ŠIAULIŲ BANKAS

CONFIRMATION FROM THE RESPONSIBLE PERSONS

We, Chief Executive Officer of Šiaulių bankas AB Audrius Žiugžda and Chief Accountant Vita Adomaitytė, confirm hereby that the provided consolidated financial statements of Šiaulių bankas AB for 2012 are compiled in compliance with applicable accounting standards, correspond to the reality and correctly reveal the assets, liabilities, financial status, activity result and cash flows of Šiaulių bankas AB and its Group of Companies, moreover, we confirm that the review of the business development and activities, the status of the Bank and the Group, alongside with the description of the key risks and indeterminacies incurred, are correctly revealed in the consolidated annual report.

Chief Executive Officer	Audrius Žiugžda
Chief Accountant	Vita Adomaitytė

07 March 2013

ŠIAULIŲ BANKAS AB

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
ANNUAL REPORT

31 DECEMBER 2012

CONTENTS

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 of Šiaulių Bankas AB ("the Bank") and its subsidiaries ("the Group") set out on pages 5 to 93, which comprise the stand-alone and consolidated statements of financial position as of 31 December 2012 and the stand-alone and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information ("the financial statements").

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.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank and the Group as of 31 December 2012, and 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 2012 set out on pages 94 to 157 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 2012.

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No.000457

Rasa Radzevičienė
Auditor's Certificate No.000377

Vilnius, Republic of Lithuania
7 March 2013

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

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

		Year ended			
		31 December 2012		31 December 2011	
	Notes	Group	Bank	Group (re-presented)	Bank
Continuing operations					
Interest and similar income	1	126,111	124,041	120,802	116,080
Interest expense and similar charges	1	(68,612)	(68,611)	(66,047)	(66,029)
Net interest income		**57,499**	**55,430**	**54,755**	**50,051**
Allowance for impairment losses	7	(30,402)	(28,192)	(10,621)	(9,561)
Allowance for impairment losses		**(30,402)**	**(28,192)**	**(10,621)**	**(9,561)**
Net interest income after allowance for impairment losses	**7**	**27,097**	**27,238**	**44,134**	**40,490**
Fee and commission income	2	16,545	16,617	14,208	14,152
Fee and commission expense	2	(8,445)	(7,944)	(5,727)	(5,703)
Net fee and commission income		**8,100**	**8,673**	**8,481**	**8,449**
Result from associated company	16	89	-	11	-
Net gain (loss) from operations with investment securities	3	10,608	9,606	(3,441)	(3,441)
Net foreign exchange gain		4,866	4,865	4,881	4,883
Net gain from revaluation of derivatives		4,185	4,185	-	-
Gain from disposal of assets	5	1,999	57	2,164	31
Other operating income	6	31,020	1,009	13,844	736
Other operating expenses	4	(72,813)	(39,503)	(55,402)	(36,636)
Operating profit		**15,151**	**16,130**	**14,674**	**14,512**
Dividends from investments in subsidiaries and associates		-	1,000	-	-
Profit from continuing operations before income tax		**15,151**	**17,130**	**14,674**	**14,512**
Discontinued operations					
Profit (loss) before income tax from discontinued operations	20	-	-	-	-
Income tax (expense)	8	(2,023)	(2,258)	(1,649)	(1,700)
Net profit for the year		**13,128**	**14,872**	**13,023**	**12,812**
Other comprehensive income (loss)					
Gain (loss) from revaluation of financial assets		6,244	6,244	(3,410)	(4,781)
Gain from sale of financial assets		1,830	1,830	2,109	2,109
Amortisation of revaluation related to held-to-maturity investments		(556)	(556)	(355)	(355)
Deferred income tax on gain (loss) from revaluation of financial assets		(1,142)	(1,142)	476	476
Other comprehensive income (loss), net of deferred tax		6,376	6,376	(1,180)	(2,551)
Total comprehensive income (loss) for the year		**19,504**	**21,248**	**11,843**	**10,261**
Net profit (loss) attributable to:					
Owners of the Bank		13,027	14,872	13,023	12,812
From continuing operations		13,027	14,872	13,023	12,812
From discontinued operations				-	-
Non-controlling interest		101	-	13,023	12,812

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

Total comprehensive income (loss) attributable to:					
Owners of the Bank		19,403	21,248	11,843	10,261
Non-controlling interest		101	-	-	-
		19,504	21,248	11,843	10,261
Basic and diluted earnings per share (in LTL per share) attributable to owners of the Bank	9	0,06	0,06	0.06	0.06

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

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

		31 December 2012		31 December 2011	
	Notes	**Group**	**Bank**	**Group**	**Bank**
Assets					
Cash and cash equivalents	10	221,855	221,805	223,846	223,844
Trading securities	12	51,198	51,198	16,574	16,574
Due from other banks		4,137	4,137	4,147	4,147
Derivative financial instruments	11	13,690	13,690	-	-
Loans to customers	13	1,731,858	2,052,809	1,786,631	2,069,758
Finance lease receivables	14	183,863	-	163,741	-
Investment securities:					
- available-for-sale	15	207,611	205,385	35,617	32,068
- held-to-maturity	15	273,031	273,031	306,349	303,281
Investments in subsidiaries and associates	16	-	51,791	18,392	16,889
Intangible assets	17	1,207	903	916	894
Property, plant and equipment	18	52,988	38,211	46,874	39,632
Investment property	26	37,508	7,517	33,314	7,946
Current income tax prepayment		208	-	10	-
Deferred income tax asset	8	6,997	5,553	9,091	8,952
Inventories	19	132,803	-	44,327	-
Other financial assets	19	5,970	133	23,125	116
Other non-financial assets	19	17,779	5,303	10,351	7,465
Assets related to a subsidiary that is held for sale	20	-	-	13,999	-
Total assets		**2,942,703**	**2,931,466**	**2,737,304**	**2,731,566**
Liabilities					
Due to other banks and financial institutions	21	406,270	408,568	470,889	470,900
Due to customers	22	2,165,691	2,165,852	1, 893,885	1,894,167
Debt securities in issue	24	22,912	22,912	45,284	45,284
Special and lending funds	23	7,294	7,294	16,900	16,900
Current income tax liabilities		390	-	138	-
Deferred income tax liabilities	8	5,668	-	-	-
Other financial liabilities	25	3,456	-	3,922	-
Other non-financial liabilities	25	16,566	7,984	10,772	6,707
Liabilities related to a subsidiary that is held for sale	20	-	-	1,296	-
Total liabilities		**2,628,247**	**2,612,610**	**2,443,086**	**2,433,958**
Equity					
Share capital	27	234,858	234,858	234,858	234,858
Share premium	27	47,861	47,861	47,861	47,861
Reserve capital	27	2,611	2,611	2,611	2,611
Other reserves	27	-	-	-	-
Statutory reserve	27	1,891	1,289	960	648
Financial assets revaluation reserve		5,194	5,194	(1,182)	(1,182)
Retained earnings		21,206	27,043	9,110	12,812
		313,621	318,856	294,218	297,608
Non-controlling interest		835	-	-	-
Total equity		**314,456**	**318,856**	**294,218**	**297,608**
Total liabilities and equity		**2,942,703**	**2,931,466**	**2,737,304**	**2,731,566**

These financial statements were approved by the Bank's Board and signed on behalf of the Board on 7 March 2013 by:

Audrius Žiugžda
Chief Executive Officer

Vita Adomaitytė
Chief accountant

The accounting policies and notes on pages 11 to 93 constitute an integral part of these financial statements.

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

THE GROUP'S STATEMENT OF CHANGES IN EQUITY

		Attributable to the owners of the Bank									
	Notes	Share capital	Share premium	Reserve capital	Financial assets reva-luation	Statutory reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
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 income (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**
Transfer to statutory reserve		-	-	-	-	931	-	(931)	-	-	-
Increase in share capital	27	-	-	-	-	-	-	-	-	-	-
Acquisition of subsidiary										734	734
Total comprehensive income (loss)		-	-	-	6,376	-	-	13,027	19,403	101	19,504
31 December 2012		**234,858**	**47,861**	**2,611**	**5,194**	**1,891**	**-**	**21,206**	**313,621**	**835**	**314,456**

The accounting policies and notes on pages 11 to 93 constitute an integral part of these financial statements.

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

THE BANK'S STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Share premium	Reserve capital	Financial assets revaluation	Statutory reserve	Other reserves	Retained earnings	Total
31 December 2010		**204,858**	**46,661**	**2,611**	**1,369**	**6,422**	**10,000**	**(15,774)**	**256,147**
Release from 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**
Transfer to statutory reserve	27	-	-	-	-	641	-	(641)	-
Total comprehensive income (loss)		-	-	-	6,376	-	-	14,872	21,248
31 December 2012		**234,858**	**47,861**	**2,611**	**5,194**	**1,289**		**27,043**	**318,856**

The accounting policies and notes on pages 11 to 93 constitute an integral part of these financial statements.

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

THE GROUP'S AND THE BANK'S STATEMENTS OF CASH FLOWS

		Year ended			
		31 December 2012		31 December 2011	
	Notes	**Group**	**Bank**	**Group** (re-presented)	**Bank**
Operating activities					
Interest received		105,620	103,312	102,777	98,045
Interest paid		(66,991)	(66,990)	(62,359)	(62,364)
Fees and commissions received		16,545	16,617	14,208	14,152
Fees and commissions paid		(8,445)	(7,944)	(5,724)	(5,703)
Cash (outflows) inflows from trade in trading securities		10,154	9,152	(3,363)	(3,363)
Net inflows from foreign exchange operations		4,796	4,795	4,608	4,610
Recoveries on loans previously written off		1,243	715	1,756	1,157
Salaries and related payments to and on behalf of employees		(29,088)	(23,399)	(26,264)	(21,623)
Other cash receipts, sale of assets		26,447	1,066	13,807	710
Other cash payments		(14,794)	(14,324)	(26,010)	(12,451)
Income tax (paid)		(957)	-	-	-
Net cash flow from operating activities before change in operating assets and liabilities		**44,530**	**23,000**	**13,436**	**13,170**
Change in operating assets and liabilities:					
(Increase) decrease in trading securities		(33,154)	(33,154)	66,425	63,505
Decrease (increase) in loans to credit and financial institutions		10	10	570	(55,520)
Increase in loans to customers		(807)	(18,192)	(423,859)	(366,698)
Decrease (increase) in other current assets		(56,805)	2,052	10,267	8,535
(Decrease) increase in liabilities to credit and financial institutions		(64,619)	(62,332)	99,906	99,883
Increase in deposits		271,806	271,685	220, 799	220,986
(Decrease) in special and lending funds		(9,606)	(9,606)	(11,210)	(11,210)
Increase in other liabilities		3,692	1,058	7,824	4,175
Decrease (increase) of net assets of a subsidiary held for sale	20	-	-	(1,130)	-
Change		**110,517**	**151,521**	**(30,408)**	**(36,344)**
Net cash flow from (used in) operating activities		**155,047**	**174,521**	**(16,972)**	**(23,174)**
Investing activities					
(Purchase) of property, plant and equipment and intangible assets		(5,296)	(2,439)	(14,476)	(7,877)
Disposal of property, plant and equipment and intangible assets		4,778	2,719	5,256	1,876
(Purchase) of held-to-maturity securities		(31,400)	(31,400)	(31,424)	(28,356)
Proceeds from redemption of held-to-maturity securities		76,405	73,337	29,951	23,531
Dividends received		60	1,060	42	42
(Purchase) of available-for-sale securities		(349,138)	(349,006)	(211,236)	(210,667)
Sale of available-for-sale securities		188,519	188,519	189,732	189,732
(Purchase) of associated companies	16	-		(5,767)	-
Acquisition of subsidiary, net of cash acquires	16	(16,973)	(35,357)	-	-
Net cash flow from (used in) investing activities		**(133,045)**	**(152,567)**	**(37,922)**	**(31,719)**
Financing activities					
Increase in share capital	27	-	-	31,200	31,200
Debt securities in issue	33	1,514	1,514	111,933	111,933
Redemption of debt securities in issue		(25,507)	(25,507)	(72,793)	(72,793)
Net cash flow from (used in) financing activities		**(23,993)**	**(23,993)**	**70,340**	**70,340**
Net increase (decrease) in cash and cash equivalents		**(1,991)**	**(2,039)**	**15,446**	**15,447**
Cash and cash equivalents at 1 January		**223,846**	**223,844**	**208,400**	**208,397**
Cash and cash equivalents at 31 December	**10**	**221,855**	**221,805**	**223,846**	**223,844**

The accounting policies and notes on pages 11 to 93 constitute an integral part of these financial statements.

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

GENERAL INFORMATION

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

The Head Office of the Bank is located in Šiauliai, Tilžės str. 149, LT-76348. At the end of the reporting period the Bank had 14 branches and 42 client service units (2011: 14 branches and 38 client service units). As at 31 December 2012 the Bank had 481 employees (31 December 2011: 494). As at 31 December 2012 the Group had 556 employees (31 December 2011: 559 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 – SBTF, real estate management activities).
- Pavasaris UAB (hereinafter – Pavasaris, development of residential quarter),

The Group also had the following subsidiary:
- 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.*

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, all derivative financial instruments and investment properties.

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.

Basis of preparation (continued)

Amendments to existing standards and interpretations effective in 2012

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. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment did not have an impact on the Bank and the Group's financial statements.

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

Presentation of Items of Other Comprehensive Income, amendments to IAS 1 (effective for annual periods beginning on or after 1 July 2012). The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Bank and the Group expect the amended standard to change presentation of their financial statements, but have no impact on measurement of transactions and balances.

IFRS 10, Consolidated Financial Statements. Replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities" (effective for annual periods beginning on or after 1 January 2014). IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the standard on its financial statements.

IFRS 12, Disclosure of Interest in Other Entities (effective for annual periods beginning on or after 1 January 2014). Applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on its financial statements.

IFRS 13, Fair Value Measurement (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. The Bank and the Group are currently assessing the impact of the standard on their financial statements.

IAS 27 (revised 2011), Separate Financial Statements. (effective for annual periods beginning on or after 1 January 2014). The objective of the revised standard is 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. The Bank is currently assessing the impact of the amended standard on its financial statements.

Amended IAS 19, Employee Benefits (effective for annual periods beginning on or after 1 January 2013). Makes significant changes (i) to the recognition and measurement of defined benefit pension expense and termination benefits, and (ii) to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Bank and the Group are currently assessing the impact of the amended standard on their financial statements.

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

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (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. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Bank and the Group are currently assessing the impact of the amendments on the Group and the timing of its adoption by the Group.

Disclosures – Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (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. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

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.

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

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

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 statement of comprehensive income on all debt instruments 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.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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 2011 and 2012 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.

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.

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

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 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 imcome in impairment charge for credit losses.

In the case of 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).

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 2011 and 31 December 2012.

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 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 probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be reliably estimated.

Dividends

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

Employee benefits

a) *Social security contributions*

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

b) *Termination benefits*

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

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 meters.

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)

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets (for example, for exchange-traded options), including recent market transactions, and valuation techniques (for example for non-traded options), including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a loan received, or interest rate floor in a loan granted, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the profit or loss.

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 Board of the Bank 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

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's 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 more 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 services. The repayment of credits granted by the Bank must be enough secure in order to minimize possible credit

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

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.

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).

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

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:	2012		2011	
	Group	**Bank**	**Group**	**Bank**
Loans and advances to banks	**4,137**	**4,137**	**4,147**	**4,147**
Loans and advances to customers:	**1,731,858**	**2,052,809**	**1,786,631**	**2,069,758**
Loans and advances to financial institutions	**-**	**216,789**	**1,319**	**174,886**
Loans to individuals (Retail):	**194,394**	**159,927**	**205,297**	**193,071**
- Consumer loans	41,878	12,048	18,030	12,726
- Mortgages	95,290	95,290	103,516	103,516
- Credit cards	7,590	3,111	10,424	3,502
- Other (reverse repurchase agreements, other loans backed by securities, other)	49,636	49,478	73,327	73,327
Loans to business customers:	**1,537,464**	**1,676,093**	**1,580,015**	**1,701,801**
- Large corporates	132,834	132,834	176,391	176,391
- SME	1,281,193	1,419,822	1,293,075	1,417,006
- Central and local authorities, administrative bodies and other	123,437	123,437	110,549	108,404
Finance lease receivables	**183,863**	-	**163,741**	**-**
- Individuals	8,750	-	7,210	-
- Business customers	175,113	-	156,531	-
Trading assets:			**16,216**	**16,216**
- Debt securities	50,741	50,741	16,216	16,216
			-	-
Derivative financial instruments	13 690	13 690	-	-
Securities available for sale	**203,641**	**203,641**	**30,379**	**30,379**
- Debt securities	203,641	203,641	30,379	30,379
Investment securities held to maturity	**273,031**	**273,031**	**306,349**	**303,281**
- Debt securities	273,031	273,031	306,349	303,281
Other financial assets	**5,970**	**133**	**23,125**	**116**
Credit risk exposures relating to off –balance sheet items are as follows:				
Financial guarantees	88,313	88,360	73,351	73,396
Letters of credit	3,541	3,541	5,064	5,064
Loan commitments and other credit related liabilities	114,483	115,966	126,281	122,860
At 31 December	**2,673,268**	**2,806,049**	**2,529,688**	**2,623,170**

The table above represents a worst case scenario of credit risk exposure at 31 December 2012 and 2011, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are net carrying amount as reported in the balance sheet.

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

1.5. Loans and advances

Loans and advances are summarised as follows:

31 December 2012

	2012			
	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	1,517,839	-	1,625,208	216,789
Past due but not impaired	128,477	-	125,920	-
Impaired	197,141	-	195,323	-
Gross	**1,843,457**	**-**	**1,946,451**	**216,789**
Less: allowance for impairment	111,599	-	110,431	-
Net	**1,731,858**	**-**	**1,836,020**	**216,789**

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**

During the year ended 31 December 2012, the Group's total loans and advances decreased by 1,8%. The Group's total impairment provision for loans and advances is LTL 111,599 thousand (2011: LTL 90,583 thousand) and it accounts for 6.05% of the respective portfolio (2011: 4.83%).The Group's impaired loans and advances to customers comprise 10.69% of the total portfolio (2011: 9.42%).

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.

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

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 2012

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Standard	36,488	52,798	6,167	15,794	**111,247**
Watch	552	15,738	97	17,883	**34,270**
Substandard	919	10,694	318	7,280	**19,211**
Total	**37,959**	**79,230**	**6,582**	**40,957**	**164,728**

	Group loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Standard	486,390	85,599	-	108,914	**680,903**
Watch	587,837	20,415	-	8,580	**616,832**
Substandard	43,633	6,074	-	5,669	**55,376**
Total	**1,117,860**	**112,088**	**-**	**123,163**	**1,353,111**

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**

	Group loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
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**

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

31 December 2012

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Standard	9,884	52,798	2,896	15,636	**81,214**
Watch	551	15,738	69	17,883	**34,241**
Substandard	39	10,694	0	7,280	**18,013**
Total	**10,474**	**79,230**	**2,965**	**40,799**	**133,468**

	Bank loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Standard	634,227	85,599	216,789	108,914	**1,045,529**
Watch	578,629	20,415	-	8,580	**607,624**
Substandard	43,633	6,074	-	5,669	**55,376**
Total	**1,256,489**	**112,088**	**216,789**	**123,163**	**1,708,529**

31 December 2011

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
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				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
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**

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.

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

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 2012

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Past due up to 30 days	2,864	7,218	602	4,323	**15,007**
Past due 30-60 days	125	1,554	7	280	**1,966**
Past due 60-90 days	30	283	13	178	**504**
Past due more than 90 days	19	1,827	14	279	**2,139**
Total	**3,038**	**10,882**	**636**	**5,060**	**19,616**
Fair value of collateral	-	19,385	-	7,549	26,934

	Group loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Past due up to 30 days	72,506	365	72	72,943
Past due 30-60 days	9,595	-	-	9,595
Past due 60-90 days	1,166	-	-	1,166
Past due more than 90 days	24,008	946	203	25,157
Total	**107,275**	**1,311**	**275**	**108,861**
Fair value of collateral	178,388	7,193	707	186,288

31 December 2011

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
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			
	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

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

31 December 2012

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Past due up to 30 days	982	7,218	75	4,323	**12,598**
Past due 30-60 days	51	1,554	-	280	**1,885**
Past due 60-90 days	-	283	-	178	**461**
Past due more than 90 days	9	1,827	-	279	**2,115**
Total	**1,042**	**10,882**	**75**	**5,060**	**17,059**
Fair value of collateral	-	19,385	-	7,549	26,934

	Bank loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Past due up to 30 days	72,506	365	72	72,943
Past due 30-60 days	9,595	-	-	9,595
Past due 60-90 days	1,166	-	-	1,166
Past due more than 90 days	24,008	946	203	25,157
Total	**107,275**	**1,311**	**275**	**108,861**
Fair value of collateral	178,388	7,193	707	186,288

31 December 2011

	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**

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

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 and the Bank as security is as follows:

31 December 2012

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Impaired loans	**2,055**	**12,143**	**1,504**	**11,519**	**27,221**
Fair value of collateral	-	7,460	-	1,482	8,942

	Group loans to business customers			
	Large corporates	**SME**	**Central and local authorities and other**	**Total**
Impaired loans	**37,451**	**132,469**	**-**	**169,920**
Fair value of collateral	19,025	73,517	-	**92,542**

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 2012

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Impaired loans	**1,509**	**12,143**	**388**	**11,519**	**25,559**
Fair value of collateral	-	7,460	-	1,482	8,942

	Bank loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Impaired loans	**132,313**	**37,451**	**-**	**169,764**
Fair value of collateral	73,517	19,025	-	**92,542**

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

During 2012 the Bank's estimated interest income on impaired loans amounted to LTL 2,499 thousand (2011: LTL 3,557 thousand).

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

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

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 2012 amounted to LTL 33 million (2011: LTL 50 million).

Renegotiated loans according to the class of financial assets.

31 December 2012

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Renegotiated loans	34	401	-	1,045	1,480

	Bank loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Renegotiated loans	18,972	4,784	7,806	31,562

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

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 2012 amounted to LTL 251 million (2011: LTL 298 million). Totally unsecured loans comprise only consumer loans, credit cards and loans issued by the Bank to its subsidiaries.

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

31 December 2012

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Unsecured loans	43,041	8,238	8,722	18,638	**78,639**
Loans collateralised by:	**11**	**94,017**	**-**	**38,898**	**132,926**
- residential real estate	11	81,890	-	14,421	**96,322**
- other real estate	-	5,951	-	19,989	**25,940**
- securities	-	153	-	1,494	**1,647**
- guarantees	-	5,927	-	913	**6,840**
- cash deposits	-	96	-	1,198	**1,294**
- other assets	-	-	-	883	**883**
Total	**43,052**	**102,255**	**8,722**	**57,536**	**211,565**

	Group loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Unsecured loans	252,693	32,716	-	111,629	**397,038**
Loans collateralised by:	**1,104,911**	**118,134**	**-**	**11,809**	**1,234,854**
- residential real estate	71,004	930	-	1,016	**72,950**
- other real estate	747,232	79,073	-	8,227	**834,532**
- securities	40,158	4,798	-	-	**44,956**
- guarantees	150,159	2,378	-	2,443	**154,980**
- cash deposits	12,454	975	-	24	**13,453**
- other assets	83,904	29,980	-	99	**113,983**
Total	**1,357,604**	**150,850**	**-**	**123,438**	**1,631,892**

31 December 2011

	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**

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

31 December 2012

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Unsecured loans	13,014	8,238	3,428	18,480	**43,160**
Loans collateralised by:	**11**	**94,017**	**-**	**38,898**	**132,926**
- residential real estate	11	81,890	-	14,421	**96,322**
- other real estate	-	5,951	-	19,989	**25,940**
- securities	-	153	-	1,494	**1,647**
- guarantees	-	5,927	-	913	**6,840**
- cash deposits	-	96	-	1,198	**1,294**
- other assets	-	-	-	883	**883**
Total	**13,025**	**102,255**	**3,428**	**57,378**	**176,086**

	Bank loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Unsecured loans	400,510	32,716	216,789	111,629	**761,644**
Loans collateralised by:	**1,095,567**	**118,134**	**-**	**11,809**	**1,225,510**
- residential real estate	71,004	930	-	1,016	**72,950**
- other real estate	751,181	79,073	-	8,227	**838,481**
- securities	26,158	4,798	-	-	**30,956**
- guarantees	150,159	2,378	-	2,443	**154,980**
- cash deposits	12,454	975	-	24	**13,453**
- other assets	84,611	29,980	-	99	**114,690**
Total	**1,496,077**	**150,850**	**216,789**	**123,438**	**1,987,154**

31 December 2011

	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**

1.6. Finance lease receivables

Finance lease receivables are summarised as follows:

	2012			2011		
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
Neither past due nor impaired	7,600	148,489	156,089	5,790	120,118	125,908
Past due but not impaired	725	24,646	25,371	975	34,358	35,333
Impaired	1,092	3,060	4,152	988	3,152	4,140
Gross	**9,417**	**176,195**	**185,612**	**7,753**	**157,628**	**165,381**
Less: allowance for impairment	667	1,082	1,749	543	1,097	1,640
Net	**8,750**	**175,113**	**183,863**	**7,210**	**156,531**	**163,741**

During the year ended 31 December 2012, finance lease receivables portfolio increased by 12,23% (2011: increased by 56.11%). Total impairment provision for finance lease receivables is LTL 1,749 thousand (2011: LTL 1,640 thousand) and it accounts for 0.94% of the respective portfolio (2011: 0.99%).

