7,322	725	3,723	13,659

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NOTE 13 LOANS TO CUSTOMERS (CONTINUED)

	Bank loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 31 Dec 2010	-	65,944	-	6,5944
Change in allowance for loan impairment	-	8,836	-	8,836
Loans written off during the year	-	-	-	-
Exchange rate impact	-	97	-	97
As at 31 Dec 2011	-	74,877	-	74,877

31 December 2010

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 1 Jan 2010	4,090	2,398	667	1,626	8,781
Change in allowance for loan impairment	1,134	3,767	303	2,358	7,562
Loans written off during the year	(3,882)	(16)	(321)	(213)	(4,432)
As at 31 Dec 2010	1,342	6,149	649	3,771	11,911

	Bank loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 1 Jan 2010	-	31,490	11	31,501
Change in allowance for loan impairment	-	37,078	(11)	37,067
Loans written off during the year	-	(2,670)	-	(2,670)
As at 31 Dec 2010	-	(65,944)	-	65,944

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NOTE 14 FINANCE LEASE RECEIVABLES

	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Gross investments in leasing:				
Balance at 31 December 2010	33,024	54,042	39,284	126,350
Change during 2011	8,376	39,372	16,873	64,621
Balance at 31 December 2011	41,400	93,414	56,157	190,971
Unearned finance income on finance leases:				
Balance at 31 December 2010	4,440	9,082	6,888	20,410
Change during 2011	1,921	3,952	(693)	5,180
Balance at 31 December 2011	6,361	13,034	6,195	25,590
Net investments in leasing before provisions:				
At 31 December 2010	28,584	44,960	32,396	105,940
At 31 December 2011	35,039	80,380	49,962	165,381
Changes in provisions:				
Balance as at 31 December 2009	-	2,526	-	2,526
Additional provisions charged	-	516	-	516
Provisions for finance lease debts written off	-	(1,090)	-	(1,090)
Balance at 31 December 2010	-	1,952	-	1,952
Additional provisions charged	-	589	-	589
Provisions for finance lease debts written off	-	(901)	-	(901)
Balance at 31 December 2011	-	1,640	-	1,640
Net investments in leasing after provisions:				
At 31 December 2010	28,584	43,008	32,396	103,988
At 31 December 2011	35,039	78,740	49,962	163,741

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

	2011			2010		
	Individuals	Business customers	Total	Individuals	Business customers	Total
As at 1 January	992	960	1,952	1,578	948	2,526
Change in allowance for finance lease impairment	64	525	589	191	325	516
Amounts written off during the year	(513)	(388)	(901)	(777)	(313)	(1,090)
As at 31 December	543	1,097	1,640	992	960	1,952

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NOTE 15 INVESTMENT SECURITIES

	2011		2010	
	Group	Bank	Group	Bank
Securities available for sale:				
Equity securities:				
Unlisted equity securities	4,940	1,391	15,614	1,391
Investment fund units	298	298	358	358
Total	5,238	1,689	15,972	1,749
Debt securities:				
Local government bonds	10,602	10,602	46,594	46,594
Local corporate debt securities	-	-	3,216	3,216
Treasury debt securities of foreign countries	19,777	19,777	27,595	27,595
Foreign countries corporates debt securities	-	-	10,221	10,221
Total	30,379	30,379	87,626	87,626
Total securities available for sale	35,617	32,068	103,598	89,375
Breakdown of securities available for sale according to maturity				
Short-term (up to 1 year)	-	-	52,209	49,289
Long-term (over 1 year)	35,617	32,068	29,117	29,117
Total	35,617	32,068	103,598	89,375

Breakdown of the Bank's securities available for sale as at 31 December 2011 and 2010:

Rating	Treasury bills		Corporate debt securities		Corporate equity securities		Investment fund units	
	2011	2010	2011	2010	2011	2010	2011	2010
From AA- to AA+	8,013	6,347	-	-	-	-	-	-
From A- to A+	5,938	10,795	-	9,768	-	-	-	-
From BBB- to BBB+	15,324	50,291	-	3,669	-	-	-	-
From BB- to BB+	1,104	6,756	-	-	-	-	-	-
Lower than BB-	-	-	-	-	-	-	-	-
No rating	-	-	-	-	1,391	1,391	298	358
Total	30,379	74,189	-	13,437	1,391	1,391	298	358

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NOTE 15 INVESTMENT SECURITIES (CONTINUED)

Breakdown of the Group's securities available for sale as at 31 December 2011 and 2010:

Rating	Treasury bills		Corporate debt securities		Corporate equity securities		Investment fund units	
	2011	2010	2011	2010	2011	2010	2011	2010
From AA- to AA+	8,013	6,347	-	-	-	-	-	-
From A- to A+	5,938	10,795	-	9,768	-	-	-	-
From BBB- to BBB+	15,324	50,291	-	3,669	-	-	-	-
From BB- to BB+	1,104	6,756	-	-	-	-	-	-
Lower than BB-	-	-	-	-	-	-	-	-
No rating	-	-	-	-	4,940	15,614	298	358
Total	30,379	74,189	-	13,437	4,940	15,614	298	358

Bank	Financial assets revaluation reserve	Deferred income tax asset liabilities	Financial assets revaluation reserve
31 December 2009	785	(195)	590
Revaluation	1,187		834
Sale or redemption	(353)		
Amortisation of revaluation related to held-to-maturity investments	(235)		(235)
Deferred income tax		180	180
31 December 2010	1,384	(15)	1,369
Revaluation	(4,781)		(4,781)
Sale or redemption	2,109		2,109
Amortisation of revaluation related to held-to-maturity investments	(355)		(355)
Deferred income tax		476	476
31 December 2011	(1,643)	461	(1,182)

Group	Financial assets revaluation reserve	Deferred income tax asset liabilities	Financial assets revaluation reserve
31 December 2009	(586)	(195)	(781)
Revaluation	1,187		1,187
Sale or redemption	(353)		(353)
Amortisation of revaluation related to held-to-maturity investments	(235)		(235)
Deferred income tax		180	180
31 December 2010	13	(15)	(2)
Revaluation	(3,410)		(4,781)
Sale or redemption	2,109		2,109
Amortisation of revaluation related to held-to-maturity investments	(355)		(355)
Deferred income tax		476	476
31 December 2011	(1,643)	461	(1,182)

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	2011		2010	
	Group	Bank	Group	Bank
Held-to-maturity securities:				
Local government bonds	263,045	263,045	166,602	166,602
Local corporate bonds	3,068	-	6,420	-
Foreign government bonds	24,144	24,144	29,250	29,250
Foreign corporate bonds	16,092	16,092	11,783	11,783
Total held-to-maturity securities	306,349	303,281	214,055	207,635
Breakdown of held to maturity securities according to maturity				
Short-term (up to 1 year)	61,556	61,556	11,690	5,270
Long-term (over 1 year)	244,793	241,725	202,365	202,365
Total	306,349	303,281	214,055	207,635

The cash flows of held-to-maturity securities:

	2011	2010
As at 1 January	207,635	143,068
Acquisitions	28,324	28,664
Redemptions	(11,153)	(5,725)
Accrued interest	9,895	7,968
Received coupon payment	(9,739)	(8,463)
Reclassifications	80,926	42,156
Realised loss on disposal (Note 3)	(1,962)	-
Disposals – cash received	(2,639)	-
Foreign currency exchange rate impact	32	(33)
As at 31 December	303,281	207,635

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NOTE 15 INVESTMENT SECURITIES (CONTINUED)

During 2011 Bank has reclassified a part of its available for sale debt securities portfolio to held-to-maturity securities. Management of the bank has assessed that it has an intention to hold these securities to their maturity. Carrying amount of the reclassified securities as at 31 December 2011 is LTL 81,650 thousand. During 2011 other comprehensive income recognized in relation to the revaluation of these debt securities - LTL 582 thousand. If the reclassification had not been performed, other comprehensive expenses recognized in 2011 in relation to these securities would be equal to LTL 1,058 thousand.

During 2010 Bank has reclassified a part of its available for sale debt securities portfolio to held-to-maturity securities. Management of the bank has assessed that it has an intention to hold these securities to their maturity. Carrying amount of the reclassified securities as at 31 December 2010 is LTL 42,003 thousand. During 2010 other comprehensive income recognized in relation to the revaluation of these debt securities - LTL 1,897 thousand. If the reclassification had not been performed, other comprehensive income recognized in 2010 in relation to these securities would be equal to LTL 2,665 thousand.

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

	2011		2010	
	Fair value	Carrying amount	Fair value	Carrying amount
Local government bonds	260,666	263,045	168,739	166,602
Local corporate bonds	-	-	-	-
Foreign government bonds	22,967	24,144	27,710	29,250
Foreign corporate bonds	16,104	16,092	11,672	11,783
Total held-to-maturity securities	299,737	303,281	208,121	207,635

No investment securities were pledged as at 31 December 2011 and 2010.

Breakdown of the Bank's held-to-maturity securities as at 31 December 2011 and 2010:

Rating	Treasury bills		Municipality debt securities		Corporate debt securities	
	2011	2010	2011	2010	2011	2010
Bank						
AAA	8,106	8,120	-	-	-	-
From AA- to AA+	-	-	-	-	6,798	6,785
From A- to A+	10,686	10,662	-	-	-	-
From BBB- to BBB+	263,045	173,666	-	709	9,294	4,998
From BB- to BB+	5,352	2,695	-	-	-	-
Lower than BB-	-	-	-	-	-	-
No rating	-	-	-	-	-	-
Total	287,189	195,143	-	709	16,092	11,783

Breakdown of the Group's held-to-maturity securities as at 31 December 2011 and 2010:

Rating	Treasury bills		Municipality debt securities		Corporate debt securities	
	2011	2010	2011	2010	2011	2010
Group						
AAA	8,106	8,120	-	-	-	-
From AA- to AA+	-	-	-	-	6,798	6,785
From A- to A+	10,686	10,662	-	-	-	-
From BBB- to BBB+	263,045	173,666	-	709	9,294	4,998
From BB- to BB+	5,352	2,695	-	-	-	-
Lower than BB-	-	-	-	-	-	-
No rating	-	-	-	-	3,068	6,420
Total	287,189	195,143	-	709	19,160	18,203

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NOTE 16 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Bank	2011 and 2010			
	Share in equity	Acquisition cost	Impairment provision	Carrying amount
Investments in consolidated subsidiaries:				
ŠB Lizingas UAB	100,0%	5,000	3,000	2,000
ŠB Investicijų Valdymas UAB	100,0%	4,040	927	3,113
ŠB Turto Fondas UAB	100,0%	5,117	846	4,271
ŠBTF UAB	100,0%	2,000	-	2,000
Minera UAB	100,0%	5,505	-	5,505
Total		21,662	4,773	16,889

In 2010 the Bank gained direct control over its subsidiaries ŠBTF UAB and Minera UAB. Previously ŠBTF UAB was indirectly controlled through the subsidiary ŠB Turto Fondas UAB and Minera UAB was indirectly controlled through the subsidiary SB Investicijų valdymas.

Acquisition cost includes cost of investment into share capital and reduction of retained losses of SB Lizingas UAB amounting to LTL 3 million. Due to impairment indicators identified as at 31 December 2009 investments in subsidiaries have been tested for impairment. As the calculated recoverable amount was lower than the acquisition cost, impairment has been recognized. Tests for impairment have been reperformed as at 31 December 2010 and 31 December 2011. As a result of tests performed the management of the Bank considers that no additional impairment or release of impairment considered as necessary in the years ended 31 December 2011 and 31 December 2010.

In September 2011 The Group increased the share in equity of Pavasaris UAB to 49.60%. As of 31 December 2011, ŠB Investicijų Valdymas UAB and ŠB Turto Fondas UAB owned 23.97% and 25.63%, respectively, of share capital of Pavasaris UAB. The Group accounted for Pavasaris UAB as an associate entity as of 31 December 2011.

Financial information of Pavasaris UAB	2011
Total assets as of 31 December	39,838
Total liabilities as of 31 December	36,323
Net assets as of 31 December	3,515
Profit for January – September 2011	1,128
Profit for October – December 2011	22
Share of profits attributable to the Group:	11

Movement of carrying amount of investment in Pavasaris UAB during 2011:

1 January (classified as available-for-sale investment)	11,243
Reversal of impairment (through financial assets revaluation reserve)	1,371
Additional percentage of share capital acquired (in cash)	5,767
Acquisition cost as of 31 December	18,381
Share of profits attributable to the Group:	11
Carrying amount as of 31 December	18,392

The Group also accounted for one subsidiary held for sale. This entity is held by ŠB Investicijų Valdymas UAB. For further disclosures please see Note 20.

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NOTE 17 INTANGIBLE ASSETS

	Group	Bank
	Software and licences	Software and licences
<u>As at 31 December 2009:</u>		
Cost	5,117	4,863
Accumulated amortisation	(4,512)	(4,263)
Net book value	605	600
<u>Year ended 31 December 2010:</u>		
Net book value at 1 January	605	600
Acquisitions	271	269
Write-offs	(2)	(1)
Amortisation charge	(266)	(262)
Net book value at 31 December	608	606
<u>As at 31 December 2010:</u>		
Cost	5,336	5,121
Accumulated amortisation	(4,728)	(4,515)
Net book value	608	606
<u>Year ended 31 December 2011:</u>		
Net book value at 1 January	608	606
Acquisitions	551	523
Write-offs		
Amortisation charge	(243)	(235)
Net book value at 31 December	916	894
<u>As at 31 December 2011:</u>		
Cost	5,873	5,635
Accumulated amortisation	(4,957)	(4,741)
Net book value	916	894
Economic life (in years)	3 - 9	3 - 9

ŠIAULIŲ BANKAS AB
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NOTE 18 PROPERTY, PLANT AND EQUIPMENT

Group	Buildings, premises and land	Vehicles	Office equipment	Construction in progress	Total
<u>As at 31 December 2009:</u>					
Cost	38,407	11,315	15,911	33	65,666
Accumulated depreciation	(4,543)	(3,080)	(10,698)	-	(18,321)
Net book value	33,864	8,235	5,213	33	47,345
<u>Year ended 31 December 2010:</u>					
Net book value at 1 January	33,864	8,235	5,213	33	47,345
Acquisitions	476	1,964	1,219	78	3,737
Reclassification	144	792	(144)		792
Disposals and write-offs	(200)	(1,113)	(89)	(111)	(1,513)
Depreciation charge	(815)	(1,430)	(1,702)	-	(3,947)
Net book value at 31 December	33,469	8,448	4,497	-	46,414
<u>As at 31 December 2010:</u>					
Cost	40,344	11,786	16,673	-	68,803
Accumulated depreciation	(6,875)	(3,338)	(12,176)	-	(22,389)
Net book value	33,469	8,448	4,497	-	46,414
<u>Year ended 31 December 2011:</u>					
Net book value at 1 January	33,469	8,448	4,497	-	46,414
Acquisitions	1 626	1,309	2,023		4,958
Reclassification	351			-	351
Disposals and write-offs	(23)	(714)	(19)	-	(756)
Depreciation charge	(821)	(1,501)	(1,771)	-	(4,093)
Net book value at 31 December	34 602	7,542	4,730		46,874
<u>As at 31 December 2011:</u>					
Cost	41 987	11,451	17,651		71,089
Accumulated depreciation	(7,385)	(3,909)	(12,921)	-	(24,215)
Net book value	34 602	7,542	4,730		46,874
Economic life (in years)	15-50	5-12	3-20	-	-

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NOTE 18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The total balance of the Group's assets in the table above includes assets leased under operating lease agreements as at 31 December 2011, as follows:

Group	Buildings and premises	Vehicles	Equipment	Total
<u>As at 31 December 2009:</u>				
Cost	5,477	6,892	44	12,413
Accumulated depreciation	(619)	(1,627)	(32)	(2,278)
Net book value	4,858	5,265	12	10,135
<u>Year ended 31 December 2010:</u>				
Net book value at 1 January	4,858	5,265	12	10,135
Acquisitions	20,289	1,519	3	21,811
Impairment	(174)	-	-	(174)
Disposals and write-offs	(6)	(489)	-	(495)
Depreciation charge		(749)	(5)	(754)
Net book value at 31 December	24,967	5,546	10	30,523
<u>As at 31 December 2010:</u>				
Cost	25,754	7,460	39	33,253
Accumulated depreciation	(787)	(1,914)	(29)	(2,730)
Net book value	24,967	5,546	10	30,523
<u>Year ended 31 December 2011:</u>				
Net book value at 1 January	24,967	5,546	10	30,523
Acquisitions	9,038	267	29	9,334
Reclassification	(351)			(351)
Disposals and write-offs		(310)	-	(310)
Impairment	(340)			(340)
Depreciation charge		(803)	(5)	(808)
Net book value at 31 December	33,314	4,700	34	38,048
<u>As at 31 December 2011:</u>				
Cost	34,252	7,266	60	41,578
Accumulated depreciation	(938)	(2,566)	(26)	(3,530)
Net book value	33,314	4,700	34	38,048
Economic life (in years)	15-50	6-12	6-15	-

As at 31 December 2011 and 31 December 2010, there were no property, plant and equipment pledged to third parties.

Future minimum lease payments to be received under non-cancelable operating lease agreements for the Bank and the Group were as follows:

	2011			2010		
	up to 1 year	1-5 years	over 5 years	up to 1 year	1-5 years	over 5 years
Bank	261	178	0	244	87	7
Group	1,978	6,408	15,752	970	827	153

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NOTE 18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Bank	Buildings and premises	Vehicles	Office equipment	Construction in progress	Total
<u>As at 31 December 2009:</u>					
Cost	37,651	3,730	15,350	33	56,764
Accumulated depreciation	(4,429)	(1,096)	(10,230)	-	(15,755)
Net book value	33,222	2,634	5,120	33	41,009
<u>Year ended 31 December 2010:</u>					
Net book value at 1 January	33,222	2,634	5,120	33	41,009
Acquisitions	118	855	981	78	2 032
Disposals and write-offs	(270)	(329)	(12)	(111)	(722)
Depreciation charge	(722)	(577)	(1,665)	-	(2,964)
Net book value at 31 December	32,348	2,583	4,424	-	39,355
<u>As at 31 December 2010:</u>					
Cost	37,505	3,756	15,980	-	57,241
Accumulated depreciation	(5,157)	(1,173)	(11,556)	-	(17,886)
Net book value	32,348	2,583	4,424	-	39,355
<u>Year ended 31 December 2011:</u>					
Net book value at 1 January	32,348	2,583	4,424	-	39,355
Acquisitions	967	412	1,894	-	3,273
Reclasification	351				315
Disposals and write-offs		(279)	(19)	-	(298)
Depreciation charge	(730)	(585)	(1,734)	-	(3,049)
Net book value at 31 December	32,936	2,131	4,565	-	39,632
<u>As at 31 December 2011:</u>					
Cost	38878	3,365	16,841	-	59,084
Accumulated depreciation	(5,942)	(1,234)	(12,276)	-	(19,452)
Net book value	32,936	2,131	4,565	-	39,632
Economic life (in years)	15-50	5-12	3-20	-	-

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NOTE 19 OTHER ASSETS

	2011		2010	
	Group	Bank	Group	Bank
Financial assets:				
Amounts receivable	23,125	116	35,254	12,025
Breakdown of financial assets according to maturity				
Short-term (up to 1 year)	7,152	116	6,470	6
Long-term (over 1 year)	15,973	-	28,784	12,019
Non-financial assets:				
Breakdown of non-financial assets according to maturity				
Short-term (up to 1 year)	18,313	3,862	11,515	1,703
Long-term (over 1 year)	36,365	3,603	41,703	2,388
Inventories	44,327	-	42,961	-
Deferred charges	3,031	2,399	2,791	2,528
Prepayments	2,545	2,295	4,491	918
Foreclosed assets	2,710	1,980	1,442	246
Other	2,065	791	1,533	399
Total other assets	77,803	7,581	88,472	16,116

Inventories relate to real estate projects under development and real estate held for sale by the Bank's subsidiaries Šiaulių Banko Turto Fondas UAB, ŠB TF UAB, Minera UAB and Šiaulių banko investicijų valdymas UAB.

	2011		2010	
	Group	Bank	Group	Bank
Breakdown of inventories according to type				
Appartments held for sale	1,816	-	7,247	-
Property held for sale or development	42,511	-	35,714	-
Total inventories	44,327	-	42,961	-

All inventories are accounted at lower of cost and net realisable value. Inventories are not pledged.

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NOTE 20 ASSETS AND LIABILITIES RELATED TO A SUBSIDIARY THAT IS HELD FOR SALE

In 2010 Kėdainių oda UAB, a company controlled by the subsidiary of the Bank Šiaulių banko investicijų valdymas UAB, has become material to the Group and therefore is consolidated in these financial statements. As of 31 December 2010 management of the Bank was taking steps to sell the investment into Kėdainių oda UAB in the near future, therefore assets, liabilities and profit and loss related to this subsidiary were disclosed as related to the subsidiary that is held for sale in the financial statements as of 31 December 2010 and for the year then ended.

During 2011 management was further actively searching for a potential buyer, optimized company performance and as a result of that its activity was profitable during the fourth quarter 2011. Due to positive changes in company performance, expected profitable performance for 2012, intention of the management to sell the company and active search for a buyer, it is likely that the company will be sold the short period, therefore it is presented as discontinued operations.

Profit (loss), net assets and cash flow information of the subsidiary are presented in the tables below.

Kėdainių oda UAB	Year ended as at 31 December 2011	Year ended as at 31 December 2010
Discontinued operations		
Sales income	10,933	4,376
Cost of goods sold	(9,869)	(3,886)
Gross profit (loss)	1064	490
Sales and marketing expenses	-	-
Operating expenses	(2,034)	(2,065)
Other income (expenses)	5	-
Operating profit (loss)	(965)	(1,575)
Net profit (loss) from financial activities	-	(19)
(Loss) profit before income tax	(965)	(1,594)
Income tax	280	-
Net profit (loss) for the year	(685)	(1,594)

Impairment test for the assets held by this subsidiary company has been performed as at 31 December 2010 and as at 31 December 2011 and identified that the recoverable amount is not lower than the book value of the assets therefore no impairment has been recognised.

