ŠIAULIŲ BANKAS AB
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
ANNUAL REPORT
31 DECEMBER 2010

CONTENTS

Independent Auditor's Report

To the shareholders of Šiaulių bankas AB

Report on the financial statements

We have audited the accompanying stand alone and consolidated financial statements (together 'the Financial statements') of Šiaulių bankas AB (the 'Bank') and its subsidiaries (collectively 'the Group') set out on pages 5 - 91 which comprise the stand alone and consolidated statement of financial position as of 31 December 2010 and the stand alone and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these Financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

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Opinion

In our opinion, the accompanying Financial statements give a true and fair view of the financial position of the Group and the Bank as of 31 December 2010, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the consolidated Annual Report for the year ended 31 December 2010 set out on pages 92 - 146 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 2010.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Director

Vilnius, Republic of Lithuania
8 March 2011

Rimvydas Jogėla
Auditor's Certificate No.000457

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

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

		Year ended			
		31 December 2010		31 December 2009	
	Notes	Group	Bank	Group	Bank
Interest and similar income	1	110,429	107,379	142,800	140,474
Interest expense and similar charges	1	(78,634)	(78,540)	(113,601)	(112,878)
Net interest income		**31,795**	**28,839**	**29,199**	**27,596**
Fee and commission income	2	12,478	12,325	12,620	12,935
Fee and commission expense	2	(4,467)	(4,387)	(4,472)	(4,399)
Net fee and commission income		**8,011**	**7,938**	**8,148**	**8,536**
Allowance for impairment losses	7	(46,031)	(43,915)	(50,444)	(49,794)
Net gain (loss) from operations with securities	3	3,088	3,088	4,945	321
Net foreign exchange gain		2,709	2,715	2,402	2,402
(Loss) gain from disposal of assets	5	1,212	165	(113)	14
Other income	6	1,695	787	1,130	508
Administrative and other operating expenses	4	(34,021)	(28,572)	(36,647)	(31,713)
Operating (loss)		**(31,542)**	**(28,955)**	**(41,380)**	**(42,130)**
Dividends from investments in subsidiaries		-	-	-	6,377
(Loss) profit before income tax		**(31,542)**	**(28,955)**	**(41,380)**	**(35,753)**
(Loss) before income tax from the subsidirary that is held for sale	20	(1,594)	-	-	-
Income tax income	8	4,844	4,806	5,829	5,639
Net (loss)		**(28,292)**	**(24,149)**	**(35,551)**	**(30,114)**
Other comprehensive (loss) income					
Gain (loss) from revaluation of financial assets		599	599	96	1,467
Deferred income tax on (loss) gain from revaluation of financial assets		180	180	(197)	(197)
Other comprehensive (loss) gain, net of tax		779	779	(101)	1,270
Total comprehensive (loss)		(27,513)	(23,370)	(35,652)	(28,844)
(Loss) attributable to:					
Equity holders of the Bank		(28,292)	(24,149)	(35,551)	(30,114)
From continuing operations		(26,698)	(24,149)	(35,551)	(30,114)
From discontinued operations		(1,594)	-	-	-
Non-controlling interest	26	-	-	-	-
		(28,292)	(24,149)	(35,551)	(30,114)
Total comprehensive (loss) income attributable to:					
Equity holders of the Bank		(27,513)	(23,370)	(35,652)	(28,844)
Non-controlling interest		-	-	-	-
		(27,513)	(23,370)	(35,652)	(28,844)
Basic and diluted (loss) earnings per share (in LTL per share)	9	(0.15)	(0.12)	(0.20)	(0.17)

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

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

		31 December 2010		31 December 2009	
	Notes	**Group**	**Bank**	**Group**	**Bank**
ASSETS					
Cash and cash equivalents	10	208,400	208,397	168,708	168,651
Trading securities	12	81,326	78,406	3,094	121
Due from other banks	11	4,147	4,147	2,214	2,214
Loans to customers	13	1,438,387	1,657,609	1,434,328	1,605,635
Finance lease receivables	14	103,988	-	101,412	-
Investment securities:					
- available-for-sale	15	103,598	89,375	86,236	72,083
- held-to-maturity	15	214,055	207,635	146,041	143,068
Investments in subsidiaries	16	-	16,889	-	9,384
Intangible assets	17	608	606	605	600
Property, plant and equipment	18	67,156	43,699	52,203	45,179
Income tax prepayment		1,615	1,598	2,468	2,221
Deferred tax asset	8	10,407	10,177	5,416	5,224
Inventories	19	42,961	-	34,845	-
Other financial assets	19	35,254	12,025	26,775	1,215
Other non-financial assets	19	10,257	4,091	9,453	3,675
Assets related to a subsidiary that is held for sale	20	12,455	-	-	-
Total assets		**2,334,614**	**2,334,654**	**2,073,798**	**2,059,270**
LIABILITIES					
Due to other banks and financial institutions	21	369,067	369,091	246,272	237,315
Due to customers	22	1,672,299	1,672,394	1,528,824	1,528,840
Debt securities in issue	24	5,291	5,291	4,155	4,155
Special and lending funds	23	28,011	28,011	31,292	31,292
Current income tax liabilities		-	-	-	-
Deferred income tax liabilities	8	-	-	-	-
Other financial liabilities	25	1,503	-	2,110	-
Other non-financial liabilities	25	6,380	3,720	6,961	3,631
Liabilities related to a subsidiary that is held for sale	20	882	-	-	-
Total liabilities		**2,083,433**	**2,078,507**	**1,819,614**	**1,805,233**
EQUITY					
Share capital	27	204,858	204,858	180,358	180,358
Share premium	27	46,661	46,661	45,681	45,681
Reserve capital	27	2,611	2,611	2,611	2,611
Other reserves	27	10,000	10,000	10,000	10,000
Statutory reserve	27	6,667	6,422	6,376	5,981
Financial assets revaluation reserve		(2)	1,369	(781)	590
Retained earnings		(19,614)	(15,774)	9,939	8,816
Non-controlling interest	26	-	-	-	-
Total equity		**251,181**	**256,147**	**254,184**	**254,037**
Total liabilities and equity		**2,334,614**	**2,334,654**	**2,073,798**	**2,059,270**

These financial statements were approved by the Bank's Board and signed on behalf of the Board on 4 March 2011 by:

Algirdas Butkus
Chairman of the Board

Vita Adomaitytė
Chief Financial Officer

The accounting policies and notes on pages 10 to 91 constitute an integral part of these financial statements.

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

THE GROUP'S STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Bank									
	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 2008		**180,358**	**45,681**	**2,611**	**(680)**	**3,683**	**-**	**58,004**	**289,657**	**4,967**	**294,624**
Dividends to Non-controlling interest	26	-	-	-	-	-	-	-	-	(3,923)	(3,923)
Formation of statutory reserve		-	-	-	-	2,514	-	(2,514)	-	-	-
Formation of other reserves	27	-	-	-	-	-	10,000	(10,000)	-	-	-
Reduction in non-controlling interest		-	-	-	-	179	-	-	179	(1,044)	(865)
Total comprehensive loss		-	-	-	(101)	-	-	(35,551)	(35,652)	-	(35,652)
31 December 2009		**180,358**	**45,681**	**2,611**	**(781)**	**6,376**	**10,000**	**9,939**	**254,184**	**-**	**254,184**
Formation of statutory reserve	26	-	-	-	-	441	-	(441)	-	-	-
Release of statutory reserve to cover losses		-	-	-	-	(150)	-	150	-	-	-
Increase in share capital	27	24,500	980	-	-	-	-	-	25,480	-	25,480
Retained earnings related to subsidiary previously not consolidated	20	-	-	-	-	-	-	(970)	(970)	-	(970)
Total comprehensive loss		-	-	-	779	-	-	(28,292)	(27,513)	-	(27,513)
31 December 2010		**204,858**	**46,661**	**2,611**	**(2)**	**6,667**	**10,000**	**(19,614)**	**251,181**	**-**	**251,181**

The accounting policies and notes on pages 10 to 91 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 2008		**180,358**	**45,681**	**2,611**	**(680)**	**3,405**	**-**	**51,506**	**282,881**
Formation of statutory reserve	27	-	-	-	-	2,576	-	(2,576)	-
Formation of other reserves	27	-	-	-	-	-	10,000	(10,000)	-
Total comprehensive loss		-	-	-	1,270	-	-	(30,114)	(28,844)
31 December 2009		**180,358**	**45,681**	**2,611**	**590**	**5,981**	**10,000**	**8,816**	**254,037**
Formation of statutory reserve	27	-	-	-	-	441	-	(441)	-
Increase in share capital	27	24,500	980	-	-	-	-		25,480
Total comprehensive loss		-	-	-	779	-	-	(24,149)	(23,370)
31 December 2010		**204,858**	**46,661**	**2,611**	**1,369**	**6,422**	**10,000**	**(15,774)**	**256,147**

The accounting policies and notes on pages 10 to 91 constitute an integral part of these financial statements.