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.

	2012			2011		
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
Standard	7,430	42,153	49,583	5,682	45,529	51,211
Watch	6	70,562	70,568	-	65,930	65,930
Substandard	164	35,774	35,938	108	8,659	8,767
Total	**7,600**	**148,489**	**156,089**	**5,790**	**120,118**	**125,908**

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

	2012			2011		
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
Past due up to 3 days	305	8,074	8,379	260	15,226	15,486
Past due 4-40 days	384	16,273	16,657	584	18,478	19,062
Past due 41-90 days	36	42	78	122	654	776
Past due more than 90 days	,	257	257	9	-	9
Total	**725**	**24,646**	**25,371**	**975**	**34,358**	**35,333**
Fair value of collateral	307	14,067	14,374	333	21,388	21,721

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

c) Finance lease receivables individually impaired

	Individuals	Business customers	Total
31 December 2012			
Individually impaired	1,092	3,060	4,152
Fair value of collateral	25	906	931
31 December 2011			
Individually impaired	988	3,152	4,140
Fair value of collateral	78	1,475	1,553

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.

			2012			**2011**
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
Unsecured finance lease receivables	-	-	-	-	-	-
Finance lease receivables secured by:	-	-	-	-	-	-
- transport vehicles	4,957	41,386	46,343	2,653	37,058	39,711
- residential real estate	1,587	89,615	91,202	139	70,583	70,722
- airplanes	-	7,623	7,623	-	8,092	8,092
- production equipment	34	12,540	12,574	27	23,838	23,865
- other equipment	554	18,344	18,898	482	8,847	9,329
- other assets	2,285	6,687	8,972	4,452	9,210	13,662
Total	**9,417**	**176,195**	**185,612**	**7,753**	**157,628**	**165,381**

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

1.7. Other financial assets

	2012		2011	
	Group Business customers	**Bank Business customers**	**Group Business customers**	**Bank Business customers**
Neither past due nor impaired	1,605	133	17,593	116
Past due but not impaired	-	-	782	-
Impaired	7,027	-	6276	-
Gross	**8,632**	**133**	**24,651**	**116**
Less: allowance for impairment	2,662	-	1,526	-
Net	**5,970**	**133**	**23,125**	**116**

a) *Amounts receivable neither past due nor impaired*

	2012		2011	
	Group Business customers	**Bank Business customers**	**Group Business customers**	**Bank Business customers**
Standard	1,605	133	17,593	116
Watch	-	-	-	-
Sub-standard	4,365	-	782	-
Total:	**5,970**	**133**	**18,375**	**116**

b) Impaired amounts receivable

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

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

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 2012 and 2011: 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 – 15%, health and social work – 10%. As at 31 December 2012 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 restaurants	Transport, storage and communica-tion	Health and social work	Loans to individuals	Other	Total
Loans and advances to banks	**4,137**	-	-	-	-	-	-	-	-	-	-	**4,137**
Loans and advances to customers:	**277,876**	**231,599**	**279,022**	**374,562**	**211,004**	**106,077**	**94,848**	**38,124**	**50,508**	**159,927**	**229,262**	**2,052,809**
Loans and advances to financial institutions	216,789	-	-	-	-	-	-	-	-	-	-	**216,789**
Loans to individuals (Retail):	-	-	-	-	-	-	-	-	-	**159,927**	-	**159,927**
- Mortgages	-	-	-	-	-	-	-	-	-	95,290	-	**95,290**
- Consumer loans	-	-	-	-	-	-	-	-	-	12,048	-	**12,048**
- Credit cards	-	-	-	-	-	-	-	-	-	3,111	-	**3,111**
- Other	-	-	-	-	-	-	-	-	-	49,478	-	**49,478**
Loans to business customers:	**61,087**	**231,599**	**279,022**	**374,562**	**211,004**	**106,077**	**94,848**	**38,124**	**50,508**	-	**229,262**	**1,676,093**
- SME	61,087	231,599	207,744	374,562	197,011	106,077	94,848	30,870	7,098	-	108,926	**1,419,822**
- Large corporates	-	-	71,278	-	12,991	-	-	6,935	38,777	-	2,853	**132,834**
- Central and local authorities, administrative bodies and other	-	-	-	-	1,002	-	-	319	4,633	-	117,483	**123,437**
Trading assets:	3,164	3,461	9,333	53	-	-	-	4,658	-	-	30,529	51,198
- Debt securities	3,028	3,461	9,330	0	-	-	-	4,393	-	-	30,529	50,741
- Equity securities	136	-	3	53	-	-	-	265	-	-	-	457
Derivative financial instruments	93	1644	3,374	2,371	2,481	1,206	262	**769**	**93**	660	739	13,690
Securities available for sale	10,854	5,663	64,042	-	3,543	-	5,184	25,453	5,626	-	85,020	205.385
- Equity securities	368	-	27	-		-	-	-	-	-	1,349	1,744
- Debt securities	10,486	5,663	64,015	-	3,543	-	5,184	25,453	5,626	-	83,671	203,641
Investment securities held-to-maturity	3,855		3,864	-	-	-	-	22,119	-	-	243,193	273,031
-debt securities	3,855		3,864	-	-	-	-	22,119			243,193	273,031
Other financial assets	133	-	-	-	-	-	-	-	-	-	-	133
Credit risk exposures relating to off –balance sheet items are as follows:	5,417	16,630	16,733	2,821	41,742	329	1,362	1,763	7	-	5,097	91,901
Financial guarantees	1,876	16,630	16,733	2,821	41,742	329	1,362	1,763	7	-	5,097	88,360
Letters of credit	3,541	-	-	-	-	-	-	-	-	-	-	3,541
Loan commitments and other credit related liabilities	3,238	20,801	8,195	4,627	11,872	13,707	444	4,802	626	7,004	38,695	114,011
At 31 December 2012	**308,767**	**279,798**	**384,563**	**384,434**	**270,642**	**121,319**	**102,100**	**97,688**	**56,860**	**167,591**	**632,535**	**2,806,295**
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**	**2,627,264**

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

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 communic a-tion	Health and social work	Loans to individuals	Other	Total
Loans and advances to banks	**4,137**	-	-	-	-	-	-	-	-	-	-	**4,137**
Loans and advances to customers:	**45,448**	**231,599**	**274,230**	**240,384**	**211,004**	**106,077**	**96,828**	**38,124**	**50,508**	**194,394**	**243,262**	**1,731,858**
Loans and advances to financial institutions	-	-	-	-	-	-	-	-	-	-	-	**0**
Loans to individuals (Retail):	-	-	-	-	-	-	-	-	-	**194,394**	-	**194,394**
- Consumer loans	-	-	-	-	-	-	-	-	-	95,290	-	**95,290**
- Mortgages	-	-	-	-	-	-	-	-	-	41,878	-	**41,878**
- Credit cards	-	-	-	-	-	-	-	-	-	7,590	-	**7,590**
- Other	-	-	-	-	-	-	-	-	-	49,636	-	**49,636**
Loans to business customers:	**45,448**	**231,599**	**274,230**	**240,384**	**211,004**	**106,077**	**96,828**	**38,124**	**50,508**	-	**243,262**	**1,537,464**
- SME	45,448	231,599	202,952	240,384	197,011	106,077	96,828	30,870	7,098	-	122,926	**1,281,193**
- Large corporates	-	-	71,278	-	12,991	-	-	6,935	38,777	-	2,853	**132,834**
- Central and local authorities, administrative bodies and other	-	-	-	-	1,002	-	-	319	4,633	-	117,483	**123,437**
Finance lease receivables	3,358	24,779	33,340	28,382	6,809	5,808	18,073	23,511	2,250	8,750	28,803	**183,863**
-individuals	-	-	-	-	-	-	-	-	-	8,750	-	**8,750**
-business customers	3,358	24,779	33,340	28,382	6,809	5,808	18,073	23,511	2,250	-	28,803	**175,113**
Trading assets:	3,164	3,461	9,333	53	-	-	-	4,658	-	-	30,529	51,198
- Debt securities	3,028	3,461	9,330	-	-	-	-	4,393	-	-	30,529	50,741
- Equity securities	136	-	3	53	-	-	-	265	-	-	-	457
Derivative financial instruments	93	1644	3,374	2,371	2,481	1,206	262	769	93	660	739	13,690
Securities available for sale	10 854	5 663	65 497	70	3 543	0	5 184	25 453	6 196	-	85 151	207 611
- Debt securities	10,486	5,663	64,015	-	3,543	-	5,184	25,453	5,626	-	83,671	203,641
- Equity securities	368	-	1,482	70	-	-	-	-	570	-	1,480	3,970
Investment securities held-to-maturity	3,855	-	3,864	-	-	-	-	22,119	-	-	243,193	273,031
- Debt securities	3,855	-	3,864	-	-	-	-	22,119	-	-	243,193	273,031
Other assets	284	3	35	4,483	-	970	-	-	-	10	185	5,970
Credit risk exposures relating to off –balance sheet items are as follows:	5,415	16,630	16,688	2,821	41,742	329	1,362	1,763	7	-	5,097	91,854
Financial guarantees	1,874	16,630	16,688	2,821	41,742	329	1,362	1,763	7	-	5,097	88,313
Letters of credit	3,541	-	-	-	-	-	-	-	-	-	-	3,541
Loan commitments and other credit related liabilities	2,421	20,845	7,508	3,240	12,267	13,707	444	4,802	626	8,463	39,963	114,286
At 31 December 2012	**79,029**	**304,624**	**413,869**	**281,804**	**277,846**	**128,097**	**122,153**	**121,199**	**59,680**	**212,277**	**676,922**	**2,677,498**
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**

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 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 Bank's, 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. Long position means that Bank's assets are higher then its liabilities, whereas shorts means that liabilities exceed assest. The Bank also calculates Total open position (TOP), which is the higher of the separately added short and long positions. There are no pre-set required ratios for short and long positions, The requirements are set for a currency position or for total open position irrespective whether it is short or long. As at 31 December 2012 the Group's and Bank's TOP to capital ratio was 1.02% (2011: 0.49%).

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

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 2012 and prognosis that exchange rate fluctuations will remain the same in 2013. 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, 2013	Annual reasonable shift, 2012
LVL	0.5%	1%
GBP	4.5%	4.5%
DKK	0.3%	0.5%
USD	6%	7%
SEK	10%	3%
Other currencies	4%	6.5%

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 2012	At 31 December 2011
Group	**Impact on profit or loss and equity**	**Impact on profit or loss and equity**
US Dollars	26	6
GBP	3	1
DKK	1	1
SEK	74	13
LVL	1	2
Other currencies	72	31
Total	**177**	**54**

	At 31 December 2012	At 31 December 2011
Bank	**Impact on profit or loss and equity**	**Impact on profit or loss and equity**
US Dollars	26	6
GBP	3	1
DKK	1	1
SEK	74	13
LVL	1	2
Other currencies	72	31
Total	**177**	**54**

The presumable FX rate change creates acceptable impact on the Group's and the Bank's annual profit and makes LTL 177 thousand in 2012 higher/lower impact for the Group and the Bank (2011: 54 thousand LTL).

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.

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

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 and the Group'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.

Group	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 2012							
Total financial assets	380,747	543,467	798,257	98,937	617,568	254,237	2,693,213
Total financial liabilities	340,077	427,380	517,669	622,362	67,145	618,082	2,592,715
Net interest sensitivity gap at 31 December 2012	40,670	116,087	280,588	(523,425)	550,423	(363,845)	100,498
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

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 2012 and 31 December 2011.

	31 December 2012		31 December 2011	
	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.	(444)	(12,842)	1,915	(1,918)
Interest rate decrease by 1p.p.	444	12,842	(1,915)	1,918

The shift of yield curve according to above mentioned parameters creates acceptable impact on Group's total comprehensive income and makes LTL 444 thousand in 2012 (2011: LTL 1,915 thousand) higher/lower impact on profit and LTL 12,842 thousand in 2012 (2011: LTL 1,918 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.

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

Bank	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 2012							
Total financial assets	419,951	529,989	798,003	199,256	631,388	243,601	2,822,188
Total financial liabilities	340,238	427,380	517,669	622,367	67,145	616,919	2,591,718
Net interest sensitivity gap at 31 December 2012	79,713	102,609	280,334	(423,111)	564,243	(373,318)	230,470
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

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, except for effects on derivative financial instruments, as at 31 December 2012 and 31 December 2011.

	31 December 2012		**31 December 2011**	
	Increase (decrease) in profit	Incrase (decrease) in other comprehensive income	Increase (decrease) in profit	Incrase (decrease) in other comprehensive income
Interest rate increase by 1p.p.	67	(12,842)	2,378	(1,918)
Interest rate decrease by 1p.p.	(67)	12,842	(2,378)	1,918

The shift of yield curve according to above mentioned parameters creates acceptable impact on Bank’s total comprehensive income and makes LTL 67 thousand in 2012 (2011: LTL 2,378 thousand) higher/lower impact on profit and LTL 12,842 thousand in 2012 (2011: LTL 1,918 thousand) higher/lower impact on other comprehensive income.

The shift of yield curve up by 1p.p. would cause decrease in value of derivative financial instruments by LTL 6,875 thousand in 2012, the decrease would be accounted in profit (loss). The shift of yield curve down by 0.5 p.p. would cause increase in value of derivative financial instruments by LTL 5,385 thousand in 2012, the increase would be accounted in profit (loss).

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. The required liquidity limit set by Bank of Lithuania is 30 per cent. For the purpose of managing liquidity risk, in addition to the liquidity ratio set by the Bank of Lithuania, which as at 31 December 2012 the Group's ratio was 41.56 (2011: 37.26) and the Bank's 42.78 (2011: 38.36), 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 2012 the above Group's ratio was 24.41 per cent (2011: 21.05 per cent), and the Bank's – 24.51 per cent (2011: 21.09 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 2012 the above ratio on the Group's and the Bank's level was 225.01 (2011: 160.01 per cent) per cent and 224.47 (2011: 159.97 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 2012 *mobile* liabilities formed a share in the total liabilities on the Group's level equal to 12.15 per cent (2011: 14.74 per cent), on the Bank's level – 12.25 per cent (2011: 14.80 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 2012 the Group's and the Bank's ratio was -43.24 per cent (2011: -41.88 per cent) and -33.38 per cent (2011: -33.59 per cent) respectively.

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

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 2012 Liabilities	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Due to banks	-	17,664	39,557	118,033	202,695	39,633	417,582
Due to customers	-	744,508	314,932	1,036,123	79,336	7,999	2,182,898
Debt securities in issue	-	7,119	15,408	538	-	-	23,065
Special and lending funds	-	3,512	-	667	3,245	-	7,424
Total liabilities (contractual maturity dates)	**-**	**772,803**	**369,897**	**1,155,361**	**285,276**	**47,632**	**2,630,969**

Group

31 December 2011 Liabilities	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Due to banks	-	54,924	45,021	77,940	274,685	42,474	495,044
Due to customers	-	680,285	260,912	852,466	101,969	7,818	1 903 450
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**	**960,331**	**405,109**	**50,292**	**2 463 128**

Bank

31 December 2012 Liabilities	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Due to banks	-	19,957	39,557	118,038	202,695	39,633	419,880
Due to customers	-	744,669	314,932	1,036,123	79,336	7,999	2,183,059
Debt securities in issue	-	7,119	15,408	538	-	-	23,065
Special and lending funds	-	3,512	-	667	3,245	-	7,424
Total liabilities (contractual maturity dates)	**-**	**775,257**	**369,897**	**1,155,366**	**285,276**	**47,632**	**2,633,428**

Bank

31 December 2011 Liabilities	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
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**

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

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 2012							
Loan commitments	112,094	-	-	-	-	-	112,094
Finance lease commitments	434	-	-	-	-	-	434
Guarantees	88,313	-	-	-	-	-	88,313
Other commitments	2,299	416	57	4,295	169	18	7,254
Total	203,140	416	57	4,295	169	18	208,095
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

Bank	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1to 5 years	Over 5 years	Total
At 31 December 2012							
Loan commitments	114,011	-	-	-	-	-	114,011
Guarantees	88,360	-	-	-	-	-	88,360
Other commitments	2,121	204	-	3,541	-	-	5,866
Total	204,492	204	-	3,541	-	-	208,237
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

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

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

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 and Group's balance sheets 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-interest bearing 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 2012.

f) Other financial assets and other financial liabilities

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

Bank

As at 31 December 2012 **Assets**	**Carrying amount**	**Fair value**
Loans	**2,052,809**	**2,058,711**
Loans to individuals:	**159,927**	**154,500**
- Consumer loans	12,048	12,905
- Mortgages	95,290	84,657
- Credit cards	3,111	3,368
- Other	49,478	53,570
Loans to business customers	**1,676,093**	**1,689,016**
- Central and other authorities	123,437	120,324
- Large corporates	132,834	143,212
- SME	1,419,822	1,425,480
Loans and advances to financial institutions	**216,789**	**215,195**
Investment securities held-to-maturity	**273,031**	**290,558**
Other financial assets	**133**	**133**

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

Liabilities		
Due to other banks and financial institutions	**408,568**	**419,479**
Due to customers	**2,165,852**	**2,169,529**
Due to individuals	1,617,097	1,620,420
Due to private companies	383,005	383,225
Due to other enterprises	165,750	165,884
Debt securities in issue	22,912	23,610
Special and lending funds	**7,294**	**8,051**

As at 31 December 2011

Assets	Carrying amount	Fair value
Loans	**2,069,758**	**2,105,649**
Loans to individuals:	**193,071**	**192,388**
- Consumer loans	12,726	13,960
- Mortgages	103,516	98,633
- Credit cards	3,502	4,164
- Other	73,327	75,631
Loans to business customers	**1,701,801**	**1,740,870**
- Central and other authorities	108,404	110,481
- Large corporates	176,391	171,671
- SME	1,417,006	1,458,718
Loans and advances to financial institutions	**174,886**	**172,391**
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**
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**

Group

As at 31 December 2012

Assets	Carrying amount	Fair value
Loans	**1,731,858**	**1,736,384**
Loans to individuals:	**194,394**	**185,440**
- Consumer loans	41,878	39,007
- Mortgages	95,290	84,657
- Credit cards	7,590	8,103
- Other	49,636	53,673
Loans to business customers	**1,537,464**	**1,550,944**
- Central and other authorities	123,437	120,324
- Large corporates	132,834	143,212
- SME	1,281,193	1,287,408
Loans and advances to financial institutions	**-**	**-**
Finance lease receivables	**183,863**	**159,480**

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

Investment securities held-to-maturity	**273,031**	**290,558**
Other financial assets	**5,970**	**5,868**
Liabilities		
Due to other banks and financial institutions	**406,270**	**417,181**
Due to customers	**2,165,691**	**2,169,368**
Due to individuals	1,617,097	1,620,420
Due to private companies	382,844	383,064
Due to other enterprises	165,750	165,884
Debt securities in issue	**22,912**	**23,610**
Special and lending funds	**7,294**	**8,051**

As at 31 December 2011 **Assets**	**Carrying amount**	**Fair value**
Loans	**1,786,631**	**1,822,591**
Loans to individuals:	**205,297**	**204,865**
- Consumer loans	18,030	19,080
- Mortgages	103,516	98,633
- Credit cards	10,424	11,521
- Other	73,327	75,631
Loans to business customers	**1,580,015**	**1,618,229**
- Central and other authorities	110,549	112,626
- Large corporates	176,391	171,671
- SME	1,293,075	1,333,932
Loans and advances to financial institutions	**1,319**	**(503)**
Finance lease receivables	**163,741**	**141,616**
Investment securities held-to-maturity	**306,349**	**303,041**
Other financial assets	**23,125**	**20,568**
Liabilities		
Due to other banks and financial institutions	**470,889**	**499,069**
Due to customers	**1,893,885**	**1,897,246**
Due to individuals	1,308,728	1,311,462
Due to private companies	373,602	374,117
Due to other enterprises	211,555	211,667
Debt securities in issue	**45,284**	**45,586**
Special and lending funds	**16,900**	**16,715**

(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

	2012		2011	
	Group	**Bank**	**Group**	**Bank**
LEVEL I				
Financial assets at fair value through profit or loss				
Listed equity securities	357	357	267	267
Units of investment funds	97	97	85	85
Bonds of the Government of the Republic of Lithuania	20,600	20,600	16,216	16,216
Local corporate debt securities	30,141	30,141	-	-
Available for sale financial assets				
Bonds of the Government of the Republic of Lithuania	21,293	21,293	10,602	10,602
Bonds of foreign countries governments	-	-	19,777	19,777
Bonds of foreign countries corporates	147,311	147,311	-	-
Investment fund units	353	353	298	298
TOTAL LEVEL I	**220,152**	**220,152**	**47,245**	**47,245**
LEVEL III				
Financial assets at fair value through profit or loss				
Unlisted equity securities	3	3	6	6
Derivative financial instruments	13,690	13,690		
Available for sale financial assets				
Unlisted equity securities	3,517	1,391	4,940	1,391
TOTAL LEVEL III	**17,310**	**15,084**	**4,946**	**1,397**

During year 2012 the Group has recognized LTL 1,455 thousand impairment (2011: LTL 14 thousand increase in value) related to unlisted equity securities. The reduction /increase in value has been included into Net gain (loss) from operations with securities line in profit (loss) (2011: Net gain (loss) from revaluation of financial assets line in 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 which are a part of Internal Capital Adequacy Assessment Process (ICAAP). 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.

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.

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

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 institutions exceeding 10 per cent of capital of those institutions.

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.

		2012		**2011**
	Group	**Bank**	**Group**	**Bank**
Tier 1 capital				
Ordinary shares	234,858	234,858	234,858	234,858
Share premium	47,861	47,861	47,861	47,861
Reserve capital	2,611	2,611	2,611	2,611
Previous year's retained earnings	8,179	12,171	(3,913)	-
Current year loss	-	-	-	-
Other reserves (statutory reserve)	1,891	1,289	960	648
Negative financial assets revaluation reserve	-	-	(1,182)	(1,182)
Less: Intangible assets	(1,207)	(903)	(916)	(894)
Total Tier 1 capital	**294,193**	**297,887**	**280,279**	**283,902**
Tier 2 capital				
85 % financial assets revaluation reserve	4,415	4,415	-	-
Total Tier 2 capital	**4,415**	**4,415**	**-**	**-**
Less Investments in other credit or financial institutions	-	(2,505)	-	(1,647)
Total capital	**298,608**	**299,797**	**280,279**	**282,255**
Capital requirements for:				
(Credit risk) of groups of positions under the Standardised Approach	166,071	166,817	157,588	158,179
Debt financial instruments	2,335	2,335	140	140
Equity securities	73	73	57	57
Foreign exchange positions	8,558	8,563	7,149	7,097
Operational risk under the Basic Indicator Approach	11,885	9,453	8,252	7,500
Total capital requirements	**188,921**	**187,241**	**173,186**	**172,973**
Capital adequacy (solvency) ratio, %	**12.64**	**12.81**	**12.95**	**13.05**

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

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 2012 would be higher or lower by LTL 5,558 thousand (2011: LTL 4,529 thousand) and LTL 5,552 thousand (2011: LTL 4,427 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 2012 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.