Net assets and cash balance related to the subsidiary that is held for sale are provided below.

Kėdainių oda UAB	As at 31 December 2011	As at 31 December 2010
Long term assets	9,805	10,535
Short term assets (except for cash & cash equivalents)	3,856	1,816
Cash & cash equivalents	-	58
Deffered income tax	338	-
Total assets	13,999	12,455
Long term liabilities	-	-
Short term liabilities	1,296	882
Total liabilities	1,296	-
Total net assets related to discontinued operations	12,703	11,573
Net assets attributable to Group	12,703	11,573

Cash flows related to the subsidiary that is held for sale for the financial year ended as at 31 December 2011 are provided below.

Kėdainių oda UAB	2011	2010
Net cash flow from (used in) operating activities	(2,911)	(2,271)
Net cash flow from (used in) investing activities	735	(10,556)
Net cash flow (used in) financing activities	2,190	12,828
Total net cash flow	14	1

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NOTE 21 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	2011		2010	
	Group	Bank	Group	Bank
Correspondent accounts and deposits of other banks and financial institutions:				
Correspondent accounts and demand deposits	21,313	21,324	26,417	26,441
Time deposits	75,653	75,653	62,317	62,317
Total correspondent accounts and deposits of other banks and financial institutions	96,966	96,977	88,734	88,758
Loans received from:				
Other banks	72,206	72,206	89,919	89,919
Other organisations	80,364	80,364	57,251	57,251
International organisations (see note 33)	221,353	221,353	133,163	133,163
Total loans received	373,923	373,923	280,333	280,333
Total	470,889	470,900	369,067	369,091
Short-term (up to 1 year)	171,778	171,789	114,645	114,669
Long-term (over 1 year)	299,111	299,111	254,422	254,422
Total	470,889	470,900	369,067	369,091

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NOTE 22 DUE TO CUSTOMERS

	2011		2010	
	Group	Bank	Group	Bank
Demand deposits:				
National government institutions	28,256	28,256	28,388	28,388
Local government institutions	28,961	28,961	58,364	58,364
Governmental and municipal companies	32,932	32,932	49,940	49,940
Corporate entities	184,697	184,979	127,925	128,020
Non-profit organisations	10,755	10,755	8,361	8,361
Individuals	158,431	158,431	129,131	129,131
Unallocated amounts due to customers	12,668	12,668	3,698	3,698
Total demand deposits	456,700	456,982	405,807	405,902
Time deposits:				
National government institutions	3,336	3,336	10,037	10,037
Local government institutions	1,185	1,185	801	801
Governmental and municipality companies	85,020	85,020	102,771	102,771
Corporate entities	187,944	187,944	154,510	154,510
Non-profit organisations	8,442	8,442	8,589	8,589
Individuals	1,151,258	1,151,258	989,784	989,784
Total time deposits	1,437,185	1,437,185	1,266,492	1,266,492
Total	1,893,885	1,894,167	1,672,299	1,672,394
Breakdown of due to customers according to maturity				
Short-term (up to 1 year)	1,787,236	1,787,518	1,613,172	1,613,267
Long-term (over 1 year)	106,649	106,649	59,127	59,127
Total	1,893,885	1,894,167	1,672,299	1,672,394

See effective interest rate on deposits disclosed in Note 32 *Interest rate risk*.

NOTE 23 SPECIAL AND LENDING FUNDS

	2011		2010	
	Group	Bank	Group	Bank
Special funds	5,439	5,439	9,289	9,289
Lending funds	11,461	11,461	18,722	18,722
Total	16,900	16,900	28,011	28,011
Breakdown of special and lending funds according to maturity				
Short-term (up to 1 year)	12,487	12,487	11,475	11,475
Long-term (over 1 year)	4,413	4,413	16,536	16,536
Total	16,900	16,900	28,011	28,011

The special funds consist of the funds from the mandatory social and health insurance funds. The special funds have to be returned to the institutions which have placed them upon the first requirement of the latter.

The lending funds consist of the loans from the ministries of Economy and Finance of the Republic of Lithuania for credits of a special purpose granted by other financial institutions.

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NOTE 24 DEBT SECURITIES IN ISSUE

On 18 October 2010, the Bank issued 260-day bonds in the amount of EUR 5.25 million. Interest rate of 3.8 per cent. Bonds were repurchased at 5 July 2011.

As at 2011 the Bank issued following bonds:

- 2011-08-05 - ISIN LT0000390031 – 276-day, interest rate of 3.8 per cent, maturity date - 2012-05-07;
- 2011.08.16 - ISIN LT0000402661 - 505-day, interest rate of 4,25 per cent, maturity date - 2013-01-03;
- 2011.08.29 - ISIN LT0000402687 - 555-day, interest rate of 5,25 per cent, maturity date - 2013-03-06;
- 2011.09.23 - ISIN LT0000410482 - 367-day, interest rate of 4,90 per cent, maturity date - 2012-09-24;
- 2011.11.29 - ISIN LT0000402703 - 547-day, interest rate of 4,50 per cent, maturity date - 2013-05-29;

Emission number	Group	2011		2010	
		Bank	Group	Bank	
LT0000390023	-	-	5,291	5,291	
LT0000390031	15,274	15,274	-	-	
LT0000402687	15,268	15,268	-	-	
LT0000402661	6,936	6,936	-	-	
LT0000410482	7,787	7 787	-	-	
LT0000402703	19	19	-	-	
Total:	45,284	45,284	5,291	5,291	

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NOTE 25 OTHER LIABILITIES

	2011		2010	
	Group	Bank	Group	Bank
Financial liabilities:				
Finance lease liabilities	3,922	-	1,503	-
Breakdown of other financial liabilities according to maturity				
Short-term (up to 1 year)	3,922	-	1,503	-
Long-term (over 1 year)	-	-	-	-
Non-financial liabilities:				
Accrued charges	6,072	5,351	3,399	2,934
Advance amounts received from the buyers of assets	1,322	-	1,699	-
Deferred income	1,182	787	922	519
Other liabilities	2,196	569	360	267
Total non-financial liabilities	10,772	6,707	6,380	3,720
Breakdown of other non-financial liabilities according to maturity				
Short-term (up to 1 year)	9,810	5,963	4,698	2,338
Long-term (over 1 year)	962	744	1,682	1,382
Total other liabilities	10,772	6,707	6,380	3,720

NOTE 26 INVESTMENT PROPERTY

Investment property	Bank	Group
Year ended 31 December 2010:		
Revalued amount at 1 January	4,170	4,858
Acquisitions	-	20,289
Reclassification	270	-
Revaluation at fair value	(96)	(174)
Disposals and write-offs	-	(6)
Revalued amount at 31 December	4,344	24,967
Year ended 31 December 2011:		
Revalued amount at 1 January	4,344	24,967
Acquisitions	4,081	9,038
Reclassification	-	(351)
Disposals and write-offs	(351)	-
Revaluation at fair value	(128)	(340)
Revalued amount at 31 December	7,946	33,314

NOTE 27 SHARE CAPITAL

During 2011 Bank's share capital has been increased from LTL 204,857,533 to LTL 234,857,533 by an additional issue of 30,000 thousand of ordinary shares with par value of LTL 1 each and issue price LTL 1.04 each. Excess of issue price over nominal amount totalled LTL 1,200 thousand and was recorded as share premium. Increase of share has been registered in register of legal entities as at 4 August 2011.

During 2010 Bank's share capital has been increased from LTL 180,357,533 at 2009 to LTL 204,857,533 by an additional issue of 24,500 thousand of ordinary shares with par value of LTL 1 each and issue price LTL 1.04 each. Excess of issue price over nominal amount totalled LTL 980 thousand and was recorded as share premium. Largest shareholder of the Bank contributed to the share capital through conversion of LTL 17,680 thousand of convertible loan (for more details see note 33). Increase of share has been registered in register of legal entities as at 22 June 2010.

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As of 31 December 2011, the shareholders holding over 5% of the Bank's shares are listed in the table below:

Shareholders	Share of the authorized capital held, %
European Bank for Reconstruction and Development	19,57
Gintaras Kateiva	6,24
Total	25,81

Another 14 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.

Shareholders of the Bank including the European Bank for Reconstruction and Development, UAB Prekybos Namai Aiva, UAB Mintaka, Įmonių Grupė Alita AB, Gintaras Kateiva, Algirdas Butkus, Arvydas Salda, Kastytis Jonas Vyšniauskas, Sigitas Baguckas, Vigintas Butkus, Vytautas Junevičius, , Audrius Žiugžda, Vita Adomaitytė, Daiva Kiburienė, Donatas Savickas, Vytautas Sinius and Arūnas Užupis form a group votes of which are calculated together. As of 31 December 2011, this group possessed 43.46 percent of the authorised capital and votes of the Bank.

As at 31 December 2011, the Bank had 3,805 shareholders (as at 31 December 2010: 3,601).

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 or annual meeting of the shareholders, be used only to cover losses of the activities.

Other reserves

Other reserves has been created by the Bank's shareholders to cover expected future impairment losses on loans.

NOTE 28 CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2011 and as at 31 December 2010 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 2010. 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.

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

	2011		2010	
	Group	Bank	Group	Bank
Financial guarantees issued	73,351	73,396	62,025	62,070
Letters of credit	5,064	5,064	4,472	4,472
Commitments to grant loans	123,052	119,631	94,145	89,495
Commitments to grant finance lease and acquire assets	-	-	-	-
Other commitments	3,403	3,403	2,745	2,745
Total	204,870	201,494	163,387	158,782

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NOTE 29 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 2010, the annual general meeting of shareholders decided not to pay any dividends to the holders of ordinary shares. There were no dividends payable as at 31 December 2011 also.

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NOTE 30 LIQUIDITY RISK

The structure of the Group's assets and liabilities by maturity as at 31 December 2011 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	222,346	1,500	-	-	-	-	-	-	223,846
Due from other banks	-	755	122	-	1,285	1,968	-	17	4,147
Trading securities	-	-	-	6,758	7,643	-	1,815	358	16,574
Loans granted to customers, finance lease receivables	-	44,859	120,073	113,473	300,918	685,745	629,139	56,165	1,950,372
Investment securities	-	-	-	-	-	-	-	-	-
- available-for-sale securities	-	-	-	-	-	-	30,379	5,238	35,617
- held-to-maturity securities	-	-	18,783	20,685	22,088	65,585	179,208	-	306,349
Investment to associate	-	-	-	-	-	-	-	18,392	18,392
Intangible assets	-	-	-	-	-	-	-	916	916
Property, plant and equipment and investment property	-	-	-	-	-	-	-	80,188	80,188
Other assets	148	2,485	3,479	3,005	9,496	40,812	7,824	33,654	100,903
Total assets	222,494	49,599	142,457	143,921	341,430	794,110	848,365	194,928	2,737,304
Due to other banks and financial institutions	35,852	19,073	44,657	30,656	41,540	212,581	86,530	-	470,889
Due to customers	457,161	229,159	259,673	372,896	480,833	95,343	15,719	1	1,910,785
Debt securities in issue	-	-	-	15,274	7,787	22,223	-	-	45,284
Other liabilities	1,177	9,093	949	337	669	625	337	2,941	16,128
Shareholders' equity	-	-	-	-	-	-	-	294,218	294,218
Total liabilities and shareholders' equity	494,190	257,325	305,279	419,163	530,829	330,772	102,586	297,160	2,737,304
Net liquidity gap	(271,696)	(207,726)	(162,822)	(275,242)	(189,399)	463,338	745,779	(102,232)	-

The structure of the Group's assets and liabilities by maturity as at 31 December 2010 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	200,493	71,897	166,600	220,779	182,505	690,475	613,428	188,437	2,334,614
Total liabilities and shareholders' equity	441,626	222,179	293,816	389,547	403,823	158,886	171,441	253,296	2,334,614
Net liquidity gap	(241,133)	(150,282)	(127,216)	(168,768)	(221,318)	531,589	441,987	(64,859)	-

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NOTE 30 LIQUIDITY RISK (CONTINUED)

The structure of the Bank's assets and liabilities by maturity as at 31 December 2011 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	222,344	1,500	-	-	-	-	-	-	223,844
Due from other banks	-	755	122	-	1,285	1,968	-	17	4,147
Trading securities	-	-	-	6,758	7,643	-	1,815	358	16,574
Loans granted to customers, finance lease receivables	-	73,390	164,835	171,632	399,586	669,420	542,990	47,905	2,069,758
Investment securities	-	-	-	-	-	-	-	-	-
- available-for-sale securities	-	-	-	-	-	-	30,379	1,689	32,068
- held-to-maturity securities	-	-	18,783	20,685	22,088	62,517	179,208	-	303,281
Investments in subsidiaries	-	-	-	-	-	-	-	16,889	16,889
Intangible assets	-	-	-	-	-	-	-	894	894
Property, plant and equipment and investment property	-	-	-	-	-	-	-	47,578	47,578
Other assets	7	967	2,268	271	465	865	317	11,373	16,533
Total assets	222,351	76,612	186,008	199,346	431,067	734,770	754,709	126,703	2,731,566
Due to other banks and financial institutions	35,863	19,073	44,657	30,656	41,540	212,581	86,530	-	470,900
Due to customers	457,443	229,159	259,673	372,896	480,833	95,343	15,719	1	1,911,067
Debt securities in issue	-	-	-	15,274	7,787	22,223	-	-	45,284
Other liabilities	87	3,098	717	164	255	407	337	1,642	6,707
Shareholders' equity	-	-	-	-	-	-	-	297,608	297,608
Total liabilities and shareholders' equity	493,393	251,330	305,047	418,990	530,415	330,554	102,586	299,251	2,731,566
Net liquidity gap	(271,042)	(174,718)	(119,039)	(219,644)	(99,348)	404,216	652,123	(172,548)	-

The structure of the Bank's assets and liabilities by maturity as at 31 December 2010 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	200,395	98,072	209,978	277,703	229,332	628,540	556,100	134,534	2,334,654
Total liabilities and shareholders' equity	440,819	219,918	293,685	389,381	403,439	158,594	171,441	257,377	2,334,654
Net liquidity gap	(240,424)	(121,846)	(83,707)	(111,678)	(174,107)	469,946	384,659	(122,843)	-

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NOTE 31 FOREIGN EXCHANGE TRANSACTIONS AND OPEN CURRENCY POSITIONS

The Group's open positions of prevailing currencies as at 31 December 2011 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets						
Cash and cash equivalents	43,260	4,135	47,395	49,791	126,660	223,846
Due from other banks	-	-	-	4,147	-	4,147
Trading securities	-	-	-	2,082	14,492	16,574
Loans granted to customers, finance lease receivables	15,716	239	15,955	666,995	1,267,422	1,950,372
Investment securities	-	-	-	-	-	-
- available-for-sale securities	4,912	-	4,912	19,945	10,760	35,617
- held-to-maturity securities	6,932	-	6,932	100,792	198,625	306,349
Investments to associate companies	-	-	-	-	18,392	18,392
Intangible assets	-	-	-	-	916	916
Property, plant and equipment and investment property	-	-	-	-	80,188	80,188
Other assets	46	-	46	5,331	95,526	100,903
Total assets	70,866	4,374	75,240	849,083	1,812,981	2,737,304
Liabilities and shareholders' equity						
Due to other banks and financial institutions	98	-	98	332,912	137,879	470,889
Due to customers	72,494	2,183	74,677	429,676	1,406,432	1,910,785
Bonds issued	-	-	-	-	45,284	45,284
Other liabilities	55	9	64	272	15,792	16,128
Shareholders' equity	169	-	169	(3,204)	297,253	294,218
Total liabilities and shareholders' equity	72,816	2,192	75,008	759,656	1,902,640	2,737,304
Net balance sheet position	(1,950)	2,182	232	89,427	(89,659)	-
Open currency exchange transactions	1,869	(826)	1,043	(1,045)	-	(2)
Net open position	(81)	1,356	1,275	88,382	(89,659)	(2)

The Group's open positions of prevailing currencies as at 31 December 2010 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets	44,367	1,747	46,114	740,304	1,548,196	2,334,614
Liabilities and shareholders' equity	43,131	922	44,053	718,949	1,571,612	2,334,614
Net balance sheet position	1,236	825	2,061	21,355	(23,416)	-
Open currency exchange transactions	(783)	-	(783)	783	-	-
Net open position	453	825	1,278	22,138	(23,416)	-

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NOTE 31 FOREIGN EXCHANGE TRANSACTIONS AND OPEN CURRENCY POSITIONS (CONTINUED)

The Bank's open positions of prevailing currencies as at 31 December 2011 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets						
Cash and cash equivalents	43,260	4,135	47,395	49,791	126,658	223,844
Due from other banks	-	-	-	4,147	-	4,147
Trading securities	-	-	-	2,082	14,492	16,574
Loans granted to customers, finance lease receivables	15,716	239	15,955	669,275	1,384,528	2,069,758
Investment securities	-	-	-	-	-	-
- available-for-sale securities	4,912	-	4,912	19,945	7,211	32,068
- held-to-maturity securities	6,932	-	6,932	100,792	195,557	303,281
Investments in subsidiaries	-	-	-	-	16,889	16,889
Intangible assets	-	-	-	-	894	894
Property, plant and equipment and investment property	-	-	-	-	47,578	47,578
Other assets	45	-	45	1,998	14,490	16,533
Total assets	70,865	4,374	75,239	848,030	1,808,297	2,731,566
Liabilities and shareholders' equity						
Due to other banks and financial institutions	98	-	98	332,912	137,890	470,900
Due to customers	72,494	2,183	74,677	429,676	1,406,714	1,911,067
Bonds issued	-	-	-	-	45,284	45,284
Other liabilities	55	9	64	272	6,371	6,707
Shareholders' equity	169	-	169	(3,204)	300,643	297,608
Total liabilities and shareholders' equity	72,816	2,192	75,008	759,656	1,896,902	2,731,566
Net balance sheet position	(1,951)	2,182	231	88,374	(88,605)	-
Open currency exchange transactions	1,869	(826)	1,043	(1,045)	-	(2)
Net open position	(82)	1,356	1,274	87,329	(88,605)	(2)

The Bank's open positions of prevailing currencies as at 31 December 2010 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets						
Assets	44,366	1,747	46,113	754,584	1,533,957	2,334,654
Liabilities and shareholders' equity						
Liabilities and shareholders' equity	43,131	922	44,053	718,628	1,571,973	2,334,654
Net balance sheet position	1,235	825	2,060	35,956	(38,016)	-
Open currency exchange transactions	(783)	-	(783)	783	-	-
Net open position	452	825	1,277	36,739	(38,016)	-

*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.

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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.

NOTE 32 INTEREST RATE RISK

The table below summarizes the Group's and the Bank's interest rate risks as at 31 December 2010. 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 2011 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	1,500	-	-	-	-	222,346	223,846
Due from other banks	755	122	-	1,285	1,968	17	4,147
Trading securities	-	-	6,758	7,643	1,815	358	16,574
Loans granted to customers, finance lease receivables	396,529	541,534	745,104	108,553	105,286	53,366	1,950,372
Investment securities	-	-	-	-	-	-	-
- available-for-sale securities	-	-	-	-	30,379	5,238	35,617
- held-to-maturity securities	-	18,783	20,685	22,088	244,793	-	306,349
- investments to associate companies	-	-	-	-	-	18,392	18,392
Intangible assets	-	-	-	-	-	916	916
Property, plant and equipment and investment property	-	-	-	-	-	80,188	80,188
Other assets	-	-	-	-	-	100,903	100,903
Total assets	398,784	560,439	772,547	139,569	384,241	481,724	2,737,304
Due to other banks and financial institutions	188,147	133,637	108,146	15,878	-	25,081,	470,889
Due to customers	227,728	264,313	366,764	464,553	87,985	499,442	1,910,785
Bonds issued	-	-	15,274	7,787	22,223	-	45,284
Other liabilities	-	-	-	-	-	16,128	16,128
Shareholders' equity	-	-	-	-	-	294,218	294,218
Total liabilities and shareholders' equity	415,875	397,950	490,184	488,218	110,208	834,869	2,737,304
Interest rate sensitivity gap	(17,091)	162,489	282,363	(348,649)	274,033	(353,145)	-

Details of the Group's interest rate risk as at 31 December 2010 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	266,843	487,776	671,754	59,730	394,279	454,232	2,334,614
Total liabilities and shareholders' equity	303,182	402,234	461,783	384,335	59,414	723,666	2,334,614
Interest rate sensitivity gap	(36,339)	85,542	209,971	(324,605)	334,865	(269,434)	-

ŠIAULIŲ BANKAS AB
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2011

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

NOTE 32 INTEREST RATE RISK (CONTINUED)

Details of the Bank's interest rate risk as at 31 December 2011 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	1,500	-	-	-	-	222,344	223,844
Due from other banks	755	122	-	1,285	1,968	17	4,147
Trading securities	-	-	6,758	7,643	1,815	358	16,574
Loans granted to customers, finance lease receivables	414,542	555,902	729,296	216,125	104,709	49,184	2,069,758
Investment securities	-	-	-	-	-	-	-
- available-for-sale securities	-	-	-	-	30,379	1,689	32,068
- held-to-maturity securities	-	18,783	20,685	22,088	241,725	-	303,281
Investments in subsidiaries	-	-	-	-	-	16,889	16,889
Intangible assets	-	-	-	-	-	894	894
Property, plant and equipment and investment property	-	-	-	-	-	47,578	47,578
Other assets	-	-	-	-	-	16,533	16,533
Total assets	416,797	574,807	756,739	247,141	380,596	355,486	2,731,566
Due to other banks and financial institutions	188,147	133,637	108,146	15,878	-	25,092	470,900
Due to customers	227,728	264,313	366,764	464,553	87,985	499,724	1,911,067
Bonds issued	-	-	15,274	7,787	22,223	-	45,284
Other liabilities	-	-	-	-	-	6,707	6,707
Shareholders' equity	-	-	-	-	-	297,608	297,608
Total liabilities and shareholders' equity	415,875	397,950	490,184	488,218	110,208	829,131	2,731,566
Interest rate sensitivity gap	922	176,857	266,555	(241,077)	270,388	(473,645)	-

Details of the Bank's interest rate risk as at 31 December 2010 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	287,795	488,439	706,037	119,611	394,568	338,204	2,334,654
Total liabilities and shareholders' equity	303,182	402,234	461,783	384,335	59,414	723,706	2,334,654
Interest rate sensitivity gap	(15,387)	86,205	244,254	(264,724)	335,154	(385,502)	-

ŠIAULIŲ BANKAS AB
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2011

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

NOTE 32 INTEREST RATE RISK (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 2011		31 December 2010	
	LTL	Other currencies	LTL	Other currencies
Assets				
Due from Central bank	0.62	-	0.56	-
Due from other banks	0.48	0.07	1.65	0.17
Debt securities	4.32	4.99	4.01	4.82
Finance lease receivables	5.21	5.44	5.98	4.93
Loans granted (before provisions)	4.97	4.66	4.89	4.48
Liabilities				
Due to other banks	3.87	3.43	1.96	2.89
Due to financial institutions	3.08	2.86	4.28	2.17
Deposits	2.36	1.89	3.16	2.21
Debt securities in issue	4.92	-	3.93	4.76

NOTE 33 RELATED-PARTY TRANSACTIONS

Related parties with the Bank are classified as follows:

- members of the Supervisory Council and the Board of the Bank, their close family members and entities, where the related parties own the shares exceeding 5% and/or take leading positions;
- subsidiaries of the Bank, includes Šiaulių banko lizingas UAB, Šiaulių banko investicijų valdymas UAB, Šiaulių banko turto fondas UAB, SBTf UAB, Minera UAB, Kėdainių oda;
- the Shareholders holding over 5 % of the Bank's share capital.