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

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

		Year ended			
		31 December 2010		31 December 2009	
	Notes	Group	Bank	Group	Bank
Operating activities					
Interest received		99,006	96,019	140,836	138,683
Interest paid		(78,390)	(78,296)	(110,093)	(109,370)
Fees and commissions received		12,478	12,325	12,620	12,935
Fees and commissions paid		(4,467)	(4,387)	(4,472)	(4,399)
Cash outflows from trade in trading securities		4,352	4,352	(268)	(268)
Net inflows from foreign exchange operations		2,726	2,732	2,616	2,616
Recoveries on loans previously written off		1,240	790	313	72
Salaries and related payments to and on behalf of employees		(18,185)	(15,590)	(20,399)	(17,809)
Other cash receipts, sale of assets		1,695	787	1,130	508
Other cash payments		(14,256)	(10,652)	(15,062)	(13,486)
Income tax paid		30	-	(2,646)	(2,627)
Net cash flow from operating activities before change in operating assets and liabilities		**6,229**	**8,080**	**4,575**	**6,855**
Change in operating assets and liabilities:					
Decrease in trading securities		(77,013)	(77,066)	977	977
Decrease (increase) in loans to credit and financial institutions		6,627	(1,375)	14,864	43,343
Decrease (increase) in loans to customers		(68,914)	(102,253)	21,557	(16,592)
Decrease (increase) in other current assets		(32,376)	(11,046)	(5,529)	5,673
Increase in liabilities					
(Decrease) in liabilities to credit and financial institutions		36,847	45,828	(206,352)	(206,419)
Increase in deposits		143,505	143,584	263,355	263,366
Increase (decrease) in special and lending funds		(3,281)	(3,281)	593	593
Increase (decrease) in other liabilities		2,529	873	(3,169)	(201)
Change		**7,924**	**(4,736)**	**86,296**	**90,740**
Net cash flow from (used in) operating activities		**14,153**	**3,344**	**90,871**	**97,595**
Investing activities					
(Purchase) of tangible and intangible fixed assets		(19 887)	(2,190)	(3,398)	(3,209)
Disposal of tangible and intangible fixed assets		4,202	1,356	3,217	2,932
(Purchase) of held-to-maturity securities		(74,267)	(70,820)	(2,846)	(2,846)
Proceeds from redemption of held-to-maturity securities		14,220	14,220	6,816	6,816
Dividends received		68	68	4,829	6,582
(Purchase) of available-for-sale securities		(176,218)	(176,148)	(124,189)	(125,560)
Sale of available-for-sale securities		165,133	165,133	76,279	76,279
(Purchase) of non-controlling interest		-	(7,505)	-	(12,022)
Net cash flow from (used in) investing activities		**(86,749)**	**(75,886)**	**(39,292)**	**(51,028)**
Financing activities					
Increase in share capital	27	7,800	7,800	-	-
Proceeds from convertable loan obtained from the shareholder	33	103,584	103,584		
Dividends paid		(2)	(2)	(1)	(1)
Dividends paid to non-controlling shareholders		-	-	(4,967)	-
Debt securities in issue		20,134	20,134	40,387	40,387
Redemption of debt securities in issue		(19,228)	(19,228)	(61,229)	(61,229)
Net cash flow (used in) financing activities		**112,288**	**112,288**	**(25,810)**	**(20,843)**
Net increase (decrease) in cash and cash equivalents		**39,692**	**39,746**	**25,769**	**25,724**
Cash and cash equivalents at 1 January		**168,708**	**168,651**	**142,939**	**142,927**
Cash and cash equivalents at 31 December	**10**	**208,400**	**208,397**	**168,708**	**168,651**

The accounting policies and notes on pages 10 to 91 constitute an integral part of these financial statements.

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

GENERAL INFORMATION

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

The Head Office of the Bank is located in Šiauliai, Tilžės str. 149, LT-76348. At the end of the reporting period the Bank had 14 branches and 37 client service units (2009: 14 branches and 38 client service units). As at 31 December 2010 the Bank had 481 employees (31 December 2009: 475). As at 31 December 2010 the Group had 545 employees (31 December 2009: 530 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).

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

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

Financial crisis and its impact on Šiaulių bankas

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

Although in 2010 the Lithuanian economy was further effected by the financial crisis, the financial results of the Bank and the Group has improved marginally reflecting the tendencies in the country's economy.

ACCOUNTING POLICIES

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

Basis of preparation

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

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

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

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

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

Basis of preparation (continued)

Amendments to existing standards and interpretations effective in 2010

The following amendments to existing standards and interpretations to published standards as adopted by EU are mandatory for the financial year 2010:

- IFRS 3, 'Business combinations' (revised in January 2008) – effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. This standard will not have any impact to the operations of the Bank and the Group.
- IFRIC 12, 'Service concession arrangements' (IFRIC 12 as adopted by the EU is effective for annual periods beginning on or after 30 March 2009, early adoption permitted). This interpretation is not relevant to the operations of the Bank and the Group.
- IFRIC 15, 'Agreements for the construction of real estate' (effective for annual periods beginning on or after 1 January 2009; IFRIC 15 as adopted by the EU is effective for annual periods beginning after 31 December 2009, with early adoption permitted). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. This interpretation is not relevant to the operations of the Bank and the Group.
- IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective for annual periods beginning on or after 1 October 2008; IFRIC 16 as adopted by the EU is effective for annual periods beginning after 30 June 2009, with early adoption permitted). This interpretation is not relevant to the operations of the Bank and the Group.
- IAS 27, 'Consolidated and separate financial statements' (revised in January 2008) (effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. This standard does not any impact to the operations of the Bank and the Group.
- Eligible hedged items – Amendment to IAS 39, 'Financial instruments: Recognition and measurement' (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. This standard is not relevant to the operations of the Bank and the Group.
- IFRIC 17, 'Distribution of non-cash assets to owners' (effective for annual periods beginning on or after 1 July 2009; IFRIC 17 as adopted by the EU is effective for annual periods beginning after 31 October 2009, with early adoption permitted). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. This interpretation is not relevant to the operations of the Bank and the Group.
- IFRS 1, 'First-time adoption of International Financial reporting Standards' (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; restructured IFRS 1 as adopted by the EU is effective for annual periods beginning after 31 December 2009, with early adoption permitted). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. This standard is not relevant to the operations of the Bank and the Group.
- IFRIC 18, 'Transfers of assets from customers' (effective prospectively to transfers of assets from customers received on or after 1 July 2009, earlier application permitted; IFRIC 18 as adopted by the EU is effective for annual periods beginning after 31 October 2009, with early adoption permitted). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. This interpretation is not relevant to the operations of the Bank and the Group.
- Embedded derivatives – Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009; amendments to IFRIC 9 and IAS 39 as adopted by the EU are effective for annual periods beginning after 31 December 2009, with early adoption permitted). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed

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

and, if necessary, separately accounted for. The amendments are not relevant to the Bank's and the Group's financial statements.