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 2012 and in the statement of comprehensive income for the year then ended:

	Šiauliai region	**Vilnius region**	**Klaipėda region**	**Head-quarters, including Kaunas**	**Leasing**	**Investment management**	**Real estate development and other**	**Eliminations**	**Total Group**
Internal	526	14,050	4,462	(6,399)	(6,000)	(818)	(5,171)	(650)	-
External	19,546	2,467	6,958	13,820	12,708	311	1,689	-	57,499
Net interest income	20,072	16,517	11,420	7,421	6,708	(507)	(3,482)	(650)	57,499
Internal	42	14,028	4,410	(5,677)	(6,142)	(818)	(5,191)	(652)	-
External	24,709	5,974	9,968	10,649	12,222	385	1,692	-	65,599
Net interest, fee and commissions income	**24,751**	**20,002**	**14,378**	**4,972**	**6,080**	**(433)**	**(3,499)**	**(652)**	**65,599**
Internal	-	-	-	(455)	-	-	-	455	-
External	(26,793)	503	1,069	(2,516)	(80)	(1,454)	(1,131)	-	(30,402)
Impairment expenses	**(26,793)**	**503**	**1,069**	**(2,971)**	**(80)**	**(1,454)**	**(1,131)**	**455**	**(30,402)**
Internal	(6,672)	(5,141)	(5,821)	16,887	(180)	(14)	(33)	974	-
External	(4,884)	(4,262)	(4,256)	(22,105)	(3,225)	(1,345)	(27,821)	-	(67,898)
Operating expenses	**(11,556)**	**(9,403)**	**(10,077)**	**(5,218)**	**(3,405)**	**(1,359)**	**(27,854)**	**974**	**(67,898)**
Amortisation charges	-	(2)	(3)	(277)	(8)	-	(5)	-	(295)
Depreciation charges	(274)	(199)	(322)	(2,172)	(894)	(14)	(745)	-	(4,620)
Internal	(24)	(7)	5	1,270	(1)	34	67	(1,344)	-
External	1,774	1,194	956	15,554	1,153	815	31,321	-	52,767
Net other income	**1,750**	**1,187**	**961**	**16,824**	**1,152**	**849**	**31,388**	**(1,344)**	**52,767**
Profit (loss) before tax	(12,122)	12,088	6,006	11,158	2,845	(2,411)	(1,846)	(567)	15,151
Income tax	-	-	-	(2,258)	(419)	-	654	-	(2,023)
Profit (loss) per segment after tax	**(12,122)**	**12,088**	**6,006**	**8,900**	**2,426**	**(2,411)**	**(1,293)**	**(567)**	**13,128**
Non-controlling interest	-	-	-	-	-	-	101	-	101
Profit (loss) for the year attributable to the owners of the Bank	(12,122)	12,088	6,006	8,900	2,426	(2,411)	(1,293)	(567)	13,027
Total segment assets	**788,223**	**728,196**	**499,949**	**915,098**	**230,008**	**18,527**	**188,692**	**(425,990)**	**2,942,703**
Total segment liabilities	**800,345**	**716,108**	**493,943**	**602,214**	**225,056**	**15,649**	**149,131**	**(374,199)**	**2,628,247**
Net segment assets (shareholders' equity)	**(12,122)**	**12,088**	**6,006**	**312,884**	**4,952**	**2,878**	**39,561**	**(51,791)**	**314,456**

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 2011 and in the statement of comprehensive income for the year then ended:

Re-presented	**Šiauliai region**	**Vilnius region**	**Klaipėda region**	**Head-quarters, including Kaunas**	**Leasing**	**Investment manage-ment**	**Real estate develop-ment**	**Elimina-tions**	**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	3,019	-	54,755
Net interest income	21,431	11,953	10,301	6,366	5,463	(244)	(515)	-	54,755
Internal	(545)	11,967	5,246	(7,021)	(4,772)	(1,320)	(3,555)	-	-
External	26,217	2,328	7,431	12,877	10,072	1,195	3,116	-	63,236
Net interest, fee and commissions income	**25,672**	**14,295**	**12,677**	**5,853**	**5,300**	**(125)**	**(439)**	**-**	**63,236**
Internal	-	-	-	-	-	-	-	-	-
External	(4,333)	(1,113)	(729)	(3,386)	(599)	313	(774)	-	(10,621)
Impairment expenses	**(4,333)**	**(1,113)**	**(729)**	**(3,386)**	**(599)**	**313**	**(774)**	**-**	**(10,621)**
Internal	-	-	-	(198)	(194)	(50)	(46)	488	-
External	(4,258)	(3,619)	(3,885)	(21,264)	(2,966)	(634)	(13,756)	-	(50,382)
Operating expenses	**(4,258)**	**(3,619)**	**(3,885)**	**(21,462)**	**(3,160)**	**(684)**	**(13,802)**	**488**	**(50,382)**
Amortisation charges	-	(2)	(3)	(230)	(7)	-	(1)	-	(246)
Depreciation charges	(469)	(313)	(401)	(1,994)	(1,000)	(14)	(583)	-	(4,774)
Internal	(656)	151	(218)	986	167	17	41	(488)	-
External	1,350	575	629	(608)	592	555	14,366	-	17,459
Net other income	**694**	**726**	**411**	**378**	**759**	**572**	**14,407**	**(488)**	**17,459**
Profit (loss) before tax	17,306	9,974	8,070	(20,838)	1,293	62	(1,192)	-	14,672
Income tax	-	-	-	(1,700)	(147)	-	198	-	(1,649)
Profit (loss) per segment after tax	**17,306**	**9,974**	**8,070**	**(22,538)**	**1,146**	**62**	**(997)**	**-**	**13,023**
Non-controlling interest	-	-	-	-	-	-	-	-	-
Profit (loss) for the year attributable to the owners of the Bank	17,306	9,974	8,070	(22,538)	1,146	62	(997)	-	13,023
Total segment assets	**794,265**	**715,899**	**454,784**	**766,618**	**184,457**	**38,330**	**114,974**	**(332,023)**	**2,737,304**
Total segment liabilities	**776,959**	**705,925**	**446,714**	**504,360**	**180,931**	**33,041**	**109,140**	**(313,984)**	**2,443,086**
Net segment assets (shareholders' equity)	**17,306**	**9,974**	**8,070**	**262,258**	**3,526**	**5,289**	**5,834**	**(18,039)**	**294,218**

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.

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

NOTE 1 NET INTEREST INCOME

	2012		2011	
	Group	**Bank**	**Group** re-presented	**Bank**
Interest income:				
on loans to other banks and financial institutions and placements with credit institutions	1,928	8,585	2,059	6,693
on loans to customers	97,631	98,049	91,576	91,882
on debt securities	17,407	17,407	19,192	17,505
- held to maturity	11,687	11,687	11,582	9,895
- available for sale	4,757	4,757	5,940	5,940
- at fair value through profit or loss	963	963	1,670	1,670
on finance leases	9,145	-	7,975	-
Total interest income	**126,111**	**124,041**	**120,802**	**116,080**
Interest expense:				
on liabilities to other banks and financial institutions and amounts due to credit institutions	(13,548)	(13,547)	(13,693)	(13,693)
on customer deposits and other repayable funds	(44,310)	(44,310)	(43,169)	(43,168)
compulsory insurance of deposits	(9,133)	(9,133)	(8,312)	(8,312)
on debt securities issued	(1,621)	(1,621)	(853)	(853)
on finance leases	-	-	-	(3)
Total interest expense	**(68,612)**	**(68,611)**	**(66,027)**	**(66,029)**
Net interest income	**57,499**	**55,430**	**54,775**	**50,051**

NOTE 2 NET FEE AND COMMISSION INCOME

	2012		2011	
	Group	**Bank**	**Group** re-presented	**Bank**
Fee and commission income:				
for money transfer operations	10,360	10,466	8,918	9,008
for payment card services	2,254	2,254	1,858	1,872
for base currency exchange	1,983	1,990	1,672	1,681
for operations with securities	148	148	145	145
other fee and commission income	1,800	1,759	1,615	1,446
Total fee and commission income	**16,545**	**16,617**	**14,208**	**14,152**
Fee and commission expense:				
for payment card services	(6,026)	(6,026)	(4,108)	(4,108)
for money transfer operations	(1,860)	(1,838)	(1,521)	(1,497)
for operations with securities	(77)	(77)	(80)	(80),
for base currency exchange	(2)	(2)	(3)	(3)
other fee and commission expenses	(480)	(1)	(15)	(15)
Total fee and commission expense	**(8,445)**	**(7,944)**	**(5,727)**	**(5,703)**
Net fee and commission income	**8,100**	**8,673**	**8,481**	**8,449**

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

NOTE 3 NET GAIN (LOSS) FROM OPERATIONS WITH INVESTMENT SECURITIES

	2012		2011	
	Group	**Bank**	**Group**	**Bank**
Securities held for trading				
Realised gain on trading equity securities	43	43	(9)	(9)
Unrealised gain on trading equity securities	41	41	(91)	(91)
Realised gain (loss) on trading debt securities	3,481	3,481	(302)	(302)
Unrealised (loss) on trading debt securities	351	351	(30)	(30)
Realised gain (loss) on trading options	(172)	(172)	-	-
Net gain on trading securities	**3,744**	**3,744**	**(432)**	**(432)**
Realised gain (loss) on debt securities held to maturity	1,000	-	(1,962)	(1,962)
Realised gain (loss) on available-for-sale debt securities	5,765	5,765	(1,089)	(1,089)
Dividend and other income from equity securities held for trading	17	17	15	15
Dividend and other income from available-for-sale equity securities	82	80	27	27
Total	**10,608**	**9,606**	**(3,441)**	**(3,441)**

NOTE 4 OTHER OPERATING EXPENSES

	2012		2011	
	Group	**Bank**	**Group re-presented**	**Bank**
Salaries, social security and other related expenses	29,440	23,630	27,207	22,059
Raw materials and consumables used	11,967	-	8,578	-
Construction works	7,740	-	-	-
Rent and maintenance of premises	5,017	4,639	4,869	4,074
Office equipment maintenance	1,189	1,132	1,078	1,047
Depreciation of fixed tangible assets	4,620	2,967	4,774	3,177
Amortisation of intangible assets	295	282	246	235
Transportation, post and communications expenses	2,059	2,081	2,241	1,982
Real estate tax and other taxes	2,882	294	1,641	280
Advertising and marketing expenses	1,055	791	819	772
Training and business trip expenses	172	122	120	75
Charity	196	192	238	207
Service organisation expenses	1,007	908	690	617
Legal costs incurred due to debt recovery	464	345	590	517
Other operating expenses	4,710	2,120	2,311	1,594
Total	**72,813**	**39,503**	**55,402**	**36,636**

NOTE 5 GAIN FROM DISPOSAL OF ASSETS

In 2012 gain on disposal of real estate assets at the Group amounted to LTL 1,999 thousand (Bank LTL 57 thousand). In 2011 gain on disposal of real estate assets at the Group amounted to LTL 2,164 thousand (Bank LTL 31 thousand).

NOTE 6 OTHER OPERATING INCOME

	2012		2011	
	Group	**Bank**	**Group**	**Bank**
Revenue from sale of goods	14,747	-	10,933	-
Revenue from sale of apartments	12,517	-	-	-
Income from lease of assets	2,522	688	1,776	367
Other income	1,234	321	1,135	369
Total	**31,020**	**1,009**	**13,844**	**736**

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

NOTE 7 IMPAIRMENT LOSSES ON LOANS

	2012		2011	
	Group	**Bank**	**Group**	**Bank**
Impairment losses on loans:				
Impairment charge for the year	28,199	28,359	11,046	10,718
Recoveries of loans previously written off	(955)	(715)	(1,402)	(1,157)
Total impairment losses on loans	27,244	27,644	9,644	9,561
Impairment losses on finance lease receivables:				
Impairment charge for the year	239	-	589	-
Recovered previously written-off finance lease receivables	(288)	-	(354)	-
Total impairment losses (reversals) on finance lease	(49)	-	235	-
Impairment losses on other assets:				
Investments in subsidiaries	-	455	-	-
Loss on revaluation of investments to Pavasaris (note 20)	574			
Available for sale securities and other assets	2,633	93	742	-
Total impairment losses on other assets	3,207	548	742	-
Total	30,402	28,192	10,621	9,561

NOTE 8 INCOME TAX

	2012		2011	
	Group	**Bank**	**Group**	**Bank**
Current tax	1,058	-	138	-
Deferred taxes	953	2,258	1,791	1,700
Adjustments of previous year income tax	12	-	-	-
Total	2,023	2,258	1,929	1,700

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:

	2012		2011	
	Group	**Bank**	**Group**	**Bank**
Profit before income tax	15,151	17,130	14,674	14,512
Tax calculated at a tax rate of 15%	2,273	2,570	2,201	2,177
Income not subject to tax	(1,990)	(486)	(1,936)	(551)
Expenses not deductible for tax purposes	1,949	174	1,453	74
Adjustment of previous year income tax	12	-	-	-
Utilisation of tax losses for which no deferred tax asset was recognized	(221)	-	(69)	-
Income tax charge	**2,023**	**2,258**	**1,649**	**1,700**

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

NOTE 8 INCOME TAX (CONTINUED)

Deferred tax assets	Group					Bank			
	Revaluation of financial instruments and other assets	Accruals	Tax losses carried forward	Revaluation of investment property	Total	Revaluation of financial instruments	Accruals	Tax losses carried forward	Total
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)
To be credited/(charged) to net profit	951	(35)	65	(45)	936	1,033	(35)	1,243	2,241
To be credited/ (charged) to equity	461				461	461			461
At 31 December 2012	955	(273)	(8,791)	(45)	(8,154)	1,011	(273)	(7,409)	(6,671)

Deferred tax liabilities		Group			Bank		
		Revaluation of securities	Fixed assets	Total	Revaluation of securities	Fixed assets	Total
At 31 December 2010		55	443	498	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
To be credited/(charged) to net profit		13	4	17	13	-	17
Acquired in business combination	16	-	5,668	5,668	-	-	-
To be credited/ (charged) to equity		681	-	681	681	-	681
At 31 December 2012		694	6,131	6,825	694	424	1,118

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 the Group will be sufficient to realize the accumulated tax losses. Therefore deferred tax asset from the accumulated tax 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:

	2012		2011	
	Group	Bank	Group	Bank
Deferred tax assets	(8,154)	(6,671)	(9,551)	(9,373)
Deferred tax liabilities	6,825	1,118	459	420
Net deferred tax (asset)	(1,329)	(5,553)	(9,092)	(8,953)

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

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). The management believes that there is no dilution effect as a part of loan was returned in 2013 and a new loan agreement signed (note 36).. Therefore, diluted earnings per share are the same as basic earnings per share in 2012.

The number of shares in issue for the year ended 31 December 2012 was 234,857 thousand. 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).

Earnings per share

Group	**2012**	**2011** (re-presented)
Net profit from continuing operations	13,128	13,023
Net loss from discontinued operations	-	-
Net profit (loss) attributable to equity holders	**13,128**	**13,023**
Weighted average number of shares in issue during the period (thousand units)	234,857	217,104
Basic and diluted earnings (loss) per share (LTL)	0,06	0.06
Basic and diluted earnings (loss) per share (LTL) from discontinued operations	-	-

Bank	**2012**	**2011**
Net profit from continuing operations	14,872	12,812
Net loss from discontinued operations	-	-
Net profit (loss) attributable to equity holders	**14,872**	**12,812**
Weighted average number of shares in issue during the period (thousand units)	234,857	217,104
Basic and diluted earnings (loss) per share (LTL)	0,06	0.06
Basic and diluted earnings (loss) per share (LTL) from discontinued operations	-	-

NOTE 10 CASH AND CASH EQUIVALENTS

	2012		**2011**	
	Group	**Bank**	**Group**	**Bank**
Cash and other valuables	47,107	47,106	29,990	29,988
Balances in bank deposit accounts	5,000	5,000	15,001	15,001
Balances in bank correspondent accounts	21,647	21,598	85,530	85,530
Placements with Central Bank:				
Deposits in Central Bank	-	-	1,500	1,500
Correspondent account with Central Bank	62,471	62,471	14,822	14,822
Mandatory reserves in national currency	85,630	85,630	77,003	77,003
Total placements with Central Bank	148,101	148,101	93,325	93,325
Total	**221,855**	**221,805**	**223,846**	**223,844**

The compulsory reserves held in the Bank of Lithuania are estimated on a monthly basis based on the value of indicated liabilities using the established compulsory reserve rate. With effect from 24 January 2013, the compulsory reserve rate has been reduced from 4% to 3%. .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. The Bank is free to use the funds held in the current account with the Bank of Lithuania, the average monthly amount of which may be not less than the estimated compulsory reserves.

NOTE 11 DERIVATIVE FINANCIAL INSTRUMENTS

In 2012, the Bank granted certain loans to customers with variable interest rate, however, the floor for interest rate was also set in the agreements. The floor presents a put option issued by the client and thus is treated as a derivate embedded in the host contract (loan granted). Accounting standards mandate that if at the moment of granting the loan the floor interest rate is above the contractual variable interest rate, then the embedded derivative is not closely related with host contract and thus should be separated and accounted for separately.

Upon initial separation of the derivative, the related amount is credited to the loan balance and becomes part of the effective interest rate of the loan, whereas the embedded derivative is fair valued at each balance sheet date. The Bank uses Black-Sholes model to price options. Certain inputs are derived from the market (e.g. historical volatility of EURIBOR and VILIBOR rates as well as EURIBOR forward curves), while forward curves for VILIBOR are derived from EURIBOR forward curves with an adjustment of historical spread between EURIBOR and VILIBOR.

Details of the derivatives are presented below (both for the Bank and for the Group):

	2012
Initial recognition	
Value of the embedded derivative	9,505
Credit to loans granted	(9,505)
Subsequent measurement	
Increase in the fair value of the derivative (gain in profit and loss)	4,185
Fair value of the derivative as of 31 December	13,690

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

NOTE 12 TRADING SECURITIES

	2012		2011	
	Group	**Bank**	**Group**	**Bank**
Debt securities:				
Government bonds	20,600	20,600	16,216	16,216
Corporate bonds	23,569	23,569	-	-
State controlled entities' bonds	6,572	6,572	-	-
Total debt securities	**50,741**	**50,741**	**16,216**	**16,216**
Equity securities:				
Listed	357	357	267	267
Unlisted	3	3	6	6
Units of investment funds	97	97	85	85
Total equity securities	**457**	**457**	**358**	**358**
Total	**51,198**	**51,198**	**16,574**	**16,574**
Breakdown of debt securities by their maturity:				
Short-term (up to 1 year)	14,938	14,938	14,401	14,401
Long-term (over 1 year)	35,803	35,803	1,815	1,815
Total	**50,741**	**50,741**	**16,216**	**16,216**

Trading securities have not been pledged as at 31 December 2012 and 2011.

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 and the Group's trading securities as at 31 December 2012 and 2011:

Rating	**Government debt securities**		**Corporate debt securities**		**Corporate equity securities**		**Investment fund units**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
From AA- to AA+	-	-	3,437	-	-	-	-	-
From A- to A+	-	-	17,951	-	-	-	-	-
From BBB- to BBB+	20,600	16,216	8,753	-	-	-	-	-
From BB- to BB+	-	-	-	-	-	-	-	-
Lower than BB-	-	-	-	-	38	60	-	-
No rating	-	-	-	-	322	213	97	85
Total	20,600	16,216	30,141	-	360	273	97	85

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

NOTE 13 LOANS TO CUSTOMERS

	2012		2011	
	Group	Bank	Group	Bank
Gross loans to customers	1,843,457	2,163,240	1,8 77, 214	2,158,294
Allowance for loan impairment	(111,599)	(110,431)	(90,583)	(88,536)
NET LOANS TO CUSTOMERS	1,731,858	2,052,809	1,786,631	2,069,758
Breakdown of loans to customers according to maturity				
Short-term (up to 1 year)	520,324	798,240	547,725	809,443
Long-term (over 1 year)	1,216,427	1,259,462	1,238,906	1,260,315
Total	1,731,858	2,052,809	1,786,631	2,069,758

	Group	Bank
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**
Allowance for impairment of loans written off during the year as uncollectible	(7,113)	(6,394)
Currency translation differences and other adjustments	(70)	(70)
Increase in allowance for loan impairment (Note 7)	28,199	28,359
Allowance for loan impairment as at 31 December 2012	**111,599**	**110,431**

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

31 December 2012

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 31 December 2011	**1,898**	**7,322**	**2,353**	**3,723**	**15,296**
Change in allowance for loan impairment	2,268	(356)	(2,037)	4,175	4,050
Loans written off during the year	(2,175)	-	-	-	(2,175)
As at 31 December 2012	**1,991**	**6,966**	**316**	**7,898**	**17,171**

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

NOTE 13 LOANS TO CUSTOMERS (CONTINUED)

	Group loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 31 December 2011	**-**	**75,287**	**-**	**75,287**
Change in allowance for loan impairment	18,016	6,133	-	24,149
Loans written off during the year	-	(4,938)	-	(4,938)
Influence of FX rate shift	-	(70)	-	(70)
As at 31 December 2012	**18,016**	**76,412**	**-**	**94,428**

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**

31 December 2011

	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 as uncollectible	-	-	-	-
Influence of FX rate shift	-	97	-	97
As at 31 Dec 2011	**-**	**75,287**	**-**	**75,287**

31 December 2012

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 31 Dec 2010	**1,889**	**7,322**	**725**	**3,723**	**13,659**
Change in allowance for loan impairment	546	(356)	(409)	4,175	3,956
Loans written off during the year	(1,456)	-	-	-	(1,456)
As at 31 Dec 2011	**976**	**6,966**	**316**	**7,898**	**16,159**

	Bank loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 31 Dec 2011	**-**	**74,877**	**-**	**74,877**
Change in allowance for loan impairment	18,016	6,387	-	24,403
Loans written off during the year	-	(4,938)	-	(4,938)
Exchange rate impact	-	(70)	-	(70)
As at 31 Dec 2012	**18,016**	**76,256**	**-**	**94,272**

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

NOTE 13 LOANS TO CUSTOMERS (CONTINUED)

31 December 2011

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 1 Jan 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**

	Bank loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 1 Jan 2010	**-**	**65,944**	**-**	**65,944**
Change in allowance for loan impairment	-	8,836	-	8,836
Loans written off during the year	-	-	-	-
As at 31 Dec 2011	**-**	**74,780**	**-**	**74,780**

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 2011	41,400	93,414	56,157	190,971
Change during 2012	4,152	30,180	(17,438)	16,894
Balance at 31 December 2012	45,552	123,594	38,719	207,865
Unearned finance income on finance leases:				
Balance at 31 December 2011	6,361	13,034	6,195	25,590
Change during 2012	285	(319)	(3,303)	(3,337)
Balance at 31 December 2012	6,646	12,715	2,892	22,253
Net investments in leasing before provisions:				
At 31 December 2011	35,039	80,380	49,962	165,381
At 31 December 2012	38,906	110,879	35,827	185,612
Changes in provisions:				
Balance as 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
Additional provisions charged	-	239	-	239
Provisions for finance lease debts written off	-	(130)	-	(130)
Balance at 31 December 2012	-	1,749	-	1,749
Net investments in leasing after provisions:				
At 31 December 2011	35,039	78,740	49,962	163,741
At 31 December 2012	38,906	109,130	35,827	183,863

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

NOTE 14 FINANCE LEASE RECEIVABLES (CONTINUED)

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

			2012			2011
	Individuals	Business customers	Total	Individuals	Business customers	Total
As at 1 January	543	1,097	1,640	992	960	1,952
Change in allowance for finance lease impairment	127	112	239	64	525	589
Amounts written off during the year	(3)	(127)	(130)	(513)	(388)	(901)
As at 31 December	667	1,082	1,749	543	1,097	1,640

NOTE 15 INVESTMENT SECURITIES

		2012		2011
	Group	Bank	Group	Bank
Securities available for sale:				
Equity securities:				
Unlisted equity securities	3,617	1,391	4,940	1,391
Investment fund units	353	353	298	298
TOTAL	3,970	1,744	5,238	1,689
Debt securities:				
Local government bonds	21,293	21,293	10,602	10,602
Treasury debt securities of foreign countries	35,037	35,037	19,777	19,777
Foreign countries corporates debt securities	147,11	147,311	-	-
Total	203,641	203,641	30,379	30,379
Total securities available for sale	207,611	205,385	35,617	32,068
Breakdown of securities available for sale according to maturity				
Short-term (up to 1 year)	-	-	-	-
Long-term (over 1 year)	207,611	205,385	35,617	32,068
Total	207,611	205,385	35,617	32,068

Breakdown of the Bank's securities available for sale as at 31 December 2012 and 2011:

Rating		**Treasury bills**		**Corporate debt securities**		**Corporate equity securities**		**Investment fund units**
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
AAA	13,353		-	-	-	-	-	-
From AA- to AA+	-	8,013	10,381	-	-	-	-	-
From A- to A+	9,504	5,938	44,202	-	-	-	-	-
From BBB- to BBB+	29,981	15,324	92,728	-	-	-	-	-
From BB- to BB+	1,829	1,104	-	-	-	-	-	-
Lower than BB-	1,663	-	-	-	-	-	-	-
No rating	-	-	-	-	1,391	1,391	353	298
Total	56,330	30,379	147,311	-	1,391	1,391	353	298

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

NOTE 15 INVESTMENT SECURITIES (CONTINUED)

Breakdown of the Group‘s securities available for sale as at 31 December 2012 and 2011:

Rating	Treasury bills		Corporate debt securities		Corporate equity securities		Investment fund units	
	2012	2011	2012	2011	2012	2011	2012	2011
AAA	13,353		-	-	-	-	-	-
From AA- to AA+	-	8,013	10,381	-	-	-	-	-
From A- to A+	9,504	5,938	44,202	-	-	-	-	-
From BBB- to BBB+	29,981	15,324	92,728	-	-	-	-	-
From BB- to BB+	1,829	1,104	-	-	-	-	-	-
Lower than BB-	1,663	-	-	-	-	-	-	-
No rating	-	-	-	-	3,617	4,940	353	298
Total	56,330	30,379	147,311	-	3,617	4,940	353	298

Bank	Financial assets revaluation reserve	Deferred income tax asset (liabilities)	Financial assets revaluation reserve
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)**
Revaluation	6,244	-	6,244
Sale or redemption	1,830	-	1,830
Amortisation of revaluation related to held-to-maturity investments	(556)	-	(556)
Deferred income tax	-	(1,142)	(1,142)
31 December 2012	**5,875**	**(681)**	**5,194**

Group	Financial assets revaluation reserve	Deferred income tax asset (liabilities)	Financial assets revaluation reserve
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)**
Revaluation	6,244	-	6,244
Sale or redemption	1,830	-	1,830
Amortisation of revaluation related to held-to-maturity investments	(556)	-	(556)
Deferred income tax	-	(1,142)	(1,142)
31 December 2012	**5,875**	**(681)**	**5,194**

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

NOTE 15 INVESTMENT SECURITIES (CONTINUED)

	2012		2011	
	Group	**Bank**	**Group**	**Bank**
Held-to-maturity securities:				
Local government bonds	209,340	209,340	263,045	263,045
Local corporate bonds	-	-	3,068	-
Foreign government bonds	31,172	31,172	24,144	24,144
Foreign corporate bonds	32,519	32,519	16,092	16,092
Total held-to-maturity securities	**273,031**	**273,031**	**306,349**	**303,281**
Breakdown of held to maturity securities according to maturity				
Short-term (up to 1 year)	90,679	90,679	61,556	61,556
Long-term (over 1 year)	182,352	182,352	244,793	241,725
Total	**273,031**	**273,031**	**306,349**	**303,281**

The cash flows and other movements of held-to-maturity securities:

	2012	**2011**
As at 1 January	303,281	207,635
Acquisitions	32,099	28,324
Redemptions	(62,396)	(11,153)
Accrued interest	11,687	9,895
Received coupon payment	(10,941)	(9,739)
Reclassifications	(556)	80,926
Realised loss on disposal (Note 3)	-	(1,962)
Disposals	-	(677)
Foreign currency exchange rate impact	(143)	32
As at 31 December	273,031	303,281

By 31 December 2011, the 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 2012 is LTL 124,857 thousand (as at 31 December 2011 - LTL 125,517 thousand). During 2012 other comprehensive expenses recognized in relation to the amortisation of revaluation reserve of these debt securities amounted to LTL 556 thousand (during 2011 - LTL 724 thousand). If the reclassification had not been performed, other comprehensive income recognized in 2012 in relation to these securities would be equal to LTL 9 696 thousand (in 2011 – other comprehensive loss of 1,245 thousand). There were no reclassifications in 2012,

The carrying amounts and fair values of the Bank's held-to-maturity securities:

	2012		2011	
	Fair value	**Carrying amount**	**Fair value**	**Carrying amount**
Local government bonds	222,285	209,340	260,666	263,045
Foreign state companies bond	2,749	2,681	-	-
Foreign government bonds	33,911	31,172	22,967	24,144
Foreign corporate bonds	31,613	29,838	16,104	16,092
Total held-to-maturity securities	290,558	273,031	299,737	303,281

As at 31 December 2012 the Bank has pledged held – to- maturity investments with carryng amount of LTL 30,448 thousand under repurchase agreement. Repurchase agreement settlement date is 29 March 2013, No investment securities were pledged as at 31 December 2011.