During 2011, 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 2011	31 December 2010	2011	2010	31 December 2011	31 December 2010	2011	2010
Members of the Council and the Board	1,823	921	3.04	4.29	6,437	6,784	5.62	5.42
Other related parties (excluding subsidiaries of the Bank)	11,472	4,705	1.61	1.81	195,511	233,488	4.68	4.50

As at 31 December 2011 balance of allowances for impairment losses that are related to balances of loans to related parties was equal to LTL 0 thousand (as at 31 December 2010: LTL 7,554 thousand). During 2011 losses incurred due to the increase in the allowances for impairment losses were LTL 0 thousand (during 2010 : LTL 3,084 thousand).

Transactions with EBRD:

The Bank has received loans from the EBRD, balance of which as at 31 December 2011 was equal to LTL 91 791 thousand (31 December 2010: LTL 95,950 thousand). Loan related interest and other expenses for year 2011 amounted to LTL 5 283 thousand (2010: LTL 3,029 thousand).

ŠIAULIŲ BANKAS AB
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2011

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

NOTE 33 RELATED-PARTY TRANSACTIONS (CONTINUED)

In 2010 the Bank received loan amounting to EUR 30 million (LTL 103,584 thousand) repayable by 2014 from EBRD. EUR 5,120 million (LTL 17,680 thousand) of the loan has been converted into share capital of the bank in 2010. EBRD may convert remaining amount of the loan into share capital of the Bank under the conditions described in the loan agreement.

Transactions with subsidiaries:

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 2011	31 December 2010	2011	2010	31 December 2011	31 December 2010	2011	2010
Non-financial institutions	268	95	0.19	0.15	141,864	128,466	3.53	3.50
Financial institutions	11	24	0.00	0.00	173,567	118,772	3.5	4.60

Transactions with subsidiaries: Šiaulių Banko Turto Fondas UAB (the Bank's holding is 100%, LTL 5,117 thousand), Šiaulių banko investicijų valdymas UAB (the Bank's holding is 100%, LTL 4,040 thousand), Šiaulių banko lizingas UAB (the Bank's holding is 100%, LTL 2,000 thousand), ŠB TF UAB (the Bank's holding is 100% LTL 2,000 thousand), Minera UAB (the Bank's holding is 100%, LTL 5,505 thousand), Kėdainių oda UAB (indirect control of 100%).

	2011	2010
Assets		
Demand deposits	315,431	247,238
Loans	-	-
Other assets	25	21
Liabilities and shareholders' equity		
Demand deposits	279	119
Other liabilities	50	-
Bank's investment	16,889	16,889

Income and expenses arising from transactions with subsidiaries:

	2011	2010
Income		
Interest	9,486	9,840
Commission income	166	207
Income from foreign exchange operations	8	6
Other income	255	192
Expenses		
Interest	(5)	-
Operating expenses	(198)	36

Remuneration of the management of the Bank

During 2011, the total amount of salaries and bonuses, including social security contributions and guarantee fund payments, to the Bank's Board members was LTL 2,677 thousand (2010: LTL 1,670 thousand).

NOTE 33 CONCENTRATION EXPOSURE

As at 31 December 2011, 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 60.3 million (the whole amount represents commitments to provide credit facilities), i.e. 21.36% of the Bank's calculated capital (2010: LTL 55.0 million and 21.68 % of the Bank's calculated capital).

ŠIAULIŲ BANKAS AB
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2011

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

NOTE 35 FINANCIAL GROUP INFORMATION

According to local legislation the Bank is required to prepare consolidated statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity for the Financial group. Financial group includes the Bank and its leasing subsidiary.

STATEMENT OF FINANCIAL POSITION

	31 December 2011		31 December 2010	
	Fin. group	Bank	Fin. group	Bank
ASSETS				
Cash and cash equivalents	223,845	223,844	208,400	208,397
Due from other banks	4,147	4,147	4,147	4,147
Trading securities	16,574	16,574	78,406	78,406
Loans to customers	1,908,417	2,069,758	1,549,828	1,657,609
Finance lease receivables	163,741	-	103,995	-
Investment securities:				
- available-for-sale	32,068	32,068	89,375	89,375
- held to maturity	303,281	303,281	207,635	207,635
Investments in subsidiaries	14,889	16,889	14,889	16,889
Intangible assets	913	894	608	606
Property, plant and equipment	45,256	39,632	45,720	39,355
Investment property	8,478	7,946	4,954	4,344
Prepayment of income tax	-	-	1,598	1,598
Deferred tax asset	9,120	8,952	10,436	10,177
Other assets	9,690	7,581	18,052	16,116
Total assets	2,740,420	2,731,566	2,338,043	2,334,654
LIABILITIES				
Due to other banks and financial institutions	470,889	470,900	369,067	369,091
Due to customers	1,894,167	1,894,167	1,672,394	1,672,394
Special and lending funds	16,900	16,900	28,011	28,011
Debt securities in issue	45,284	45,284	5,291	5,291
Current income tax liabilities	56	-	-	-
Deferred income tax liabilities	-	-	-	-
Other liabilities	13,990	6,707	6,753	3,720
Total liabilities	2,441,286	2,433,958	2,081,516	2,078,507
EQUITY				
Capital and reserves attributable to equity holders of the Bank				
Share capital	234,858	234,858	204,858	204,858
Share Premium	47,861	47,861	46,661	46,661
Reserve capital	2,611	2,611	2,611	2,611
Other reserves	-	-	10,000	10,000
Statutory reserve	848	648	6,522	6,422
Financial assets revaluation reserve	(1,182)	(1,182)	1,369	1,369
Retained earnings	14,138	12,812	(15,494)	(15,774)
Total equity	299,134	297,608	256,527	256,147
Total liabilities and equity	2,740,420	2,731,566	2,338,043	2,334,654

ŠIAULIŲ BANKAS AB
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2011

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

NOTE 35 FINANCIAL GROUP INFORMATION (CONTINUED)

STATEMENT OF COMPREHENSIVE INCOME

	2011		2010	
	Fin. group	Bank	Fin. group	Bank
Continuing operations				
Interest and similar income	121,540	116,080	111,993	107,379
Interest expense and similar charges	(66,026)	(66,029)	(78,634)	(78,540)
Net interest income	55,514	50,051	33,359	28,839
Fee and commission income	14,010	14,152	12,127	12,325
Fee and commission expense	(5,724)	(5,703)	(4,465)	(4,387)
Net fee and commission income	8,286	8,449	7,662	7,938
Provision for impairment losses	(10,160)	(9,561)	(45,831)	(43,915)
Net gain from operations with securities	(3,441)	(3,441)	3,088	3,088
Net foreign exchange gain	4,883	4,883	2,714	2,715
Gain from disposal of assets	50	31	29	165
Other income	1,108	736	1,589	787
Administrative and other operating expenses	(40,435)	(36,636)	(31,398)	(28,572)
Operating profit (loss)	15,805	14,512	(28,788)	(28,955)
Dividends from investments in subsidiaries	-	-	-	-
Profit (loss) before income tax	15,805	14,512	(28,788)	(28,955)
Discontinued operations				
Profit (loss) of discontinued operations before income tax	-	-	-	-
Income tax expense	(1,847)	(1,700)	4,844	4,806
Profit (loss) for the year	13,958	12,812	(23,944)	(24,149)
Other comprehensive income				
Gain (loss) from revaluation of financial assets	(3,027)	(3,027)	599	599
Deferred income tax on gain (loss) from revaluation of financial assets	476	476	180	180
Other comprehensive income, net of tax	(2,551)	(2,551)	779	779
Total comprehensive income	11,407	10,261	(23,165)	(23,370)
(Loss) attributable to:				
Equity holders of the Bank	13,958	12,812	(23,944)	(24,149)
Non-controlling interest	-	-	-	-
	13,958	12,812	(23,944)	(24,149)
Total comprehensive (loss) attributable to:				
Equity holders of the Bank	11,407	10,261	(23,165)	(23,370)
Non-controlling interest	-	-	-	-
	11,407	10,261	(23,165)	(23,370)
Basic and diluted earnings (loss) per share (in LTL per share)	0.06	0.06	(0.12)	(0.12)

ŠIAULIŲ BANKAS AB
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2011

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

NOTE 35 FINANCIAL GROUP INFORMATION (CONTINUED)

STATEMENT OF CASH FLOWS

	Notes	Year ended			
		31 December 2011		31 December 2010	
		Fin. group	Bank	Fin.group	Bank
Operating activities					
Interest received		103,518	98,045	101,746	96,019
Interest paid		(62,391)	(62,364)	(78,390)	(78,296)
Fees and commissions received		14,040	14,152	12,127	12,325
Fees and commissions paid		(5,724)	(5,703)	(4,465)	(4,387)
Cash inflows from trade in trading securities		(3,363)	(3,363)	4,352	4,352
Net income from foreign exchange operations		4,610	4610	2,731	2,732
Recoveries on loans previously written off		1,756	1157	1,240	790
Salaries and related payments to and on behalf of employees		(23,486)	(21,623)	(16,735)	(15,590)
Other cash receipts, sale of assets		1,082	710	1,589	787
Other cash payments		(13,559)	(12,451)	(12,045)	(10,652)
Income tax paid		-	-	-	-
Net cash flow from operating activities before change in operating assets and liabilities		16,483	13,170	12,150	8,080
Change in operating assets and liabilities:					
(Increase)/decrease in trading securities		63,505	63,505	(77,066)	(77,066)
(Increase)/decrease in loans to credit and financial institutions		(749)	(55,520)	5,968	(1,375)
(Increase) in loans to customers		(429,091)	(366,698)	(106,097)	(102,253)
(Increase) in other current assets		8,587	8,535	(6,923)	(11,046)
Increase in liabilities		-	-		
Increase/(decrease) in liabilities to credit and financial institutions		99,896	99,883	36,847	45,828
Increase in deposits		220,986	220,986	143,584	143,584
Increase/(decrease) in special and lending funds		(11,210)	(11,210)	(3,281)	(3,281)
Increase/(decrease) in other liabilities		(8,434)	4,175	(1,351)	873
Change		(39,642)	(36,344)	(8,319)	(4,736)
Net cash flow from/ (used in) operating activities		(23,159)	(23,174)	3,831	3,344
Investing activities					
(Purchase) of property, plant and equipment and intangible assets		(8,449)	(7,877)	(4,005)	(2,190)
Disposal of property, plant and equipment and intangible assets		2,431	1,876	2,642	1,356
(Purchase) of held-to-maturity securities		(28,356)	(28,356)	(32,111)	(32,111)
Proceeds from redemption of held-to-maturity securities		23,531	23,531	14,220	14,220
Dividends received		42	42	68	68
(Purchase) of available-for-sale securities		(210,667)	(210,667)	(176,148)	(176,148)
Sale of available-for-sale securities		189,732	189,732	122,977	122,977
Repurchase of shares of subsidiary companies from non-controlling		-	-	(7,505)	(7,505)
Net cash flow used in investing activities		(31,736)	(31,719)	(76,415)	(75,886)
Financing activities					
Increase in share capital	27	31,200	31,200	7,800	7,800
Proceeds from convertible loan received from the shareholder	33	-	-	103,584	103,584
Dividends paid		-	-	(2)	(2)
Debt securities in issue		111,933	111,933	20,134	20,134
Redemption of debt securities in issue		(72,793)	(72,793)	(19,228)	(19,228)
Net cash flow from financing activities		70,340	70,340	112,288	112,288
Net increase in cash and cash equivalents		15,442	15,447	39,704	39,746
Cash and cash equivalents at 1 January		208,400	208,397	168,696	168,651
Cash and cash equivalents at 31 December	10	223,842	223,844	208,400	208,397

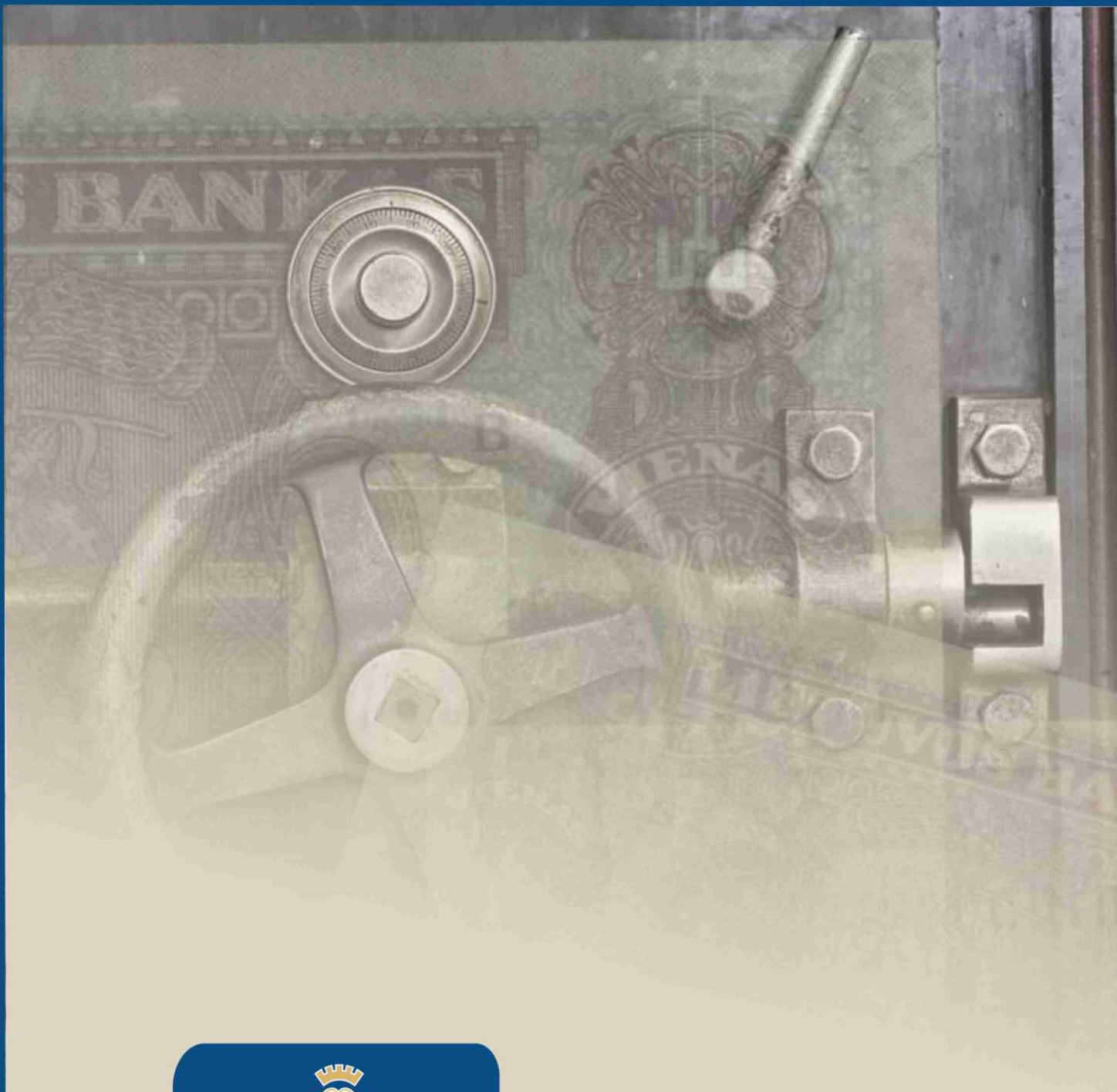
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NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2011

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

NOTE 35 FINANCIAL GROUP INFORMATION (CONTINUED)

STATEMENT OF CHANGES IN EQUITY

		Share capital	Share premium	Reserve capital	Financial assets revaluation	Statutory reserve	Other reserves	Retained earnings	Total
31 December 2009		180,358	45,681	2,611	590	6,081	10,000	8,891	254,212
Formation of statutory reserve		-	-	-	-	441	-	(441)	-
Increase in share capital	27	24,500	980	-	-	-	-	-	25,480
Total comprehensive loss		-	-	-	779	-	-	(23,944)	(23,165)
31 December 2010		204,858	46,661	2,611	1,369	6,522	10,000	(15,494)	256,527
Formation of statutory reserve		-	-	-	-	(5,674)	(10,000)	15,674	-
Increase in share capital	27	30,000	1,200	-	-	-	-	-	31,200
Total comprehensive loss		-	-	-	(2,551)	-	-	13,958	11,407
31 December 2011		234,858	47,861	2,611	(1,182)	848	-	14,138	299,134



ŠIAULIŲ
BANKAS

**CONSOLIDATED
ANNUAL REPORT
OF ŠIAULIŲ BANKAS AB
2011**

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1. Reporting period, covered in the consolidated annual report

The present report of Siauliu bankas AB (further – the Bank) covers the period from Januarys 1st, 2011 to December 31st, 2011.

2. The strategy of the Bank

Siauliu bankas aims to be a strong, advanced bank. The philosophy of our business includes professional performance, direct and easy-going communication, quick and comprehensible services, expedience in decision-making, long-term relations with the clients based on mutual trust. We are seeking to become the major bank for our clients.

Our mission

- We are here to help our clients grow, reach for their goals, fulfill their dreams and projects which assist in creating a new quality of life in Lithuania.

Our vision

- To be a professional, reliable and modern financial partner to our clients.

Our values

- Attention to clientele.
- High internal standards, respect to each other and clients.
- Open communication.
- Constant growing.

Implementing the strategy of our activities, we pay special attention to funding of small and medium-sized business (SME), assist small and medium-sized enterprises and natural entities to seek for financial welfare and stability. Being a European/Lithuanian bank we contribute to the development of business in the country, finance municipal and regional projects, render professional services to private customers and searching for new solutions of efficient business development. We are seeking to become an active participant in the country's social life, to promote cultural, sports and social projects as well as to cooperate with the local communities.

Our strength lies in close partnership with the international financial institutions, experienced team of employees and developed network of regional outlets which make basis for the successful performance, flexibility and competitiveness, proper usage of opportunities occurring in the country's market, and contribution to the growth of financial success of our clients.

Every client, each commitment and detail are important to us.

3. Nature of the activities of the Bank

In its activities The bankas follows the laws and other legal acts of the Republic of Lithuania, the Charter of the Bank and agreements concluded, the Bank is engaged in usual activity of commercial banks and renders the services typical to the sector. The key area of the Bank's activities is focused on lending to small and medium-sized business (SMEs). The private and corporate customers are entitled to the wide range of banking services:

- opening and handling of bank accounts in litas and foreign currency to Lithuanian and foreign clients;
- domestic and international payments in litas and foreign currency;
- acceptance of fees, direct debit, standing and conditional orders;
- management of accounts via "SB linija" on the Internet;
- information about balances of the accounts with the bank and executed transactions via the mobile connection SMS bankas and SMS bankas plus;
- trading in foreign currencies;
- conclusion of deposit agreements;
- issue, purchase and sales of cheques,
- granting of various short-term and long-term credits;
- issue and administration of payment cards "Visa" and "MasterCard"
- intermediation in entering transactions on the Stock Exchange;
- registration of transactions in securities off-stock trading;
- consulting regarding issue, acquisition and transfer of securities;

- handling of accounting of shares issued by the entities;
- issue of debt securities;
- preparation of share issue prospectus;
- dissemination of pension accumulation agreements;
- distribution of commemorative coins and numismatic sets, etc.

The head office of the Bank is in Siauliai, and the Bank's network covers the main towns and financially active regional centres – as of December 31, 2011 Siauliu bankas operated through 52 client service centres in 31 town in Lithuania.

4. The companies of the Bank Group

As of December 31st, 2011 The bank had the following subsidiaries:

“Siauliu banko lizingas” UAB (hereinafter – “SB lizingas”):

- assets – LTL 184,46 million;
- nature of activities: finance leases (leasing) and leases.