- Additional Exemptions for First-time Adopters - Amendments to IFRS 1 'First-time Adoption of IFRS' (effective for annual periods beginning on or after 1 January 2010). The amendments provide an additional exemption for measurement of oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Bank's and the Group's financial statements.
- Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2 'Share-based Payment' (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments are not relevant to the operations of the Bank and the Group.
- Amendment to IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations' (and consequential amendments to IFRS 1) (effective for annual periods beginning on or after 1 July 2009). This amendment to IFRS 5 is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that an entity committed to a sale plan involving loss of control of a subsidiary would classify the subsidiary's assets and liabilities as held for sale. The revised guidance should be applied prospectively from the date at which the entity first applied IFRS 5. The amendment is applied in these Financial Statements.
- In April 2009 the EU endorsed the Improvements to IFRSs (amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the amendments as adopted by the EU are effective for annual periods starting after 31 December 2009). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations. These amendments are not expected to have significant impact on the Bank's and the Group's financial statements.

Standards and amendments to existing standards that are not yet effective, but endorsed by EU and have not been early adopted by the Bank and the Group:

The following standards and amendments to existing standards have been published and are mandatory for the the Bank and the Group's accounting periods beginning on or after 1 January 2011 or later periods, but the the Bank and the Group has not early adopted them:

- IAS 24 'Related Party Disclosures' (amended November 2009, effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Bank and the Group is currently evaluating the effect of changes to this standard on the financial statements.
- Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Bank and the Group does not expect the amendment to have any material effect on its financial statements.
- Classification of rights issues – Amendment to IAS 32, 'Financial instruments: Presentation' (effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The amendment will not have any impact on the Bank and the Group's financial statements.
- IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The Bank and the Group does not expect IFRIC 19 to have any effect on its financial statements.
- Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The amendment will not have any impact on the Bank's and the Group's financial statements.

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

- IFRS 9, 'Financial Instruments Part 1: Classification and Measurement' (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The Bank and the Group is currently assessing the impact of the standard on its financial statements.
- Improvements to International Financial Reporting Standards, issued in May 2010 (effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011; the improvements have not yet been adopted by the EU). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, to IAS 21, IAS 28, IAS 31, IAS 34 and IFRIC 13.
- Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU). 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 Bank and the Group does not expect this amendment to have any effect on its financial statements.
- Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU). The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. The amendment will not have any impact on the Bank and the Group's financial statements.
- Severe hyperinflation and removal of fixed dates for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU). The amendments will provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs, and guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time. The amendment will not have any impact on the Bank and the Group's financial statements.

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.

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 profit or loss for the reporting period. All non-monetary liabilities and assets are translated using the exchange rate prevailing on the date of acquisition.

(All amounts are in LTL thousand, unless otherwise stated)
Foreign currency transactions are recorded in the litas using the exchange rate ruling on the date of the transaction. Exchange differences arising from the settlement of transactions denominated in foreign currency are charged to the profit or loss at the time of transaction using the exchange rate ruling at that date.

Derivative financial instruments

Derivative financial instruments including foreign exchange forwards, swaps, options (both written and purchased) and other derivative financial instruments are initially recognised in the balance sheet at their fair value on the date on which a derivative contract is entered into. Fair values are obtained from quoted market prices and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivatives held for trading are included in net trading income.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported profit or loss.

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

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

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

Dividend income

Dividends are recognised in the profit or loss when the Bank's or Group's right to receive payments is established.

Taxation

a) Income tax
In accordance with the Lithuanian Law on Corporate Profit Tax, taxable profit for 2010 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. Income tax rate valid for 2009 was 20%.

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.

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

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 profit or loss.

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.

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 profit or loss. However interest calculated using the effective interest rate is recognised in profit or loss.

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

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

Interest earned whilst holding securities is reported as interest income. Dividends receivable 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

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

trading, and those that the bank upon initial recognition designates as at fair value through profit or loss; (b) those that the bank upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Loans are carried at amortised cost. All loans and advances are recognised when cash is advanced to borrowers. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of comprehensive income as 'Allowance for impairment losses.

Impairment of financial assets

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 profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

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

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

Impairment of non-financial assets

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

Reverse repurchase transactions

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

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

Intangible assets

Intangible assets are stated at cost less accumulated amortisation. Intangible assets are amortised using the straight-line method over their estimated useful life (see note 17).

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

Property, plant and equipment

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

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property, plant and equipment were impaired as at 31 December 2010 and 31 December 2009.

Gains and losses on disposals of fixed assets are determined by reference to their carrying amount and are charged to the profit or loss.

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 profit or loss 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 profit or loss 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 profit or loss over the period of the borrowings using the effective interest method. Borrowings are recognised on the day of settlement.

Provisions

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

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

Dividends

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

Employee benefits

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

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

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

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

Fiduciary activities

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

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

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 profit or loss 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 profit or loss 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.

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

FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

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

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

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

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

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

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

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

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

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

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

1. Credit risk

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

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

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

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

The Bank takes risks only in the fields, which are well known to it and where it has long-term experience, trying to avoid excessive risk in transactions that can have negative influence to the big portion of shareholders' equity but seeks the sufficient profitability which, in terms of increasing competition, would ensure the stable Bank's position in the market and would increase the Bank's value. In assessing exposure to credit risk, the Bank adheres to the principle of prudence.

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

Large entities are defined as entities employing than 250 employees. Small and medium size entities are defined as entites employing less than 250 employees and the total balance sheet total does not exceed LTL 148 million or annual turnover does not exceed LTL 173 million.

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

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

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

1.1. Credit risk measurement

The Bank applies credit risk management measures, which could relevantly be divided into two types:
1) Measures that help to avoid decisions to grant unsecured loans;
2) Measures ensuring the effective monitoring system of the Bank's asset quality.

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

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

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

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 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.

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

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:	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Loans and advances to banks	**4,147**	**4,147**	**2,214**	**2,214**
Loans and advances to customers:	**1,438,387**	**1,657,609**	**1,434,328**	**1,605,635**
Loans and advances to financial institutions	**570**	**119,342**	**9,130**	**120,560**
Loans to individuals (Retail):	**202,569**	**191,321**	**235,765**	**222,509**
- Consumer loans	14,467	14,467	28,221	28,221
- Mortgages	107,773	107,773	117,931	117,931
- Credit cards	14,867	3,876	19,027	5,771
- Other (reverse repurchase agreements, other loans backed by securities, other)	65,462	65,205	70,586	70,586
Loans to business customers:	**1,235,248**	**1,346,946**	**1,189,433**	**1,262,566**
- Large corporates	142,541	142,541	184,380	184,380
- SME	1,002,075	1,113,773	939,086	1,012,219
- Central and local authorities, administrative bodies and other	90,632	90,632	**65,967**	**65,967**
Finance lease receivables	**103,988**	**-**	**101,412**	**-**
- Individuals	13,983	-	31,235	-
- Business customers	90,005	-	70,177	-
Trading assets:	**81,228**	**78,308**	**2,973**	**-**
- Debt securities	81,228	78,308	2,973	-
Derivative financial instruments	-	-	-	-
Securities available for sale	**87,626**	**87,626**	**71,282**	**71,282**
- Debt securities	87,626	87,626	71,282	71,282
Investment securities held to maturity	**214,055**	**207,635**	**146,041**	**143,068**
- Debt securities	214,055	207,635	146,041	143,068
Other financial assets	35,254	12,025	26,775	1,215
Credit risk exposures relating to off –balance sheet items are as follows:				
Financial guarantees	62,025	62,070	50,307	50,240
Letters of credit	4,472	4,472	2,904	2,904
Loan commitments and other credit related liabilities	94,145	89,495	72,733	70,180
At 31 December	**2,125,327**	**2,203,387**	**1,910,969**	**1,946,738**

The table above represents a worst case scenario of credit risk exposure at 31 December 2010 and 2009, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above on net carrying amount as reported in the balance sheet.