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

Breakdown of the Bank‘s held-to-maturity securities as at 31 December 2012 and 2011:

Rating	Treasury bills		State companies debt securities		Corporate debt securities	
Bank	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
AAA	-	8,106	-	-	-	-
From AA- to AA+	8,092	-	-	-	6,811	6,798
From A- to A+	17,704	10,686	-	-	8,615	-
From BBB- to BBB+	209,340	263,045	2,681	-	14,412	9,294
From BB- to BB+	5,376	5,352	-	-	-	-
Lower than BB-	-	-	-	-	-	-
No rating	-	-	-	-	-	-
Total	240,512	287,189	2,681	-	29,838	16,092

Breakdown of the Group‘s held-to-maturity securities as at 31 December 2012 and 2011:

Rating	Treasury bills		State companies debt securities		Corporate debt securities	
Group	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
AAA	-	8,106	-	-	-	-
From AA- to AA+	8,092	-	-	-	6,811	6,798
From A- to A+	17,704	10,686	-	-	8,615	-
From BBB- to BBB+	209,340	263,045	2,681	-	14,412	9,294
From BB- to BB+	5,376	5,352	-	-	-	-
Lower than BB-	-	-	-	-	-	-
No rating	-	-	-	-	-	3,068
Total	240,512	287,189	2,681	-	29,838	19,160

NOTE 16 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

				2012
Bank	**Share in equity**	**Acquisition cost**	**Impairment provision**	**Carrying amount**
Investments in consolidated directly controlled subsidiaries				
UAB ŠB Lizingas	100.0%	5,000	2,000	3,000
UAB ŠB Investicijų Valdymas*	100.0%	4,040	2,382	1,658
UAB ŠB Turto Fondas	100.0%	5,117	846	4,271
UAB SBTF	100.0%	2,000	-	2,000
UAB “Pavasaris”	97.93%	35,357	-	35,357
UAB Minera	100.0%	5,505	-	5,505
Total		**57.019**	**5.228**	**51.791**

	Share in equity	**Acquisition cost**	**Impairment provision**	**Carrying amount**
Investments in consolidated indirectly controlled subsidiaries:				
UAB „Kėdainių oda“*	100.0%	12,000	10	11,990

				2011
Bank	**Share in equity**	**Acquisition cost**	**Impairment provision**	**Carrying amount**
Investments in consolidated subsidiaries:				
UAB ŠB Lizingas	100.0%	5,000	3,000	2,000
UAB ŠB Investicijų Valdymas	100.0%	4,040	927	3,113
UAB ŠB Turto Fondas	100.0%	5,117	846	4,271
UAB SBTF	100.0%	2,000	-	2,000
UAB Minera	100.0%	5,505	-	5,505
Total		**21,662**	**4,773**	**16,889**

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

	Share in equity	Acquisition cost	Impairment provision	Carrying amount
Investments in consolidated indirectly controlled subsidiaries:				
UAB „Kėdainių oda“*	100.0%	12,000	10	11,990

*Indirectly controlled by subsidiary UAB SB Investicijų Valdymas

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 2010 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 impairmet have been reperformed as at 31 December 2011 and 31 December 2012. As a result of tests performed the management of the Bank considered that partial impairment release was necessary in 2012.

The Bank has identified impairment indicators for its subsidiary ŠB Investicijų valdymas UAB. The Bank recognised impairment of the subsidiary as at 31 December 2012 based on results of the impairment test.

Development of investment in Pavasaris

In September 2011 The Group increased the share in equity of Pavasaris UAB to 49.60%. As of 31 December 2012, 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**

In June 2012, the Group increased holding in Pavasaris to 97.93%. The Bank acquired 49.60% holding from its subsidiaries (see above) and 48.33% from third parties.

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

The assets and liabilities arising from the acquisition as at the date of acquisition are as follows:

	Acquiree's carry-ing amount	Fair value
Assets		
Property, plant and equipment	596	596
Financial assets	2,903	2,903
Deferred tax asset	191	191
Inventories (completed residential premises)	23,144	28,855
Inventories (assets under construction)	11,872	19,695
Receivables	1,563	1,563
Land lease rights	-	24,253
Cash	2	2
Liabilities		
Loans	33,664	33,664
Trade payables	2,911	2,911
Advances received	336	336
Other liabilities	44	44
Deferred tax liabilities	-	5,668
Net assets at acquisition date	**3,316**	**35,435**
Acquired share capital, %	97.93	97.93
Interest in net assets acquired	3,247	34,701
Non-controlling interest	69	734

Fair value of investment held by the Group upon acquisition (49,6% holding)	17,907
Cash paid upon acquisition of control (extra 48,33% holding)	16,975
Non-controlling interest	734
	35,615
Net assets at acquisition date	**35,435**
Total goodwill	**180**
Value of investment to Pavasaris as at 31 December 2011	18,392
Share of profits of associates in 2012 by the date of obtaining the control	89
Value of investment to Pavasaris in Group accounts at acquisition	18,481
Fair value of investment to Pavasaris held by the Group at acquisition (49,6%)	17,907
Loss on valuation of investment to FV	**(574)**
Group's cash flow	
Cash paid upon acquisition (48,33%)	16,975
Cash acquired upon acquisition	2
Net cash outflow	**16,973**
Bank's cash flow	
Cash paid upon acquisition (97,87%)	35,357
Net cash outflow	**35,357**

Due to revaluation of previously held interest, the Group incurred a loss of LTL 574 thousand.

The amounts of revenue and profit of Pavasaris UAB since 1 June 2012 till 31 December 2012 included in the consolidated statement of comprehensive income are LTL 12,517 thousand (see Note 6) and LTL 1,457 thousand, respectively. Had the acquisition occurred at 1 January 2012, the combined Group's Revenue from sale of appartments and Group's profit in 2012 would have amounted to LTL 15,176 thousand and LTL 13,525 thousand, respectively.

As at 31 December 2012 the group also consolidates subsidiary controlled through UAB ŠB Investicijų Valdymas. As at 31 December 2011 this subsidiary was accounted as held – for sale disposal group. Disclosure is provided in Note 20.

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

NOTE 17 INTANGIBLE ASSETS

	Group	Bank
	Software and licences	**Software and licences**
As at 31 December 2010:		
Cost	5,336	5,121
Accumulated amortisation	(4,728)	(4,515)
Net book value	608	606
Year ended 31 December 2011:		
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
As at 31 December 2011:		
Cost	5,873	5,635
Accumulated amortisation	(4,957)	(4,741)
Net book value	916	894
Year ended 31 December 2012:		
Net book value at 1 January	916	894
Acquisitions	401	291
Write-offs	-	-
Amortisation charge	(295)	(282)
Net book value at 31 December	1,022	903
As at 31 December 2012:		
Cost	6,204	5,899
Accumulated amortisation	(5,177)	(4,996)
Net book value	1,027	903
Economic life (in years)	3 – 9	3 - 9

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

NOTE 18 PROPERTY, PLANT AND EQUIPMENT

Group	Buildings, premises and land	Vehicles	Office equipment	Construction in progress	Total
As at 31 December 2010:					
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
Year ended 31 December 2011:					
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
As at 31 December 2011:					
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
Year ended 31 December 2012					
Net book value at 1 January	34,602	7,542	4,730	-	46,874
Increase after obtaining a control over UAB “Pavasaris”	369	-	25	-	394
Increase after UAB “Kėdainių oda” reclassification (note 20)	7,105	22	2,673		9,800
Acquisitions	684	324	1,669	-	2,677
Reclassifications to investment property	(389)	-	-	-	(389)
Disposals and write-offs	(1,223)	(656)	(145)	-	(2,024)
Depreciation charge	(1,063)	(1,327)	(1,954)	-	(4,344)
Net book value at 31 December	40,085	5,905	6,998	-	52,988
As at 31 December 2012:					
Cost	48,794	10,418	21,251	-	80,463
Accumulated depreciation	(8,709)	(4,513)	(14,253)	-	(27,475)
Net book value	40,085	5,905	6,998	-	52,988
Economic life (in years)	15-50	5-12	3-20	-	-

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 2012, as follows:

Group	**Vehicles**	**Equipment**	**Total**
As at 31 December 2010:			
Cost	7,460	39	7,499
Accumulated depreciation	(1,914)	(29)	(1,943)
Net book value	5,546	10	5,556
Year ended 31 December 2011:			
Net book value at 1 January	5,546	10	5,556
Acquisitions	267	29	296
Disposals and write-offs	(310)	-	(310)
Depreciation charge	(803)	(5)	(808)
Net book value at 31 December	4,700	34	4,734
As at 31 December 2011:			
Cost	7,266	60	7,326
Accumulated depreciation	(2,566)	(26)	(2,592)
Net book value	4,700	34	4,734
Year ended 31 December 2012:			
Net book value at 1 January	4,700	34	4,734
Acquisitions	103	1	104
Disposals and write-offs	(352)	-	(352)
Depreciation charge	(758)	(6)	(764)
Net book value at 31 December	3,693	29	3,722
As at 31 December 2012:			
Cost	6,674	61	6,735
Accumulated depreciation	(2,981)	(32)	(3,013)
Net book value	3,693	29	3,722
Economic life (in years)	6-12	6-15	-

As at 31 December 2012 and 31 December 2011, there were no property, plant and equipment pledged to third parties.

Future minimum lease payments to be received under non-cancellable operating lease agreements for the Bank and the Group were as follows (this includes investment property disclosed in Note 26):

	2012			**2011**		
	up to 1 year	1-5 years	over 5 years	up to 1 year	1-5 years	over 5 years
Bank	497	1,310	-	261	178	-
Group	2,615	7,885	8,114	1,978	6,408	15,752

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

NOTE 18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Bank	Buildings and premises	Vehicles	Office equipment	Construction in progress	Total
As at 31 December 2010:					
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
Year ended 31 December 2011:					
Net book value at 1 January	32,348	2,583	4,424	-	39,355
Acquisitions	967	412	1,894	-	3,273
Disposals and write-offs		(279)	(19)		(298)
Depreciation charge	(730)	(585)	(1 734)		(3 049)
Reclassification	351			-	351
Net book value at 31 December	32,936	2,131	4,565	-	39,632
As at 31 December 2011:					
Cost	38,878	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
Year ended 31 December 2012:					
Net book value at 1 January	32,936	2,131	4,565	-	39,632
Acquisitions	684		1,464	-	2,148
Disposals and write-offs	(706)	(209)	(116)	-	(1,031)
Depreciation charge	(741)	(453)	(1,605)	-	(2,799)
Reclassification	261				261
Net book value at 31 December	32,434	1,469	4,308	-	38,211
As at 31 December 2012:					
Cost	38,736	2,786	17,038	-	58,560
Accumulated depreciation	(6,302)	(1,317)	(12,730)	-	(20,349)
Net book value	32,434	1,469	4,308	-	38,211
Economic life (in years)	15-50	5-12	3-20	-	-

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

NOTE 19 OTHER ASSETS

	2012		2011	
	Group	**Bank**	**Group**	**Bank**
Financial assets:				
Amounts receivable	5,970	133	23,125	116
Breakdown of financial assets according to maturity				
Short-term (up to 1 year)	5,454	133	7,152	116
Long-term (over 1 year)	516	-	15,973	-
Non-financial assets:				
Breakdown of non-financial assets according to maturity				
Short-term (up to 1 year)	97,600	4,485	18,313	3,862
Long-term (over 1 year)	52,982	819	36,365	3,603
Inventories	132,803	-	44,327	-
Deferred charges	3,280	1,902	3,031	2,399
Prepayments	4,545	-	2,545	2,295
Foreclosed assets	2,422	1,995	2,710	1,980
Other	7,532	1,406	2,065	791
TOTAL OTHER ASSETS	**156,552**	**5,436**	**77,803**	**7,581**

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, UAB „Pavasaris“ and Šiaulių banko investicijų valdymas UAB. UAB "Kėdainių oda“ inventories are also included.

Breakdown of inventories according to type:	2012		2011	
	Group	Bank	Group	Bank
Apartments held for sale	48,690	-	1,816	-
Property held for sale or development	84,113	-	42,511	-
Total inventories	132,803	-	44,327	-

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

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

Kėdainių oda UAB is controlled by the subsidiary of the Bank Šiaulių banko investicijų valdymas UAB and consolidated since 2010. The management has intention to sell the company and actively search for a potential buyer since obtaining the control, 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 in financial statements as of 31 December 2011 and for the year then ended.

Despite the steps taken by the management to sell Kėdainių oda UAB in 2010 -2012 year period, as at 31 December 2012 the company remains under control of the Bank. In the view of the management, investment to Kėdainiu oda UAB and assets and liabilities related to the subsidiary ceased to be classified as held for sale.

In terms of presentation, the results of the discontinued operation were presented in the income statement as continuing in both 2012 and 2011 (re-presented); assets and liabilities were reclassified out off single line item in the statement of financial position as at 31 December 2012.

Impairment test for the assets held by this subsidiary company has been performed as at 31 December 2011 and as at 31 December 2012 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
Long term assets	9,805
Short term assets (except for cash & cash equivalents)	3,856

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

Cash & cash equivalents	-
Deffered income tax	338
Total assets	13,999
Long term liabilities	-
Short term liabilities	1,296
Total liabilities	1,296
Total net assets related to discontinued operations	**12,703**
Net assets attributable to Group	12,703

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**
Net cash flow from (used in) operating activities	(2,911)
Net cash flow from (used in) investing activities	735
Net cash flow (used in) financing activities	2,190
Total net cash flow	14

Profit (loss) reclassified to the continuing operations is provided below :

Kėdainių oda UAB	Year ended as at 31 December 2011
Previously classified as discontinued operations	
Sales income	10,933
Cost of goods sold	(9,869)
Gross profit (loss)	1064
Sales and marketing expenses	-
Operating expenses	(2,034)
Other income (expenses)	5
Operating profit (loss)	(965)
Net profit (loss) from financial activities	-
(Loss) profit before income tax	(965)
Income tax	280
Net profit (loss) for the year	(685)

Impairment test for the assets held by this subsidiary company has been performed as at 31 December 2011 and as at 31 December 2012 and identified that the recoverable amount is not lower than the book value of the assets therefore no impairment has been recognised.

NOTE 21 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	2012		**2011**	
	Group	**Bank**	**Group**	**Bank**
Correspondent accounts and deposits of other banks and financial institutions:				
Correspondent accounts and demand deposits	13,179	15,472	21,313	21,324
Time deposits	27,383	27,388	75,653	75,653
Total correspondent accounts and deposits of other banks and financial institutions	**40,562**	**42,860**	**96,966**	**96,977**
Loans received from:				
Other banks	76,421	76,421	72,206	72,206
Other organisations	74,035	74,035	80,364	80,364
International organisations	215,252	215,252	221,353	221,353
Total loans received	**365,708**	**365,708**	**373,923**	**373,923**
Total	**406,270**	**408,568**	**470,889**	**470,900**

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

Short-term (up to 1 year)	170,815	173,113	171,778	171,789
Long-term (over 1 year)	235,455	235,455	299,111	299,111
Total	**406,270**	**408,568**	**470,889**	**470,900**

NOTE 22 DUE TO CUSTOMERS

	2012		2011	
	Group	**Bank**	**Group**	**Bank**
Demand deposits:				
National government institutions	37,033	37,033	28,256	28,256
Local government institutions	53,094	53,094	28,961	28,961
Governmental and municipal companies	24,849	24,849	32,932	32,932
Corporate entities	219,489	219,650	184,697	184,979
Non-profit organisations	13,128	13,128	10,755	10,755
Individuals	205,037	205,037	158,431	158,431
Unallocated amounts due to customers	7,364	7,364	12,668	12,668
Total demand deposits	**559,994**	**560,155**	**456, 700**	**456,982**
Time deposits:				
National government institutions	2,198	2,198	3,336	3,336
Local government institutions	2,011	2,011	1,185	1,185
Governmental and municipality companies	24,277	24,277	85,020	85,020
Corporate entities	155,991	155,991	187,944	187,944
Non-profit organisations	9,160	9,160	8,442	8,442
Individuals	1,412,060	1,412,060	1,151,258	1,151,258
Total time deposits	**1,605,697**	**1,605,697**	**1,437,185**	**1,437,185**
Total	**2,165,691**	**2,165,852**	**1, 893,885**	**1,894,167**
Breakdown of due to customers according to maturity				
Short-term (up to 1 year)	2,081,725	2,081,886	1 ,787,236	1,787,518
Long-term (over 1 year)	83,966	83,966	106,649	106,649
Total	**2,165,691**	**2,165,852**	**1, 893,885**	**1,894,167**

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

NOTE 23 SPECIAL AND LENDING FUNDS

	2012		2011	
	Group	**Bank**	**Group**	**Bank**
Special funds	2,835	2,835	5,439	5.439
Lending funds	4,459	4,459	11,461	11.461
Total	**7,294**	**7,294**	**16,900**	**16,900**
Breakdown of special and lending funds according to maturity				
Short-term (up to 1 year)	4,142	4,142	12,487	12,487
Long-term (over 1 year)	3,152	3,152	4,413	4,413
	7,294	**7,294**	**16,900**	**16,900**

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.

NOTE 24 DEBT SECURITIES IN ISSUE

On 31 December 2012, the following bonds were valid:
-16.08.2011 - ISIN LT0000402661 - 505-day, interest rate of 4,25 per cent, maturity date - 03.01.2013;
-29.08.2011 - ISIN LT0000402687 - 555-day, interest rate of 5,25 per cent, maturity date – 06.03.2013;
-29.11.2011 - ISIN LT0000402703 - 547-day, interest rate of 4,50 per cent, maturity date – 29.05.2013;
-29.11.2011 - ISIN LT0000402420 - 547-day, interest rate of 4,50 per cent, maturity date – 29.05.2013;

In 2012 the Bank did not issue new bonds.

07.05.2012 the Bank redeemed emission of LTL 15 million which was issued05.08.2011 and had interest rate of 4,5 per cent, ISIN LT0000390031.
08.2012 the Bank redeemed emission of LTL 7,685 million which was issued in 23.09.2011 and had interest rate of 4,9 per cent, ISIN LT0000410482.

		2012		2011
Emission number	**Group**	**Bank**	**Group**	**Bank**
LT0000390031	-	-	15,274	15,274
LT0000402687	15,268	15,268	15,268	15,268
LT0000402661	7,116	7,116	6,936	6,936
LT0000410482	-	-	7,787	7 787
LT0000402703	528	528	19	19
Total:	**22,912**	**22,912**	**45,284**	**45,284**

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

NOTE 25 OTHER LIABILITIES

	2012		2011	
	Group	Bank	Group	Bank
Financial liabilities:				
Finance lease liabilities	3,456	-	3,922	-
Breakdown of other financial liabilities according to maturity				
Short-term (up to 1 year)	3,456	-	3,922	-
Long-term (over 1 year)	-	-	-	-
Non-financial liabilities:				
Accrued charges	8,362	6,541	6,072	5,351
Advance amounts received from the buyers of assets	2,057	-	1,322	-
Deferred income	3,003	859	1,182	787
Other liabilities	3,144	584	2,196	569
Total non-financial liabilities	**16,565**	**7,984**	**10,772**	**6,707**
Breakdown of other non-financial liabilities according to maturity				
Short-term (up to 1 year)	15,194	7,278	9,810	5,963
Long-term (over 1 year)	1,371	706	962	744
Total non-financial liabilities	**16,565**	**7,984**	**10,772**	**6,707**

NOTE 26 INVESTMENT PROPERTY

Investment property	**Bank**	**Group**
Year ended 31 December 2011:		
Revalued amount at 1 January	4,344	24,967
Acquisitions	4,081	9,038
Reclassification	-	(351)
Revaluation at fair value	(351)	-
Disposals and write-offs	(128)	(340)
Revalued amount at 31 December	**7,946**	**33,314**
Year ended 31 December 2012:		
Revalued amount at 1 January	7,946	33,314
Acquisitions	-	2,058
Reclassification	(261)	2,061
Disposals and write-offs	-	
Revaluation at fair value	(168)	75
Revalued amount at 31 December	**7,517**	**37,508**

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

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.

As of 31 December 2012, 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
Clients of Skandinaviska Enskilda Banken klientai, Sweden	5.53
AB „Eglės“ sanatorija	5.37
Total	36.71

Another 15 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, Algirdas Butkus, Gintaras Kateiva, Arvydas Salda, Kastytis Jonas Vyšniauskas, Sigitas Baguckas, Vigintas Butkus, Vytautas Junevičius, Audrius Žiugžda, Daiva Kiburienė, Jonas Bartkus, Vita Adomaitytė, Vytautas Sinius ir Donatas Savickas form a group votes of which are calculated together. As of 31 December 2012, this group possessed 43.17 percent of the authorised capital and votes of the Bank.

As at 31 December 2012, the Bank had 3,671 shareholders (as at 31 December 2011: 3, 805).

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 2012 and as at 31 December 2011 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 2012. 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

	2012		2011	
	Group	Bank	Group	Bank
Financial guarantees issued	88,313	88,360	73,351	73,396
Letters of credit	3,541	3,541	5,064	5,064
Commitments to grant loans	112,528	114,011	123,052	119,631
Other commitments	3,713	2,325	3,403	3,403
Total	**208,095**	**208,237**	**204,870**	**201,494**

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

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 2012, the annual general meeting of shareholders decided not to pay any dividends to the holders of ordinary shares. (in March 2011 the shareholders also decided not to pay any dividends).

In 2012 subsidiary company UAB „Šiaulių banko lizingas" paid 1,000 LTL dividends. In 2011 Group companies did not pay dividends.