“Siauliu banko turto fondas” UAB (hereinafter – “SB turto fondas”):

- assets – LTL 34,46 million;
- nature of activities: real estate management.

“Siauliu banko investicijų valdymas” UAB (hereinafter – “SB investicijų valdymas”):

- assets – LTL 38,33 million;
- nature of activities: investment management.

“SBTF” UAB (hereinafter – SBTF):

- assets – LTL 42,70 million;
- nature of activities: management and administration of liquid real estate and movable estate, assurance and realization of the current activity.

“Minera” UAB (hereinafter – Minera):

- assets – LTL 36,77 million;
- nature of activities: management of real estate.

A share of Siauliu bankas in the Bank group's subsidiaries as of December 31st, 2011 is provided in the table below.

Subsidiary	A share of the authorized capital owned by the Bank, %
“SB lizingas”	100,00
“SB investicijų valdymas”	100,00
“SB turto fondas”	100,00
“SBTF”	100,00
“Minera”	100,00

As of December 31, 2011 the Bank had the following associated company:

“Pavasaris” UAB (further – “Pavasaris”):

- assets: LTL 37 million;
- nature of activities: development of the area of multi-apartment residential houses.

As of December 31, 2011 the Bank had the following subsidiary planned to be sold:

“Kėdainių oda” UAB (further – “Kėdainių oda”):

- assets: LTL 14 million;
- nature of activities: leather processing, production.

Contact information of the Bank

Siauliu bankas AB

Legal form –
Public Limited Liability
Company
Registration date:
February 4th, 1992
Registrar –
State Enterprise Centre of
Registers
Company code: 112025254
Head Office –
Tilzes St. 149, LT-76348
Siauliai, Lithuania
Telephone +370 41 595 607
Fax +370 41 430 774
E-mail info@sb.lt
Website www.sb.lt

Contact information of the companies of the Bank Group

“Siauliu banko lizingas” UAB

Legal form private limited
liability company
Registration date –
August 16, 1999
Registrar – State Enterprise
Centre of Registers
Company code - 145569548
Head Office –
Vilniaus St. 167,
LT-76352 Siauliai
Telephones –
+370 41 420 855, 502 990
Fax +370 41 423 437
E-mail lizingas@sb.lt
Website www.sblizingas.lt

“Siauliu banko turto fondas” UAB

Legal form – private limited
liability company
Registration date –
August 13, 2002
Registrar – State Enterprise
Centre of Registers
Company code – 145855439
Head Office –
Vilniaus St. 167, LT-76352
Siauliai
Telephone
+370 41 525 322
Fax + 370 41 525 321
E-mail turtofondas@sb.lt
Website
www.sbturfondas.lt

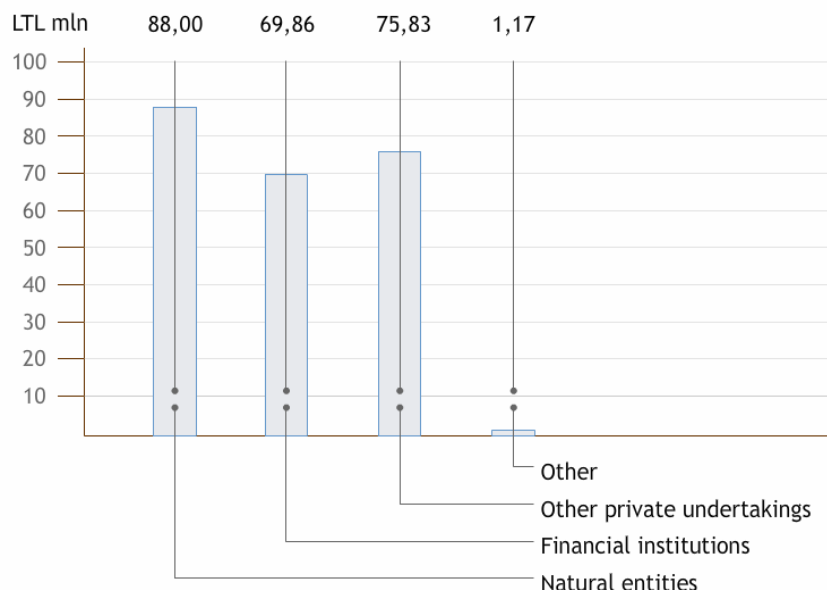
5. Involvement in associated structures

The bank participates in the activities of the following organizations, associations, and associated structures:

- Society for Worldwide Interbank Financial Telecommunication (SWIFT);
- "Visa Europe";
- "MasterCard Worldwide";
- Stock Exchange AB NASDAQ OMX Vilnius;
- International initiative – Global Compact;
- International Chamber of Commerce (ICC) Lithuania;
- Association of Lithuanian Banks;
- Association of Lithuanian Financial Brokers;
- Lithuanian Business Confederation "ICC Lietuva";
- Lithuanian Business Employers' Confederation;
- Kaunas Chamber of Commerce, Industry and Crafts;
- Klaipeda Chamber of Commerce, Industry and Crafts;
- Panevėžys Chamber of Commerce, Industry and Crafts;
- Šiauliai Chamber of Commerce, Industry and Crafts;
- Klaipeda Association of Industrialists;
- Šiauliai Association of Industrialists;
- Kelme Association of Business People;
- Mazeikiai Association of Business People;
- Taurage Association of Business People.

6. Authorized capital and shareholders of the Bank

The authorized capital of Siauliu bankas AB is LTL 234 857 533. The amendments of the Charter related to the capital increase were registered the Register of Legal Entities on August 4th 2011. 70.66 per cent of the authorized capital of The Bank is owned by the companies registered in Lithuania and individuals. The major shareholder of the Bank is the European Bank for Reconstruction and Development (EBRD), which controls 19,57 per cent of the shares.



Distribution of the authorized capital by types of shareholders (LTL mln)
31-12-2011

During the last five years the authorized capital of the Bank was increased by LTL 125,8 million in total: LTL 94,5 million from additional contributions of the shareholders and LTL 31,3 million from the Bank's own funds.

Contact information of the companies of the Bank Group

"SB investiciju valdymas" UAB

Legal form – private limited liability company
Registration date – August 31, 2000
Registrar – State Enterprise Centre of Registers
Company code – 145649065
Head Office – Vilniaus St. 167, LT-76352 Šiauliai
Telephone – +370 41 429 227
Fax + 370 41 525 285
E-mail valdymas@sb.lt
Website www.sбив.lt

"SBTF" UAB

Legal form – private limited liability company
Registration date – November 24, 2004
Registrar – State Enterprise Centre of Registers
Company code – 300069309
Head Office – Vilniaus St. 167, LT-76352 Šiauliai
Telephone – +370 41 525 322
Fax +370 41 525 321
E-mail: z.kilciauskiene@sb.lt

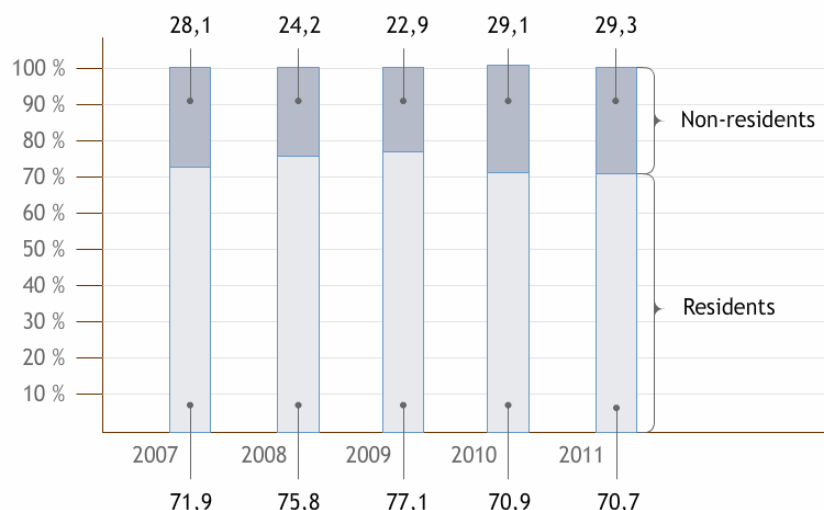
"Minera" UAB

Legal form – private limited liability company
Registration date – September 30, 1992
Registrar – State Enterprise Centre of Registers
Company code – 121736330
Head Office – Vilniaus St. 167, LT-76352 Šiauliai
Telephone – +370 41 399 423
Fax (8 41) 399 423

The structure of the Bank's authorized capital is as follows:

Type of shares	Number of shares, units	Nominal value, LTL	Total nominal value, Lt
Ordinary registered shares, ISIN LT0000102253	234 857 533	1	234 857 533

As of 31 December 2011, the number The Bank shareholders comprised 3 745 (Late in 2010 – 3 601). All issued shares grant the shareholders equal rights foreseen by the Law on Companies and the Charter of the Bank.



A share of capital held by the Bank's shareholders by the place of residence (per cent)

The shareholders of the Bank have the following property rights:

- to receive a share of the Bank's profit (dividends);
- to receive a share of the assets of the bank when the Bank's authorized capital is decreased in order to pay the Bank's funds to its shareholders;
- to receive shares free of charge if the authorized capital is raised using the funds of the Bank except for the cases stipulated by the law;
- when the shareholder is a natural person, to leave under the will all or a part of the shares to one or several persons;
- following the procedure and according to the conditions stipulated by the laws, to sell or otherwise transfer all or a part of the shares to the ownership of other persons;
- to have the pre-emption right to purchase the shares issued or converted by the Bank except for the case when the General Meeting of Shareholders, following the procedure stipulated by the laws, withdraws this right for all shareholders;
- to lend to the Bank in the manners stipulated by the laws. However, when borrowing from its shareholders, the Bank shall not have the right to pledge its assets to the shareholders. When the Bank borrows from a shareholder, the interest rate may not exceed the average interest rate of commercial banks available in the place of residence or business of the lender effective at the moment of conclusion of the loan agreement. In such a case, the Bank and the shareholders shall not be allowed to agree on a higher interest rate;
- other property rights stipulated by the laws.

The right to dividends, free shares and pre-emption right to acquire shares issued by the Bank shall belong to those persons who were the Bank's shareholders at the end of the tenth working day after the General Meeting of Shareholders which made the corresponding decision, i.e. at the end of the day of accounting of the rights.

The Bank's shareholders have the following non-property rights:

- to take part in General Meetings of Shareholders;
- to vote at Meetings in accordance with the rights granted by the shares;

Contact information of the companies of the Bank Group

"Pavasaris" UAB

Legal form – private limited liability company
Registration date – September 25, 1992
Registrar – State Enterprise Centre of Registers
Company code – 121681115
Head Office – Siltnamiu St. 27, LT-04130 Vilnius
Telephone + 370 5 240 1623
Fax + 370 5 244 8096

"Kedainiu oda" UAB

Legal form – private limited liability company
Registration date – October 29, 2008
Registrar – State Enterprise Centre of Registers
Company code – 302190537
Head Office – Biochemiku St. 7, LT-57234 Kedainiai
Telephone +370 347 55 089
Fax +370 347 55 857

- to receive information on the Bank specified by the Law on Companies;
- to file a lawsuit requesting to compensate the Bank for the damage that resulted from the failure to execute or improper execution of the obligations of the Chief Executive Officer and members of the Board of the Bank as well as in other cases stipulated by the laws;
- to authorize a natural person or a legal entity to act as a representative in maintaining relations with the Bank and other persons;
- other non-property rights stipulated by the laws.

The person shall obtain all the rights and obligations granted to this person by the share of the authorized capital and (or) voting rights of the Bank: in case of the raise of the authorized capital of the Bank – from the date of registration of the changes related to the raise of the authorized capital and (or) voting rights of the Bank; in other cases – from the emergence of the property right to the share of the authorized capital and (or) voting rights of the Bank.

The shareholders of the Bank who owned more than 5 per cent of the authorized capital of the Bank as of 31 December 2011 are as follows:

No	Shareholder	Number of shares held under the right of ownership, units	Share of authorized capital held under the right of ownership, %	Share of votes held under the right of ownership, %	Share of votes held together with related persons, %
1.	The European Bank for Reconstruction and Development (EBRD); address: One Exchange Square, London, Great Britain	45 965 344	19.57	19.57	43.46
2.	Gintaras Kateiva	14 660 214	6.24	6.24	43.46

Shareholders of The Bank including the European Bank for Reconstruction and Development, Trade House Aiva UAB, Mintaka UAB, Enerprise Group Alita AB, Gintaras Kateiva, Algirdas Butkus, Arvydas Salda, Kastytis Jonas Vyšniauskas, Sigitas Baguckas, Vigintas Butkus, Vytautas Junevičius, Audrius Žiugžda, Vita Adomaitytė, Daiva Kiburienė, Donatas Savickas, Vytautas Sinius and Arūnas Užupis form a group of persons the votes possessed by whom are weighted together. As of 31 December 2011, this group possessed 43,46 per cent of the authorized capital and votes of the Bank.

There are no restrictions to the transfer of securities. The shareholders exercise property and non-property rights and have obligations specified in the Law on Companies and the Charter of the Bank.

The shareholders entitled to special control rights and descriptions of those rights. The shareholders control the Bank through the elected Supervisory Council. Its functions are stipulated by the Law on Companies.

Restrictions to the voting rights. All the issued shares of the Bank are ordinary registered shares of LTL 1 nominal value. Each share grants one voting right at the General Meeting of Shareholders. Restrictions to the voting rights can be applied in the cases foreseen by the laws.

The shareholders shall not have the right to vote when adopting a decision on the pre-emption right to acquire the shares of the Bank being issued or withdrawal of convertible bonds if it is stipulated in the agenda of the General Meeting of Shareholders that the right to acquire these securities is granted to him, his close relative, spouse or common-law spouse when partnership is registered in the procedure stipulated by the laws, and to a close relative of the spouse when the shareholder is a natural person as well as to the company patronizing the shareholder when the shareholder is a legal entity.

The person or persons acting jointly, having decided to acquire a qualified share of the authorized capital and (or) voting rights of the Bank or to raise it to such extent that the available share of the authorized capital and (or) voting rights of the Bank would be equal to or exceed 20 per cent, 30 per cent or 50 per cent or as much as the Bank would become controllable, shall be obliged to report this in writing to the Bank of Lithuania, which implements the supervisory function, specifying the qualified share of the authorized capital and (or) voting rights of the Bank intended to be purchased as well as to provide documents and data specified in the list given in Paragraph 2 of Article 25 of the Banks' Law. Failure to observe the requirement to receive a decision of the Bank of Lithuania not to be in conflict with surpassing the aforementioned limits does not cause the transaction to become ineffective; however, due to the failure to observe this requirement the whole share of the Bank's authorized capital and (or) voting rights owned by the person acquiring it shall lose the voting right in the General Meeting of Shareholders.

Taxation of capital gains. Pursuant to the version of Article 17 of the Law on Income Tax of Individuals of the Republic of Lithuania which was in effect on 31 December 2011, income from securities sold or otherwise transferred to ownership received before 1 January 1999 shall not be subject to the income tax of individuals.

Securities acquired after 1 January 1999, if they are sold or otherwise transferred to ownership not earlier than after 366 days from the day of the acquisition thereof (in case of selling a part of securities of the same entity of the same type and class, it shall be considered, in every case, that the securities acquired at the earliest time are sold or otherwise transferred to ownership in the first place) shall not be subject to the income tax of individuals either. Income from the sale of securities shall be subject to the income tax of individuals if a shareholder sells shares or otherwise transfers them to ownership to the entity that issued these shares or in case of sale of securities received as a result of the raise of the authorized capital, grant of shares without payment, and in other cases stipulated by the Law on Income Tax of Individuals of the Republic of Lithuania. If securities are sold earlier than 366 days from the date of their acquisition, the received profit shall be subject to tax at a rate of 15 per cent.

Pursuant to the Law on Corporate Income Tax of the Republic of Lithuania, the profit of Lithuanian legal entities received from securities sold shall be subject to the tax on profit of 15 per cent from the income from an increase in the value of the assets. The income from an increase in the value of the assets shall mean the earned income formed by the difference between the prices of the transfer and acquisition prices of the assets. The acquisition price of the assets shall include the commission fees, and in case of sale of the assets, the selling price shall be reduced by the amount of the paid taxes. If a legal entity incurs loss from the trade in securities, this loss is carried over to the subsequent tax year but covered only from profit on transfer of securities. Various procedures of carrying over the loss from securities are foreseen by the law depending on the type of the undertaking.

7. Trade in shares of the companies of the Bank Group in regulated markets

In the official trading list of AB NASDAQ OMX Vilnius, only the shares of The Bank are quoted. ISIN code LT0000102253; the number of shares: 234 857 533. Shares of the Bank's subsidiary companies are issued for non-public circulation.

Shares issued by The Bank are included in the comparative index of the OMX Baltic states securities market OMX Baltic Benchmark, which comprises shares of the highest capitalization and most liquid companies as well as in indices OMX Vilnius, OMX Baltic, OMX Baltic Financials, and OMX Baltic Benchmark Cap. Besides, shares issued by the Bank are included in the indices STOXX Eastern Europe TMI, STOXX Eastern Europe TMI Small, STOXX EU Enlarged TMI, STOXX Global Total Market and STOXX Lithuania Total Market.

Changes in the share price within five years (share price is provided in Euros because trade in shares from 22 November 2010 is performed in Euros):



Share price dynamics 2007-2011

Source: website of NASDAQ OMX Vilnius AB

http://www.nasdaqomxbaltic.com/market/?instrument=LT0000102253&list=2&pg=details&tab=historical&lang=lt¤cy=0&downloadcsv=0&date=&start_d=1&start_m=1&start_y=2007&end_d=31&end_m=12&end_y=2011

Turnover of The Bank's shares over the period of 2007-2010:

Year	Price of the last trading session, EUR	Max. price, EUR	Min. price, EUR	Amount of shares, units	Turnover, mln. EUR
2007	0,999	1,245	0,936	63 592 580	71,25
2008	0,269	0,235	1,014	41 718 397	24,33
2009	0,324	0,446	0,180	20 746 641	5,54
2010	0,337	0,345	0,264	17 784 012	5,65
2011	0,245	0,372	0,225	17 899 502	5,34
2007	0,999	1,245	0,936	63 592 580	71,25

The price and turnover of the Bank's shares during the reporting period (EUR):



Change of the price of the Bank's shares turnover in 2011

Source: website of NASDAQ OMX Vilnius AB

http://www.nasdaqomxbaltic.com/market/?instrument=LT0000102253&list=2&pg=details&tab=historical&lang=lt¤cy=0&downloadcsv=0&date=&start_d=1&start_m=1&start_y=2011&end_d=31&end_m=12&end_y=2011

The share price change charts of the OMX Vilnius index, OMX Baltic Benchmark, and the Bank for 2007-2011 are provided below:



The share price change charts of the OMX Vilnius index, OMX Baltic Benchmark and the Bank for 2007-2011

Index/Shares	01-01-2007	31-12-2011	+ / -, per cent
■ OMX Baltic Benchmark GI	749,13	431,94	-42,34
— OMX Vilnius	492,65	298,78	-39,35
— SAB1L	0,91 EUR	0,25 EUR	-73,01

Data of the chart:

Source: website of NASDAQ OMX Vilnius AB

http://www.nasdaqomxbaltic.com/market/?pg=charts&lang=lt&idx_main%5B%5D=OMXBBGI&idx_main%5B%5D=OMXV&add_index=OMXBBPI&add_equity=LT0000102253&idx_equity%5B%5D=LT0000102253&period=other&start_d=1&start_m=1&start_y=2007&end_d=31&end_m=12&end_y=2011

The Bank share capitalization was LTL 198,67 million (EUR 57,54 million) on 31 December 2011 and amounted to LTL 238,37 million (EUR 69.04 million) on 31 December 2010.

The capitalization of shares of The Bank and NASDAQ OMX Vilnius AB trading list as of the last trading day of 2010 and 2011 are as follows:

Baltic share list	30-12-2010	30-12-2011	Change
Šiaulių bankas – <u>SAB1L</u>	69 036 988,62 EUR	57 540 095,59 EUR	-16.65 %
Vilniaus rinka, iš viso	4 219 761 406,81 EUR	3 139 310 661,61 EUR	-25.60 %

Source: website of NASDAQ OMX Vilnius AB

http://www.nasdaqomxbaltic.com/market/?pg=capital¤cy=0&market=XVSE&stocktype%5B%5D=main&period=other&start_d=1&start_m=1&start_y=2010&end_d=31&end_m=12&end_y=2010

The indicator of the relation between the share market price and profit P/E:

Indicator	31-12-2007	31-12-2008	31-12-2009	31-12-2010	31-12-2011
P/E	19.17	9.3	negative	negative	14.10

Banko išleistų obligacijų emisijų savininkų interesų gynimo sutartis The Bank yra pasirašęs su UAB FMĮ „Orion Securities“.

8. Information on agreements with intermediates in public circulation of securities

The Bank has concluded agreements on the accounting (safe custody) of securities and on acceptance and execution of orders with the following intermediaries in public circulation of securities:

- Bankas “Finasta” AB;
- Danske Bank A/S Lithuanian Branch;
- “Citadele” bankas AB
- DnB NORD Bank AB;
- Swedbank AB
- SEB Bank AB
- “Barclays Capital” Bank;
- “Commerzbank AG” Bank.

The Bank has an agreement with UAB FMI “Orion Securities” regarding protection of the interests of the owners of bonds issued by the Bank.

9. Acquisition of own shares

The Bank and its subsidiary companies or persons acting at the instruction of the subsidiary companies do not hold any shares of The Bank. The Bank has not acquired its own shares and has not transferred them to other entities.

10. Information on compliance with the standards limiting the Bank’s activity risk

In 2011, The Bank executed all the standards limiting the operational risk stipulated by the Bank of Lithuania. Information regarding the compliance with the standards is revealed in the chapter 15 of the present report.