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

1.5. Loans and advances

Loans and advances are summarised as follows:

31 December 2010

	2010			
	Group		Bank	
	Loans and advances to customers	Loans and advances to banks and financial institutions	Loans and advances to customers	Loans and advances to banks and financial institutions
Neither past due nor impaired	1,280,460	570	1,383,475	119,342
Past due but not impaired	73,768	-	72,535	-
Impaired	163,969	-	160,112	-
Gross	**1,518,197**	**570**	**1,616,122**	**119,342**
Less: allowance for impairment	80,380	-	77,855	-
Net	**1,437,817**	**570**	**1,538,267**	**119,342**

31 December 2009

	2009			
	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	1,236,342	9,130	1,299,139	120,560
Past due but not impaired	86,896	-	84,705	-
Impaired	144,320	-	141,513	-
Gross	**1,467,558**	**9,130**	**1,525,357**	**120,560**
Less: allowance for impairment	42,360	-	40,282	-
Net	**1,425,198**	**9,130**	**1,485,075**	**120,560**

During the year ended 31 December 2010, the Group's total loans and advances increased by 3%. The Group's total impairment provision for loans and advances is LTL 80,380 thousand (2009: LTL 42,360 thousand) and it accounts for 5.29% of the respective portfolio (2009: 2.87%).The Group's impaired loans and advances to customers comprise 10.80% of the total portfolio (2009: 9.77%).

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

a) Loans and advances neither past due nor impaired

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

31 December 2010

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

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

	Group loans to business customers				
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Standard	187,527	42,645	570	79,355	**310,097**
Watch	536,551	86,623	-	6,259	**629,433**
Substandard	153,622	13,273	-	4,245	**171,140**
Total	**877,700**	**142,541**	**570**	**89,859**	**1,110,670**

31 December 2009

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Standard	21,885	95,136	15,711	56,305	**189,037**
Watch	22	313	17	3,098	**3,450**
Substandard	-	-	-	822	**822**
Total	**21,907**	**95,449**	**15,728**	**60,225**	**193,309**

	Group loans to business customers				
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Standard	201,828	27,694	9,130	55,338	**293,990**
Watch	475,817	139,200	-	5,236	**620,253**
Substandard	117,530	16,512	-	3,878	**137,920**
Total	**795,175**	**183,406**	**9,130**	**64,452**	**1,052,163**

31 December 2010

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

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

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

31 December 2009

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Standard	21,885	95,136	5,018	56,305	**178,344**
Watch	22	313	17	3,098	**3,450**
Substandard	-	-	-	822	**822**
Total	**21,907**	**95,449**	**5,035**	**60,225**	**182,616**

	Bank loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Standard	279,039	27,694	120,560	55,338	**482,631**
Watch	472,096	139,200	-	5,236	**616,532**
Substandard	117,530	16,512	-	3,878	**137,920**
Total	**868,665**	**183,406**	**120,560**	**64,452**	**1,237,083**

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.

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.

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

31 December 2010

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

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

31 December 2009

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Past due up to 30 days	3,765	11,971	1,534	2,539	**19,809**
Past due 30-60 days	100	2,710	636	614	**4,060**
Past due 60-90 days	57	837	239	570	**1,703**
Past due more than 90 days	204	3,521	12	1,232	**4,969**
Total	**4,126**	**19,309**	**2,421**	**4,955**	**30,541**
Fair value of collateral	-	30,136	-	9,974	**40,110**

	Group loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Past due up to 30 days	37,886	974	860	**39,720**
Past due 30-60 days	3,719	-	107	**3,826**
Past due 60-90 days	1,948	-	-	**1,948**
Past due more than 90 days	10,313	-	548	**10,861**
Total	**53,866**	**974**	**1,515**	**56,355**
Fair value of collateral	95,905	-	3,620	**99,525**

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

31 December 2010

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

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

31 December 2009

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Past due up to 30 days	3,765	11,971	230	2,539	**18,505**
Past due 30-60 days	100	2,710	-	614	**3,424**
Past due 60-90 days	57	837	-	570	**1,464**
Past due more than 90 days	204	3,521	-	1,232	**4,957**
Total	**4,126**	**19,039**	**230**	**4,955**	**28,350**
Fair value of collateral	-	30,136	-	9,974	**40,110**

	Bank loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Past due up to 30 days	37,886	974	860	**39,720**
Past due 30-60 days	3,719	-	107	**3,826**
Past due 60-90 days	1,948	-	-	**1,948**
Past due more than 90 days	10,313	-	548	**10,861**
Total	**53,866**	**974**	**1,515**	**56,355**
Fair value of collateral	95,905	-	3,620	**99,525**

Past due but not impaired loans are loans for which principal or interest is past due but no allowance for impairment is recognized.

(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 as security is as follows:

31 December 2010

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

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

31 December 2009

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Impaired loans	**6,278**	**5,841**	**3,166**	**7,032**	**22,317**
Fair value of collateral	-	4,035	-	7,426	**11,461**

	Group loans to business customers			
	Large corporates	**SME**	**Central and local authorities and other**	**Total**
Impaired loans	**-**	**121,992**	**11**	**122,003**
Fair value of collateral	-	103,438	-	**103,438**

31 December 2010

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

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

31 December 2009

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Impaired loans	**6,278**	**5,841**	**1,173**	**7,032**	**20,324**
Fair value of collateral	-	4,035	-	7,426	**11,461**

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

	Bank loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Impaired loans	**121,178**	**-**	**11**	**121,189**
Fair value of collateral	101,366	-	-	**101,366**

During 2010 the Bank's estimated interest income on impaired loans amounted to LTL 4,009 thousand (2009: LTL 4,373 thousand).

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

d) Loans and advances renegotiated

Loans and advances that are not past due or impaired at year end and which at the time of their renegotiation were of a substandard risk as at 31 December 2010 amounted to LTL 95 million (2009: LTL 195,9 million).

Renegotiated loans according to the class of financial assets

31 December 2010

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

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

31 December 2009

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Renegotiated loans	-	-	-	822	822

	Bank loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Renegotiated loans	174,654	16,512	3,878	195,044

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 2010 amounted to LTL 328 million (2009: LTL 265 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 2010

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

	Group loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Unsecured loans	291,477	45,022	570	76,395	**413,464**
Loans collateralised by:	**777,010**	**97,519**	**-**	**14,237**	**888,766**
- residential real estate	37,943	-	-	3,431	**41,374**
- other real estate	495,627	63,187	-	5,075	**563,889**
- securities	64,023	8,273	-	-	**72,296**
- guarantees	110,989	4,294	-	5,227	**120,510**
- cash deposits	5,495	1,853	-	170	**7,518**
- other assets	62,933	19,912	-	334	**83,179**
Total	**1,068,487**	**142,541**	**570**	**90,632**	**1,302,230**

31 December 2009

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Unsecured loans	32,278	6,344	21,315	21,071	**81,008**
Loans collateralised by:	**33**	**113,985**	-	**51,141**	**165,159**
- residential real estate	33	97,457	-	13,011	**110,501**
- other real estate	-	7,867	-	16,043	**23,910**
- securities	-	196	-	20,979	**21,175**
- guarantees	-	7,924	-	55	**7,979**
- cash deposits	-	541	-	968	**1,509**
- Other assets	-	-	-	85	**85**
Total	**32,311**	**120,329**	**21,315**	**72,212**	**246,167**

	Group loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Unsecured loans	185,875	70,157	9,130	54,723	**319,885**
Loans collateralised by:	**785,158**	**114,223**	-	**11,255**	**910,636**
- residential real estate	112,153	-	-	3,721	**115,874**
- other real estate	489,129	63,413	-	3,445	**555,987**
- securities	23,493	22,938	-	-	**46,431**
- guarantees	102,046	412	-	3,545	**106,003**
- cash deposits	1,517	110	-	-	**1,627**
- other assets	56,820	27,350	-	544	**84,714**
Total	**971,033**	**184,380**	**9,130**	**65,978**	**1,230,521**

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

31 December 2010

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

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

31 December 2009

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Unsecured loans	32,278	6,344	6,438	21,071	**66,131**
Loans collateralised by:	**33**	**113,985**	-	**51,141**	**165,159**
- residential real estate	33	97,457	-	13,011	**110,501**
- other real estate	-	7,867	-	16,043	**23,910**
- securities	-	196	-	20,979	**21,175**
- guarantees	-	7,924	-	55	**7,979**
- cash deposits	-	541	-	968	**1,509**
- other assets	-	-	-	85	**85**
Total	**32,311**	**120,329**	**6,438**	**72,212**	**231,290**