NOTE 30 LIQUIDITY RISK

The structure of the Group's assets and liabilities by maturity as at 31 December 2012 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	221,855	-	-	-	-	-	-	-	221,855
Due from other banks	-	-	-	-	4,120	-	-	17	4,137
Trading securities	-	-	-	998	13,940	2,781	33,022	457	51,198
Loans granted to customers, finance lease receivables	-	55,137	105,926	167,042	224,192	618,107	689,142	56175	1,915,721
Investment securities									-
- available-for-sale securities	-	-	-	-	-	8,916	194,725	3,970	207,611
- held-to-maturity securities	-	28,538	37,328	-	24,813	31,869	150,483	-	273,031
Intangible assets	-	-	-	-	-	-	-	1,207	1,207
Property, plant and equipment and investment property	-	-	-	-	-	-	-	90,496	90,496
Other assets	168	5,665	2,133	3,500	13653	50,370	13,177	88,781	177,447
Total assets	222,023	89,340	145,387	171,540	280,718	712,043	1,080,549	241,103	2,942,703
Due to other banks and financial institutions	13,256	4,364	39,078	63,199	50,918	158,176	77,279	-	406,270
Due to customers	560,126	185,355	315,125	409,676	615,584	69,372	17,594	153	2,172,985
Debt securities in issue		7,116	15,268	528					22,912
Other liabilities	1,589	8,574	1,062	820	2,855	1,348	139	9,693	26,080
Shareholders' equity								314,456	314,456
Total liabilities and shareholders' equity	574,971	205,409	370,533	474,223	669,357	228,896	95,012	324,302	2,942,703
Net liquidity gap	(352,948)	(116,069)	(225,146)	(302,683)	(388,639)	483,147	985,537	(83,199)	-

The structure of the Group's assets and liabilities by remaining 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
Total assets	222,494	49,599	142,457	143,921	341,430	794,110	848,365	194,928	2,737,304
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)	-

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

NOTE 30 LIQUIDITY RISK (CONTINUED)

The structure of the Bank's assets and liabilities by maturity as at 31 December 2012 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	221,805	-	-	-	-	-	-	-	221,805
Due from other banks	-	-	-	-	4,120	-	-	17	4,137
Trading securities	-	-	-	998	13,940	2,781	33,022	457	51,198
Loans granted to customers, finance lease receivables	-	97,190	152,012	234,042	312,064	604,924	599,994	52,583	2,052,809
Investment securities									-
- available-for-sale securities	-	-	-	-	-	8,916	194,725	1,744	205,385
- held-to-maturity securities	-	28,538	37,328		24,813	31,869	150,483	-	273,031
Investments in subsidiaries	-	-	-	-	-	-	-	51,791	51,791
Intangible assets	-	-	-	-	-	-	-	903	903
Property, plant and equipment and investment property	-	-	-	-	-	-	-	45,728	45,728
Other assets	5	1,125	1,673	1,318	2,436	6,131	4,017	7,974	24,679
Total assets	221,810	126,853	191,013	236,358	357,373	654,621	982,241	161,197	2,931,466
Due to other banks and financial institutions	15,549	4,364	39,078	63,199	50,923	158,176	77,279	-	408,568
Due to customers	560,287	185,355	315,125	409,676	615,584	69,372	17,594	153	2,173,146
Debt securities in issue	-	7,116	15,268	528	-	-	-	-	22,912
Other liabilities	47	3,465	247	240	274	580	126	3,005	7,984
Shareholders' equity	-	-	-	-	-	-	-	318,856	318,856
Total liabilities and shareholders' equity	575,883	200,300	369,718	473,643	666,781	228,128	94,999	322,014	2,9314,66
Net liquidity gap	(354,073)	(73,447)	(178,705)	(237,285)	(309,408)	426,493	887,242	(160,817)	-

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
Total assets	222,351	76,612	186,008	199,346	431,067	734,770	754,709	126,703	2,731,566
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)	-

NOTE 31 FOREIGN EXCHANGE TRANSACTIONS AND OPEN CURRENCY POSITIONS

The Group's open positions of prevailing currencies as at 31 December 2012 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets						
Cash and cash equivalents	13,787	7,414	21,201	18,452	182,202	221,855
Due from other banks	-	-	-	4,137	-	4,137
Trading securities	9,770	-	9,770	21,389	20,039	51,198
Loans granted to customers, finance lease receivables	9,804	-	9,804	529,755	1,376,162	1,915,721
Investment securities			-			-
- available-for-sale securities	28,890	1,631	30,521	152,040	25,050	207,611
- held-to-maturity securities	8,020	-	8,020	102,334	162,677	273,031
Intangible assets	-	-	-	-	1,207	1,207
Property, plant and equipment and investment property	-	-	-	-	90,496	90,496
Other assets	19	-	19	7,113	170,315	177,447
Total assets	70,290	9,045	79,335	835,220	2,028,148	2,942,703
Liabilities and shareholders' equity						
Due to other banks and financial institutions	613	-	613	313,145	92,512	406,270
Due to customers	67,158	6,050	73,208	417,190	1,682,587	2,172,985
Bonds issued	-	-	-	-	22,912	22,912
Other liabilities	19	5	24	480	25,576	26,080
Shareholders' equity	976	(1)	975	2,443	311,038	314,456
Total liabilities and shareholders' equity	68,766	6,054	74,820	733,258	2,134,625	2,942,703
Net balance sheet position	1,524	2,991	4,515	101,962	(106,477)	-
Open currency exchange transactions	(1,954)		(1,954)	1,959	-	5
Net open position	(430)	2,991	2,561	103,921	(106,477)	5

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	70,866	4,374	75,240	849,083	1,812,981	2,737,304
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)

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

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

The Bank's open positions of prevailing currencies as at 31 December 2012 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets						
Cash and cash equivalents	13,787	7,414	21,201	18,452	182,152	221,805
Due from other banks			-	4,137		4,137
Trading securities	9,770	-	9,770	21,389	20,039	51,198
Loans granted to customers, finance lease receivables	9,804	-	9,804	530,280	1,512,725	2,052,809
Investment securities						
- available-for-sale securities	28,890	1,631	30,521	152,040	22,824	205,385
- held-to-maturity securities	8,020	-	8,020	102,334	162,677	273,031
Investments in subsidiaries	-	-	-		51,791	51,791
Intangible assets	-	-	--	-	903	903
Property, plant and equipment and investment property	-	-	-	-	45,728	45,728
Other assets	18	-	18	6,442	18,219	24,679
Total assets	70,289	9,045	79,334	835,074	2,017,058	2,931,466
Liabilities and shareholders' equity						
Due to other banks and financial institutions	613	-	613	313,145	94,810	408,568
Due to customers	67,158	6,050	73,208	417,197	1,682,741	2,173,146
Bonds issued	-	-	-	-	22,912	22,912
Other liabilities	19	5	24	261	7,699	7,984
Shareholders' equity	976	(1)	975	2,443	315,438	318,856
Total liabilities and shareholders' equity	68,766	6,054	74,820	733,046	2,123,600	2,931,466
Net balance sheet position	1,523	2,991	4,514	102,028	(106,542)	-
Open currency exchange transactions	(1,954)	-	(1,954)	1,959		5
Net open position	(431)	2,991	2,560	103,987	(106,542)	5

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	70,865	4,374	75,239	848,030	1,808,297	2,731,566
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)

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

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

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

NOTE 32 INTEREST RATE RISK

The table below summarizes the Group's and the Bank's interest rate risks as at 31 December 2011. 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 2012 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						221,855	221,855
Due from other banks				4,120		17	4,137
Trading securities			998	13,940	35,803	457	51,198
Loans granted to customers, finance lease receivables	352,209	536,589	797,259	56,064	165,322	8,278	1,915,721
Investment securities							-
- available-for-sale securities	-	-	-	-	203,641	3,970	207,611
- held-to-maturity securities	28,538	6,878	-	24,813	212,802	-	273,031
- investments to associate companies	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	1,207	1,207
Property, plant and equipment and investment property	-	-	-	-	-	90,496	90,496
Other assets	-	-	-	-	-	177,447	177,447
Total assets	380,747	543,467	798,257	98,937	617,568	503,727	2,942,703
Due to other banks and financial institutions	157,592	113,419	100,493	19,319	-	15,447	406,270
Due to customers	182,485	306,845	401,908	602,515	67,145	612,087	2,172,985
Bonds issued	-	7,116	15,268	528	-	-	22,912
Other liabilities	-	-	-	-	-	26,080	26,080
Shareholders' equity	-	-	-	-	-	314,456	314,456
Total liabilities and shareholders' equity	340,077	427,380	517,669	622,362	67,145	968,070	2,942,703
Interest rate sensitivity gap	40,670	116,087	280,588	(523,425)	550,423	(464,343)	-

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
Total assets	398,784	560,439	772,547	139,569	384,241	481,724	2,737,304
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)	-

(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 2012 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	-	-	-	-	-	221,805	221,805
Due from other banks	-	-	-	4,120	-	17	4,137
Trading securities	-	-	998	13,940	35,803	457	51,198
Loans granted to customers, finance lease receivables	391,413	523,111	797,005	156,383	179,142	5,755	2,052,809
Investment securities							-
- available-for-sale securities	-	-	-	-	203,641	1,744	205,385
- held-to-maturity securities	28,538	6,878	-	24,813	212,802		273,031
Investments in subsidiaries	-	-	-	-	-	51,791	51,791
Intangible assets	-	-	-	-	-	903	903
Property, plant and equipment and investment property	-	-	-	-	-	45,728	45,728
Other assets	-	-	-	-	-	24,679	24,679
Total assets	419,951	529,989	798,003	199,256	631,388	352,879	2,931,466
Due to other banks and financial institutions	157,592	113,419	100,493	19,324	-	17,740	408,568
Due to customers	182,646	306,845	401,908	602,515	67,145	612,087	2,173,146
Bonds issued	-	7,116	15,268	528	-	-	22,912
Other liabilities	-	-	-	-	-	7,984	7,984
Shareholders' equity	-	-	-	-	-	318,856	318,856
Total liabilities and shareholders' equity	340,238	427,380	517,669	622,367	67,145	956,667	2,931,466
Interest rate sensitivity gap	79,713	102,609	280,334	(423,111)	564,243	(603,788)	-

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
Total assets	416,797	574,807	756,739	247,141	380,596	355,486	2,731,566
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)	-

(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 2012		31 December 2011	
	LTL	Other currencies	LTL	Other currencies
Assets				
Due from Central bank	0.76	-	0.62	-
Due from other banks	0.00	5.49	0.48	0.07
Debt securities	3.78	3.31	4.32	4.99
Finance lease receivables	4.96	4.52	5.21	5.44
Loans granted (before provisions)	4.60	4.04	4.97	4.66
Liabilities				
Due to other banks	3.76	2.31	3.87	3.43
Due to financial institutions	0.58	3.55	3.08	2.86
Deposits	2.22	1.98	2.36	1.89
Debt securities in issue	4.98	-	4.92	-

NOTE 33 RELATED-PARTY TRANSACTIONS

Related parties with the Bank are classified as follows:

a) members of the Bank's Supervisory Council and Board, their close family members and companies in which these related parties own over 5 per cent interest and/ or hold key management positions;
b) 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 UAB, Pavasaris UAB;
c) the Shareholders holding over 5 % of the Bank's share capital.

During 2012, 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 2012	**31 December 2011**	**2012**	**2011**	**31 December 2012**	**31 December 2011**	**2012**	**2011**
Members of the Council and the Board	1,031	1,823	2.61	3.04	4,857	6,437	4.97	**5.62**
Other related parties (excluding subsidiaries of the Bank)	5,353	11,472	0.96	1.61	121,954	195,511	3.66	**4.68**

As at 31 December 2012 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 2011: LTL 0 thousand). During 2012 losses incurred due to the increase in the allowances for impairment losses were LTL 0 thousand (during 2011 : LTL 0 thousand).

Transactions with EBRD:

The Bank has received loans from the EBRD, balance of which as at 31 December 2012 was equal to LTL 78,109 thousand (31 December 2011: LTL 91,791 thousand). Loan related interest and other expenses for year 2012 amounted to LTL 4,673 thousand (2011: LTL 5,283 thousand).

(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 2012	31 December 2011	2012	2011	31 December 2012	31 December 2011	2012	2011
Non-financial institutions	161	268	0.0	0.19	154,609	141,864	**3.5**	3.53
Financial institutions	2,298	11	0.2	0.00	216,789	173,567	**3.5**	3.5

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). Since 31 March 2010 the Bank has acquired two subsidiaries: Minera UAB (the Bank‘s holding is 100%, LTL 5,505 thousand) and SBTF UAB (the Bank‘s holding is 100%, LTL 2,000 thousand). In 2012 the Bank acquired control in Pavasaris UAB (the Bank‘s holding is 97.93%, acquisition cost is LTL 35,357 thousand).

Assets	**2012**	**2011**
Demand deposits	371,398	315,431
Loans	-	-
Other assets	27	25
Liabilities and shareholders' equity		
Demand deposits	2,459	279
Other liabilities	-	50
Bank's investment	51,791	16,889

Income and expenses arising from transactions with subsidiaries:

Income	**2012**	**2011**
Interest	12,639	9,486
Commission income	164	166
Income from foreign exchange operations	1	8
Other income	203	255
Expenses		
Interest	-	(5)
Operating expenses	(747)	(198)
Investicijų į dukterines vertės sumažėjimas	(455)	-

Remuneration of the management of the Bank

During 2012 the total amount of salaries and bonuses, including social security contributions and guarantee fund payments, to the Bank's Board members was LTL 2,961 thousand (2011: LTL 2,677 thousand).

NOTE 33 CONCENTRATION EXPOSURE

As at 31 December 2012, 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 56.3 million (the whole amount represents commitments to provide credit facilities), i.e. 18.77% of the Bank's calculated capital (2011: LTL 60.3 million and 21,36 % of the Bank's calculated capital).

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 2012		31 December 2011	
	Fin. group	**Bank**	**Fin. group**	**Bank**
ASSETS				
Cash and cash equivalents	221,805	221,805	223,845	223,844
Due from other banks	51,198	51,198	4,147	4,147
Trading securities	4,137	4,137	16,574	16,574
Derivative financial instruments	13,690	13,690	-	-
Loans to customers	1,870,329	2,052,809	1,908,417	2,069,758
Finance lease receivables	184,169	-	163,741	-
Investment securities:				
- available-for-sale	205,385	205,385	32,068	32,068
- held to maturity	273,031	273,031	303,281	303,281
Investments in subsidiaries	48,791	51,791	14,889	16,889
Intangible assets	1,017	903	913	894
Property, plant and equipment	42,194	38,211	45,256	39,632
Investment property	7,972	7,517	8, 478	7,946
Prepayment of income tax	-	-	-	-
Deferred tax asset	5,600	5,553	9,120	8,952
Other assets	10,046	5,436	9,691	7,581
Total assets	**2,939,364**	**2,931,466**	**2,740,420**	**2,731,566**
		-		
LIABILITIES				
Due to other banks and financial institutions	406,270	408,568	470,889	470,900
Due to customers	2,165,852	2,165,852	1,894,167	1,894,167
Special and lending funds	7,294	7,294	16,900	16,900
Debt securities in issue	22,912	22,912	45,284	45,284
Current income tax liabilities	285	-	56	-
Deferred income tax liabilities	-	-	-	-
Other liabilities	15,943	7,984	13,990	6,707
Total liabilities	**2,618,556**	**2,612,610**	**2,441,286**	**2,433,958**
EQUITY				
Capital and reserves attributable to owners of the Bank				
Share capital	234,858	234,858	234,858	234,858
Share Premium	47,861	47,861	47,861	47,861
Reserve capital	2,611	2,611	2,611	2,611
Other reserves	-	-	-	-
Statutory reserve	1,489	1,289	848	648
Financial assets revaluation reserve	5,194	5,194	(1,182)	(1,182)
Retained earnings	28,795	27,043	14,138	12,812
Total equity	**320,808**	**318,856**	**299,134**	**297,608**
Total liabilities and equity	**2,939,364**	**2,931,466**	**2,740,420**	**2,731,566**

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

NOTE 35 FINANCIAL GROUP INFORMATION (CONTINUED)

STATEMENT OF COMPREHENSIVE INCOME

	2012		2011	
	Fin. group	**Bank**	**Fin. group**	**Bank**
Continuing operations				
Interest and similar income	130,103	124,041	121,540	116,080
Interest expense and similar charges	(68,611)	(68,611)	(66,026)	(66,029)
Net interest income	**61,492**	**55,430**	**55,514**	**50,051**
Fee and commission income	16,488	16,617	14,010	14,152
Fee and commission expense	(8,443)	(7,944)	(5,724)	(5,703)
Net fee and commission income	**8,045**	**8,673**	**8,286**	**8,449**
Provision for impairment losses	(29,272)	(28,192)	(10,160)	(9,561)
Net gain from operations with securities	9,606	9,606	(3,441)	(3,441)
Net foreign exchange gain	4,866	4,865	4,883	4,883
Net gain from revaluation of derivatives	4,185	4,185	-	-
Gain from disposal of assets	723	57	50	31
Other income	1,314	1,009	1,108	736
Administrative and other operating expenses	(42,984)	(39,503)	(40,435)	(36,636)
Operating profit	**17,975**	**16,130**	**15,805**	**14,512**
Dividends from investments in subsidiaries	-	1,000	-	-
Profit before income tax	**17,975**	**17,130**	**15,805**	**14,512**
Discontinued operations				
Profit (loss) of discontinued operations before income tax	-	-	-	-
Income tax expense	(2,677)	(2,258)	(1,847)	(1,700)
Profit for the year	**15,298**	**14,872**	**13,958**	**12,812**
Other comprehensive income				
Gain (loss) from revaluation of financial assets	7,518	7,518	(3,027)	(3,027)
Deferred income tax on gain (loss) from revaluation of financial assets	(1,142)	(1,142)	476	476
Other comprehensive income (loss), net of tax	6,376	6,376	(2,551)	(2,551)
Total comprehensive income	**21,674**	**21,248**	**11,407**	**10,261**
Income attributable to:				
Owners of the Bank	15,298	14,872	13,958	12,812
Non-controlling interest	-	-	-	-
	15,298	14,872	13,958	13,958
Total comprehensive (loss) attributable to:				
Owners of the Bank	21,674	21,248	11,407	10,261
Non-controlling interest	-	-	-	-
	21,674	21,248	11,407	10,261
Basic and diluted earnings (loss) per share (in LTL per share)	0,06	0,06	0.06	0.06

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

NOTE 35 FINANCIAL GROUP INFORMATION (CONTINUED)

STATEMENT OF CASH FLOWS

		Year ended			
		31 December 2012		31 December 2011	
	Notes	**Fin. group**	**Bank**	**Fin.group**	**Bank**
Operating activities					
Interest received		109,529	103,312	103,518	98,045
Interest paid		(66,990)	(66,990)	(62,391)	(62,364)
Fees and commissions received		16,488	16,617	14,040	14,152
Fees and commissions paid		(8,443)	(7,944)	(5,724)	(5,703)
Cash inflows from trade in trading securities		9,152	9,152	(3,363)	(3,363)
Net income from foreign exchange operations		4,796	4,795	4,610	4610
Recoveries on loans previously written off		1,243	715	1,756	1157
Salaries and related payments to and on behalf of employees		(25,630)	(23,399)	(23,486)	(21,623)
Other cash receipts, sale of assets		2,025	1,066	1,082	710
Other cash payments		(14,990)	(14,324)	(13,559)	(12,451)
Income tax paid		(69)	-	-	-
Net cash flow from operating activities before change in operating assets and liabilities		**27,111**	**23,000**	**16,483**	**13,170**
Change in operating assets and liabilities:					
(Increase)/decrease in trading securities		(33,154)	(33,154)	63,505	63,505
(Increase)/decrease in loans to credit and financial institutions		10	10	(749)	(55,520)
(Increase) in loans to customers		(17,969)	(18,192)	(412,223)	(366,698)
(Increase) in other current assets		(674)	2,052	8,587	8,535
Increase/(decrease) in liabilities to credit and financial institutions		(64,619)	(62,332)	99,896	99,883
Increase in deposits		271,685	271,685	220,986	220,986
Increase/(decrease) in special and lending funds		(9,606)	(9,606)	(11,210)	(11,210)
Increase/(decrease) in other liabilities		1,769	1,058	(8,434)	4,175
Change		**147,442**	**151,521**	(39,642)	(36,344)
Net cash flow from/ (used in) operating activities		**174,553**	**174,521**	**(23,159)**	**(23,174)**
Investing activities					
(Purchase) of property, plant and equipment and intangible assets		(2,702)	(2,439)	(8,452)	(7,877)
Disposal of property, plant and equipment and intangible assets		3,999	2,719	2,431	1,876
(Purchase) of held-to-maturity securities		(31,400)	(31,400)	(28,356)	(28,356)
Proceeds from redemption of held-to-maturity securities		73,337	73,337	23,531	23,531
Dividends received		60	1,060	42	42
(Purchase) of available-for-sale securities		(349,006)	(349,006)	(210,667)	(210,667)
Sale of available-for-sale securities		188,519	188,519	189,732	189,732
Repurchase of shares of subsidiary companies		(35,357)	(35,357)	-	-
Net cash flow used in investing activities		**(152,550)**	**(152,567)**	**(31,739)**	**(31,719)**
Financing activities					
Increase in share capital	27	-	-	31,200	31,200
Debt securities in issue		1,514	1,514	111,933	111,933
Redemption of debt securities in issue		(25,507)	(25,507)	(72,793)	(72,793)
Net cash flow from financing activities		**(23,993)**	**(23,993)**	**70,340**	**70,340**
Net increase (decrease) in cash and cash equivalents		**(1,990)**	**(2,039)**	**15,442**	**15,447**
Cash and cash equivalents at 1 January		**223,845**	**223,844**	**208,400**	**208,397**
Cash and cash equivalents at 31 December	10	**221,855**	**221,805**	**223,842**	**223,844**

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 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 income (loss)		-	-	-	(2,551)	-	-	13,958	11,407
31 December 2011		**234,858**	**47,861**	**2,611**	**(1,182)**	**848**	**-**	**14,138**	**299,134**
Formation of statutory reserve						641		(641)	-
Increase in share capital	27	-	-	-	-	-	-	-	-
Total comprehensive income					6,376			15,298	21,674
31 December 2012		**234,858**	**47,861**	**2,611**	**5,194**	**1,489**	**-**	**28,795**	**320,808**

NOTE 36 EVENTS AFTER THE REPORTING PERIOD

Takeover of a part of Ūkio Bankas

On 23 February 2013, an agreement was signed between Ūkio Bankas AB registered in Lithuania (legal entity‘s code 112020136, hereinafter Ūkio Bankas), Šiaulių Bankas AB (legal entity‘s code 112025254) and a state-owned enterprise Indėlių ir Investicijų Draudimas (legal entity‘s code 110069451, hereinafter Deposit Insurance Fund) on the transfer of assets, rights, transactions and liabilities of Ūkio Bankas, based on which a part of assets, rights, transactions and liabilities of Ūkio Bankas was transferred to Šiaulių Bankas. Under the agreement, Šiaulių Bankas takes over LTL 1.9bn assets (rights) and LTL 2.7bn liabilities from Ūkio Bankas. The difference of LTL 800m between the liabilities and the assets taken over will be covered by the Deposit Insurance Fund. The assets of Ūkio Bankas transferred to Šiaulių Bankas are based on a preliminary valuation carried out by an audit company, the results of which have been approved by the Board of the Bank of Lithuania. To have an accurate estimation of assets and liabilities transferred, a more detailed final valuation of assets and liabilities transferred will be carried out within 3 months after the date of signing the agreement. If the results of the final valuation show that the value of the assets transferred is higher than that established during the preliminary valuation, Šiaulių Bankas will refund to Ūkio Bankas the difference between the values of the assets established during the preliminary and the final valuations. If the results of the final valuation show that the value of the assets transferred is lower than that established during the preliminary valuation, IDF will pay to Šiaulių Bankas the difference between the values of the assets established during the preliminary and the final valuations (the total amount payable by IDF cannot exceed LTL 800m). In addition, the agreement provides for the possibility for the creditors of Ūkio Bankas to sell four different portfolios of assets within 9 months after the date of signing the agreement: (a) portfolio of real estate transferred into the ownership of Šiaulių Bankas, (b) portfolio of higher risk (potentially lower-quality performance) loan groups, (c) portfolio of subsidiaries of Ūkio Bankas engaged in real estate development activities and (d) portfolio of shares of subsidiaries of Ūkio Bankas engaged in other activities – Ūkio Banko Lizingas UAB and life insurance company Bonum Publicum UAB. Another very important clause in the agreement says that in the event the value of the assets transferred to Šiauliai Bankas increases after 2 years, Šiaulių Bankas will have to refund a part of such increase in the value of the assets to the creditors of Ūkio Bankas. This is applicable to lower risk (potentially higher-quality performance) loan groups and collateral real estate repossessed and sold. In this case the Bank bears no risk, because portfolio of the assets would be fully exchanged in another form of asset – cash, also covering all related administration, financing and other expenses which are foreseen in the agreement.

To finance the takeover, on 4 March 2013 the Lithuanian Ministry of Finance issued a targeted bond issue worth approx. LTL 799m, which was redeemed by Šiaulių Bankas, and granted a loan of the same amount to the Deposit Insurance Fund.

At the end of February 2013, Šiaulių Bankas and EBRD signed an agreement on the subordinated loan for the amount of EUR 20m (LTL 69m) for the period of 10 years, for the purpose of strengthening the capital base of Šiaulių Bankas in its takeover of a part of Ūkio Bankas. The subordinated loan was granted when Šiaulių Bankas returned the major portion of convertible loan to EBRD.

From the legal point of view, the transaction is treated as takeover of assets and liabilities, however, management has currently not completed the accounting for the transaction and is analysing the structure of the deal and making consultations as to whether it qualifies for the business combination or not.

The management of Šiaulių Bankas currently assess whether the above-described takeover can be accounted for as a business combination (i.e. a business acquisition) or as an acquisition of assets and the related liabilities.

Repurchased securities

On 3 January 2013 the Bank redeemed bond emission No ISIN LT0000402661 nominated in LTL (with original duration of 505 days), also on 6 March 2013 redeemed bond emission No ISIN LT0000402687 nominated in LTL (with original duration of 555 days).

ŠIAULIŲ
BANKAS

CONSOLIDATED ANNUAL REPORT OF ŠIAULIŲ BANKAS AB FOR 2012

CONTENTS

1. Reporting period, covered in the consolidated annual report

The present report of Šiaulių bankas AB (further – the Bank) covers the period from Januarys 1st, 2012 to December 31st, 2012.

2. The strategy of the Bank

Šiaulių bankas aims to become the major bank for our clients rendering professional financial services; be a strong and advanced Lithuanian bank.

The Bank's daily activity guidelines ensuring the long-term relations with the clients based on mutual trust are based on easy-going communication, quick and comprehensible services, responsible decision-making and comprehensive consultations.

Our mission

- We are here to help our clients grow, reach for their goals, fulfil 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, the Bank pays 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 SMEs, municipal and regional projects, render professional services to private customers and searching for new solutions of efficient business development. Being the active member of the country's social life, supporting cultural, sports, social and other projects, collaborating with the local communities, the Bank is further strengthening the activities of the company's social responsibility with respect to social, environmental and transparency aspects.

The strength of the Bank lies in close partnership with the international financial institutions, experienced team of employees and developed and rapidly expanded network of regional outlets which make basis for the efficient and 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.