11. Risk management

The Group of The Bank analyzes, evaluates, assumes, and manages the risks and group of risks which it encounters in its activities. The purpose of risk management in the group of the Bank is to ensure sufficient return on equity by managing risks in a conservative manner. By implementing an advanced risk management policy, the Group of The Bank seeks not only minimization of potential risks, but also improvement of pricing and assurance of effective distribution of capital.

The risk management policy is approved and its implementation controlled by the Board of the Bank. It specifies the risks incurred in the activities of the Bank Group and the principles of the risk management system. The development of the proper risk management system, its constant improvement and application of its measures in the daily performance are one of the key assumptions of the Bank Group activities in the long run.

Since various risks encountered by the group of the Bank are interdependent, their management is centralized and performed by the Bank's Risk Management Committee. One of the main objectives of the Bank's Risk Management Committee is the establishment and coordination of an appropriate risk management system.

The procedures for the management of various types of risks prepared on the basis of the policy help to ensure the integrity of the risk management process throughout the group of the Bank. The most important types of risks encountered by the group of the Bank include credit, market, liquidity, concentration and operational risks. The market risk encompasses the risk of currency exchange rate, interest rate, and price of securities. Concentrations of other types of risk are considered by the Group of the Bank as insignificant, and they are not evaluated. More detailed information regarding the management of risks is provided in the explanatory note of the financial statements for 2011 in the chapter *Financial risk management*.

In order to avoid conflict of interests, the outlets of the Bank which perform risk management functions are separated from the outlets direct activities of which are related with the emergence of risks characteristic to that activity.

The Bank Group revises its risk management policies and systems regularly, not less than once a year, with regard to market changes, new products, and newly emerging best practices.

12. Ratings assigned by international agencies and their amendments

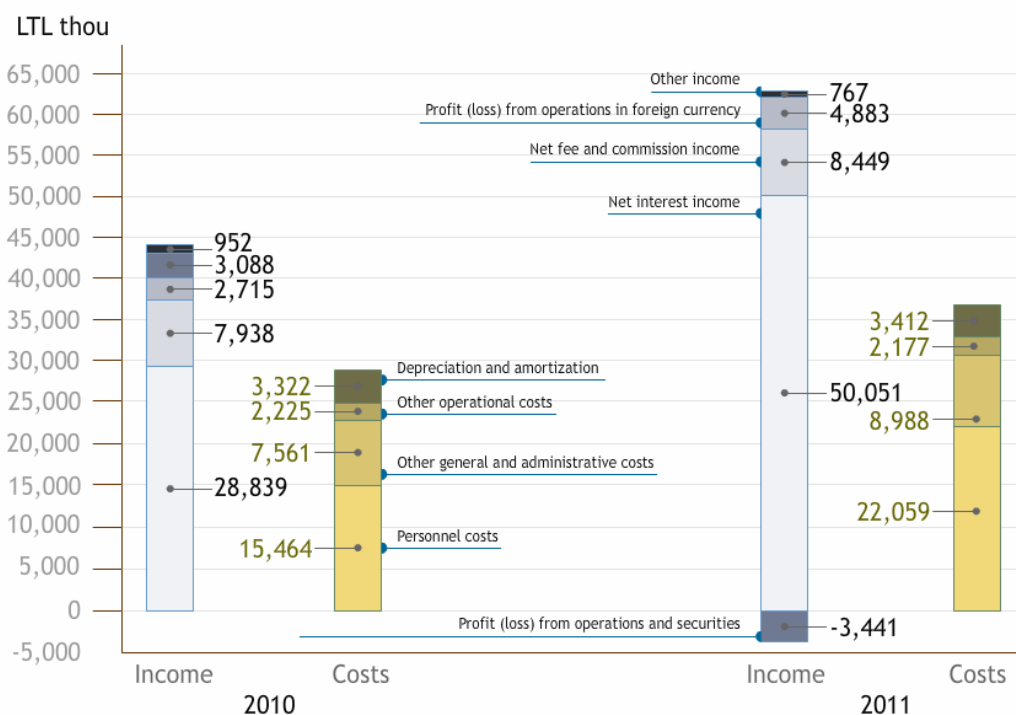
The international rating agency Moody's Investors Service determined the following ratings for The Bank (on April 11th, 2011):

- long-term credit rating B1
- short-term credit rating NP
- financial strength rating E+
- outlook stable.

13. Information on results of performance

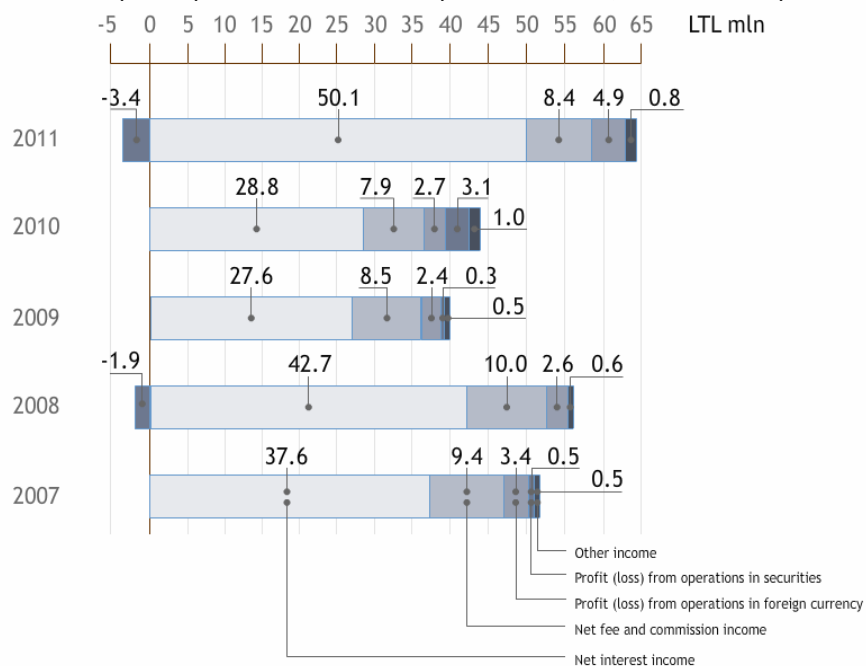
At the end of 2011, the bankruptcy of the bank "Snoras" alongside with the continuing debt crisis in the peripheral countries of Europe made a negative impact on the performance result of Siauliu bankas AB and the Group, which otherwise could be considered as positive.

The Bank earned LTL 12,8 mln of net profit over 2011. The Bank's annual operating profit exceeded the performance result of the previous year by 61 per cent and reached LTL 24,1 mln before the income tax and special provisions. The results of all key activities of the Bank were improving in the course of the year. The net interest income grew up to LTL 50,1 mln, i.e. increased by 74 per cent in comparison with 2010. Such growth was influenced by the growth of the loan portfolio as well as by increasing net interest margin. The profit generated from the operations in foreign currency grew by 80 per cent and comprised LTL 4,9 mln.

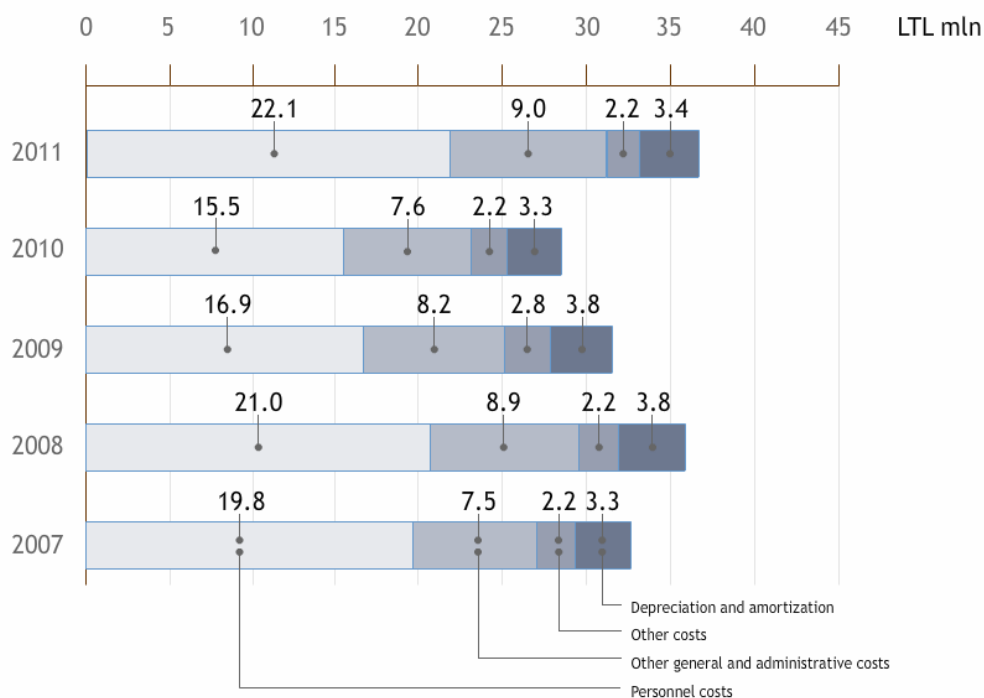


The structure of operational income and costs in 2010-2011

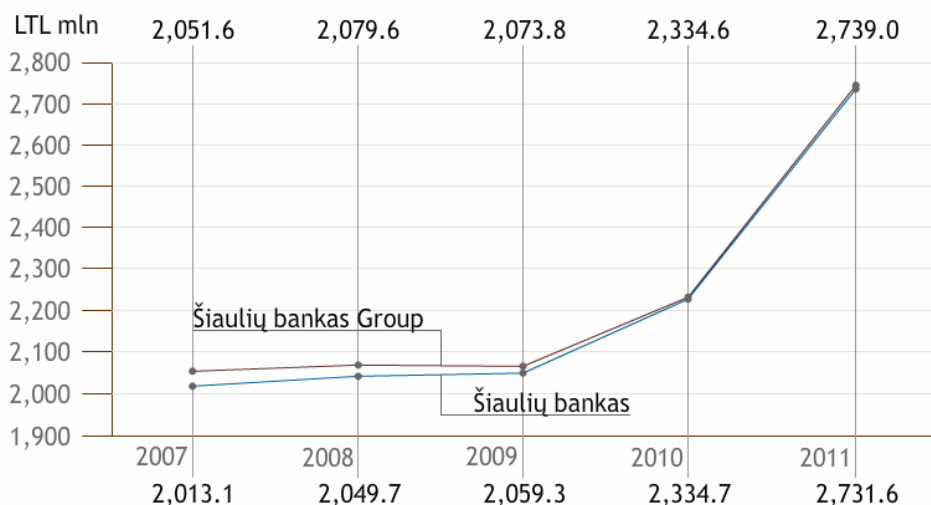
In the course of 2011 the Bank incurred LTL 3,4 mln in loss from operations with securities. Such result was caused by the falling prices of the debt securities in Europe which were owned by the Bank and loss from sales incurred satisfying the need of liquid funds which had sharply increased at the end of the year because of the decrease in deposits. In comparison with 2010 the expenses for personnel grew by more than LTL 6,5 mln (42.6 per cent) and comprised LTL 22,1 mln. Further applying the conservative assessment of risks the Bank made additional special provisions to the loan portfolio. LTL 9,6 mln of such provisions were formed during the year.



Dynamics of operational income 2007-2011

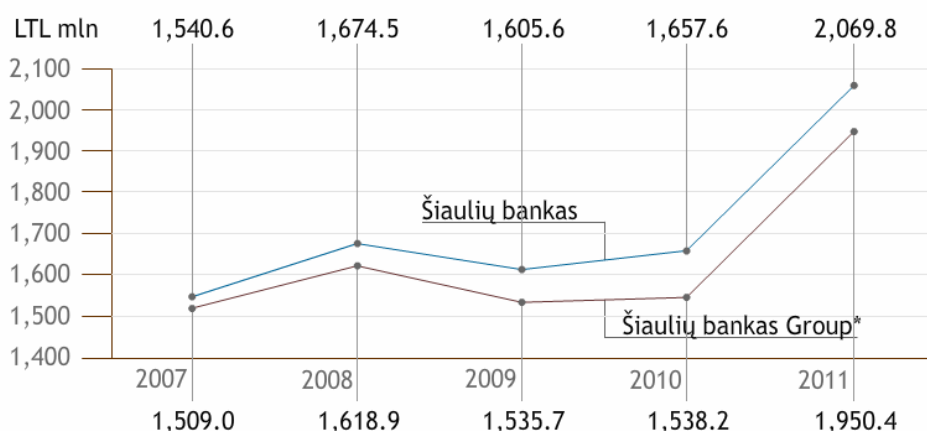


Dynamics of operational costs in 2007-2011



Dynamics of Assets 2007-2011

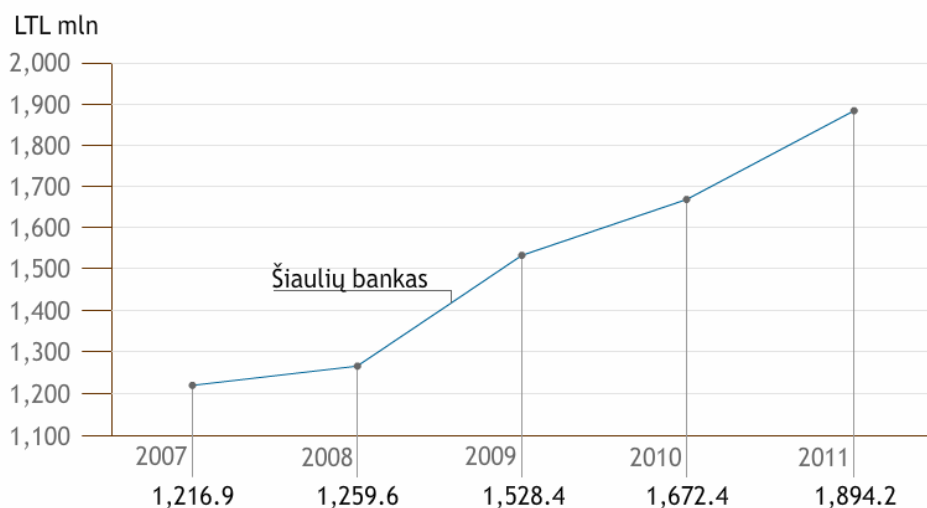
The Bank's assets grew up to LTL 2,73 billion over the year and the annual growth comprised 17 per cent (about LTL 0,4 billion). The total annual increase of loan portfolio (at net value) reached 25 per cent (LTL 412,1 mln) and the portfolio comprised almost LTL 2,1 billion at the end of the year. The debt securities portfolio grew by 14 per cent thus comprising LTL 424,8 mln during the first ten months. However, due to the bigger withdrawal of deposits after nationalization of the Bank "Snoras" which caused the increased demand for cash the Bank sold a significant share of its debt securities (18 per cent). Therefore, late in the year the Bank's debt securities portfolio was smaller than at the beginning of the year and reached LTL 349,9.



Dynamics of Loan Portfolio 2007-2011

*The data of the Bank Group are provided with the lease

The deposit portfolio still accounts for the biggest share of the Bank's liabilities. In comparison to the end of 2010 the amount of clients' deposits with the Bank increased by 13 per cent up to LTL 1,89 billion. During the first ten months the Bank's deposit portfolio had grown by 16 per cent up to LTL 1,94 billion, however, over two last months of 2011 the deposits decreased by 2.39 per cent because of the bankruptcy of the bank "Snoras". The Residents' deposits with the Bank grew by 17 per cent and comprised LTL 1.310 mln late in the year, their share in the deposit portfolio has increased by 2 percentage points as well. The Corporate customers' deposit portfolio grew by almost 6 per cent over the recent year, i.e. by LTL 31 mln and reached LTL 584 mln at the end of the year.



Dynamics of Deposit Portfolio 2007-2011

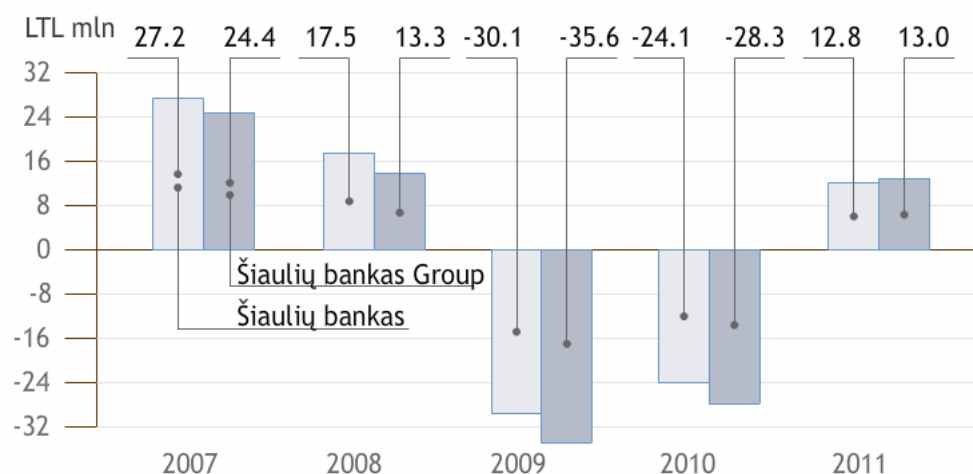
The increasing income improved the profitability ratios. The cost to income ratio improved from 63.8 per cent at the beginning of 2011 to 58.9 late in the year. The Return on Capital comprised 4.6 per cent, while at the same period last year this ratio was negative. The same was with the Return on Assets which was negative last year and comprised 0.5 per cent at the end of 2011.

	Profitability ratios	2007	2008	2009	2010	2011
Bank	Costs / income, %	47.11	55.59	75.71	63.78	58.87
	ROAA, %	1.62	0.86	-1.47	-1.10	0.49
	ROAE, %	12.92	6.34	-11.22	-9.47	4.61
Financial Group	Costs / income, %	47.99	56.73	71.81	62.77	59.13
	ROAA, %	1.64	0.84	-1.53	-1.09	0.53
	ROAE, %	13.08	6.22	-11.74	-9.38	4.87
Entire Group	Costs/ income, %	49.94	59.27	78.42	67.85	60.44
	ROAA, %	1.42	0.65	-1.71	-1.28	0.49
	ROAE, %	10.93	4.68	-13.07	-11.20	4.63

According to the data as of January 1st 2012, The Bank operated in compliance with all standards limiting the activity risks stipulated by the Bank of Lithuania limiting.

	Prudential requirements limiting the activity risk	2007	2008	2009	2010	2011
Bank	Capital adequacy, % (> 8 %)	15.07	15.08	13.90	14.06	13.05
	Liquidity, % (>30 %)	44.03	38.75	38.23	46.00	38.36
	Maximum loan per borrower, % (<25 %)	13.29	21.30	24.56	21.68	21.36
	General open position in foreign currency, (<25 %)	1.40	0.41	0.31	0.55	0.49
Financial Group	Capital adequacy, % (> 8 %)	14.33	15.19	13.90	14.17	13.12
	Maximum loan per borrower, % (<25 %)	13.88	21.12	24.38	21.50	21.42
	General open position in foreign currency, (<25 %)	1.39	1.30	0.31	0.54	0.49
Entire Group	Capital adequacy, %	14.62	15.21	13.90	13.92	12.94
	General open position in foreign currency, (<25 %)	1.32	1.26	0.31	0.55	0.49

The result of the entire Group comprises LTL 13,0 mln. “SB lizingas”(Leasing) finished the year profitably generating LTL 1,1 mln, the profit of SBTF SBTF was LTL 105 thou, “SB turto fondas” (Assets Fund) earned LTL 62 thou. The loss of “Minera” was LTL 283 thou.



Net Profit (Loss) 2007-2011

As of December 31, 2011 the Bank had 52 territorial outlets operating in 31 town of Lithuania. In 2011 the Bank was actively expanding its clientele. The number of clients grew by 12 per cent up to 143,9 thou – the number of corporate clients increased by 16 per cent up to 9,6 thou, while private customers grew by 12 per cent up to 134,2 thou.

The number of agreements concluded with the clients regarding the Internet banking exceeded 62 thou in 2011, i.e. the number of Internet banking users grew by 34 per cent over the year. The number of the Bank's e-trading partners had also increased – the number on-line stores comprised the network of 101 late in 2011. The mentioned list of partners is being actively expanded, filled with new and most popular stores on-line.

Since October 2011 Siauliu bankas has joined the joint ATM network of Ūkio bankas, "Citadele" bankas, Nordea and Danske banks. It is the fourth ATM network in Lithuania by size which covers 270 ATMs in forty seven towns of the country. The network is managed and administrated by the "First Data Lietuva". Rapidly expanding the joint ATM network of Nordea bank, Danke bank, Ūkio bankas, "Citadele" bankas and Siauliu bankas is increasing availability of cash withdrawal service and improving its functionality and safety. Since November 15th 2011 the cardholders implementing several cash withdrawal operations in turn will have to confirm each operation by entering the PIN code. This amendment will increase the safety of clients' funds on the card accounts.

14. Activity plans and prognosis

Applying the experience and knowledge of its team the Bank is planning to increase the share of the market in 2012 and to develop its activities so that they would meet the society's interest, improve the business conditions in the regions and foster the growth of country's economy. The Bank's performance shall be based on the principles of transparent activities, close collaboration with the clients, quick decision making, bet financial solution and incentives to employees' initiatives.

The Bank's clientele expects the high quality of services and timely decisions, therefore, special attention shall be paid to satisfy the clients' needs and to establish close cooperation with them. In 2012 the Bank foresees to increase the number of payments cards and their functionality by attracting more cardholders. The Bank shall offer the competitive service prices for business optimization - this will allow ensuring the expedient, simple and flexible servicing of the clientele. The Bank shall seek not only for more efficient performance but also for active participation in social projects.