	Bank loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Unsecured loans	259,365	70,157	120,560	54,723	**504,805**
Loans collateralised by:	**784,344**	**114,223**	-	**11,255**	**909,822**
- residential real estate	112,153	-	-	3,721	**115,874**
- other real estate	489,129	63,413	-	3,445	**555,987**
- securities	22,679	22,938	-	-	**45,617**
- guarantees	102,046	412	-	3,545	**106,003**
- cash deposits	1,517	110	-	-	**1,627**
- other assets	56,820	27,350	-	544	**84,714**
Total	**1,043,709**	**184,380**	**120,560**	**65,978**	**1,414,627**

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

1.6. Finance lease receivables

Finance lease receivables are summarised as follows:

	2010			2009		
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
Neither past due nor impaired	11,490	62,658	74,148	26,606	29,902	56,508
Past due but not impaired	1,754	24,981	26,735	4,088	38,012	42,100
Impaired	1,731	3,326	5,057	2,119	3,211	5,330
Gross	**14,975**	**90,965**	**105,940**	**32,813**	**71,125**	**103,938**
Less: allowance for impairment	992	960	1,952	1,578	948	2,526
Net	**13,983**	**90,005**	**103,988**	**31,235**	**70,177**	**101,412**

During the year ended 31 December 2010, finance lease receivables portfolio increased by 1.93% (2009: decreased by 20.4%). Total impairment provision for finance lease receivables is LTL 1,952 thousand (2009: LTL 2,526 thousand) and it accounts 1.84% for of the respective portfolio (2009: 2.43%).

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.

	2010			2009		
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
Standard	11,490	13,207	24,697	26,606	13,703	40,309
Watch	-	45,833	45,833	-	14,369	14,369
Substandard	-	3,618	3,618	-	1,830	1,830
Total	**11,490**	**62,658**	**74,148**	**26,606**	**29,902**	**56,508**

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

	2010			2009		
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
Past due up to 3 days	311	3,509	3,820	754	11,130	11,884
Past due 4-40 days	1,251	20,538	21,789	2,404	22,335	24,739
Past due 41-90 days	118	934	1,052	773	4,543	5,316
Past due more than 90 days	74	-	74	157	4	161
Total	**1,754**	**24,981**	**26,735**	**4,088**	**38,012**	**42,100**
Fair value of collateral	3,893	33,200	37,093	7,660	49,179	56,839

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

c) Finance lease receivables individually impaired

	Individuals	Business customers	Total
31 December 2010			
Individually impaired	1,731	3,326	5,057
Fair value of collateral	3,650	4,772	8,422
31 December 2009			
Individually impaired	2,119	3,211	5,330
Fair value of collateral	3,534	6,398	9,932

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.

			2010			2009
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
Unsecured finance lease receivables	-	-	-	-	-	-
Finance lease receivables secured by:						
- transport vehicles	1,239	12,424	13,663	1,634	12,581	14,215
- residential real estate	443	41,370	41,813	909	21,480	22,389
- airplanes	-	9,306	9,306	-	10,675	10,675
- railroad transport	-	774	774	-	-	-
- production equipment	94	14,303	14,397	123	13,255	13,378
- other equipment	1,136	5,068	6,204	2,492	7,751	10,243
- other assets	12,063	7,720	19,783	27,655	5,383	33,038
Total	**14,975**	**90,965**	**105,940**	**32,813**	**71,125**	**103,938**

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

1.7. Amounts receivable

	2010		2009	
	Group Business customers	**Bank Business customers**	**Group Business customers**	**Bank Business customers**
Neither past due nor impaired	32,145	12,025	20,975	1,215
Past due but not impaired	-	-	-	-
Impaired	4,180	-	6,954	256
Gross	**36,325**	**12,025**	**27,929**	**1,471**
Less: allowance for impairment	1,071	-	1,154	256
Net	**35,254**	**12,025**	**26,775**	**1,215**

a) Amounts receivable neither past due nor impaired

	2010		2009	
	Group Business customers	**Bank Business customers**	**Group Business customers**	**Bank Business customers**
Standard	19,650	12,025	2,147	1,215
Watch	-	-	-	-
Sub-standard	12,495	-	18,828	-

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 2010 and 2009: wholesale and retail – 25% of the total loan portfolio, loans to individuals – 25%, manufacturing – 25%, construction – 20%, real estate and rent – 20%, agriculture, hunting and forestry – 15%, transport storage and communication – 15%, hotels and restaurants – 20%, health and social work – 10%. As at 31 December 2010 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
Cash and balances with central banks	**208,397**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**208,397**
Loans and advances to banks	**4,147**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,147**
Loans and advances to customers:	**195,408**	**219,562**	**252,186**	**262,910**	**133,364**	**76,311**	**68,704**	**19,769**	**56,459**	**191,321**	**181,615**	**1,657,609**
Loans and advances to financial institutions	**119,342**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**119,342**
Loans to individuals (Retail):	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**191,321**	**-**	**191,321**
- Mortgages	-	-	-	-	-	-	-	-	-	107,773	**-**	**107,773**
- Consumer loans	-	-	-	-	-	-	-	-	-	14,467	**-**	**14,467**
- Credit cards	-	-	-	-	-	-	-	-	-	3,876	**-**	**3,876**
- Other	-	-	-	-	-	-	-	-	-	65,205	**-**	**65,205**
Loans to business customers:	**76,066**	**219,562**	**252,186**	**262,910**	**133,364**	**76,311**	**68,704**	**19,769**	**56,459**	**-**	**181,615**	**1,346,946**
- SME	76,066	219,562	171,676	262,910	127,134	76,311	68,461	15,439	8,512	-	87,702	**1,113,773**
- Large corporates	-	-	80,510	-	6,230	-	-	3,980	42,383	-	9,438	**142,541**
- Central and local authorities, administrative bodies and other	-	-	-	-	-	-	243	350	5,564	-	84,475	**90,632**
Trading assets:	**5,254**	**-**	**8,420**	**-**	**-**	**-**	**-**	**1,288**	**-**	**-**	**63,444**	**78,406**
- Debt securities	5,158	-	8,418	-	-	-	-	1,288	-	-	63,444	**78,308**
- Equity securities	96	-	2	-	-	-	-	-	-	-	-	**98**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Securities available for sale	**3,589**	**-**	**7,129**	**-**	**-**	**-**	**-**	**3,131**	**-**	**-**	**75,526**	**89,375**
- Equity securities	3,216	-	7,090	-	-	-	-	3,131	-	-	74,189	**87,626**
- Debt securities	373	-	39	-	-	-	-	-	-	-	1,337	**1,749**
Investment securities held-to-maturity	**6,785**	**-**	**690**	**-**	**-**	**-**	**-**	**1,484**	**-**	**-**	**198,676**	**207,635**
-debt securities	6,785	-	690	-	-	-	-	1,484	-	-	198,676	**207,635**
Other financial assets	**6**	**-**	**-**	**12,019**	**-**	**-**	**-**	-	-	-		**12,025**
Credit risk exposures relating to off –balance sheet items are as follows:												
Financial guarantees	-	12,015	6,962	656	27,385	208	726	1,787	5	-	12,326	**62,070**
Letters of credit	3,542	276	654	-	-	-	-	-	-	-	-	**4,472**
Loan commitments and other credit related liabilities	4,950	20,140	4,377	3,644	22,010	7,676	3,274	3,313	1,772	4,316	14,023	**89,495**
At 31 December 2010	**432,078**	**251,993**	**280,418**	**279,229**	**182,759**	**84,195**	**72,704**	**30,772**	**58,236**	**195,637**	**545,610**	**2,413,631**
At 31 December 2009	**443,088**	**236,471**	**250,150**	**199,780**	**142,724**	**84,375**	**86,262**	**29, 943**	**62,759**	**351,316**	**229,443**	**2,116,311**