Contact information of the Bank

Name: Šiaulių 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
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

„Šiaulių 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, + 370 41 502 990
Fax + 370 41 423 437
E-mail lizingas@sb.lt
Website www.sblizingas.lt

3. Nature of the activities of the Bank

In its activities the Bank 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 priority area of the Bank's activities is focused on funding of 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;
- collection of utility bills and other fees, direct debit service, standing and conditional orders;
- management of accounts via "SB linija" on the Internet;
- information about the account status and changes within, possibility to transfer funds between the accounts with Šiaulių bankas via the mobile connection "SMS bankas" and "SMS bankas plius";
- 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
- 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 located in Šiauliai, and the Bank's network covers the main towns and financially active regional centres – 4 new client service centres were opened in 2012 as of December 31, 2012 Šiaulių bankas operated through 56 client service centres in 31 town in Lithuania.

4. 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;
- Association of Lithuanian Banks;
- Association of Lithuanian Financial Brokers;

- International Chamber of Commerce (ICC) Lithuania;
- Lithuanian Business Employers' Confederation;
- Kaunas Chamber of Commerce, Industry and Crafts;
- Klaipeda Chamber of Commerce, Industry and Crafts;
- Panevezys Chamber of Commerce, Industry and Crafts;
- Siauliai Chamber of Commerce, Industry and Crafts;
- Klaipeda Association of Industrialists;
- Siauliai Association of Industrialists;
- Kelme Association of Business People;
- Mazeikiai Association of Business People;
- Taurage Association of Business People.

5. The companies of the Bank's Group

The Bank had the following subsidiary companies as of December 31, 2012:

"Šiaulių banko lizingas" UAB (hereinafter — "SB lizingas"):
- *assets* — LTL 230.01 million;
- *nature of activities:* finance leases (leasing) and leases.

"Šiaulių banko turto fondas" UAB (hereinafter — "SB turto fondas"):
- *assets* — LTL 38.24 million;
- *nature of activities*: real estate management.

"Šiaulių banko investiciju valdymas" UAB (hereinafter — "SB investiciju valdymas"):
- *assets* — LTL 18.53 million;
- *nature of activities*: investment management.

"SBTF" UAB (hereinafter — "SBTF"):
- *assets* — LTL 42,77million;
- *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 31.45 million;
- *nature of activities*: management of real estate.

"Pavasaris" UAB (further — "Pavasaris"):
- *assets* — LTL 36.29 million;
- *nature of activities:* development of the area of multi-apartment residential houses.

Contact information of the companies of the Bank Group

„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 Siauliai
Telephone + 370 41 399 423
Fax + 370 41 399 423
E-mail info@minera.lt

UAB „Pavasaris“
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 5 244 8096
Fax + 370 5 240 1623
E-mai: info@pavasaris.net
Website: www.pavasaris.net

UAB „Kėdainių oda“
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

"Kedainiu oda" UAB (further — "Kedainiu oda"):

- *assets* — LTL 13.99 million;
- *nature of activities:* leather processing, production.

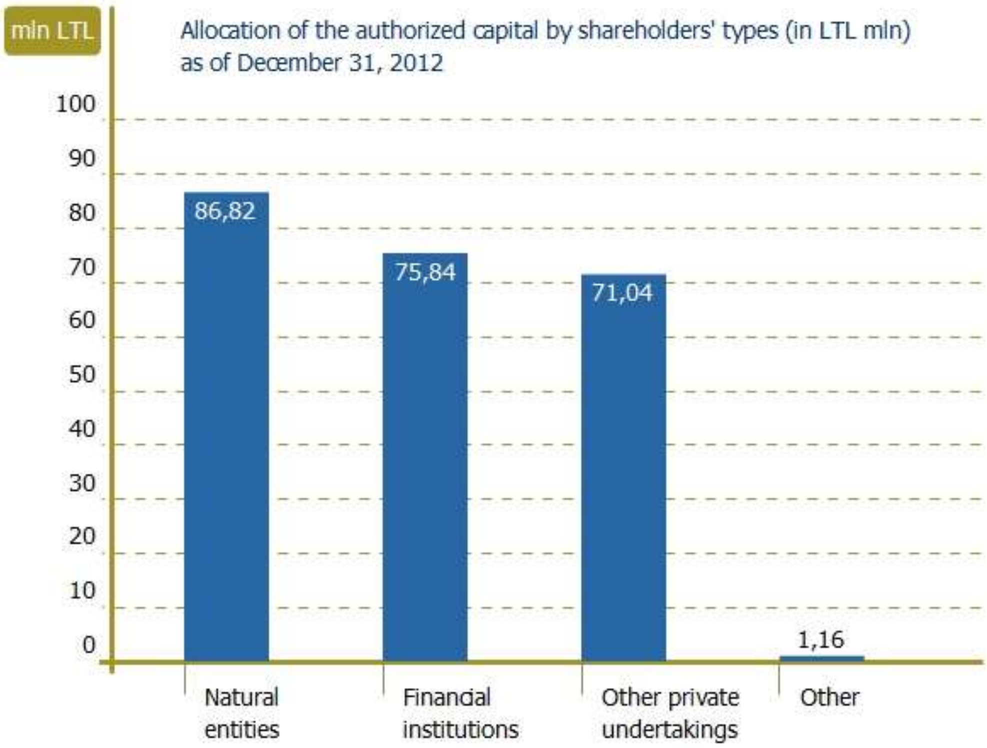
A share of the Bank in the Bank's subsidiaries as of December 31, 2012 is provided in the table below.

Subsidiary	A share of the authorized capital owned by the Bank, %
„Šiaulių banko lizingas" UAB	100,00
„Šiaulių banko investicijų valdymas" UAB	100,00
„Šiaulių banko turto fondas" UAB	100,00
„SBTF" UAB	100,00
„Pavasaris" UAB	97,93
„Minera" UAB	100,00

As of December 31, 2012 the Bank controlled all the subsidiaries directly except „Kėdainių oda" UAB.

6. Authorized capital and shareholders of the Bank

The authorized capital of the Bank 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. 68.68 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.



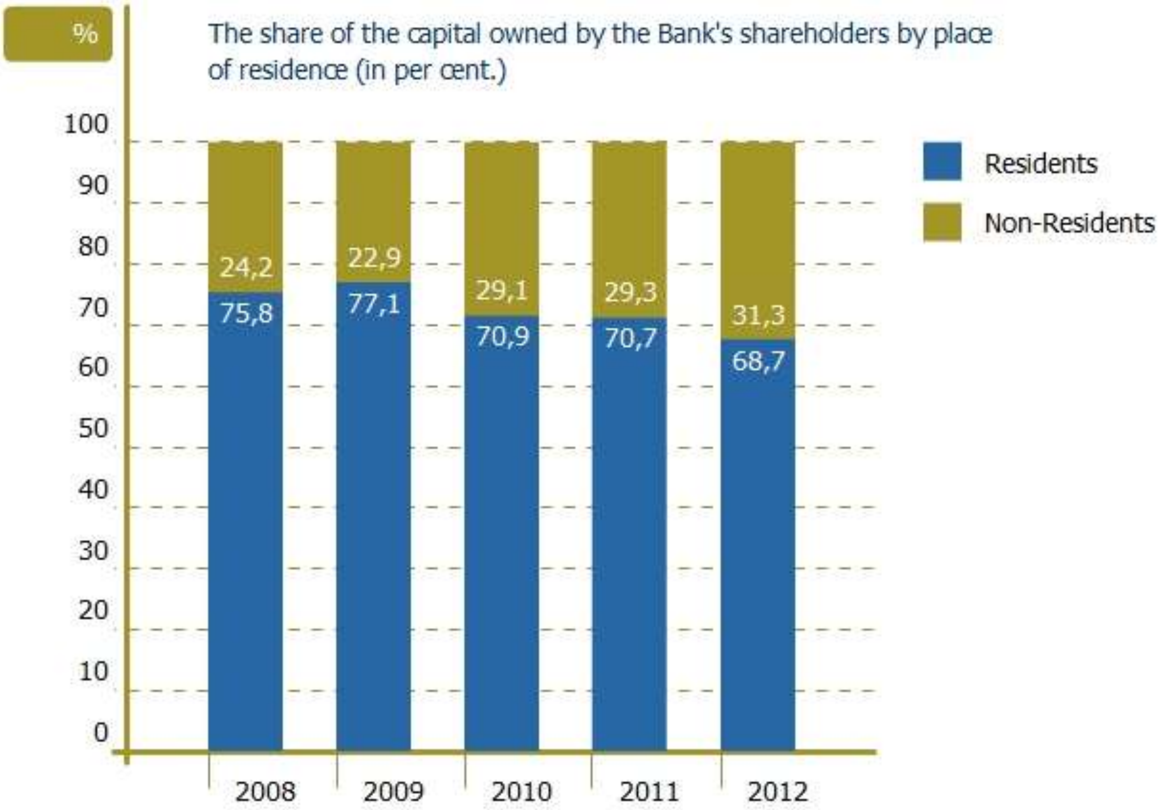
During the last five years the authorized capital of the Bank was increased by LTL 73.8 million in total: LTL 54.5 million from additional contributions of the shareholders and LTL 19.3 million from the Bank's own funds.

Date	28-09-2007	14-05-2008	22-06-2010	04-08-2011
Capital size, LTL	161 033 512	180 357 533	204 857 533	234 857 533

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

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

As of 31 December 2012, the number of the Bank's shareholders comprised 3 671 (late in 2011 – 3 805). All issued shares grant the shareholders equal rights foreseen by the Law on Companies and the Charter of the Bank.



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;
- to provide, in advance, questions to the Company in relation to the issues of the agenda of the General Meeting of Shareholders;
- 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 2012 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	43.17
2.	Gintaras Kateiva	14 660 214	6.24	6.24	43.17
3.	Clients of Skandinaviska Enskilda Banken, adr. Sergels Torg 2, Stockholms, Sweden	12 978 606	5.53	5.53	5.53
4.	„Eglės“ AB sanatorium, adr. Eglės str. 1, Druskininkai, Lithuania	12 604 205	5.37	5.37	5.37

Shareholders of the Bank including the European Bank for Reconstruction and Development, Trade House Aiva UAB, Mintaka UAB, Enterprise Group Alita AB, Gintaras Kateiva, Algirdas Butkus, Arvydas Salda, Kastytis Jonas Vyšniauskas, Sigitas Baguckas, Vigintas Butkus, Vytautas Junevičius, Audrius Žiugžda, Vita Adomaitytė, Daiva Kiburienė, Jonas Bartkus, Donatas Savickas, and Vytautas Sinius form a group of persons the votes possessed by whom are weighted together. As of 31 December 2011, this group possessed 43.17 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 2012, 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 lost 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 activities 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.

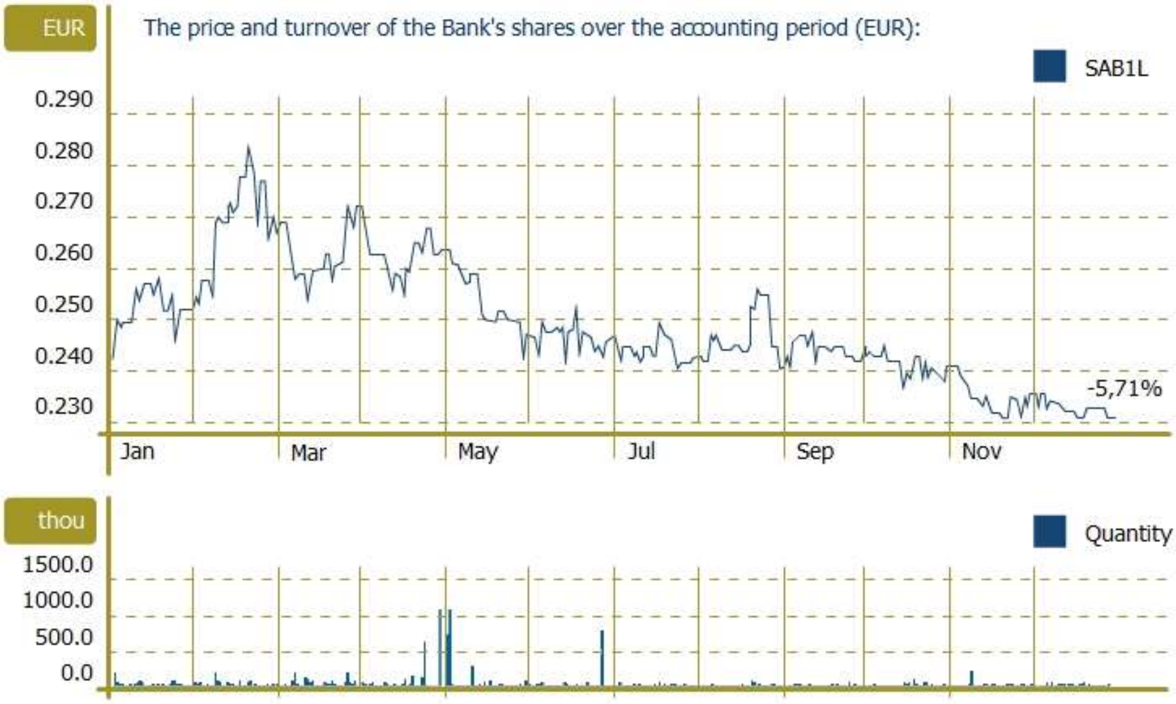
Shares issued by the Bank are included in the comparative index of the OMX Baltic states securities market OMX Baltic Benchmark, which comprises shares of the highest capitalization and most liquid companies as well as in indices OMX Vilnius, OMX Baltic, OMX Baltic Financials, and OMX Baltic Benchmark 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):

Source: website of NASDAQ OMX Vilnius AB
http://www.nasdaqomxbaltic.com/market/?instrument=LT0000102253&list=2&pg=details&tab=historical&lang=lt&currency=0&downloadcsv=0&date=&start_d=1&start_m=1&start_y=2008&end_d=31&end_m=12&end_y=2012wnloadcsv=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 2008–2012:

Year	Price of the last trading session, EUR	Max. price, EUR	Min. price, EUR	Amount of shares, units	Turnover, mln. EUR
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
2012	0,231	0,285	0,230	11 106 241	2,48



Source: website of NASDAQ OMX Vilnius AB
http://www.nasdaqomxbaltic.com/market/?instrument=LT0000102253&list=2&pg=details&tab=historical&lang=lt&currency=0&downloadcsv=0&date=&start_d=1&start_m=1&start_y=2012&end_d=31&end_m=12&end_y=2012

The share price change charts of the OMX Vilnius index, OMX Baltic Benchmark, and the Bank for 2008-2012 are provided below:

Data of the chart:

Index/Shares	01-01-2008	31-12-2012	+/-, %
OMX Baltic Benchmark GI	684,91	546,98	-20,14
OMX Vilnius	514,23	355,08	-30,95
SAB1L	EUR 0,89	EUR 0,23	-74,11

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=2008&end_d=31&end_m=12&end_y=2012

The Bank's share capitalization was LTL 187.32 million (EUR 54.25 million) on 31 December 2012 and amounted to LTL 198.67 million (EUR 57.54million) on 31 December 2011.

The capitalization of shares of the Bank and NASDAQ OMX Vilnius AB trading list as of the last trading day of 2011 and 2012 are as follows:

Baltic share list	31-12-2011	31-12-2012	Change
Šiaulių bankas – SAB1L	57 540 095,59 EUR	54 252 090 EUR	-5,71 %
Vilnius market, in total	3 139 310 661,61 EUR	2 991 605 297 EUR	-4,71 %

Source: website of NASDAQ OMX Vilnius AB http://www.nasdaqomxbaltic.com/market/?pg=capital&list%5B%5D=BAMT&list%5B%5D=BAIT&list%5B%5D=BAFN&market=XVSE&period=other&start_d=30&start_m=12&start_y=2011&end_d=28&end_m=12&end_y=2012

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

Ratio	31-12-2008	31-12-2009	31-12-2010	31-12-2011	31-12-2012
P/E	9,3	negative	negative	14,10	13,29

8. 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.

9. Information on compliance with Bank's prudential requirements

In 2012 the Bank executed all the prudential requirements stipulated by the Bank of Lithuania. Information regarding the compliance with the standards is revealed in the chapter 10 of the present report.

10. Risk management

The Group of the Bank accepts, manages, analysis and evaluates the risks arising from 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 to minimize the potential risks, but also to ensure the optimal risk and profit ratio as well as the 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. The procedures for the management of various types of risks prepared on the basis of the policy specify the principles of management of the particular risks and ensure the integrity of the risk management process throughout the group of the Bank.

The Bank has concluded agreements with the following intermediaries in public circulation of securities:

- Bank "Finasta" AB;
- Danske Bank A/S Lithuanian Branch;
- "Citadele" Bank AB
- DnB 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.

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 Bank's Group performs annual self-assessment. This process analyses the risks that may arise from banking activities and have a significant impact on the Bank Group. 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 2012 in the chapter *Financial risk management.*

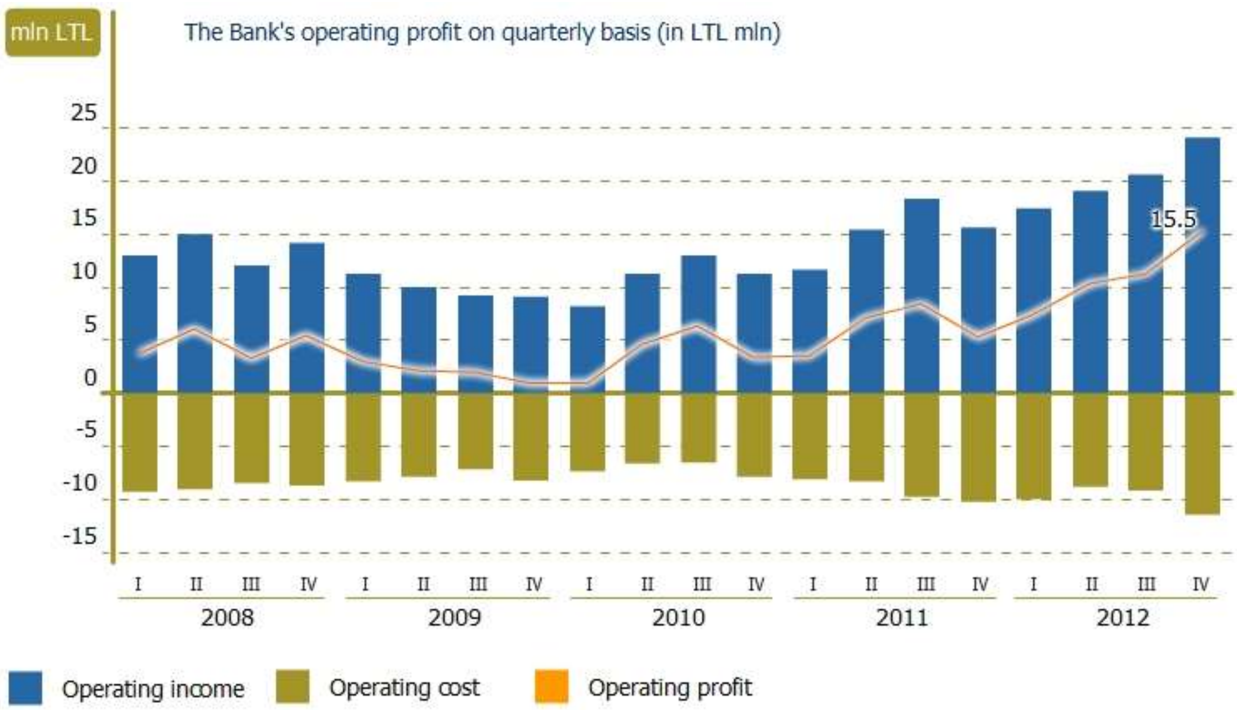
In order to avoid conflict of interests, the outlets of the Bank which perform risk management functions are separated from the outlets direct activities of which are related with the emergence of risks characteristic to that activity.

The Bank Group revises its risk management policies and systems regularly with regard to market changes, new products, and newly emerging best practices.

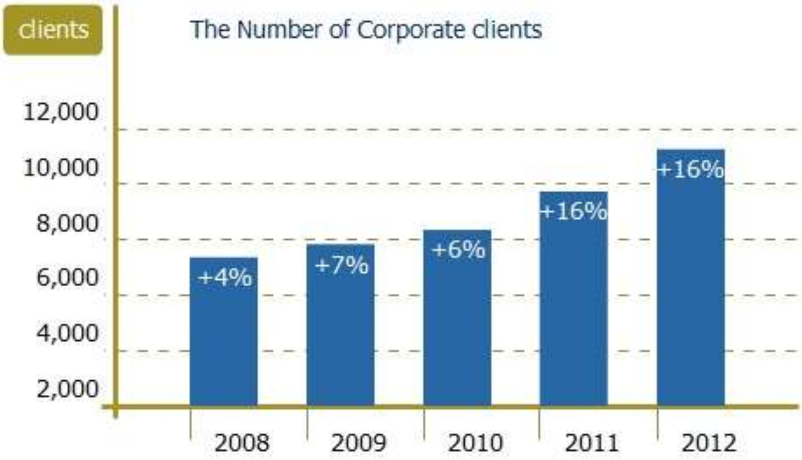
11. Information on results of performance

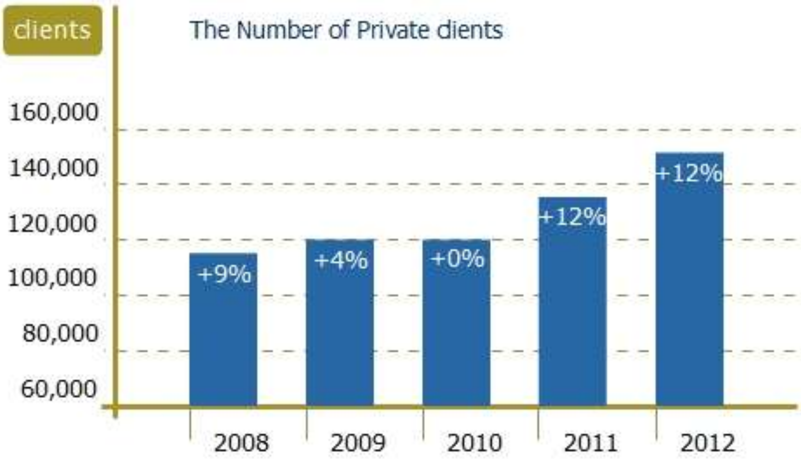
In 2012 Šiaulių bankas was further growing and improving the results of its performance. According to the pre-audited data, over the year of 2012 the Bank earned LTL 14.9 million of the pre-audited net profit, i.e. such result is by 16 per cent better in comparison with the year 2011 when the Bank earned LTL 12.8 million. The net profit of Šiaulių bankas' Group reached LTL 13.0 million (in 2011the net profit comprised LTL 13.0 million).

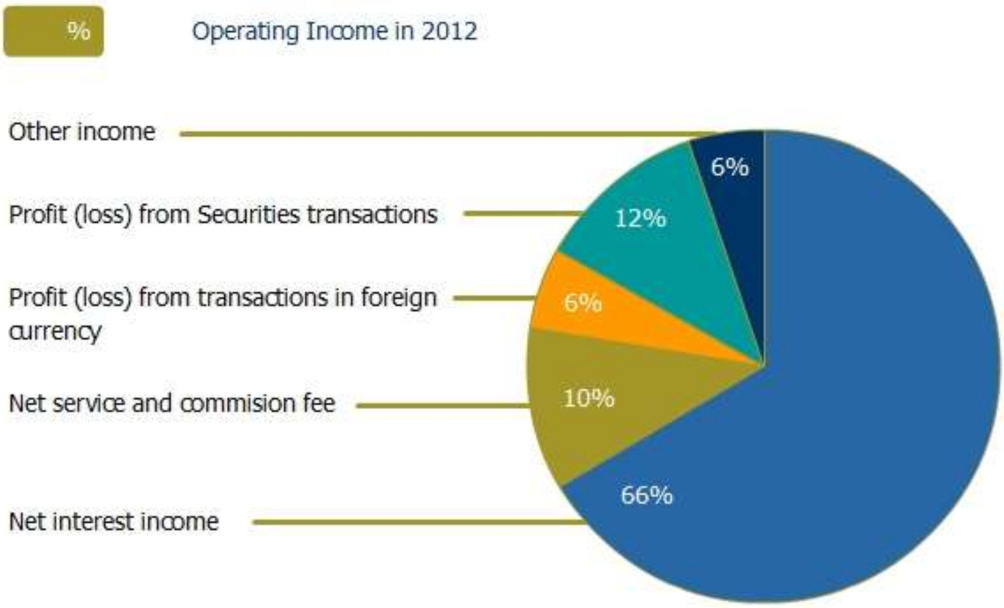
The Bank's operating profit (before the income tax, dividends from the subsidiaries and special provisions) earned over 2012 was the best one achieved in the history of Šiaulių bankas - it reached almost LTL 44.3 million which is by 84 per cent more than 2011. It should be admitted that the operating profit of LTL 15.5 million achieved in the last quarter of 2012 is the best profit ever achieved during the quarter.