The Bank is focused on two major business segments, i.e. on retail banking and corporate banking and does its best adjusting to the conditions dictated by the market at maximum. Having strong positions in Siauliai region and reacting to the market needs, the Bank is planning to strengthen its positions within the regions further and to develop its activities in other towns of the country. The nearest plans of the Bank include the update of the network outlets and their optimization by transferring the existing centres into more attractive locations with the larger flow of people.

15. The most important events over the accounting period

- On February 1st 2011 Audrius Žiugžda was appointed as the Chief Executive Officer of the Bank.
- On February 22, 2011 the members of the Bank Board Vita Adomaitytė and Jonas Bartkus resigned. The CEO Audrius Žiugžda, who started his duties in the Board on February 22, 2011, and Arūnas Užupis, who started implementing the duties of the Board member after receiving permission from the Bank of Lithuania on March 10 2011, were elected as the members of the Board until the end of this term of the current office of the Board.
- On March 23, 2011 the Bank signed a cooperation agreement with the JEREMIE programme participant, venture capital fund “LitCapital”. The concluded agreement laid down the provision regarding training services and consultations to corporate clients regarding the possibility to use financial support provided by the EU and more efficient absorbing of financing instruments, and facilitated access to the financial engineering instruments of JEREMIE programme implemented by the European Investment Fund.
- In April 2011 Moody’s Investors Service finished the review of the Bank started on December 16, 2010 regarding possible reduction of financial strength and long-term credit rating. The Bank was assigned the long-term credit rating B1 and financial strength rating E+. The rating outlook – stable. At the same time the short time credit rating “Non Prime” was approved.
- On May 3, 2011 during the Supervisory Council meeting of the Bank Vita Adomaitytė, the Chief Financial Officer, Head of Accounting and Reporting Division became a member of the Bank Board until the end of this term of the current office of the Board.
- In June 2011 the European Investment Fund (EIF) and the Bank signed a guarantee agreement under the JEREMIE initiative in Lithuania. According to this new agreement the Bank will provide additional loans from its resources to SMEs for a total amount of EUR 25 million (more than LTL 86 million). Such loans are guaranteed by EIF at 80 per cent.
- On June 28, 2011 the European Investment Fund (EIF) and the Bank signed a EUR 5 million loan agreement aimed at supporting micro-enterprises in Lithuania. This microfinance facility provided very favourable conditions for women to receive financing for their business development in Lithuania.
- On July 1, 2011 the Bank and a limited partnership “Business Angels Fund I”, investing together with the Business Angels, signed a cooperation agreement. Under this agreement, the Bank and the Fund would cooperate by implementing the new and improving current financial services of small and medium-sized enterprises (SMEs) and would concentrate on stimulation of entrepreneurship and innovations in the regions.
- On July 4, 2011 the dissemination of the share issue of LTL 30 million of the Bank was concluded. All issued shares were subscribed and fully paid.
- On August 4, 2011 the amended Charter of the Bank with the authorized capital increased up to LTL 234 857 533 (EUR 68 019 443) registered at the Centre of Legal Entities. The Bank’s authorized capital was increased by the resolution of the extra-ordinary General Shareholders’ Meeting held on November 18th 2010.
- On August 11, 2011 during the Supervisory Council meeting of Siauliu Bankas AB Vytautas Sinius, Head of Corporate banking Division became a member of the Bank Board until the end of this term of the current office of the Board.
- Since October 2011 the Bank has joined the joint ATM network of Ūkio bankas, “Citadele” bankas, Nordea and Danske banks. It is the fourth ATM network in Lithuania by size which covers 270 ATMs in forty seven towns of the country. The cardholders of all mentioned banks can use the joint ATMs under such conditions as applied by the bank that has issued a payment card.
- In November 2011 after the bankruptcy of the bank “Snoras” and a short-time tension in country’s financial sector, the European Bank for Reconstruction and Development (EBRD) reiterated its confidence in the Bank and emphasized its on-going support to it. The partnership of the EBRD and the Bank was started in 2000.
- On December 1, 2011 the Bank signed an extension of the agreement with the European Investment Fund (EIF) that would enable the bank to further expand the granting of the risk sharing loans under the JEREMIE Initiative to Lithuanian Small and Medium-sized Enterprises (SMEs) by EUR 20 million.
- On December 14, 2011 the Bank started paying the insurance benefits to the enterprises former clients of Siauliai branch of the bankrupt bank “Snoras” in compliance with agreement with the state undertaking “Insurance of Deposits and Investments”.

16. Social responsibility

Joining the Global Compact network under the United Nations the Bank has been operating transparently, honestly and responsibly with the respect to human and labour rights, clients' rights, being environment friendly, preventing the corruption and other possible dishonesty, taking care of society and contributing to its sustainable development.

• Employees

Employees are one of the biggest values of the Bank. The Bank and the Group foster responsible relations with the employees, take care of their welfare. The Bank is improving the employees' motivation system – in 2011 the quarterly bonuses were paid for the achieved results.

The Bank is close and friendly to its employees and their family members. Summer Sports Holidays, Christmas parties are organized annually, in 2011 the karting race of the Bank's employees was arranged for the first time. The employees of the Bank also participated in the interbank tournaments "The Banks' Tennis Racket' 2011" and "Interbank Volleyball Tournament' 2011" as well as in karting championship of the employees of Lithuanian banks.

The Bank takes care of its employees' health living and fosters active sports – the employees have opportunity to select the gym and take the sports at the most favourable terms.

The Bank's employees participated in various skill improving trainings, from 2011 the visual trainings for the staff are started in order to save the Bank's funds, employees' time, to improve the access to important information and foster self-improvement.

• Clients

In 2011 the Bank actively worked with small and medium-sized business granting preferential credits to business people, farmers, rendering micro-credits to very small enterprises, individual undertakings, individual entrepreneurs, to business women at especially favourable conditions, also, credits to partnerships of multi-apartment houses according to the JESSICA programmes. Cooperating with the initiators of "Judus jaunimas" in Lithuania, the Bank presented the financing possibilities for young businesses under the "Progress" and JEREMIE programmes and fostered the youth to contribute to improvement of the economy situation in the country by implementing their business ideas.

The Bank together with its partners conducted a seminar for the business entrepreneurs in Varena region, where the situation of small and medium-sized business, new opportunities and initiatives had been discussed. A renovation programme of multi-apartment dwelling houses had been introduced alongside with the presentation of the credits from the Open Credit Fund (OCF) and LAAIF programme.

One of the Bank's propagated values is taking care of its clients, the quality of their servicing, which is influenced by the Bank's inner culture at the large extend, as well as by friendly relations among the employees allowing seeking for the set goals.

• Environment

The Bank is not indifferent to environment, responsible consumption, saving of nature resources. The employees and clients are encouraged to reduce the usage of paper due to possibilities of electronic document handling. The Bank and its subsidiaries is fostering to refuse printing of not very important documents, using double side printing where possible and recovering already used paper for the "second life" by printing on the clean side.

The Bank's clients are encouraged to take advantage of electronic applications and to perform a number of typical services via the Internet, thus, saving not only printing costs but time and money as well.

Special attention is paid to the responsible usage of electric appliances – if there is no necessity the light is turned off, the appliances are turned off the power outlet after the business hours.

In April 2011 marking the "Noise Awareness Day", the Bank's employees joined the public campaign "Stay off the noise, listen to the silence!" organized by the Public Health Office under the Municipality of Siauliai city, thus, paying the attention to responsible usage of gadgets, their possible impact on the employees' health and well-being.

• Prevention of corruption

The Bank seeking to prevent any possible unfair, illegal practices and in cooperation with the Financial Crime Investigation Service has arranged trainings of "Legal regulations and practical examples of Anti-money laundering and counter terrorism financing" for the Bank's employees.

• Society

Siauliu bankas is an active promoter and participant of the country's social and cultural life. For many years the Bank and Siauliai University have been collaborating successfully fostering the most talented students.

The seven years in turn the Bank grants bonuses and incentive awards to the best authors/students for "The best project for Siauliai City and Business" arranged by Siauliai City Municipality, Siauliai Chamber of Commerce, Industry and Crafts.

In 2011 the Bank provided support to such city festivals as "The Sea Festival 2011", "Siauliai days 2011". Moreover, the Bank traditionally supported events organized by the Lithuanian Musician Foundation and the concert "Breaking Dawn with Ciurlionis..." commemorating the beginning of the new school year and the day of

Liberty. The financial support was also granted to “Klaipeda Jazz Festival”, Public undertaking “Encourage the Future”, KTU Panevezys Institute and other initiatives.

The Bank has joined the telemarathon “Kindness Day” arranged for the ninth time by the LNK television channel to collect the funds for fighting the cancer.

A non-remunerated blood donation has become a usual phenomenon – civic duty to the employees of the Bank. The participants of the campaign arranged within the Bank for seven years already have become the regular non-remunerated blood donors who donating blood and thus, saving lives, encouraged to become blood donors their family members and friends as well.

17. Dividends paid

The Bank does not have an established procedure for allocation of dividends. The General Shareholders’ Meeting decides either to pay dividends or not while allocating the Bank’s profit. A table provides data on the dividends paid by the Bank within the last five years:

	2007	2008	2009	2010	2011
Per cent from the nominal value	2,00	2,00	0,00	0,00	0,00
Amount of dividends per share, LTL	0,02	0,02	0,00	0,00	0,00
Amount of dividends, LTL	2 180 784	3 220 670	0	0	0

Taxation of dividends. Profit taxation of legal entities is regulated by the Profit Law of the Republic of Lithuania No. IX-675 as of 20 December, 2001 and the resolutions and other legal acts adopted by the Government of the Republic of Lithuania on its basis. The charge of 15 per cent is applied to the paid dividends. The dividends of the Lithuanian unit that owns 10 per cent of issuer’s capital for the period longer than one year are not subject to charges (with exceptions described in the chapter VII of the Profit Law of the Republic of Lithuania). The dividends of the foreign units are charged by applying an income tax rate of 15 per cent. If a foreign unit owns the shares granting at least 10 per cent of votes for a period of at least 12 months without interruption, the dividends paid to that foreign entity are not charged, except for the cases when a foreign entity receiving dividends is registered or otherwise organized in the targeted countries.

Taxation of citizens’ income is regulated by the Law on Citizen’s Income Tax of the Republic of Lithuania No. IX-1007 as of 2nd July, 2002 and the latter amendments of the Law as well as resolutions adopted on the basis of this Law. The dividends are charged by 20 per cent tax, which is deducted and paid to the budget by the Bank in compliance with the applicable orders.

18. Principles of the Internal Audit performance

The purposes, functions, organization of the performance, rights, duties and responsibilities of the Internal Audit Department are foreseen by the Provisions of the Internal Audit Department and Methodology of the Internal Audit, which are prepared in accordance with the laws of the Republic of Lithuania, resolutions passed by the Government of the Republic of Lithuania and the Bank of Lithuania, International Accounting Standards, International Internal Audit standards, the Code of Ethics, the general organization regulations of the Internal Audit of the Bank approved by the Board of the Bank of Lithuania, the Charter of the Bank, the resolutions of the General Shareholders’ Meeting, Bank’s Supervisory Council, Internal Audit Committee and the Bank’s Board.

The Internal Audit Division by implementing its functions performs the financial, eligibility, activity, management and informational system audit. A purpose of the Internal Audit is to audit the Banks’ activity independently and objectively, to evaluate the Bank’s activity risk management thoroughly and systematically as well as the efficiency of the internal control system, to assist the Bank in implementation of its objectives by seeking to ensure that the objectives of the internal control are achieved at the lowest cost and the functions of internal control are efficiently implemented.

The Internal Audit Division performs its functions by implementing annual and long-term 2011-2013 activity plans, which are approved by the Internal Audit Committee.

The Internal Audit Department is under the direct control of the Internal Audit Committee and submits the reports to the latter on quarterly basis at least.

The purpose of the Internal Audit Committee is to supervise the process of the preparation of the Bank’s financial statements, the efficiency of the Bank’s internal control, risk management and internal audit systems, the process of the audit and internal audit performance, to discuss the information provided by the Internal Audit Department regarding the performed inspections, elimination of detected defects, implementation of the Internal audit’s plans and to ensure the independency of the Internal audit’s performance.

The Internal Audit Committee performs functions foreseen in the regulations of the Internal Audit Committee approved by the Supervisory Council of the Bank and in the activity plan of the Internal Audit Committee for the current year approved by the Chairman of the Internal Audit Committee. The Internal Audit Committee reports on its activities to the Bank Supervisory Council once a year.

The Bank's Internal Audit Committee consists of 4 members: 3 members of Supervisory Council the Bank and one independent member. The employees of the Internal Audit prepare the inspection programme before each inspection, which shall foresee the purpose, volume and time of audit. Inspection programme shall be coordinated with the Head of Internal Audit Department. The prepared draft report is coordinated with the Head of audited unit and the Head of relevant division. The prepared and coordinated report is submitted to the members of the Board.

The heads of the Bank's divisions considering the recommendations and comments of the Internal Audit Department, approve the plan of measures for implementation of Recommendations, provided in the Internal Audit's report, prepared by the head of the audited subject. The Head of Internal Audit Department considering the significance of provided conclusions and recommendations assigns the employees to perform the implementation control of recommendations (monitoring of the progress).

The post-audit activities (monitoring of progress) include the overcoming shortcomings established during the inspection by the external audits and the Bank of Lithuania as well as implementation inspections of provided recommendations.

On quarterly basis the director of the Internal Audit Department provides the Bank Board with the information regarding the recommendations submitted after the performed inspections and their implementation.

19. Assessment of Internal control and risks management

In terms of the Bank Group the risk management system includes the risk management strategy, the system of the risk limits and the internal audit. The risks incurred in the Bank's activities and their management are defined in the Policy of the risk management in the bank's activities.

The internal control is uninterrupted part of the Bank's daily activities, performing which and making the impact on which the Bank's employees are seeking for the following:

- the efficient performance of the Bank;
- to protect the Bank from the possible loss incurred from the operational risk events;
- the financial and other information used within the Bank, for supervisory purposes or by the third parties to be reliable, appropriate and submitted in time;
- the Bank's performance to comply with the laws, the acts issued by the Bank of Lithuania and other legal acts, the Bank's strategy and the internal policy.

The departments of the Bank that prepare policies have to ensure that they would reveal the appropriate, efficient and constantly functioning internal control.

The arrangement of the internal control environment and monitoring are one of the integral parts of the Bank's operational risks management process. Due to the fact that the Operational Risk Department bears responsibility for the appropriate arrangement of the internal control environment and monitoring, therefore its employees obliged to:

- observe and evaluate how the Bank's structural outlets perform the internal control within the Bank;
- prepare reports with the conclusions for the outlets to review their procedures, instructions and separation of the employee's functions, etc.;
- present the reports regarding the arrangement of the internal control environment and monitoring during the operational risk discussions initiated on monthly basis.

The internal audit of the Bank's internal control system is performed by the Bank's Internal Audit Department, which informs the Bank's Internal Audit Committee and the Bank's Board regarding the detected shortcoming and violations.

The employees of the Internal Audit Division follow the principles of:

- **good faith** (i.e., to perform their work honestly, accurately, with responsibility, in compliance with the laws, do not participate in any illegal activities, do not take any actions, which could discredit an internal auditor's profession and the Bank, to respect lawful and ethic objectives of the Bank and to support their implementation);
- **objectivity** (i.e., do not participate in any activities and do not have any relations which harm or might harm their impartiality and would not contradict with the Bank's interest, do not accept presents to avoid the impact on their professional opinion and to disclose all the important facts they are aware of);
- **confidentiality** (i.e., to use and store the information gained while performing their duties responsibly, do not use the information for their own purposes);
- **competence** (i.e., to provide only such services, for the performance of which they possess necessary knowledge, skills and experience, to render internal audit services in compliance with the International Audit Standards, to improve their qualification on regular basis as well as the quality and efficiency of the provided services).

20. Major aspects of the Internal control and risk management systems related to compiling of the consolidated financial reports

The financial reports of the Bank and the Bank Group are prepared in accordance with the International Financial Reporting Standards (IFRS) applicable in the European Union. Preparing the financial reports in compliance with the IFRS the assumptions and assessments that have impact on the amounts of the accounted assets and liabilities and disclosure of the indefinite assets and liabilities as of the financial reporting day as well as on the amounts of income and costs during the reporting period are applied.

The financial reports include the consolidated annual report of the Bank Group and separate financial reports of the Bank. Such form of the financial reports is used to ensure the compliance with the format established by the Bank of Lithuania for the financial reporting purposes.

The subsidiary companies are all the companies (including the companies of special purpose), the financial and operational policy of which is controlled by the Bank Group. Usually such control is ensured by owning more than a half of voting rights. Deciding if the Bank Group takes control over the other company the existence and influence of the possible voting rights that can be realized or converted are taken into consideration. The subsidiary companies are completely consolidated since the day when the Bank Group gains the control over these companies and cease to be consolidated after the day this control is lost.

If the transaction with the non-controlling party does not make an impact on the loss of control then the result of acquisition of the non-controlling party or transactions of the share transfer to the non-controlling party is accounted directly in the Bank Group's equity.

The financial reports of the consolidating Bank and controlled companies are of the same reporting period (except the cases when this cannot be done) and prepared in compliance with the same principles of accounting and reporting applicable in the same business areas. Upon necessity the principles of accounting of subsidiary companies are adjusted in order to meet the accounting principles applied within the Bank.

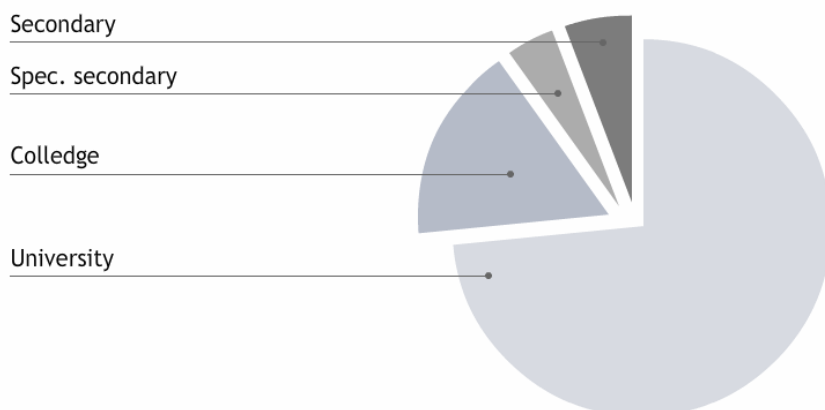
The transactions among the companies of the Bank Group, the balances and unrealized profit from the transactions among the companies of the Bank Group are eliminated. Unrealized loss is eliminated as well unless it is possible to prove that the value of transferred assets decreased after the transaction.

In the separate financial reports the subsidiary companies are accounted at their acquisition cost, i.e. income from the investment are recognized only by such portion which is received by the Bank as distribution of the companies accrued profit (after the acquisition date). The amounts received from the subsidiary companies and exceeding such distribution of profit are accounted as decreasing investment value.

21. Employees

As of December 31st 2011 the Bank employed 494 staff members. In comparison with 2010 the number of employees in the Bank increased by 2,6 per cent over the accounting year. At the end of the reporting period the enterprises of the Bank Group employed 559 staff members.

74 per cent of the total number of the Bank's employees had the university education, 15 per cent had college, 6 per cent – secondary education and 5 per cent had special secondary education.



The average age of the Bank's employees is 39 (as of December 31, 2011)

Implementing the Human Resource policy the Bank creates and develops the long-term collaboration with its employees.

At the end of 2011 even 25 per cent of employees have been working in the Bank for more than 10 years. Most of them have started their work at the Bank from the first banker's "step" as the client service officer and, after taking the advantage of the career continuity possibilities, are currently working in one of the departments in the head office. This is how the "know-how" remain with the Bank, thus, allowing to maintain the high level client servicing. The employees are provided with the opportunities to improve their competencies and skills in the internal and external seminars.

The Bank does its best not only satisfying the employees' career expectations but also providing conditions for their inner disclosure and development, it creates a modern work environment and seeks for the possibilities to combine the employees' satisfaction and their commitments, thus, ensuring the good quality of the performed tasks.

The Bank's employees while providing financial services to the clients follow the principles of being helpful, reliable, effective and flexible.

Each year the Bank organizes apprenticeships to the students, thus, providing a possibility for the future participants of the labour market to acquire necessary experience. The Bank forms their working skills and arranges trainings at their work. Those students who gain good recommendations and express their willingness to relate their career with the banking are welcome to join the Bank after their studies.

A team of professional, reliable, open, optimistic, friendly, unties and strong staff is of great importance, because on their work quality depends whether customers will be satisfied with the services provided by the Bank.

Motivating the employees, the Bank's Group is implementing flexible and motivating decisions: creates incentive programmes. The bonuses are paid for the implemented Bank's and separate outlets' goals and personal objectives on quarterly basis. "The person of the year" is elected annually.

A responsible attitude towards the employees, insurance against accidents, prophylactic medicine services, payments in case of family accidents, presents on personal occasions, premiums on the Bank's anniversary to the employees who worked for a long time, gym membership, the Bank's summer and leisure time festivities: it is only a part of activities implemented by the Bank working with the personnel.

Average monthly salary of the relevant employee group before taxes:

Employees' group	2009		2010		2011	
	Average number of employees	Average salary per month, in LTL	Average number of employees	Average salary per month, in LTL	Average number of employees	Average salary per month, in LTL
Management	8	17 106	8	14 910	12	23568
Officers	454	1 980	441	1 967	418	2476

The Bank does not have agreements with the employees foreseeing compensations in case of retirement or dismissal without the reasonable ground or in case their capacities would be cancelled because of changes in the bank's control.

The Bank also is not the party of material agreements, which would become effective, change or would be cancelled because of changes in the bank's control.