(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
Cash and balances with central banks	**208,400**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**208,400**
Loans and advances to banks	**4,147**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,147**
Loans and advances to customers:	**40,901**	**219,562**	**252,187**	**178,125**	**133,364**	**76,311**	**68,704**	**19,769**	**56,459**	**202,569**	**190,436**	**1,438,387**
Loans and advances to financial institutions	**570**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**570**
Loans to individuals (Retail):	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**202,569**	**-**	**202,569**
- Consumer loans	-	-	-	-	-	-	-	-	-	14,467	-	**14,467**
- Mortgages	-	-	-	-	-	-	-	-	-	107,773	-	**107,773**
- Credit cards	-	-	-	-	-	-	-	-	-	14,867	-	**14,867**
- Other	-	-	-	-	-	-	-	-	-	65,462	-	**65,462**
Loans to business customers:	**40,331**	**219,562**	**252,187**	**178,125**	**133,364**	**76,311**	**68,704**	**19,769**	**56,459**	**-**	**190,436**	**1,235,248**
- SME	40,331	219,562	171,677	178,125	127,134	76,311	68,461	15,439	8,512	-	96,523	**1,002,075**
- Large corporates	-	-	80,510	-	6,230	-	-	3,980	42,383	-	9,438	**142,541**
- Central and local authorities, administrative bodies and other	-	-	-	-	-	-	243	350	5,564	-	84,475	**90,632**
Finance lease receivables	**31**	**4,259**	**13,400**	**23,976**	**2,666**	**2,953**	**376**	**33,962**	**2,269**	**13,983**	**6,113**	**103,988**
-individuals	-	-	-	-	-	-	-	-	-	13,983	-	**13,983**
-business customers	31	4,259	13,400	23,976	2,666	2,953	376	33,962	2,269	-	6,113	**90,005**
Trading assets:	**5,254**	**-**	**11,340**	**-**	**-**	**-**	**-**	**1,288**	**-**	**-**	**63,444**	**81,326**
- Debt securities	5,158	-	11,338	-	-	-	-	1,288	-	-	63,444	**81,228**
- Equity securities	96	-	2	-	-	-	-	-	-	-	-	**98**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Securities available for sale	**3,659**	**-**	**10,039**	**-**	**11,243**	**-**	**-**	**3,131**	**-**	**-**	**75,526**	**103,598**
- Debt securities	3,216	-	7,090	-	-	-	-	3,131	-	-	74,189	**87,626**
- Equity securities	443	-	2,949	-	11,243	-	-	-	-	-	1,337	**15,972**
Investment securities held-to-maturity	**6,785**	**-**	**3,610**	**-**	**-**	**3,500**	**-**	**1,484**	**-**	**-**	**198,676**	**214,055**
- Debt securities	6,785	-	3,610	-	-	3,500	-	1,484	-	-	198,676	**214,055**
Other assets	**54**	**25**	**753**	**31642**	**39**	**2**	**21**	**148**	**-**	**625**	**1,945**	**35,254**
Credit risk exposures relating to off –balance sheet items are as follows:												
Financial guarantees	-	12,015	6,917	656	27,385	208	726	1,787	5	-	12,326	**62,025**
Letters of credit	3,542	276	654	-	-	-	-	-	-	-	-	**4,472**
Loan commitments and other credit related liabilities	2,339	20,140	4,377	2,621	22,010	7,676	3,274	3,313	1,772	12,600	14,023	**94,145**
At 31 December 2010	**275,112**	**256,277**	**303,277**	**237,020**	**196,707**	**90,650**	**73,101**	**64,882**	**60,505**	**229,777**	**562,489**	**2,349,797**
At 31 December 2009	**289,529**	**243,161**	**287,262**	**183,300**	**146,447**	**88,956**	**86,847**	**63,154**	**67,245**	**355,954**	**282,897**	**2,094,752**

2. Market risk

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

2.1. Foreign exchange risk

The foreign exchange risk management is regulated by the Procedures for Foreign Currency Risk Management. They include the list of types of sale and purchase transactions executed by the Group. Also they establish principles which help the Group to minimize the exposure to foreign exchange risk. The Group does not carry out speculative FX operations expecting to gain from favourable changes in currency exchange. The Bank's Board approves and reviews on a regular basis the maximum limits for open currency positions for the Bank's branches, subsidiaries and the Bank itself. The established limits are lower than those allowed by the Bank of Lithuania. The Bank's Treasury Department is responsible for the Group's compliance with the Procedures for Foreign Currency Risk Management.

The Group and the Bank monitors the foreign currency risk by calculating open currency position. Open currency position (OCP) is equal to assets in the balance sheet and off-balance sheet less balance sheet and off-balance sheet liabilities in a single currency. There are two types of OCP, i.e. long and short. The Bank also calculates Total open position (TOP), which is the higher of the separately added short and long positions. As at 31 December 2010 the TOP to capital ratio was: Group's – 0.55% (2009: 0.31%), Bank's – 0.55% (2009: 0.31%).

(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 2010 and prognosis that exchange rate fluctuations will remain similar in 2011. 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, 2011	Annual reasonable shift, 2010
LVL	1%	1%
GBP	6%	6%
DKK	1%	1%
USD	9%	8%
SEK	7%	5%
Other currencies	6%	6%

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

	At 31 December 2010	At 31 December 2009
Group	**Impact on profit or loss and equity**	**Impact on profit or loss and equity**
US Dollars	36	57
GBP	4	16
DKK	2	1
SEK	11	5
LVL	1	1
Other currencies	31	11
Total	**85**	**91**

	At 31 December 2010	At 31 December 2009
Bank	**Impact on profit or loss and equity**	**Impact on profit or loss and equity**
US Dollars	41	57
GBP	4	16
DKK	2	1
SEK	11	5
LVL	1	1
Other currencies	31	11
Total	**90**	**91**

The presumable FX rate change creates acceptable impact on the Bank's and the Group's annual profit and makes LTL 85 thousand in 2010 (2009: LTL 91 thousand) higher/lower impact for the Group, LTL 90 thousand in 2010 (2009: LTL 91 thousand) higher/lower impact for the Bank.

The Bank'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 assets and liabilities.

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

The risk management is regulated by the Procedures for Interest Rate Risk Management which establish methods of risk measurement and set up measures for risk management. These procedures are approved by the Board of the Bank and define that:

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

Sensitivity of interest rate risk

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

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Non IR-sensitive	Total
31 December 2010							
Total financial assets	266,843	487,776	671,754	59,730	398,490	304,562	2,189,155
Total financial liabilities	303,182	402,234	461,783	384,335	59,414	465,223	2,076,171
Net interest sensitivity gap at 31 December 2010	(36,339)	85,542	209,971	(324,605)	339,076	(160,661)	112,984
31 December 2009							
Total financial assets	286,605	472,954	614,231	132,420	228,567	184,287	1,919,064
Total financial liabilities	384,640	504,619	329,762	283,954	37,543	270,025	1,810,543
Net interest sensitivity gap at 31 December 2009	(98,035)	(31,665)	284,469	(151,534)	191,024	(85,738)	108,521

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 2010 and 31 December 2009.

	31 December 2010		**31 December 2009**	
	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.	(620)	(4,285)	141	(507)
Interest rate decrease by 1p.p.	620	4,285	(141)	507

The shift of yield curve according to above mentioned parameters creates acceptable impact on Group's total comprehensive income and makes LTL 620 thousand in 2010 (2009: LTL 141 thousand) higher/lower impact on profit and LTL 4,285 thousand in 2010 (2009: LTL 507 thousand) higher/lower impact on other comprehensive income.

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

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

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Non IR-sensitive	Total
31 December 2010							
Total financial assets	287,795	488,439	706,037	119,611	394,568	224,689	2,221,139
Total financial liabilities	303,182	402,234	461,783	384,335	59,414	459,735	2,070,683
Net interest sensitivity gap at 31 December 2010	(15,387)	86,205	244,254	(264,724)	335,154	(235,046)	150,456
31 December 2009							
Total financial assets	354,972	450,390	607,277	176,854	215,928	151,993	1,957,414
Total financial liabilities	384,640	495,619	329,762	283,954	37,543	270,084	1,801,602
Net interest sensitivity gap at 31 December 2009	(29,668)	(45,229)	277,515	(107,100)	178,385	(118,091)	155,812

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

The table below summarises the effect on the Bank's profit and other comprehensive income of interest rate risk as at 31 December 2010 and 31 December 2009.