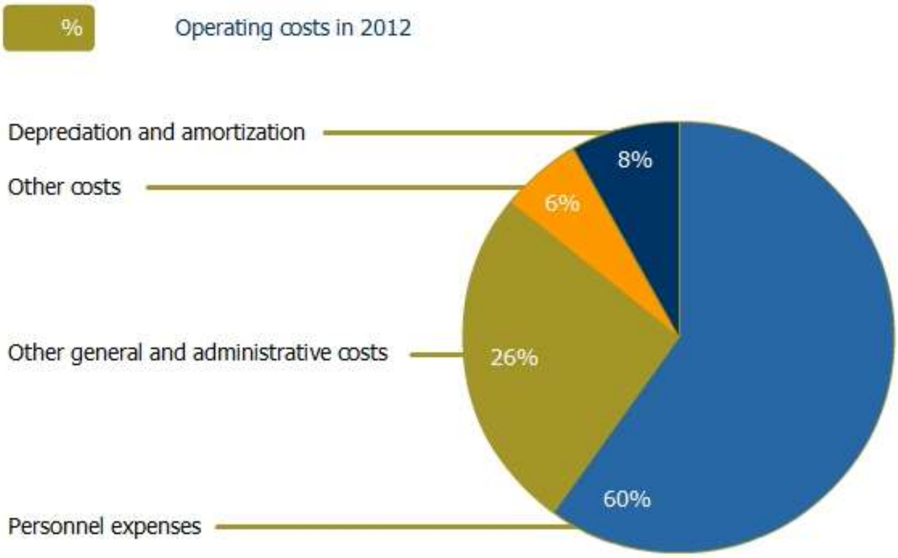
The net interest income comprised LTL 55.4 million earned over the previous year which is by 11 per cent more than in 2011. Gradually increasing on quarterly basis the Bank's net interest and commission fee grew by 3 per cent and reached LTL 8.7 million. This was influenced by the actively expanded clientèle and its increasing activity. The number of the Bank's clients grew by 13 per cent up to 162 thou - the corporate clients grew by 16 per cent up to 11.2 thou, the private ones - by 12 per cent up to 151 thou.







The significant impact on the increasing bank's operating income was made by the profit generated from the transactions with securities - it comprised LTL 9.6 million over the year. The Bank's profit of LTL 4.9 million earned from transactions in foreign currency was equivalent to the result achieved in the previous year.



The Bank's income was growing faster than its expenses which led to the high efficiency of the performance. The cost to income ratio has decreased by 13.3 percentage points since the beginning of the previous year and comprised 45.5 per cent. The return on equity (ROE) comprised 4.8 per cent and return on assets (ROA) was 0.5 per cent.

Ratings assigned by international agencies and their amendments

The international rating agency Moody's Investors Service determined the following ratings for the Bank:

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

	Profitability ratios	2008	2009	2010	2011	2012
Bank	Costs / income, %	55,59	75,71	63,78	58,87	45,55
	ROAA, %	0,86	-1,47	-1,10	0,49	0,52
	ROAE, %	6,34	-11,22	-9,47	4,61	4,79
Financial group	Costs / income, %	56,73	71,81	62,77	59,13	45,94
	ROAA, %	0,84	-1,53	-1,09	0,53	0,54
	ROAE, %	6,22	-11,74	-9,38	4,87	4,90
Entire group	Costs / income, %	59,27	78,42	67,85	60,44	59,40
	ROAA, %	0,65	-1,71	-1,28	0,49	0,46
	ROAE, %	4,68	-13,07	-11,20	4,63	4,24

No significant changes were recorded in the operating costs. The Bank further following the conservative assessment of clients' risk additionally formed LTL 11.2 million of special provisions over the last quarter and the expenses on special provisions comprised LTL 28.2 million over the year.

The Bank's asset grew up to LTL 2.93 billion and the annual growth comprised 7 per cent (about LTL 0.2 billion). The net value of the Bank's loan portfolio decreased by 1 per cent over 2012 and the portfolio comprised LTL 2.05 billion at the end of the year. The decrease of portfolio was caused by the special provisions formed for impairment of loans and reclassification from a loan into an embedded derivative. The growth of the loan portfolio eliminating the accrued interest and special provisions comprised LTL 4.9 million over the year.

The portfolio of the debt securities increased by 50 per cent over the year and comprised LTL 527.4 million. The portfolio of equity securities has almost tripled due to the investments into subsidiaries and comprised LTL 54 million at the end of the year.

The deposit portfolio still accounts for the biggest share of the Bank's liabilities. In comparison to the end of 2011 the amount of clients' deposits with the Bank increased by 14 per cent up to LTL 2.2 billion. The individual deposits with the Bank grew by 23 per cent and comprised LTL 1.6 billion late in the year, their share in the deposit portfolio comprised 74.7 per cent. The share of the Bank's deposit market reached 4.7 per cent late in 2012.

According to the data as of January 1st 2013, the Bank operated in compliance with all prudential requirements stipulated by the Bank of Lithuania:

	Prudential requirements	2008	2009	2010	2011	2012
Bank	Capital adequacy, % (>8 %)	15,08	13,90	14,06	13,05	12,81
	Liquidity, % (>30 %)	38,75	38,23	46,00	38,36	42,78
	Maximum loan per borrower, % (<25 %)	21,30	24,56	21,68	21,36	18,77
	General open position in foreign currency, % (<25 %)	0,41	0,31	0,55	0,49	1,02
Financial Group	Capital adequacy, % (> 8 %)	15,19	13,90	14,17	13,12	13,00
	Maximum loan per borrower, % (<25 %)	21,12	24,38	21,50	21,42	18,53
	General open position in foreign currency, % (<25 %)	1,30	0,31	0,54	0,49	1,00
Entire Group	Capital adequacy, % (> 8 %)	15,21	13,90	13,92	12,95	12,64
	General open position in foreign currency, % (<25 %)	1,26	0,31	0,55	0,49	1,02

The number of agreements concluded with the clients regarding the Internet banking exceeded 79 thou at the end of 2012, i.e. the number of Internet banking users grew by 27 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 142, i.e. grew by 38 per cent late in 2012. The mentioned list of partners is being actively expanded, filled with new and most popular stores on-line.

12. Activity plans and prognosis

The Bank's activity plans and prognosis for 2013 were corrected by the events in the Lithuanian financial market - during the process of preparation of the present documents the operating licence of Ūkio bankas had been revoked. Šiaulių bankas AB, the temporary administrator of Ūkio bankas AB and the State undertaking "Deposit and Investment Insurance" signed the agreement on transfer of the part of Ūkio bankas' assets and liabilities to Šiaulių bankas.

13. The most important events over the accounting period

- On January 27, 2012 the NASDAQ OMX Vilnius awarded the Bank for the improvement working with the investors. The nomination of the best stockbroker of 2011 went to the employee of the Bank - Rimantas Januševičius as well.

- In February the Bank commemorated its 20th anniversary. The funds planned for this occasion were dedicated to the residential homes of old people – the modern TV sets were granted as presents to 71 residential houses throughout Lithuania.

- In March during the meeting of alumnus of the Social Faculty of the Šiauliai University the Bank was awarded as the "The Most Patriotic Employer" and "The Safest Work Place".

- On March 20, the Board of the Bank seeking to optimize the structure of the Group of the Bank passed the resolution to acquire 100 per cent of the shares of UAB "Pavasaris".

- On March 29 during the ordinary general shareholders' meeting the Bank's Supervisory Council was for the first time expended by an independent member Ramunė Zabulienė.

- On April 6 during their general annual assembly Šiauliai Chamber of Commerce, the Bank was recognized as „The Most successful business company 2011" among the big enterprises.

- In June the network of the Bank was expanded by a new Rotuses client service centre opened in the old town of Kaunas.

- In July the 54th outlet of Šiaulių bankas opened its doors to the clients – Saules client service centre was founded in the trading centre abundantly visited by inhabitants of Šiauliai and city guests.

- In August one of the biggest banks in Germany the Commerzbank collaborating with several thousand correspondent banks all over the world granted a Straight -Through Processing Award 2011 to Šiaulių bankas for fully automatized international transfers of excellent quality.

- In November 2012 Šiaulių bankas opened its 55th outlet in the shopping and entertainment centre Akropolis – Vilnius Akropolis client service centre.

- In November 2012 the Bank signed cooperation agreement with "Perlo paslaugos" UAB and expended the client servicing network to significant number. Currently the bank's clients can withdraw cash or place in on the payment card accounts can use more than 1500 terminals of "Perlas".

- In December Šiaulių bankas opened its 56th regional outletin total in Gariūnai modern marketplace - Gariūnai marketplace client service centre. Its business hours are very unusual – 2 days a week the centre is opened from the early morning, i.e. from 4 am, 4 days a week it starts operating from 7 am.

14. Social responsibility

- **Social responsibility**

The international initiative of Global Compact has brought together the huge number of business enterprises and other organizations from all over the world for the unified and advanced implementation of the social responsibility idea encourages to operate in with the respect to human and labour rights, to follow the principles of environment protection, and not contribute to the expansion of corruption.

Since the very beginning of its activities the Bank has been carrying out the transparent, honest and sustainable business policy. The fact that values cherished by the Bank are very close to the ideas of the Global Compact encouraged the Bank to join this international initiative.

The Bank supports the international initiative idea by paying the exceptional attention to the employees and the clients‘ welfare in the daily activities, respecting the human, employees‘ and labour rights, being environmentally friendly and fostering the employees and clients to be alike. Moreover, supporting the Global Compact idea, the exceptional attention is paid to the prevention of the corruption and any other possible ways of dishonesty.

- **Employees**

The annual increasing number of the Bank‘s employees indicates that the Bank is an attractive and progressive employer. The best assessment of the human resources policy at the Bank is the employees‘ loyalty. During more than two decades of operation the Bank has brought together the efficient and professional team of employees. The Bank and its subsidiaries foster responsible relationship, take care of employees‘ well-being as the employees are one of the biggest Bank‘s values.

In February 2012, commemorating the Bank‘s 20th anniversary the top management congratulated all the employees. Those who have been working at the Bank for the longest period of time were honoured for their sincere work, efforts and the achieved results.

At the end of the year the traditional event when the employees elected the „Person of the Year“ took place at the Bank for the eighth year in turn.

The Bank has been improving the system of the employees through the implementation of the evaluation of the individual achievements. They are entitled to quarterly premiums for the achieved performance results.

Seeking to define and evaluate the principles of conduct, norms of ethics and to ensure the compliance the Board of the Bank approved the Bank‘s Code of Ethics in March 2012 according to which the bank‘s employees follow the principles of honesty, reporting and responsibility, respect for laws, human and his rights, impartiality, objectivity, justice and principle of exemplary behaviour.

In order to ensure the comfortable working conditions for employees since July the employees operating in client service centres have been wearing more practical and comfortable uniforms. The standardized outfit creates the unified image of the Bank, encouraged to brace up while performing the Bank‘s functions and strengthens the collective sense of community.

Taking care of on-going improvement of the Bank‘s employees skills and qualification, the various trainings, courses and seminars were conducted in 2012.

Taking students for internship each year the Bank provides them with the opportunity to gain experience which is so necessary for the future participants of the labour market, forms their business skills, arranges trainings at their working places. Those students who gain good recommendations and wish to relate their career with banking are invited to join the Bank after their studies.

The Bank strives to be close, friendly, benevolent and fostering its employees‘ improvements. The same as each year the employees and their family members were invited to the summer sports holiday which won the exceptional attention The Bank‘s employees rode the bicycles, also, went to Riga Opera and Ballet Theatre to watch the performance. Moreover, the employees‘ could participate in the photography contest „Long live summer!“ and in various Christmas events. In December the photography exhibition „Underwater world“ taken by one of the Bank‘s employees was arranged in the Bank‘s Head Office and each member of the Bank‘s staff was given a next year calendar decorated by the moments captured by the Bank‘s employees themselves.

The Bank‘s representatives also participated in the inter-bank events such as „Karting Championship‘2012“ and „Inter-bank Volleyball‘2012“.

The Bank pays much attention to the promotion of healthy lifestyles of employees and encourages active sports – those who are willing go for sports are entitled to privileges.

- **Clients**

Over 2012 the Bank focused on its priority area – the responsible lending to the SMEs and provision of the other financial services. The Bank was actively granting preferential credits to business people, micro-credits to very small enterprises, individual companies and single entrepreneurs, to business women at very favourable conditions as well as to communities of the multi-apartment houses.

Taking care of the farmers‘ welfare, in November 2012 the Bank prepared and offered the attractive service packages „Ūkiškai“ („Economically“) and „Ūkiškai PLIUS“ („Economically PLUS“). Choosing the mentioned service packages the farmers are able not only to make various payments cheaper but also they are granted with the insurance against accidents. Moreover, the Bank has offered the new crediting possibilities to the farmers and agricultural communities for farm development - „Kreditą ūkiui“ („Credit for farm“) and „Kreditą žemei“ („Credit for land“).

Collaborating with the initiators „Judus jaunimas“ in Lithuania, the Bank presented the financing possibilities for young businesses in 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 pays special attention to its clients and seeks to ensure the high quality of rendered services and the servicing itself.

- **Environment**

The Bank follows the Global Compact and its ten principles, one of which falls on environmental protection. The Bank is fostering the ideas of the responsible consumption, conservation of natural resources and environmental protection. Cooperation with the society members and employees who are taking care of the environment strengthens the long-term communication and ensures support of the socially responsible society.

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 banking system “SB linija”, thus, saving not only printing costs but the clients’ as well.

On April 22 joining the global Earth Day the Bank in cooperation with the United Nation‘s development programme in Lithuania and the network of the National sustainable business enterprises arranged the free review of the „One Day on Earth“ to the Bank‘s employees , clients and partners in Šiauliai.

On April 25 commemorating 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 Prevention and Security Department operating at the Bank seeks to prevent any possible unfair and illegal practices. In October cooperating with the Financial Crime Investigation Service the Bank arranged trainings of “Anti-money laundering and counter terrorism financing of the Republic of Lithuania” for the Bank’s employees. The employees are constantly encouraged to consult regarding the corruption as well as prevention and restriction of other illegal activities.

- **Society**

Šiaulių 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 implementing various projects. The Bank participated as the partner of the traditional tournament of the Youth Entrepreneurship„FIX'12"arrnaged by the Faculty of Social Science in March.

The Bank cares about the future of Lithuania, i.e. its youth. We believe that gifted young people is an objective of the successful Lithuania. Therefore, in 2012 the Bank paid much of its attention to the youth, its professional orientation – introduced to the Bank's activities and banker's profession. The Bank was visited by the eight formers of the „Jovaro" pro-gymnasium, the senior students of S.Šalkauskio gymnasium and graduates of J. Janonis gymnasium. The Bank's employees told the student about the Bank in details – the history of its foundation, departments, employees, key activity areas, services rendered to the customers, the career prospects at the Bank. Moreover, the Bank participated in "The Junior Colleague" programme arranged by "Lithuanian Junior Achievement" — it was the programme of partnership between the school and the company. On April 19, the Bank was visited by the final year students from gymnasiums of Šiauliai city who became the junior colleagues of the bankers for several hours – they had observed their work, got familiar with the Bank's activities and skills necessary for work. The Bank's employees told the stories of their careers and the specifics of their works.

Participation in the social campaigns, charity granting is also an integral part of the Bank's activities. When it is possible the Bank supports the country's culture, local communities, individual projects, participates in charity campaigns.

Commemorating the 20th anniversary of its performance the Bank arranged the social campaign and assigned the funds planned for jubilee to purchase TV sets which were donated to 71 residential home of old people from various cities and towns of Lithuania.

The bank strengthens its inter-relations with the communities of various cities and small towns actively participating in the country's social and cultural life. The sponshorship of the towns' holidays has already become the long-lasting tradition of the bank. The town holidays give the opportunity ti the inhabitants to enjoy their place of residence and to find out about the Bank's outlet operating in the town.

The Bank provided support to the holiday of Anykšiai town; to the cultural art project in Kaunas „Fir tree of Dancing Angels"'; to the international race „The Amber Nautical Mile 2012" arranged by the authority of the Klaipėda state seaport and Klaipėda County Athletics Federation; to the holiday of Marijampolė town „Sūduvos kraitė"; to Varėna "Grybų šventė" ("Mushrooms' holiday"); to aviation holiday arranged by the Telšiai aeroclub; to Šiauliai city holiday "Šiaulių dienos". Moreover, the Bank traditionally supported events organized by the Lithuanian Musician Foundation and the concert "Breaking Dawn with Maironis..." commemorating the beginning of the new school year and the day of Liberty; to the 5th TAFISA world sports games"Šiauliai 2012", to public organization "Parents Against Drugs " to arrange the children's summer employment program" Let's be together "for 7-17 year olds, aimed at children from large and low-income families to help and meaningful way to spend your summer vacation. In December the Bank contributed to the in initiative "Malta's soup" arranged by the Order of Malta.

15. 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:

	2008	2009	2010	2011	2012
Per cent from the nominal value	2,00	0,00	0,00	0,00	0,00
Amount of dividends per share, LTL	0,02	0,00	0,00	0,00	0,00
Amount of dividends, LTL	3 220 670	0,00	0,00	0,00	0,00

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 (further — PL) , 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.

16. 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. These documents 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 provide consultancy, to evaluate the Bank's activity risk management systematically and comprehensively as well as the efficiency of the internal control system, to assist the Bank in implementation of its objectives 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 the current and long-term 2011-2013 activity plans (the document are approved by the Internal Audit Committee).

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 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).

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, detected defects and their elimination, implementation of the Internal audit's plans and to ensure the independency of the Internal audit's performance.

The Bank's Internal Audit Committee consists of 4 members including the independent member of the Supervisory Council. 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 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 report is submitted to the members of the Board of the Bank.

Considering the recommendations and comments of the Internal Audit Department the heads of the Bank's divisions, 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 the 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.

17. Assessment of Internal control and risks management

The risk management system of the Bank Group includes the risk management strategy, policy, the system of the risk limits, internal control and internal audit.

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. Since various risks encountered by the the Bank are interdependent, their management is centralised. One of the main objectives of the Bank's Risk Management Committee is the arrangement and coordination of an appropriate risk management system. The risks incurred in the activities of the Bank's Group as well as the principles of their management are defined in the Risk Management Policy. The Bank distinquishes the following acitivity risk areas: concentration risk; credit risk; liquidity risk; operational risk; market risk: interest rate, and foreign currency rate and securities price risks.

The Bank‘s Remuneration Policy is an integral part of the Bank‘s risk managment system. The Remuneration Policy is cooridinated with the Bank‘s activity strategy, level of accepted risks, Bank‘s goals, values and long-term vision

Before calculating the internal capital requirement necessary to ensure the stable performace the Bank performs annual self-assement. This process allows identifying all the risks faced by the Bank in its activities, defining their level, assessin the impact of riks on the Bank's income and capital.

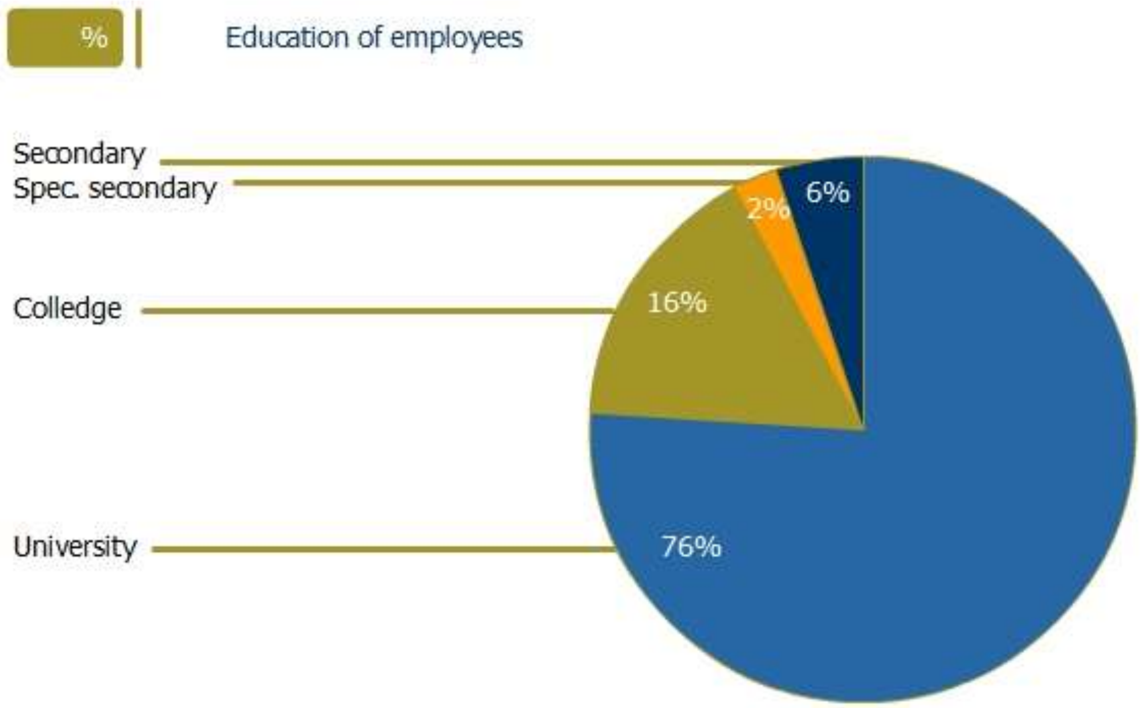
Compliance with and arrangment of the internal control as well as its monitoring are considered as one of the integral aprts of the Bank‘s operational risk management process. It operates in every level of the Bank‘s managment and in each process, its elements areintegrated into procedures of each process.

The internal audit of the Bank's internal control system and assessment of the internal risk managment 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.

18. Employees

As of December 31st 2012 the Bank employed 481 staff members. In comparison with 2011 the number of employees in the Bank decreased by 2.6 per cent over the accounting year. At the end of the reporting period the enterprises of the Bank Group employed 556 staff members. Seeking to increase the efficiency of activities the number of employees performing the servicing functions was reduced (the cleaners, security guards).

76 per cent of the total number of the Bank's employees had the university education, 16 per cent had college, 2 per cent – secondary education and 6 per cent had special secondary education.



Personnel strategy

The Bank‘s Personnel strategy is based on the objective to employ the competent, motivated and loyal employees who would be able to implement the Bank‘s strategy and the set goals.

The team of Bank‘s employees

The professional, reliable, open, optimistic and strong team of employees acting in compliance with the Bank‘s values and following the provisions of the updated Bank‘s Code of Ethics is especially important to the Bank as the quality of its work influences whether customers are satisfied with the services provided by the Bank.

Relations with employees

The Bank foster the long-term work relations with employees. At the end of 2012 even 30 per cent of the Bank‘s employees have been working there for 10 years and longer.

Recruitment, selection and career development

The purposeful recruitment and selection process is designed to attract and recruit the best potential candidates to occupy the vacancies. In order to maintain the employees' experience and knowledge they are provided with opportunities to continue their career. Every Bank employee has the opportunity to take part in internal competitions - thus enabling to realize their abilities.

Education of Employees

In 2012 much attention was paid to the education of the staff. More than 90 per cent of the middle chain management participated in the project of „Creation of Students' Internship in Financial and Insurance sectors" arranged by the Lithuanian Confederation of Industrialists and financed by the European Union. The knowledge gained by the Bank's management during the 90 academic hours seminars and workshops are used not only to form the skills of students but also the abilities of the employees who just started their career at the Bank as well as to share the experience and arrange trainings in the place of work thus educating the staff. During the project more than 50 students had their internship at the outlets of the Bank.

Seeking to achieve the goals set by the Bank and in order to foster the process of sales the Bank conducted trainings for the client servicing officers and their directors. The training called „Active sales" had been arranged to the credit specialists and senior client servicing managers. This training was focuses on improvement of the active selling skills, development of the competences required in selling, recognition of client‘s needs and his assessment, also on improvement of ability to present the services suggestively and to seek for the efficiency in sales motivating the sellers to create the sustainable relations with the customer. 68 employees had participated in the mentioned trainings.

After the trainings in the field of sales arranged for the employees regarding the continuity of the successful work, the seminars „The Leader‘s Instruments for Education" conducted for the heads and directors were oriented to the education of employees and the instruments to be used for management of work results, development of the relations between the heads and their subordinates, the motivation, importance of the feedback, assumptions of the leadership and principles. All the directors of the client servicing outlets had participated there.

The employees also participated in the various trainings organized over the year in the areas of anti-money laundering, crediting, etc. depending on the specifics of their direct duties.

Motivation

The Bank Group companies apply various motivation measures to stimulate their employees. The employees receive the bonuses on quarterly bases depending on the implementation of objectives set to the Bank, its separate departments or the individual goals. Each year the Bank carries out the traditional elections of the „Person of the Year" as well as sports and leisure festival in summer. The careful attitude to the staff, their insurance against the accidents, the preventive medical care, pay outs in case of accident in the family, presents on the personal occasions, bonuses to the employees with the longest work experience on the occasion of the Bank‘s birthday, the discounts in gym – are the additional benefits provided to the staff.

Average monthly salary of the relevant employee group before taxes:.

Employees' group	2008		2009		2010		2011		2012	
	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	Average number of employees	Average salary per month, in LTL	Average number of employees	Average salary per month, in LTL
Mana-gement	8	23 039	8	17 106	8	14 910	12	23 568	11	24 207
Officers	484	2 410	454	1 980	441	1 967	418	2 476	411	2 780

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.

19. Information on implementation of Remuneration policy

The information is prepared and delivered implementing the requirement set by the cl. 25 of the resolution No. 03-175 of the Board of the Bank of Lithuania as of December 23, 2010 regarding "The amendment of the "Policy of minimal requirements to remuneration of employees of credit institutions" approved by resolution No. 228 of the Board of the Bank of Lithuania as of December 10, 2009 ".

The Bank acts in compliance with the Remuneration Policy approved by the Supervisory Council of the Bank dated March 28, 2011.

Relation between the remuneration and operating results. The Bank uses the following items of the remuneration system:

- the fixed salary agreed in the labour contract;
- the variable remuneration (quarterly bonuses to employees and annual premiums to employees in the position which can have the significant impact on the risks accepted by the Bank);
- single time pay-outs / allowances (pay-outs not related to the Bank's results);
- other benefits.