22. Information on impelmentation of Remuneration policy

In March 2011 the remuneration policy was supplemented in accordance with the "Policy of minimal requiremets to remuneration of employees of credit intitutions" approved by the resolution No. 03-175 of the Board of the Bank of Lithuania.

The policy defines that official salary is established according to the employee's competence, value of the performed works and the price in the market. The variable remuneration is paid seeking to relate personal objectives of the employee's activities to the long-term interest of the Bank. The methods of variable

remuneration calculation are created in the manner to meet the strategy, goals and values of the business, long-term interest for continuity of activities and to foster reliable and efficient risk management and that employees would not be encouraged to take excessive risk unacceptable to the Bank. The payments of not less than 40 per cent of variable remuneration to the senior managers who make decisions related to significant risks is subject to 3 (three) years of grace period. 50 per cent of the variable remuneration which is payable immediately and after period of grace is foreseen to be paid in the Bank's shares, which are subject to one-year period of restriction to transfer.

The Bank has established the Remuneration Committee which evaluates the principles of the variable remuneration, supervises variable remunerations of the respective employees and prepares draft resolutions regarding the variable remunerations which are confirmed by the Bank's Supervisory Council taking into consideration the long-term goals of the Bank's shareholders and investors.

23. Members of the Committees formed within the Bank, the areas of their performance

The Loan, Internal Audit and Risk Management Committees are operating within the Bank on on-going basis. The Remuneration Committee was established in 2011. The functions of these committees as well as the procedures of their formation and activities are defined by the legal acts of the Republic of Lithuania and the Bank of Lithuania as well as by the provisions of the respective committee approved by the Bank's Board and the Bank's Supervisory Council.

- The Internal Audit Committee monitors and discusses the process of financial statement preparation, the efficiency of the Bank's internal control, risk management and internal audit systems, the processes of the audit and internal audit performance on regular basis and performs other functions foreseen by the legal acts of the supervisory authority and provisions of the Internal Audit Committee. The composition, competences and arrangement of activities of the Internal Audit Committee are defined by the provisions of the Internal Audit Committee approved by the Bank's Supervisory Council. The Internal Audit Committee is directly subordinate to the Bank's Supervisory Council and reports to it not less than once a year.
- The key objectives of the Risk Management committee are formed to ensure the efficiency of the Bank's risk management system and to maintain and control the level of risks acceptable to the Bank.
- The Loan Committee analyzes loan application documents, decides regarding granting of loans and amendment of their terms, assesses risks of loans, suggests regarding loan granting, loan interest rates, improvement of loan administration procedures and performs other functions foreseen by its provisions.
- The Remuneration Committee evaluates the principles of variable remuneration, supervises management of risks and control of compliance, variable remuneration of the senior management, prepares draft resolutions regarding variable remunerations which are confirmed by the Bank's Supervisory Council taking into consideration the long-term goals of the Bank's shareholders and investors.

Data of the members of the committees as of December 31, 2011

Name, surname	Beginning / end of tenure	Share of capital under the right of ownership, %	Workplace
Internal Audit Committee			
Sigitas Baguckas	2005-05-03 / 2012	0.65	"Namų statyba" UAB
Vytautas Junevičius	2008-03-27 / 2012	0.13	Enterprise Group "Alita" AB
Galina Ivanova	2010-03-29 / 2012	0.00	"Revizorius" UAB
Kastytis Jonas Vyšniauskas	2005-05-03 / 2012	0.98	"Sulinkiai" UAB
Risk Management Committee			
Donatas Savickas	2007-08-30 / constantly operating	0.10	Siauliu bankas AB
Vita Adomaitytė	2007-08-30 / constantly operating	0.02	Siauliu bankas AB
Jolanta Dūdaitė	2007-08-30 / constantly operating	0.00	Siauliu bankas AB

Pranas Gedgaudas	2007-08-30 / constantly operating	0.01	Siauliu bankas AB
Morena Liachauskienė	2007-08-30 / constantly operating	0.00	Siauliu bankas AB
Giedrius Sarapinas	2007-08-30 / constantly operating	0.01	Siauliu bankas AB
Loan Committee			
Algirdas Butkus	2011-05-23 / constantly operating	4.79	Siauliu bankas AB
Danutė Gaubienė	2011-05-23 / constantly operating	0.00	Siauliu bankas AB
Daiva Kiburienė	2011-05-23 / constantly operating	0.05	Siauliu bankas AB
Edas Mirijauskas	2011-05-23 / constantly operating	0.00	Siauliu bankas AB
Aurelija Pociutė / Živilė Skibarkienė	2011-05-23 / constantly operating	0.00 / 0.05	Siauliu bankas AB
Arvydas Salda	2011-05-23 / constantly operating	2.59	Siauliu bankas AB
Giedrius Sarapinas	2011-05-23 / constantly operating	0.01	Siauliu bankas AB
Donatas Savickas	2011-05-23 / constantly operating	0.10	Siauliu bankas AB
Vytautas Sinius	2011-05-23 / constantly operating	0.06	Siauliu bankas AB
Audrius Žiugžda	2011-05-23 / constantly operating	0.56	Siauliu bankas AB
Remuneration Committee			
Arvydas Salda	2011-05-09 / constantly operating	2.59	Siauliu bankas AB
Jonas Bartkus	2011-05-09 / constantly operating	0.04	Siauliu bankas AB
Ernesta Laurinavičienė	2011-05-09 / constantly operating	0.00	Siauliu bankas AB
Živilė Skibarkienė	2011-05-09 / constantly operating	0.05	Siauliu bankas AB

24. The Bank's management bodies

The management bodies of the Bank are as follows: the General Meeting of the Shareholders of the Bank, Council of the Bank, Board of the Bank and Chief Executive Officer.

Exclusively the General Shareholders' Meeting:

- amends Charter of the Bank, except in cases, provided in the laws;
- amend the Bank's head office;
- elects the Bank's Supervisory Council members;
- recalls the Bank's Supervisory Council or its individual members;
- elects and recalls the audit company to audit the annual financial statements, sets the terms of payment for audit services;
- approves the set annual financial statements of the Bank;
- sets class, number, par value and minimum issue price of the shares, issued by the Bank;
- adopts resolution regarding:
 - issuing of convertible bonds;
 - cancellation of the preference right to purchase shares or convertible bonds of the Bank of a given emission to all of the shareholders;
 - conversion of the Bank's shares of one class into another, approval of the conversion order;
 - allocation of profit (loss);
 - Making, use, reduction and cancellation of reserves;
 - Increase of authorized capital;
 - Reduction of authorized capital, except of the cases, provided in the laws;
 - Purchase by the Bank of its own shares;
 - Reorganization or demerge of the Bank, approving terms of such reorganization or demerge;
 - Restructuring of the Bank;
 - Liquidation of the Bank, cancellation of liquidation, except cases, provided in the laws;
- To select and cancel the Bank's liquidator, except cases, provided in the laws.

The Council of the Bank is a collegial body supervising the activities of the Bank and directed by its Chairman. The number of members of the Council is seven. The Council shall be elected by the General Meeting of Shareholders for a term of four years. In accordance with the Bank's Charter the number of tenures of the Council member is not limited.

The Council shall:

- elect members of the Board and remove them from office, make recommendations to the Board regarding the candidature for the Chairman of the Board. Prior approval of the Council is necessary to obtain before setting salaries of the Board members who hold other positions in the Bank, Chief Executive Officer and his deputies, as well as other terms of labour contract. If the Bank operates at a loss, the Council must consider the suitability of the Board members for their positions;
- elect members of the Internal Audit Committee;
- supervise activities of the Board and the Chief Executive Officer;
- supervise the implementation of business plans of the Bank, analyze the Bank's income and expenses, own investments and capital adequacy issues;
- adopt Council work regulation;
- approve business plans of the Bank and annual budget;
- approve any type of policies related to the Bank's activities including the risk management policy;
- approve the business strategy of every entity controlled by the Bank;
- ensure the effective internal control system in the Bank;
- make proposals and comments to the General Shareholders' Meeting on the Bank's work strategy, the Bank's annual financial statements, the draft of the profit (loss) distribution and the report on the Bank's activities as well as activities of the Board and the Chief Executive Officer of the Bank;
- approve loan granting policy and set order of borrowing subject to Supervisory Council's approval;
- make proposals to the Board and the Chief Executive Officer to cancel their resolutions that contradict the laws and other legal acts, this Charter or resolutions of the Meeting;
- set the list of transactions and resolutions, making or implementation of which is subject to the Council's approval;
- adopt resolutions, assigned to the Council's competence according to the orders, approved by the Council; such order shall be adopted by the Council following the laws, this Charter or resolutions of the Meeting;
- consider other matters, subject to its consideration or solution, provided for in the laws of this Charter or in the resolutions adopted by the Meeting.

The Board of the Bank is a collegial Bank management body, consisting of five members. It manages the Bank, handles its matters and answers under the laws for the execution of the Bank's financial services. Order of the Board's work is set by the Board work regulations. The Board of the Bank is elected by the Council for a term of 4 years.

The Board shall consider and approve:

- the consolidated annual report of the Bank
- the structure of the Bank management and positions; posts in which persons are employed only by holding competitions;
- regulations of the branches, representatives and other separate subdivisions of the Bank;
- order of the Bank's loans granting, following the loan granting policy, approved by the Council;
- order of issuing guarantees, securities and taking of other liabilities;
- order of writing-off of the loans and other debt liabilities;
- regulations of the Loan Committee and Risk Management Committee of the Bank.
- the Board shall elect and remove from office the Chief Executive Officer and his deputies. The Board sets salary and other terms of labour contract with the Chief Executive Officer, approves his Staff Regulations, induces and imposes sanctions to the Chief Executive Officer.
- The Board determines the information to be considered commercial secret of the Bank.

The Board shall adopt:

- decisions on the Bank becoming the incorporator, member of other legal entities;
- decisions on opening branches, representatives and other separate subdivisions of the Bank as well as on cancellation of their activities;
- decisions on the investment, transfer or lease of long-term assets the balance-sheet whereof amounts to over 1/20 of the Bank's authorized capital (calculating separately for each kind of transaction);
- decisions on the mortgage or hypothecation of long-term assets the value whereof amounts to over 1/20 of the Bank's authorized capital (calculating separately for each kind of transaction);

- decisions on offering guarantee or surety for the discharge of obligations of other entities, when the amount of the obligations exceeds 1/20 of the Bank's authorized capital;
- decisions on the acquisition of long-term assets the price whereof exceeds 1/20 of the Bank's authorized capital;
- decisions on issuing of non-convertible bonds;
- Board work regulation;
- decisions on other matters it has to consider or solve under the Laws or Charter of the Bank.

The Board shall set:

- terms for the shares issue of the Bank;
- order for issue of the bonds of the Bank. When the General Shareholders' Meeting adopts a resolution regarding the issuing of convertible bonds, the Board is entitled to set additional terms of issuing and to approve bond subscription agreements, signed by the Chief Executive Officer or his authorized person;
- order and cases of employment in the Bank, when the employees are engaged with the Board's approval.

The Board shall analyze and evaluate the material submitted by the Chief Executive Officer on:

- implementation of the Bank's activities strategy;
- arrangement of the Bank's activities;
- financial state of the Bank;
- results of economic activities, income and expenditure estimates, stock-taking data and other records of valuables.

The Board shall also analyze, assess the Bank's draft annual financial statements and draft of the profit (loss) allocation and submit them to the Board and Meeting. The Board shall solve other matters of the Bank's activities, if they are out of the other managing bodies' competence under the laws and this Charter.

The Board shall convene and hold the General Shareholders' Meetings in due time.

Chief Executive Officer arranges everyday activities of the Bank and performs other actions necessary to perform his functions, to implement the decisions of the Bank's bodies and to ensure the Bank's activities.

Chief Executive Officer:

- arranges everyday activities of the Bank;
- engages and discharges employees, makes work contracts with them and terminates them, induces them and imposes sanctions. The Head of the Bank is entitled to authorize another Bank employee to perform actions listed therein;
- without special authorization represents the Bank in its relations with other persons, in court and arbitration;
- grants and cancels powers of attorney and procurements;
- issues orders;
- performs other actions, necessary to perform his functions, to implement decisions of the Bank's bodies and to ensure Bank's activities.

Chief Executive Officer is responsible for:

- arrangement of the Bank's activity and implementation of its aims;
- making of annual financial statements and preparation of the Bank's annual report;
- making of a contract with the audit company;
- delivery of information and documents to the Meeting, Board and Council in the cases, provided for in the laws or upon request;
- delivery of the Bank's documents and data to the custodian of the Register of Legal Entities;
- delivery of the documents to the Securities Commission and to the Central Securities Depository of Lithuania;
- publication of the information, prescribed by the laws and other legal acts, in the newspapers, stated in this Charter;
- information delivery to the shareholders;
- execution of other duties, prescribed by the laws and legal acts, this Charter and Staff regulations of the Chief Executive Officer.

The Chief Executive Officer acts on the Bank's behalf and is entitled to make transactions at his sole discretion, except for the exceptions, stated therein or in the resolutions of the bodies of the Bank.

25. Members of the Collegial bodies

The Supervisory Council of the Bank:



Arvydas Salda

A member of the Supervisory Council of Siaulių bankas AB since 1991, the Chairman of the Supervisory Council since 1999.

Education: Kaunas Institute of Technology. Vilnius University, a specialty of applicable mathematics.

Work experience: a consultant of "Siaulių banko turto fondas" UAB since 2004.



Sigitas Baguckas

The Deputy Chairman of the Supervisory Council of Siaulių bankas AB since 2000, a member of the Council since 1991.

Education: Vilnius Civic Engineering Institute. An engineer – constructor.

Work experience: Director of "Namų statyba" UAB until 2007, a procurist since 2007.



Gintaras Kateiva

A member of the Supervisory Council of Siaulių bankas AB since 2008.

Education: Vilnius Pedagogic Institute, a teacher.

Work experience: an advisor of the director of "Litagros chemija" UAB (currently – "Litagra") until 2005, the Chairman of the Board - since 2005, director of „Litagros prekyba“ UAB until 2008.



Kastytis Jonas Vyšniauskas

A member of the Supervisory Council of Siaulių bankas AB since 1996.

Education: Kaunas Technology Institute, an engineer-mechanic.

Work experience: Director General of "Sulinkiai" UAB until 2009.



Vigintas Butkus

A member of the Supervisory Council of Siaulių bankas AB since 2004.

Education: Marijampole School of Culture, a director.

Work experience: Director of "Mintaka" UAB since 2000, Director of Trade House "Aiva" UAB since 2002.



Vytautas Junevičius

A member of the Supervisory Council of Siaulių bankas AB since 2006.

Education: Kaunas Institute of Technology, an engineer-economist. Vilnius University, a specialist of international economy relations.

Work experience: the Director General of "Alita" AB until 2009, the Consultant of the Director General of the Company's Group "Alita", 2009-2011.



Peter Reiniger

A member of the Supervisory Council of Siaulių bankas AB since 2011.

Education: Technical University of Budapest, an engineer-mechanic (master), an engineer of production organization (master).

Work experience: European Bank for Reconstruction and Development (EBRD), the Director of the Business Group until 2010, the Managing director since 2010.

The Board of the Bank:



Algirdas Butkus

The Chairman of the Board.

Education: Kaunas Technology Institute, a master of economy.

Work experience: the Chairman of the Board, Chief Executive Officer of Siauliu bankas AB from 1999 to February 2011, the Deputy Chief Executive Officer since February 2011.



Audrius Žiugžda

the Deputy Chairman of the Board, Chief Executive Officer.

Education: Vytautas Magnus University, a master of Business Administration and Management.

Work experience: the Chairman of the Board and President of SEB AB 2006-2009, the Advisor of the Director General TEO LT, AB 2010-2011 m., the Chief Executive Officer of Siauliu bankas AB since February 2011.



Donatas Savickas

The member of the Board, Deputy Chief Executive Officer, Head of Finance and Risk Management Division.

Education: Vilnius University, a master of economy.

Vytautas Magnus University, a master of Business Administration and Management.

Work experience: the Deputy Chairman of the Board of Siauliu bankas AB since 1995, Deputy Chief Executive Officer, Head of Finance and Credit Division since 2005, Head of Finance and Risk Management Division since 2011.



Daiva Kiburienė

The member of the Board, Deputy Chief Executive Officer, Head of Siauliai region.

Education: Vilnius University, a master of economy. Vytautas Magnus University, a master of Business Administration and Management.

Work experience: the Deputy Chairperson of the Board of Siauliu bankas AB since 1998, Deputy Chief Executive Officer, Head of Corporate and Retail Banking Division since 2005, Head of Siauliai region since 2011.



Vita Adomaitytė

The member of the Board, Chief Financial Officer, Head of Accounting and Reporting Division.

Education: Vilnius University, a master of finance and credit.

Work experience: the Chief Financial Officer of Siauliu bankas since 2002, Head of Accounting and Reporting Division since 2005.



Vytautas Sinius

The member of the Board, Head of Corporate Banking Division.

Education: Vilnius Higher School of Economics, a bank officer. Vilnius University, a bachelor of economy. Vytautas Magnus University, a master of Business Administration and Management.

Work experience: the Director of Retail Banking Division of SEB AB 2006-2010, Head of Corporate Banking Division of Siauliu bankas AB

since May 2011.



Arūnas Užupis

The member of the Board, Head of Retail Banking Division.

Education: Vytautas Magnus University, a master of marketing and international trade.

Vytautas Magnus University, a master of business management.

Work experience: the Director of Marketing department of SEB AB, Director of Business Development Department 2004-2009, Director of Marketing and Sales of "Lietuvos rytas" UAB 2010, director of "UZU" UAB 2010-2011, Head of Retail Banking Division of Siauliu bankas AB since March 2011.

Name, surname	Beginning / end of tenure	A share of capital under the right of ownership, %	A share of votes together with related persons, %
Arvydas Salda	beginning 2008-03-27 end 2012	2.59	43.46
Sigitas Baguckas	beginning 2008-03-27 end 2012	0.65	43.46
Kastytis Jonas Vyšniauskas	beginning 2008-03-27 end 2012	0.98	43.46
Vigintas Butkus	beginning 2008-03-27 end 2012	0.39	43.46
Vytautas Junevičius	beginning 2008-03-27 end 2012	0.13	43.46
Peter Reiniger	beginning 2011-03-29 end 2012	—	43.46
Gintaras Kateiva	beginning 2008-03-27 end 2012	6.24	43.46
Algirdas Butkus	beginning 2008-03-27 end 2012	4.79	43.46
Audrius Žiugžda	beginning 2011-02-22 end 2012	0.56	43.46
Donatas Savickas	beginning 2008-03-27 end 2012	0.10	43.46
Vita Adomaitytė	beginning 2011-05-03 end 2012 m.	0.02	43.46
Daiva Kiburienė	beginning 2008-03-27 end 2012	0.05	43,46
Vytautas Sinius	beginning 2011-08-11 end 2012	0.06	43.46
Arūnas Užupis	beginning 2011-03-10 end 2012	0.11	43.46

Information regarding participation of the members of the collegial bodies and chief financial officer in the activities and capital of other companies:

Name, surname	Participation in the activities of other companies (name of the company, position)	Participation in the capital of other companies (percentage in the capital exceeding 5 %)
Arvydas Salda	<ul style="list-style-type: none"> Member of the Board of “Klaipėdos LEZ valdymo bendrovė” UAB A consultant of “Šiaulių banko turto fondas” UAB Member of the Board of “Pavasaris” UAB 	<ul style="list-style-type: none"> SLEZVB UAB – 11.05 % STIV UAB – 14.61 %
Sigitas Baguckas Kastytis Jonas Vyšniauskas	<ul style="list-style-type: none"> Procurist of “Namų statyba” UAB Chairman of the Board of “Sulinkiai” UAB 	<ul style="list-style-type: none"> “Namų statyba” UAB – 47.12 % UAB “Sulinkiai” – 13.82 % UAB “Agroferta” – 50.00 %
Vigintas Butkus	<ul style="list-style-type: none"> Director of trade house “Aiva” UAB Director of “Mintaka” UAB 	<ul style="list-style-type: none"> “Šiaulių komercija” AB – 7.26 % “Aiva” UAB – 9.25 % “Mintaka” UAB – 9.80 %
Vytautas Junevičius	<ul style="list-style-type: none"> Companies’ group “Alita” AB, Chairman of the Board and a consultant of Director General Chairman of the Board of “Anykščių vynos” AB Director General and Chairman of the Board of “Litagra” UAB 	<ul style="list-style-type: none"> Companies’ group “Alita”, AB – 14.48 % UAB “Aunuva” – 50.00 %
Gintaras Kateiva	<ul style="list-style-type: none"> An advisor of the Director of “Litagros mažmena” UAB 	<ul style="list-style-type: none"> “Litagra” UAB – 36.95 %

Peter Reiniger	<ul style="list-style-type: none"> Managing Director of the European Bank for Reconstruction and Development (EBRD). 	—
Algirdas Butkus	—	<ul style="list-style-type: none"> Trade house “Aiva” UAB — 66.35 % “Šiaulių komercija” AB — 15.63 % “Visnorus” UAB — 24.94 % “Mintaka” UAB — 68.08 %
Donatas Savickas	—	—
Audrius Žiugžda	<ul style="list-style-type: none"> Member of the Council of Vytautas Magnus University Member of the Board of “Limarko laivininkystės kompanijos” AB Member of Advisory Board of “LitCapital I” KŪB Member of Advisory Board of Public Undertaking “Investuok Lietuvoje” 	—
Vita Adomaitytė	—	—
Daiva Kiburienė	<ul style="list-style-type: none"> Chairperson of the Board of “Kėdainių oda” UAB 	—
Vytautas Sinius	—	<ul style="list-style-type: none"> Public undertaking “Sporto šaltinis” — 33,33 %
Arūnas Užupis	—	<ul style="list-style-type: none"> “UZU” UAB — 30 %

The amounts of funds calculated over 2011 and average sizes per member of the collegial body as well as provided guarantees:

Members of Management bodies	Number of people	Total amounts calculated, Lt	Average sizes, LTL	Assets transferred, LTL	Guarantees provided, LTL
Members of the Bank's Council	7	0	0	0	0
Members of the Bank's Board	7	2 064 921	294 989	0	0
Chief Executive Officer and Chief Financial Officer	2	654 346	327 173	0	0

Loans granted to the members of the Council and the Board of Siauliu bankas AB as of December 31st 2011:

Members of Management bodies	Loans granted, in LTL thou
Members of the Bank's Council	6.079
Members of the Bank's Board	358
TOTAL:	6.437

26. Transactions with related parties

Implementing its usual activities the Bank concludes the banking transactions with the members of the Council and Board, other related parties and subsidiary companies. The related parties of the Bank are as follows:

- the members of the Bank's Supervisory Council and the Bank's Board, their close family members and companies where the related parties own more than 5 per cent of shares and/or take managing positions;
- the Bank's subsidiaries;
- the shareholders owning more than 5 per cent of the Bank's shares.