	31 December 2010		**31 December 2009**	
	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.	63	(4,285)	805	(507)
Interest rate decrease by 1p.p.	(63)	4,285	(805)	507

The shift of yield curve according to above mentioned parameters creates acceptable impact on Bank’s total comprehensive income and makes LTL 63 thousand in 2010 (2009: LTL 805 thousand) higher/lower impact on profit and LTL 4,285 thousand in 2010 (2009: LTL 507 thousand) higher/lower impact on other comprehensive income.

2.4 Equity risk

Equity risk was not assessed due to immaterial volumes.

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

3. Liquidity risk

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

3.1 Liquidity risk management process

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

Liquidity risk management is regulated by the Procedures for Liquidity Risk Management approved by the Bank's Board. Liquidity risk is evaluated by analyzing the dynamics of various liquidity ratios. A list of these ratios as well as recommended limits to their change are defined in the above-mentioned procedures. Decisions regarding liquidity management issues are made by the Bank's Risk Management Committee with reference to the information submitted by the Bank's Planning and Financial Risks Department or by the Bank's Board with reference to the information submitted by the Risk Management Committee. Current liquidity (up to 7 days) risk management is based on short-term cash flow analysis and projections. The Treasury Department is responsible for this.

The Group controls liquidity risk through established ratios and limits. For the purpose of managing liquidity risk, in addition to the liquidity ratio set by the Bank of Lithuania, which as at 31 December 2010 the Group's ratio was 44.61 (2009: 34.61) and the Bank's 46.00 (2009: 38.23), 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 2010 the above Group's ratio was 24.92 per cent (2009: 18.41 per cent), and the Bank's – 24.92 per cent (2009: 18.53 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 2010 the above ratio on the Group's and the Bank's level was 183.77 (2010: 121.87 per cent) per cent and 183.74 (2009: 121.84 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 2010 *mobile* liabilities formed a share in the total liabilities on the Group's level equal to 15.19 per cent (2009: 15.11 per cent), on the Bank's level – 15.23 proc. (2009: 15.21 per cent).

The Group and the Bank also monitors liquidity gap ratios. Based on the Group's liquidity risk management policy the lowest recommended limit of this ratio is -40 per cent. As at 31 December 2010 the Group's and the Bank's ratio was -34.17 per cent (2009: -46.38 per cent) and -24.38 per cent (2009: 38.90 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 2010 **Liabilities**	**Maturity undefined**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Due to banks	-	32,428	21,950	65,752	239,658	34,799	394,587
Due to customers	-	617,086	273,085	729,833	56,221	4,836	1,681,061
Debt securities in issue	-	-	-	5,392	-	-	5,392
Special and lending funds	-	10,160	167	1,309	16,318	637	28,591
Total liabilities (contractual maturity dates)	**-**	**659,674**	**295,202**	**802,286**	**312,197**	**40,272**	**2,109,631**

Group

31 December 2009 **Liabilities**	**Maturity undefined**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Due to banks	-	39,352	23,105	38,071	123,894	42,786	267,208
Due to customers	-	514,321	394,228	601,480	37,852	698	1,548,579
Debt securities in issue	-	-	-	4,437	-	-	4,437
Special and lending funds	-	5,599	155	3,155	21,561	1,935	32,405
Total liabilities (contractual maturity dates)	**-**	**559,272**	**417,488**	**647,143**	**183,307**	**45,419**	**1,852,629**

Bank

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

Bank

31 December 2009 **Liabilities**	**Maturity undefined**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Due to banks	-	39,411	14,008	38,071	123,894	42,786	258,170
Due to customers	-	514,258	394,228	601,480	37,852	698	1,548,516
Debt securities in issue	-	-	-	4,437	-	-	4,437
Special and lending funds	-	5,599	155	3,155	21,561	1,935	32,405
Total liabilities (contractual maturity dates)	**-**	**559,268**	**408,391**	**647,143**	**183,307**	**45,419**	**1,843,528**

(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:

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 2010							
Loan commitments	89,495	-	-	-	-	-	89,495
Guarantees	62,070	-	-	-	-	-	62,070
Other commitments	2,478	174	267	4,298	-	-	7,217
Total	154,043	174	267	4,298	-	-	158,782
At 31 December 2009							
Loan commitments	70,180	-	-	-	-	-	70,180
Guarantees	50,240	-	-	-	-	-	50,240
Other commitments	10,814	-	-	2,904	-	-	13,718
Total	131,234	-	-	2,904	-	-	134,138

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 2010							
Loan commitments	85,861	-	-	-	-	-	85,861
Finance lease commitments	1,161	345	731	1,789	4,258	-	8,284
Guarantees	62,025	-	-	-	-	-	62,025
Other commitments	2,478	174	267	4,298	-	-	7,217
Total	151,525	519	998	6,087	4,258	-	163,387
At 31 December 2009							
Loan commitments	63,770	-	-	-	-	-	63,770
Finance lease commitments	8,963	-	-	-	-	-	8,963
Guarantees	50,307	-	-	-	-	-	50,307
Other commitments	10,913	-	-	2,904	-	-	13,817
Total	133,953	-	-	2,904	-	-	136,857

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 balance sheet at their fair value. The valuation methods for the assets and liabilities are summarized below.

a) Loans and advances to banks

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

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

b) Loans and advances to customers and finance lease receivables

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

c) Investment securities

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

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

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

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

e) Debt securities in issue

The estimated fair value of debt securities in issue is consider to be similar to the carrying value as the yield on these securities is the similar to the market yield on 31 December 2010.

f) Other assets and other liabilities

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

Bank

As at 31 December 2010	Book value	Fair value
Assets		
Loans	**1,657,609**	**1,532,876**
Loans to individuals:	**191,321**	**151,758**
- Consumer loans	14,467	13,609
- Mortgages	107,773	74,518
- Credit cards	3,876	3,870
- Other	65,205	59,761
Loans to business customers	**1,346,946**	**1,262,410**
- Central and other authorities	90,632	85,420
- Large corporates	142,541	138,070
- SME	1,113,773	1,038,920
Loans and advances to financial institutions	**119,342**	**118,708**
Investment securities held-to-maturity	**207,635**	**208,121**
Other financial assets	**12,025**	**12,025**
Liabilities		

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

Due to other banks and financial institutions	**369,091**	**391,693**
Due to customers	**1,672,394**	**1,676,140**
Due to individuals	1,118,915	1,122,320
Due to private companies	282,530	282,722
Due to other enterprises	270,949	271,098
Debt securities in issue	**5,291**	**5,313**
Special and lending funds	**28,011**	**28,271**

As at 31 December 2009

Assets	Book value	Fair value
Loans	**1,605,635**	**1,476,164**
Loans to individuals:	**222,509**	**176,538**
- Consumer loans	28,221	26,377
- Mortgages	117,931	96,843
- Credit cards	5,771	5,758
- Other	70,586	47,560
Loans to business customers	**1,262,566**	**1,179,702**
- Central and other authorities	65,967	60,399
- Large corporates	184,380	177,745
- SME	1,012,219	941,558
Loans and advances to financial institutions	**120,560**	**119,924**
Investment securities held-to-maturity	**143,068**	**135,492**
Other financial assets	1,215	1,215
Liabilities	-	-
Due to other banks and financial institutions	**237,315**	**252,925**
Due to customers	**1,528,840**	**1,533,174**
Due to individuals	1,055,003	1,058,699
Due to private companies	254,319	254,743
Due to other enterprises	219,518	219,732
Debt securities in issue	**4,155**	**4,155**
Special and lending funds	**31,292**	**25,799**

Group

As at 31 December 2010

Assets	Book value	Fair value
Loans	**1,542,375**	**1,399,505**
Loans to individuals:	202,569	162,116
- Consumer loans	14,467	13,609
- Mortgages	107,773	74,518
- Credit cards	14,867	14,228
- Other	65,462	59,761
Loans to business customers	**1,235,248**	**1,151,542**
- Central and other authorities	90,632	85,420
- Large corporates	142,541	138,070
- SME	1,002,075	928,052
Loans and advances to financial institutions	**570**	**570**
Finance lease receivables	**103,988**	**85,277**
Investment securities held-to-maturity	**214,055**	**214,984**
Other financial assets	**35,254**	**35,254**