Alongside with other factors such as the specifics of the labour market and sector, employee's professional qualification, experience, etc.) The principles of remuneration establishment are related with the results of employee's performance results. It means that the annual performance result of the employee is taken into consideration while establishing the individual salaries and amounts of the variable remuneration. The variable remuneration depends on the Bank's outlet where the officer is employed as well as on his personal achievements.

The variable remuneration can be paid to each employee of the Bank's financial group, however, the provisions applicable to the positions which might have the significant impact on the risks accepted by the Bank have to comply with the principles of payment of the variable remuneration set by the Remuneration policy: a share of variable remuneration is paid in the form of the Bank's financial instruments (Bank's shares) and the payment is subject to the grace period.

The criteria used for assessing the performance results, **the correction of the remuneration in compliance with the risks, criteria of assignment of remuneration and principles of grace period**. While assessing the achievement of the personal objectives the quantitative and qualitative criteria have to be met. Evaluating the employee's achievements personal financial result is as important as non-financial/non-quantitative factors, i.e. relations with the clients, colleagues, compliance with the standards, implementation of the internal regulations, policies and procedures, initiative, responsibility, improvement of activities, etc.

In compliance with the requirements passed by the bank of Lithuania, the Remuneration Policy provides the list of employees whose professional performance may have a significant impact on the risks accepted by the Bank. As of December 31, 2011 — 22 employees of the Bank and 27 employees of the Bank's financial group were included into the mentioned category, as of December 31, 2012 – 21 employee of the Bank and 26 employees of the Bank's financial group.

The variable remuneration can decreased or not aid if the Bank's performance results do not comply with the indicators foreseen by the strategy or in case the Bank is operating in loss. The deferred portion of the variable remuneration is corrected (decreased) in cases when the Board of the Bank or the Bank's supervisory authority determined any of the following events:

- the Bank‘s financial status is not stable (the conclusion that the Bank faces the liquidity problems or there is a real threat that it might face the liquidity problems or will become insolvent);
- if after paying out the accrued fund of the variable remuneration, the Bank‘s financial status would become not stable;
- in case of other material events causing the threat to the continuity of the Bank‘s activities (the big loss is being incurred, the Bank fails meeting the prudential requirements set by the Bank of Lithuania, etc.)

Subject to the possible risks related to the evaluated annual results of the employee whose professional performance may have a significant impact on the risks accepted by the Bank, payment of not less than 40 per cent of variable remuneration is subject to 3 (three) years of grace period paying it in equal portions. 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 criteria of the assessment of the performance results which serve as the basis for the right to the Bank‘s shares, financial measures related to the shares and other integral parts of the variable remuneration. The right to the Bank‘s shares as the portion of the variable remuneration is bases on the same criteria of the assessment of the performance as are applicable to the monetary portion.

The process of decision-making defining and reviewing the principles of the Policy including the information on the Remuneration Committee (its structure and authorizations), the external consultants if the services of the latter had been used while preparing the Policy.

The Remuneration Policy is reviewed annually. The suggestions regarding the principles of remuneration are submitted by the Remuneration Committee. The Remuneration Policy is approved by the Supervisory council of the Bank, while the Board of the Bank bears responsibility for its implementation. The services of the external consultants have not been engaged while creating the Remuneration Policy.

In May 2011 the Remuneration Committee was established within the Bank, the composition of which was approved by the Board of the Bank. The Remuneration Committee is authorized to the following :

- competently and independently evaluate the principles of variable remuneration which are the part of the Remuneration Policy;
- supervise the variable remuneration of the leading managers responsible for the risk management and control of compliance ;
- prepare the draft resolutions of the variable remuneration subject to decision of the Bank‘s Supervisory Council taking into account the long-term goals of the Bank‘s shareholders and investors.

The general quantitative information about remuneration by business areas. No business areas are distinguished within the Bank. The general quantitative information about remuneration to the employees distinguishing the heads of the Bank – the general amounts of fixed and variable of remuneration (without taxes to the soc. Insurance and guarantee fund) in LTL thou as well as number of recipients are provided in the table below:

2011	Fixed portion of remuneration	Variable portion of remuneration	Number of recipients
Heads (Board members)	2 065	390	7
Employees	13 216	808	423
In total	15 281	1 198*	430
2012	**Fixed portion of remuneration**	**Variable portion of remuneration**	**Number of recipients**
Heads (Board members)	2 010	-**	7
Employees	13 916	1 856	415
In total	15 926	1 856	422

Financial Group's data:

2011	Fixed portion of remuneration	Variable portion of remuneration	Number of recipients
Heads (Board members)	2 388	446	12
Employees	14 234	845	457
In total	17 669	1 291*	469
2012	**Fixed portion of remuneration**	**Variable portion of remuneration**	**Number of recipients**
Heads (Board members)	2 447	-**	12
Employees	14 954	1 945	451
In total	17 401	1 945	463

* The pay outs of the variable remuneration for the IV q. the 2011 in the form of bonuses were paid in I q of 2012, while 60 per cent of pay outs to due to employees whose position can have the significant impact on the risks accepted by the Bank were paid in II q of 2012.

** the employees whose professional activities can have the significant impact on the risks accepted by the Bank had not been entitled to pay outs from the assigned funds.

The amounts of variable remuneration for 2011 split into monetary pay outs, pensions, Bank's shares, financial instruments related to the Bank's shares, other financial or non-monetary measures.

Bank's data:

Parts of variable remuneration	
Monetary pay outs	LTL 359 thou
Bank's shares	402 thou units
Pensions	-
Financial instruments related to the shares	-
Other financial or non-monetary measures.	-

Financial Group's data:

Parts of variable remuneration	
Monetary pay outs	LTL 424 thou
Bank's shares	433 thou units
Pensions	-
Financial instruments related to the shares	-
Other financial or non-monetary measures.	-

The amounts of outstanding deferred variable remuneration for 2011 split to assigned and non-assigned parts.

Bank's data:

The deferred portion of the variable remuneration	
Monetary pay outs	LTL 144 thou
Bank's shares	160 thou units

Financial Group's data:

The deferred portion of the variable remuneration	
Monetary pay outs	LTL 170 thou
Bank's shares	172 thou units

The variable remuneration fund was not allocated to the employees whose position can have the significant impact on the risks accepted by the Bank and the pay outs for 2012 had not been executed.

The amounts of the deferred variable remuneration assigned over the financial years, paid out and corrected according to the activity results. The share of 60 per cent for 2011 was paid out over the accounting year, no pay out performed for the year 2012.

The amount and number of recipients of the guaranteed variable remuneration foreseen by the new agreements and payments related to the termination of the agreement. The guaranteed variable remuneration had not been foreseen. The payments related to the termination of the agreement had not been executed over the financial year.

Assignment of payments related to the termination of the agreement over the financial year, the number of recipients and the biggest amount per person. In 2012 the Bank terminated the labour contract with one employee belonging to the group of the leading management.

The reasons and criteria of assignment of the part of the variable remuneration and all the other benefits received not in cash. Following the requirements set by the Bank of Lithuania and the Remuneration Policy the variable remuneration in non-monetary measures can be assigned only in Bank's shares and only to the Bank's the employees whose professional activities can have the significant impact on the risks accepted by the Bank.

Other information which, in the Bank's opinion, is significant. The outstanding amounts of the deferred portion of the variable remuneration split into assigned and non-assigned portions to employees; the amounts of deferred variable remuneration assigned during the accounting year paid and corrected according to the results of performance; the amounts and the number of recipients of the payments related to termination of agreements over the financial year performed to the Bank's employees specified in the Remuneration Policy whose professional activities can have the significant impact on the risks accepted by the Bank shall be disclosed after the executed pay outs , i.e. after the general meeting of the Bank's shareholders in the interim report for the second quarter of the year 2013.

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

The Loan, Internal Audit, Risk Management and Remuneration Committees are formed within the Bank. The functions, procedures of formation and the policy of activities of these committees are defined by the legal acts of the Republic of Lithuania, legal acts of the Bank of Lithuania as well as provisions of the certain committees approved by the Board and Supervisory Council of the Bank.

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 Risk Management Committee performs the functions related to the efficiency of the Bank's activities taking into consideration the parameters of the acceptable risks and integrating the management of the interest rates, capital and liquidity, also, performs other functions foreseen by its provisions.

The Loan Committee analyses 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 Policy of variable remuneration, practice and incentives created to manage the risks accepted by the Bank, its capital and liquidity, supervises the variable remuneration of the employees responsible for risk management and control of compliance, prepares draft resolutions regarding variable remunerations and performs other functions foreseen by its provisions.

Data of the members of the committees as of 31 December 2012:

Name, surname	Beginning / end of tenure	Share of capital under the right of ownership, %	Workplace
Internal Audit Committee			
Sigitas Baguckas	2012-03-29 / 2016	0,65	„Namų statyba“ UAB
Vytautas Junevičius	2012-03-29 / 2016	0,13	Company group „Alita“, AB
Ramunė Vilija Zabulienė	2012-03-29 / 2016	0,00	Registered individual activity of the resident of Lithuania
Rimantas Purtulis	2012-03-29 / 2016	0,10	Registered individual activity of the resident of Lithuania
Risk Management Committee			
Donatas Savickas	2012-05-29 / constantly operating	0,10	Šiaulių bankas AB
Jolanta Dūdaitė	2012-05-29 / constantly	0,00	Šiaulių bankas AB

	operating		
Pranas Gedgaudas	2012-05-29 / constantly operating	0,01	Šiaulių bankas AB
Morena Liachauskienė	2012-05-29 / constantly operating	0,00	Šiaulių bankas AB
Vytautas Sinius	2012-05-29 / constantly operating	0,07	Šiaulių bankas AB
Loan Committee			
Vytautas Sinius	2012-03-27 / constantly operating	0,07	Šiaulių bankas AB
Edas Mirijauskas	2012-03-27 / constantly operating	<0,01	Šiaulių bankas AB
Danutė Gaubienė	2012-03-27 / constantly operating	<0,01	Šiaulių bankas AB
Daiva Kiburienė	2012-03-27 / constantly operating	0,06	Šiaulių bankas AB
Aurelija Pociūtė	2012-03-27 / constantly operating	<0,01	Šiaulių bankas AB
Giedrius Sarapinas	2012-03-27 / constantly operating	<0,01	Šiaulių bankas AB
Donatas Savickas	2012-03-27 / constantly operating	0,10	Šiaulių bankas AB
Remuneration Committee			
Avydas Salda	2011-05-09 / constantly operating	2,59	„Šiaulių banko turto fondas“ UAB
Pranas Gedgaudas	2012-08-13 / constantly operating	0,01	Šiaulių bankas AB
Ernesta Laurinavičienė	2011-05-09 / constantly operating	0,00	Šiaulių bankas AB
Živilė Skibarkienė	2011-05-09 / constantly operating	0,05	Šiaulių bankas AB

21. 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 (the Head of the Bank).

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, analysis 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.

Six meetings of the Bank‘s Supervisory Council took place in 2012. Neither member of the Supervisory Council missed more than half of the meetings over the accounting period.

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 analysis 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 analysis, 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 arbitrage;
- 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.

22. Members of the Collegial bodies

The Bank's Supervisory Council:

Arvydas Salda

A member of the Supervisory Council of Šiaulių bankas AB since 1991, the Chairman of the Supervisory Council since1999.
Education: Kaunas Institute of Technology.
Vilnius University, a specialty of applicable mathematics.
Work experience: a consultant of "Šiaulių banko turto fondas" since 2004.

Sigitas Baguckas

The Deputy Chairman of the Supervisory Council of Šiaulių 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 Šiaulių 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, director of "Litagros mažmena" UAB since 2008..

Vigintas Butkus

A member of the Supervisory Council of Šiaulių 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 Šiaulių 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 Šiaulių 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 2010-2011; Chief Advisor of the First Vice-president and Executive Committee since 2011.

Ramunė Vilija Zabulienė

Independent member of Supervisory Council of the Bank since 04-05-2012,
Education: Vilnius University, an engineer-economist.
Work experience: member of the Board of the Bank of Lithuania, Deputy Chairperson of the Board until 2011;
Acts in compliance with the individual activity certificate of the resident of Lithuania.

Bank Board:

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 Šiaulių 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 Šiaulių 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 since1995, Deputy Chief Executive Officer, Head of Finance and Credit Division since 2005, Head of Finance and Risk Managment Division since 2011.

Daiva Kiburienė

The member of the Board, Deputy Chief Executive Officer, Head of Šiauliai 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 Šiaulių bankas AB since1998, Deputy Chief Executive Officer, Head of Corporate and Retail Banking Division since 2005, Head of Šiauliai 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 Šiaulių bankas since 2002, Head of Accounting and Reporting Division since 2005.

Jonas Bartkus

The member of the Board since 29-03-2012, Head of IT Division.
Education: Vilnius University, a master of mathematics.
Work experience: Head of Computerization Department of Šiaulių bankas AB since 2001, Head of Business Development Division since 2005, Head of IT Division since 2012.

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 Šiaulių bankas AB since 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 2012-03-29 end 2016	2.59	43.17
Sigitas Baguckas	beginning 2012-03-29 end 2016	0.65	43. 17
Vigintas Butkus	beginning 2012-03-29 end 2016	0.18	43. 17
Vytautas Junevičius	beginning 2012-03-29 end 2016	0.13	43. 17
Peter Reiniger	beginning 2012-03-29 end 2016	-	43. 17
Gintaras Kateiva	beginning 2012-03-29 end 2016	6.24	43. 17
Ramunė Vilija Zabulienė	beginning 2012-05-04 end 2016	-	-
Algirdas Butkus	beginning 2012-03-29 end 2016	4.39	43. 17
Audrius Žiugžda	beginning 2012-03-29 end 2016	0.58	43. 17
Donatas Savickas	beginning 2012-03-29 end 2016	0.10	43. 17
Vita Adomaitytė	beginning 2012-03-29 end 2016	0.03	43. 17
Daiva Kiburienė	beginning 2012-03-29 end 2016	0.06	43. 17
Vytautas Sinius	beginning 2012-03-29 end 2016	0.07	43. 17
Jonas Bartkus	beginning 2012-03-29 end 2016	0.05	43. 17

The information regarding participation of the collegial bodies of the Bank and Chief Financial Officer in activities and capital of other undertakings is provided in the table below:

Name, surname	Participating in activities of other undertakings (name of the company, position)	Participating in capital of other undertakings (percentage in capital exceeding 5 %)
Arvydas Salda	Member of the Board „Klaipėdos LEZ valdymo bendrovė“ UAB Consultant „Šiaulių banko turto fondas“ UAB	—
Sigitas Baguckas	Procurist of „Namų statyba“ UAB	„Namų statyba“ UAB – 47,12 %
Vigintas Butkus	Director of Trading house „Aiva“ UAB Director of „Mintaka“ UAB	,,Aiva“ UAB – 9,25 % „Mintaka“ UAB – 9,80 %
Vytautas Junevičius	Senior advisor of Company Group „Alita“ AB, member of the Supervisory Council. Chairman of the Board of „Anykščių vynas“ AB	Company Group „Alita“, AB – 14,48 %
Gintaras Kateiva	Director General of „Litagra“ UAB, Chairman of the Board Director of „Litagros” mažmena UAB	„Litagra“ UAB – 36,95 %
Ramunė Vilija Zabulienė	—	—
Peter Reiniger	Chief Counsellor of the first Vice-President and Executive Committee	—
Algirdas Butkus	—	Trading house „Aiva” UAB – 66,35 % „Visnorus” UAB – 48,94 % „Mintaka” UAB – 68,08 %
Donatas Savickas	—	—
Audrius Žiugžda	Member of the Council of Vytautas Magnus University Member of the Board of „Limarko laivininkystės kompanija“ AB	—
Vita Adomaitytė	—	—
Daiva Kiburienė	Chairperson of the Board „Kėdainių oda“ UAB	—
Vytautas Sinius	—	Public undertaking Sporto šaltinis – 33,33 %
Jonas Bartkus	—	—

Amounts of funds calculated over 2012 and average sizes per member of the collegial body as well as provided guarantees:

Members of management bodies	Number of people	Total calculated amounts, in LTL	Average sizes, in LTL	Assets transferred, in LTL	Guarantees provided, in LTL
Members of the Bank‘s Council	7	0	0	0	0
Members of the Bank‘s Board	7	2 257 216	322 459	0	0
Chief Executive Officer and Chief Financial Officer	2	611 980	305 990	0	0

Loans granted to the members of the Council and the Board of the Bank as of December 31st 2012:

Members of management bodies	Granted loans, in LTL thou
Members of the Bank‘s Council	4 851
Members of the Bank‘s Board	6
IN TOTAL	4 857

23. 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 consolidated financial statement of the Bank for 2012.

24. Information on malicious transactions

No malicious transactions which did not correspond to the Bank’s goals, usual market conditions, violated the interets of shareholders or other groups of persons, which had had or might have had a negative impact on the Bank’s activities in the furute or on the results of its performace 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, controllong shareholders or other related parties’ positions to the Bank and their private interets and (or) positions.

25. Data on the publicly disclosed information

The following information was publicly disclosed over 2012:

- 18-01-2012 — the calendar of the Bank‘s information to be announced to the investors;
- 20-02-2012 — a pre-audited activity result of the Bank and the Group for 2011;
- 20-02-2012 — interim financial information of the Bank for 12 months of 2011;
- 05-03-2012 — convocation of the Ordinary General Meeting of Shareholders;

- 08-03-2012 — the draft resolutions prepared by the Board for the Ordinary General Meeting of
- Shareholders to be held on 29-03-2012;
- 09-03-2012 — corrected draft resolutions prepared by the Board for the Ordinary General Meeting of
- Shareholders to be held on 29-03-2012 (a corrected annex to the notification);
- 20-03-2012 — notification regarding the Board's decision to acquire the shares of „Pavasaris" UAB;
- 29-03-2012 — resolutions of the Ordinary General Meeting of Shareholders held on 29-03-2012;
- 30-03-2012 — information regarding decisions of the Bank's Council and Bank's Board (with regard
- to the Bank's Board);
- 30-03-2012 — annual information;
- 02-04-2012 — supplement of annual information;
- 19-04-2012 — the un-audited activity result for the first quarter of 2012 of the Bank and the Group;
- 14-05-2012 — report regarding concluded transactions, related to payment of the variable
- remuneration in the Bank's shares;
- 18-05-2012 — interim information of the Bank for 3months of 2012;
- 01-06-2012 — information regarding acquisition of the share block of „Pavasaris" UAB.
- 19-07-2012 – unaudited operating results of the Bank and the Bank Group for the first half-year of 2012;
- 14-08-2012 – notification regarding the acquisition of voting rights;
- 20-08-2012 – interim financial information for six months of 2012;
  19-10-2012 – unaudited operating results of the Bank and the Bank Group for 9 months 2012;
- 20-11-2012– interim information of 9 months;
- Reports regarding the transactions with the Banks shares entered by the Bank's top management.

In accordance with the procedures set by the Charter of the Bank and the legal acts of the Republic of Lithuania all the stock events are announced in the Central regulated information base and on the Bank's website www.sb.lt. Reports on the Meetings of Shareholders are additionally announced in the daily newspaper "Lietuvos rytas".

26. 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 by the law.

27. 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 annex enclosed to the present report together with the set of financial statements of 2012 and is also available on the website of the Bank www.sb.lt.

Chief Executive Officer ____________________ Audrius Žiugžda
07-03-2013

ŠIAULIŲ
BANKAS

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

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	General purposes of the Bank, in attaining of which the Bank fulfils its mission, and the main business areas, aiming at exceptional competence, as well as plans are publicly declared in the Bank's notifications and are placed on the website of the Bank.
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 body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	The Bank's bodies include a general shareholders' meeting, the Bank's Supervisory Council, the Bank's Board and the chief executive officer.

2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The Board performs the function of the Bank's management and bears responsibility for the performance of the Bank, while the supervision of the management bodies falls on 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 departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Chairman of Supervisory Council have never been the Bank's chief executive officer, previous and current positions do not constitute a barrier for the implementation of independent and impartial supervision.

Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**		
3.1. 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. The Bank's annual and interim reports include the updated information on the collegial bodies' members' education, professional experience and current position.
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 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.
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	Yes/No	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. The director of the Bank's Personnel department, who has knowledge and experience in the salary establishment

members of the remuneration committee should have knowledge of and experience in the field of remuneration determination policy.		policy, is a member of the Remuneration Committee
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.	Yes/No	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.
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.	No	Performing their duties the members of the Supervisory Council seek avoiding the conflict of interests. The shareholders offering the candidates to the Supervisory Council and voting for them have their own opinion concerning which candidates will represent their interest in the Council best. There is 1 independent member in the Supervisory Council.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other 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	No	The Supervisory Council does not have an independent member. See section 3.6.

compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. 3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.		
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Yes	While electing the independent member of the Council, he has been considered as independent. The Bank's annual report also contained information stating that the member of the Supervisory Council is independent.

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	The independent member of the Council meets all criteria of independence.
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.	Yes/No	The bank has concluded the agreement with the independent Council member foreseeing the remuneration form the Bank's funds, however, according to the Law on Companies the confirmation of the size of the remuneration by the shareholders' meeting is not subject to the competence of the meeting.
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 faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	The members of the 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.

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.	Yes/No	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. The Bank does not provide information to its shareholders regarding the members' participation in meetings during the last financial year.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes/No	All the transactions between the Bank and shareholders as well as between supervisory and managing members are concluded according standard conditions performing usual banking activities. 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.
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 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 advice the affiliated company, executive director or members of management body.	Yes	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 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	The Audit Committee submits the Supervisory Council recommendations regarding its decisions. There is an independent Council member in the Audit Committee. 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 itself.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be	Yes/No	The Audit Committee consists of 4 members. It has an independent Council member. The Remuneration Committee consists of 4 members, the Chairman of the Board is the Chairman of the Bank's Supervisory

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.		Council, other members – the Bank's employees. The Nomination Committee is not formed.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes/No	The authority delegated to the Audit Committee as well as its accounting are set in the Committee's provisions approved by the Supervisory Council. The Bank 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.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes	Other members of the management bodies who are not Committee's members participate in the meetings in case the Committee invites.

4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: • Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; • Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; • Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; • Properly consider issues related to succession planning; • Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	No	There is no Nomination Committee at the Bank. 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: • 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,	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 competence.

the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; • 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. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: • Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; • Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; • Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. 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.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following:	Yes	The Audit Committee in the Bank consists of 4 members among who is the independent Council member.

• 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. 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		The Audit Committee in the Bank consists of 4 members among who is the independent Council member.

approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		The Audit Committee in the Bank consists of 4 members among who is the independent Council member. The Audit Committee in the Bank consists of 4 members among who is the independent Council member.
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	No/Yes	The Bank does not have practice of assessment of the Supervisory Council's performance and making it public. Information about the internal organization of Supervisory Council (chairman, deputy and members) is announced on the website of the Bank, annual and interim reports.

of the assessment of the collegial body of its own activities.		
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.	Yes	

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.		
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. Foreigner's 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	
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	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.

7.4. 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.	Yes/No	The report of the Remuneration policy is prepared according to the requirements set by the resolution of the Board of Lithuania.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.
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.	Yes/No	The data provided in the report of the Remuneration policy covers all the employees whose professional activities might have significant impact on the risks accepted by the Bank. Due to the fact that preparation of this report has been started only during the reporting year there are no essential amendments in the Remuneration policy.
8.3. Remuneration statement should leastwise include the following information: •Explanation of the relative importance of the variable and non-variable components of directors' remuneration; •Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; •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	Yes/No	Considering the possible risks related to the evaluated annual results of the employee whose professional activities might have significant impact on the risks accepted by the Bank not less than 40 per cent of the variable remuneration is subject to 3 years of grace period paying in equal portions. Calculating the variable remuneration the performance results of the employee for the period not less than three years is taken into consideration. 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. Referring to the Remuneration Policy approved by the Board, the variable remuneration including the deferred portion is paid only in case of sustainable financial status of the bank. The cases when the variable remuneration can be corrected (reduced) are specified in the Bank's internal procedures.

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.		
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, *inter alia*, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	Not applicable	The report of the Remuneration policy is not prepared in compliance with the scope defined in the present clause.
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. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: • The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; • The remuneration and advantages received from any undertaking belonging to the same group; • The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; • If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; • Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; • Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: • 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;	Not applicable	According to the requirements set by the Bank of Lithuania the report reveals the average sizes of the remuneration. Other information defined in this documents is not published.

• 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. 8.5.3. The following supplementary pension schemes-related information should be disclosed: • When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; • When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 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.		
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.	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.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable activity's results evaluation criteria.	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.	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	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 principles of the variable remuneration are supervised and assessed by the Remuneration Committee which prepares draft resolutions regarding variable remunerations and submits them to the Supervisory for approval. If the services of the external consultant were used they would be specified in the report of the Remuneration Policy.
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 Remuneration Policy and its implementation are the prerogative of the Remuneration Committee and the Council of the Bank. Therefore, the voting does not take place in the shareholders' meeting.
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 subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	No	See section 8.17.
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: • Grant of share-based schemes, including share options, to directors; • Determination of maximum number of shares and main conditions of share granting; • The term within which options can be exercised; • The conditions for any subsequent change in the exercise of the options, if permissible by law; • All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	No	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: • 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	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.

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.		
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 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/No	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 and is available on the bank's website. 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.	Yes	
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.	Yes	

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.		
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	
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 did not receive remuneration from the bank for the rendered non-audit services during the accounting year.

Chief Executive Officer Audrius Žiugžda

07-03-2013