All the transactions have been entered in terms of normal market conditions. The comprehensive description of the transactions is provided in the explanatory note of the financial statement of the Bank for 2011.

27. Information on malicious transactions

No malicious transactions which did not correspond to the Bank's goals, usual market conditions, violated the interests of shareholders or other groups of persons, which had had or might have had a negative impact on the Bank's activities in the future or on the results of its performance were entered during the accounting period. Moreover, there were no transactions entered in terms of conflict of interest among the senior managers of the Bank, controlling shareholders or other related parties' positions to the Bank and their private interests and (or) positions.

28. Data on the publicly disclosed information

The following information was publicly disclosed in 2011:

- 2011-01-20 a report regarding a newly assigned Bank's Chief Executive Officer;
- 2011-02-23 information regarding the amendments in the Bank's Board;
- 2011-02-23 a pre-audited activity result of the Bank and the Bank Group for 2010 announced;
- 2011-02-28 interim financial information of the Bank for 12 months of 2010;
- 2011-03-07 convocation of the Ordinary General Meeting of Shareholders;
- 2011-03-08 the draft resolutions for the Ordinary General Meeting of Shareholders to be held on 29-03-2011;
- 2011-03-17 introduction of the offered candidate to the Bank's Supervisory Council;
- 2011-03-29 resolutions of the Ordinary General Meeting of Shareholders;
- 2011-03-30 audited annual information for 2010;
- 2011-04-07 the Bank's share issue in the amount of LTL 30 million;
- 2011-04-11 declaration of the new ratings assigned to the Bank;
- 2011-04-14 the unaudited activity result for the first quarter of 2011 of the Bank and the Bank's Group;
- 2011-04-27 report on the share issue dissemination and offer to acquire shares using a pre-emption right;
- 2011-05-04 announcement regarding a new member of the Board;
- 2011-05-13 an annex to share issue of LTL 30 million;
- 2011-05-16 information regarding the profit planned for 2011;
- 2011-05-25 material of the Bank's introduction to the investors;
- 2011-05-31 interim information of 3 months of 2011;
- 2011-06-01 the results of the I stage of the share issue dissemination and information regarding the II stage;
- 2011-06-20 information regarding the III stage of the share issue dissemination;
- 2011-06-28 information regarding applications to acquire shares of the new issue in the III stage of dissemination;
- 2011-07-05 report on the dissemination of the share issue;
- 2011-07-07 redemption of the bond issue;
- 2011-07-14 unaudited operating results of the Bank and the Bank Group for the first half-year of 2011;
- 2011-07-20 a base prospectus of the Bank's non-equity securities of LTL 200 000 000 ;
- 2011-08-05 amended Charter with increased authorized capital has been registered;
- 2011-08-05 issue of bonds;
- 2011-08-11 announcement regarding a new member of the Board;
- 2011-08-11 information regarding registration of non-equity securities;
- 2011-08-19 information regarding registration of non-equity securities;
- 2011-08-29 issue of bonds;
- 2011-08-30 Interim financial information for six months of 2011;
- 2011-09-02 report regarding registration of non-equity securities;
- 2011-09-26 issue of bonds;
- 2011-09-30 report regarding registration of non-equity securities;
- 2011-10-19 unaudited operating results of the Bank and the Bank Group for 9 months 2011;
- 2011-11-10 issue of bonds;
- 2011-11-23 information regarding assets with the bank „Snoras“ AB;
- 2011-11-30 Interim information for the 9 months 2011;
- 2011-12-01 report regarding registration of non-equity securities;
- Reports regarding the transactions with the Bank's shares entered by the Bank's senior managers.

The Bank has informed the Securities Commission of the Republic of Lithuania and Vilnius Stock Exchange (AB NASDAQ OMX Vilnius) about all the stock events in accordance with the procedures set by the Charter and the

legal acts of the Republic of Lithuania. Reports are announced in the Central regulated information base and on the Bank's website www.sb.lt. Reports on the Meetings of Shareholders was additionally announced in the daily newspaper "Lietuvos rytas".

29. Procedures of Charter amendments

The Bank's Charter can be amended only by the resolution of the General Shareholders' Meeting at 2/3 majority of votes, except exclusive cases defined in the law.

30. Information regarding compliance with the Governance Code

The Bank operates in compliance with the many standards set in the Governance Code. Information about how the Bank complies with the particular articles of the Governance Code is provided in the annexed enclosed to the present report together with the financial statements of 2011. The entire information is also available on the website of the Bank www.sb.lt.

Chief Executive Officer



Audrius Žiugžda

08-03-2012

ŠIAULIŲ BANKAS AB

Report on the compliance with the Governance Code for the companies listed on the NASDAQ OMX AB Vilnius

Šiaulių bankas AB, following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and 24.5 clause of the listed rules on NASDAQ OMX AB Vilnius, discloses its compliance with the Governance Code, approved by the NASDAQ OMX AB Vilnius for the companies which securities are traded 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	<p>The Bank prepares (activity) business plans and provides them to the Bank of Lithuania. Only made and already implemented particular decisions are declared publicly.</p> <p>General purposes of the Bank, in attaining of which the Bank fulfills its mission, and the main business areas, aiming at exceptional competence, are made public: are available on the website of the Bank.</p>
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 not only of the company's shareholders but also 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	Yes	The Bank's bodies include a general shareholders' meeting, the Bank's Supervisory Council, the Bank's Board and the chief

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.		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 management function is performed by the Board, supervision of the management bodies - 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.	Yes	The Supervisory Council is set up at the Bank. The candidates to the Supervisory Council are elected and the votes for them are given in compliance with procedures defined in the law. The right of small shareholders to have their own representative is not suppressed.
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.	Yes	The Bank's Board consists of 7 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. Each member has one vote while the bodies are making decisions.
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. Only the body of the Bank who elected a member of Supervisory council or a member of the Board can remove them.
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	Yes	The Chairman of Supervisory Council have never been the Bank's chief executive officer, previous and current positions do not constitute a barrier for the implementation of independent and impartial supervision.

departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.		
<p>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</p> <p>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.</p>		
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	General Shareholders' Meeting shall elect a Supervisory Council. Candidates to the Supervisory Council are proposed; voting is held by following the procedures set in the laws. The election procedure of the Supervisory Council member applied by the Bank established in the Law on Companies of the Republic of Lithuania is favorable for the combination of minority shareholders to elect their representative to the Council.
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 / No	Information on the candidates to the Supervisory Council is provided before the shareholders' meeting if the members are suggested in advance. During the meeting the members to the Supervisory Council introduce information on them required by laws and answer the shareholders' questions before voting. Eligibility of the member to be elected to the Supervisory Council is assessed by the Bank of Lithuania.
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.	Yes / 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

		<p>indicates that people who are being elected and assigned into senior management have to receive the permission from the Bank of Lithuania to be appointed to the relevant positions.</p> <p>In the Bank's annual reports the information on the Bank's Supervisory Council members' work activities as well as their participation in the activity of the other companies is presented.</p>
<p>3.4 In order to maintain a proper balance in terms of the current qualifications possessed by the members of collegial body, the collegial body should determine its desired composition with regard to the company's structure and activities, and evaluate this periodically. 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. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration determination policy.</p>	Yes / No	<p>With regard to the fact that all the members of the collegial body receive licenses of the Bank of Lithuania to hold positions, it is considered that they possess necessary knowledge of and experience to properly implement the tasks. The members of the audit committee have knowledge in field of finance; an independent member is competent in the field of audit.</p> <p>The director of the Bank's Personnel department, who has knowledge and experience in the salary establishment policy, is a member of the Remuneration Committee</p>
<p>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.</p>	Yes / No	<p>New members shall meet with their duties, the Bank and its activity. Annual verification is not performed subject to the condition that persons participating in the activity of the Bank and other organizations have sufficient knowledge and skills.</p>
<p>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 number of independent members.</p>	No	<p>The members of the Supervisory Council perform their duties and seek avoiding the conflict of interests. The General Shareholders' Meeting makes a decision on whether to have or not to have an independent member and elected are those who receive the biggest number of votes. The shareholders offering the candidates to the Supervisory Council have their own opinion concerning what candidates will represent their interest in the Council best.</p>
<p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business,</p>	No	<p>The Supervisory Council does not have an independent</p>

<p>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:</p> <ol style="list-style-type: none"> 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 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 		<p>member. See section 3.6.</p>
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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	See sections 3.6; 3.7.
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	See sections 3.6; 3.7
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. The general shareholders' meeting should approve the amount of such remuneration.	Not applicable	See sections 3.6; 3.7.

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 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. The Supervisory Council shall submit its responses and offers to each General Shareholders' Meeting.
4.2. Members of the collegial body should act in good	Yes/No	The members of the

<p>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).</p>		<p>Supervisory Council act in good faith with regard to the Bank and according to the interest of the Bank and its shareholders but 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.</p> <p>There is no independent member in the Supervisory Council.</p>
<p>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 of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>	Yes / No	<p>The members of the Supervisory Council actively participate in the meetings and devote sufficient time to properly perform his duties as a member of the collegial body.</p> <p>The Bank does not provide information to its shareholders regarding the members' participation in meetings during the last financial year.</p>
<p>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.</p>	Yes	
<p>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.</p>	Yes / No	<p>All the transactions between the Bank and shareholders as well as between supervisory and managing members are concluded according standard conditions performing usual banking activities.</p> <p>Not all transactions of the Bank are approved by the collegial body. The Bank's Supervisory Council defines a list of transactions and resolutions the formation and implementation of which are subject to the Supervisory Council's approval.</p>
<p>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. 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</p>	Yes	<p>The work and decisions of the Supervisory Council are not influenced by people who elected the members of this body. The members of the Supervisory Council have a right to receive the information and documents</p>

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. When using their services with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that they would not at the same time advise the affiliated company, executive director or members of management body.		necessary for appropriate performance of their duties through the Bank's Board and Chief Executive Officer.
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 with an independent member as well as the Remuneration Committee. The Nomination Committee is not formed. The functions of this committee are performed by the Supervisory Council itself.
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 act independently and based on integrity when exercising its functions as well as 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 Remuneration Committee evaluates the principles of variable remuneration, prepare draft resolutions regarding variable remuneration and submits them to the Supervisory Council. Establishing the remunerations of the Board members who take other positions within the Bank as well as salaries of the Bank's CEO and his deputies a pre-approval from the Council should be received. The Nomination Committee is not formed. The functions of this committee are performed by the Supervisory Council

<p>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 refresh membership and that undue reliance is not placed on particular individuals.</p>	<p>Yes / No</p>	<p>itself. The Audit Committee consists of 4 members. It consists of 3 Bank Supervisory Council members and 1 independent member. The Remuneration Committee consists of 4 members, the Chairman of the Board is the Chairman of the Bank's Supervisory Council, other members - the Bank's employees. The Nomination Committee is not formed.</p>
<p>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.</p>	<p>Yes / No</p>	<p>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 announces the information on the activity's purposes as well as work directions of the Audit Committee in the Prospects of securities issue. This information as well as number of held meetings of Committee and the Committee's members' participation there is not provided in the annual report. The functions of the Remuneration Committee are defined by the Remuneration Policy approved by the Bank Board, Supervisory Council and the regulations of the Remuneration Committee. The Supervisory Council bears responsibility for the establishment of the principles of the Remuneration Committee and models of variable remuneration calculations. Information regarding the functions of the Remuneration Committee, composition of the Remuneration and Audit committees are declared in the Bank's annual report. However, information regarding the number of committee meetings and participation of the committee members herein is not declared there.</p>
<p>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</p>	<p>Yes</p>	<p>Other members of the management bodies who are not Committee's members</p>

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.		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: <ul style="list-style-type: none"> 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. The Supervisory Council itself performs the activity attributed to this Committee.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: <ul style="list-style-type: none"> 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; 	Yes / No	The Remuneration Committee at the Bank evaluates the principles of the variable remuneration, supervises the variable remunerations of managing employees responsible for risk management and control of compliance, prepares draft resolutions regarding variable remunerations which are approved by the Supervisory Council taking into consideration the long-term goals of the Bank's shareholders and investors. The Remuneration Policy is reviewed by the Supervisory Council at least once a year. The official salaries of the employees and senior managers are established or approved by the Bank's CEO, Board and Supervisory Council in accordance with the

<ul style="list-style-type: none"> • Ensure that remuneration of individual executive directors and the member of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; • Periodically review the remuneration policy (as well as the policy regarding share-based remuneration) for executive directors or members of management body, and its implementation; • 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 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. <p>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:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general shareholders' meeting for this purpose.</p>		<p>competence.</p>
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<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ul style="list-style-type: none"> • 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 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. <p>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.</p>	<p>Yes</p>	<p>The Audit Committee in the Bank consists of 4 members: 3 Supervisory Council members and 1 independent member.</p>
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<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>No/Yes</p>	<p>The Bank does not have practice of assessment of the Supervisory Council's performance and making it public. Information about the internal organisation of Supervisory Council (chairman, deputy and members) is announced on the website of the Bank, annual and interim reports.</p>
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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. These persons are responsible for the proper convocation of the meeting of relevant collegial body and its handling.
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	Yes	The Meetings of the Supervisory Council are carried not less than 4 times a year. The interval between two meetings cannot be longer than 4 months. The Meetings of the Bank's Board are carried not less than once a month.
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 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 prospects.

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. 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 / Yes	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. Shareholders are aware of important transactions by the Bank's announcement on stock events.
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.	Yes	
6.5. If is possible, in order to ensure the foreigners the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting, including decisions projects of the meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. 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. 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.
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 by providing opportunity to the shareholders to vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity 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. Foreigners shareholders participate in the meeting via their representatives, the voting instructions to whom usually provide with the SWIFT notifications.

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	All the transactions with the members of the Bank's bodies are concluded in usual (standard) conditions. Information to the shareholders is provided in annual and interim reports.
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 report of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration report should be published as a part of the company's annual statement as well as posted on the company's website.	No	The report of the Remuneration policy is not prepared in the scope set by this document. Information regarding implementation of the Remuneration policy is provided in the annual report. In the scope set by the valid requirements, the average salaries are declared in the Bank's annual reports and prospects of securities issue.
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.	Not applicable	See section 8.1.

<p>8.3. Remuneration statement should leastwise include the following information:</p> <ul style="list-style-type: none"> • 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; • An explanation how the choice of the activities' results evaluation criteria contributes to the long-term interests of the company; • An explanation of the methods, applied in order to determine whether the activities' results evaluation criteria have been fulfilled; • Sufficient information on provision periods with regard to variable components of remuneration; • Sufficient information on the linkage between the remuneration and activity's results; • The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; • Sufficient information on the policy regarding termination payments; • Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 ; • Sufficient information on retention of shares after vesting, as referred to in point 8.15 of this Code; • Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; • A description of the main characteristics of supplementary pension or early retirement schemes for directors. • The remuneration report can not contain confidential information in a commercial view. 	Not applicable	See section 8.1.
<p>8.4. Remuneration report 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, <i>inter alia</i>, 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.</p>	Not applicable	See section 8.1.
<p>8.5. Remuneration report 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 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ul style="list-style-type: none"> • 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; 	Not applicable	See section 8.1

<ul style="list-style-type: none"> • 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. <p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ul style="list-style-type: none"> • 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 coming financial year. <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <ul style="list-style-type: none"> • 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, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. <p>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report 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.</p>		
<p>8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component of remuneration. The non-variable component of remuneration should be sufficient to allow the company not to pay variable components of remuneration when activity's results evaluation criteria are not met.</p>	Yes	There are no particular limits set to the variable remuneration, however, each year the principles corresponding to the business goals, strategy, long-term objectives of the bank and fostering reliable and efficient risk management are prepared. The variable remuneration is paid only in case of sustainable financial status of the bank.
<p>8.7. Award of variable components of remuneration should be subject to predetermined and measurable activity's results evaluation criteria.</p>	Yes	The amount of the variable remuneration is based on the general evaluation of the employee's, outlet's or bank's

		activity result.
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Yes	The deferred portion of the variable remuneration applicable to the employees is not less than 40 per cent.
8.9. Contractual arrangements with executive or members of management bodies should include provision which permits the company to reclaim variable components of remuneration that was awarded on the basis of data which subsequently proved to be manifestly misstated.	Yes/No	The Remuneration policy foresees the review of the assignment of the differed portion of the variable remuneration and to pay it only in case the set goals and the results of the bank meet the goals set in the strategy.
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	Not applicable	No principles of termination payments are foreseen by the Remuneration policy.
8.11. Termination payments should not be paid if the termination is due to inadequate activity's results	Not applicable	See section 8.10
8.12. The information on preparatory and decision-making processes, during which a remuneration policy of directors is being established, should also be disclosed. Information should include data, if applicable, on authorization 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.	Yes/No	Supervisory Council at least once a year. The official salaries of the employees and senior managers are established or approved by the Bank's CEO, Board and Supervisory Council in accordance with the competence. The Remuneration Committee at the Bank evaluates the principles of the variable remuneration, supervises the variable remunerations of managing employees responsible for risk management and control of compliance, prepares draft resolutions regarding variable remunerations which are approved by the Supervisory Council taking into consideration the long-term goals of the Bank's shareholders and investors. The Remuneration Policy is reviewed by the
8.13. Shares should not vest for at least three years after their award in case the remuneration is share-based.	Yes/No	As foreseen by the Remuneration Policy not less than 40 per cent of the variable remuneration is subject to 3 years of grace period. 50 per cent of variable remuneration paid immediately and deferred are foreseen to be paid in

		bank's shares with a 1 year grace period to the right of transfer.
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable activity's results evaluated criteria.	Yes/No	Share options or any other right to acquire shares or to be remunerated on the basis of share price movements are not foreseen by the Remuneration Policy. 50 per cent of variable remuneration paid immediately and deferred are foreseen to be paid in bank's shares with a 1 year grace period to the right of transfer. The Remuneration policy foresees the review of the assignment of the differed portion of the variable remuneration and to pay it only in case the set goals and the results of the bank meet the goals set in the strategy.
8.15. After vesting, directors should retain a particular number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	No	The share transfer is limited for a period of 1 year. No restrictions are foreseen after this period.
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Not applicable	The members of the Supervisory Council are not subject to any form of remuneration.
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general shareholders' meetings and make considered use of their votes regarding directors' remuneration.	No	The meeting for the work in the Supervisory Council can allocate to the Council members annual bonuses (tantiemes). Determination of the remunerations for the members of the Board under the structure of the bank's bodies is not the priority of the shareholders' meeting.
8.18. 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	The report of the Remuneration Policy is not prepared in the scope defined by the present document.
8.19. 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	No	See section 8.17.

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.		
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: <ul style="list-style-type: none"> • 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	See section 8.17.
8.21. 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.	Not applicable	Share options or any other right to acquire shares without remuneration on the basis of share price movements are not foreseen by the Remuneration Policy.
8.22. Provisions of Articles 8.19 and 8.20 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.	Not applicable	Employees of the bank or subsidiaries are not remunerated for the work with shares or share options or the other rights to acquire shares.
8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, 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.	Not applicable	See section 8.17.

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	The interest holders’ rights are respected. The Bank obeys the agreements with the suppliers, creditors, and clients. The relations with employees are regulated by the labour contracts. The employees can provide offers in the filed improvement of work conditions. The Bank’s employees participate in the Bank’s authorized capital.
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: <ul style="list-style-type: none"> • 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 submitted in annual and interim reports, in prospects of securities issue and in the website of the Bank.
10.2. It is recommended to disclose the consolidated results of the whole group to which the company belongs 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	Yes / No	

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	received remuneration of the particular person is not published. The information regarding income in average values is published in the Annual Report of the Bank.
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.		
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 or in cases provided by the legal acts free of charge 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	
10.1. The company should disclose information on: <ul style="list-style-type: none"> • 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 submitted in annual and interim reports, in prospects of securities issue and in the website of the Bank.
10.2. It is recommended to disclose the consolidated results of the whole group to which the company belongs	Yes	

when information specified in item 1 of Recommendation 10.1 is under disclosure.	Yes / No	
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	The information regarding the professional experience of the Supervisory Council and the Bank Board, and capacities taken in other companies is provided in the Annual Reports of the Bank as well as international reports. The information regarding received remuneration of the particular person is not published. The information regarding income in average values is published in the Annual Report of the Bank.
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.		
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 or in cases provided by the legal acts free of charge 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	
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 reports and annual reports 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	The candidate for the Bank's audit agency is provided by the Bank's Board to the General Shareholders' Meeting in compliance with the results of audit agency review. The opinion of the

		Supervisory Council regarding the audit agency is provided during the Meeting.
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.	Yes / No	The Bank's firm of auditors during the accounting year provided non-audit services to the Bank: made a review of financial indicators. A report about this information was not prepared; the Bank's Council is informed on this issue.

Chief Executive Officer



Audrius Žiugžda

08-03-2012