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

Liabilities	-	-
Due to other banks and financial institutions	**369,067**	**391,669**
Due to customers	**1,672,299**	**1,676,045**
Due to individuals	1,118,915	1,122,320
Due to private companies	282,435	282,627
Due to other enterprises	270,949	271,098
Debt securities in issue	**5,291**	**5,313**
Special and lending funds	**28,011**	**28,271**
Other financial liabilities	**1,503**	**1,503**

As at 31 December 2009

	Book value	**Fair value**
Assets		
Loans	**1,535,740**	**1,389,094**
Loans to individuals:	**235,765**	**188,806**
- Consumer loans	28,221	26,377
- Mortgages	117,931	96,843
- Credit cards	19,027	18,026
- Other	70,586	47,560
Loans to business customers	**1,189,433**	**1,106,952**
- Central and other authorities	65,967	60,399
- Large corporates	184,380	177,745
- SME	939,086	868,808
Loans and advances to financial institutions	**9,130**	**8,963**
Finance lease receivables	**101,412**	**84,373**
Investment securities held-to-maturity	146,041	138,465
Other financial assets	26,775	26,775
Liabilities	-	-
Due to other banks and financial institutions	**246,272**	**261,882**
Due to customers	**1,528,824**	**1,533,158**
Due to individuals	1,055,003	1,058,699
Due to private companies	254,335	254,759
Due to other enterprises	219,486	219,700
Debt securities in issue	**4,155**	**24,997**
Special and lending funds	**31,292**	**32,670**
Other financial liabilities	**2,110**	**2,110**

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

4.2. Financial assets and liabilities measured at fair value

a) Fair value herarchy

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 herarchy

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
LEVEL I				
Financial assets at fair value through profit or loss				
Corporate bonds	-	-	2,973	-
Listed equity securities	-	-	-	-
Units of investment funds	96	96	83	83
Bonds of the Government of the Republic of Lithuania	63,444	63,444	-	-
Local corporate debt securities	17,784	14,864	-	-
Available for sale financial assets				
Bonds of the Government of the Republic of Lithuania	46,594	46,594	29,545	29,545
Bonds of foreign countries governments	27,595	27,595	-	-
Bonds of foreign countries corporates	10,221	10,221	-	-
Local corporate debt securities	3,216	3,216	41,737	41,737
Investment fund units	358	358	286	286
TOTAL LEVEL I	**169,308**	**166,388**	**74,624**	**71,651**
LEVEL III				
Financial assets at fair value through profit or loss				
Unlisted equity securities	2	2	38	38
Available for sale financial assets				
Unlisted equity securities	15,614	1,391	14,668	515
TOTAL LEVEL III	**15,616**	**1,393**	**14,706**	**553**

During year 2010 the Group has recognized LTL 857 thousand increase (2009: LTL 1,371 thousand reduction) in fair value in unlisted equity securities. The increase/reduction in fair value has been included into Gain (loss) from revaluation of financial assets line of other comprehensive income. No other movements in financial assets measured at fair value according to Level III principles has taken place during the year.

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

5. Operational risk

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

The operational risk management system at the Bank includes all the significant fields of the banking activities: operations with cash, investing services (deposits, investment and pension funds), payments and settlements, electronic banking (SB Line, SMS Bank, payment cards), lending (credits, factoring, guarantees and documentary settlements), finance lease, foreign exchange trading, etc.

The Bank also defines the reputation risk as a subcategory of the operational risk.

The reputation risk means an existing or anticipated risk that might have a negative effect on the Bank's revenue and/or capital as a result of adverse opinion about the Bank's reputation which is formed by the clients, counterparties, shareholders and investors. This risk is controlled by adherence to the principle of prudence.

Taking into consideration the nature and scope of the banking activities, the following operational risk sources may be distinguished: information systems (breakdowns of computer hardware and software and telecommunications systems, etc.); human impact (illegal actions of bank employees, illegal actions of external parties, working conditions, errors); and loss of tangible assets (natural disaster, fire, terrorist attacks, etc.).

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. The internal control system within the bank is an integral part of the banking day-to-day activities that motivates bank's employees to make the bank's activities more effective; to protect the bank from possible operational risk losses; to ensure that financial and other types of information used for internal, control purposes or by third parties is reliable, precise and presented on a timely basis; to ensure that the bank's activities comply with laws, legal acts of the Bank of Lithuania and other legal acts, the bank's strategy and internal policies.

Since 2005 the Bank has created the registration system to follow the operational risk events. Since 2010 the registration system to follow the operational risk events has also been created in SB lizingas UAB. The registration of the operational risk events is a foundation used for disclosing the major sources of the operational risks with the Bank and enables determining operational risk mitigation (preventive) measures.

In order to safeguard that the Bank continues as a going concern the Business Continuity Plan and Procedure for the Provision of Banking Products in the Event of Breakdown of the Bank's Information Systems have been approved. These measures establish procedures and actions to be taken in the event of unforeseen circumstances and emergencies in order to make sure that operational risk is mitigated and avoided and the loss of assets is prevented in case day-to-day activities of the Bank are disrupted.

The Bank's operational risk management system is complimented by the Bank's Business Continuity Management Plan and the Information Security and Emergency Management System created and installed by the IT agency "Blue Bridge".

Taking into consideration the scope of its activities and opportunity to use the historic data related to the operational risk, the Bank has decided to use a basic indicator method established in the Rules on Capital Adequacy Requirements to assess the operational risk.

6. Stress tests

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

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

7. Capital management

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

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

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

The Bank of Lithuania has set the following minimum capital requirements:

1) minimum level of capital held must be no less than EUR 5 million;
2) minimum capital adequacy ratio should be not lower than 8 per cent. Capital adequacy (solvency) ratio is calculated as a ratio of the capital of the Bank and the capital required to cover credit, trading book and operating risks multiplied by 0.08 and presented in percentage points.

Additional capital need for credit risk, operational risk, market risk, concentration risk, strategic risk, reputation risk and liquidity risk is subject to the regular stress-testing and Internal Capital Adequacy Assessment processing.

The Group's regulatory capital is divided into two tiers:

1) Tier 1 capital consists of the share capital, reserve capital (share premium), additional reserve capital, retained earnings of the previous financial year, loss of the current year, other reserves and statutory reserve less the intangible assets and negative revaluation reserve of financial assets;
2) Tier 2 capital consists of 85 per cent of revaluation reserves of financial assets provided that these reserves are positive.

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

The risk-weighted assets are measured under a standardised approach using nine risk weights classified according to the nature of each assets and counterpart, taking into account collaterals and guarantees eligible for risk mitigation. A similar treatment with some adjustments is adopted for the off-balance sheet exposures. Capital requirements for operational risk are calculated using the Basic Indicator Approach.

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

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

		2010		2009
	Group	**Bank**	**Group**	**Bank**
Tier 1 capital				
Ordinary shares	204,858	204,858	180,358	180,358
Share premium	46,661	46,661	45,681	45,681
Reserve capital	2,611	2,611	2,611	2,611
Previous year's retained earnings	8,678	8,375	45,490	38,930
Current year loss	(28,292)	(24,149)	(35,551)	(30,114)
Other reserves (statutory reserve)	16, 667	16,422	16,376	15,981
Negative financial assets revaluation reserve	(2)	-	(781)	-
Less: Intangible assets	(608)	(606)	(605)	(600)
Total Tier 1 capital	**250,573**	**254,172**	**253,579**	**252,847**
Tier 2 capital				
85 % financial assets revaluation reserve	-	1,164	-	502
Total Tier 2 capital	**-**	**1,164**	**-**	**502**
Less Investments in other credit or financial institutions	-	(1,762)	-	(1,782)
Total capital	**250,573**	**253,574**	**253,579**	**251,567**
Capital requirements for:				
(Credit risk) of groups of positions under the Standardised Approach	131,965	131,810	122,038	123,501
Debt financial instruments	2,039	1,784	1,034	775
Equity securities	12	12	1,809	111
Foreign exchange positions	1,882	3,050	12,145	12,005
Operational risk under the Basic Indicator Approach	8,084	7,600	8,930	8,354
Total capital requirements	**143,982**	**144,256**	**145,956**	**144,746**
Capital adequacy (solvency) ratio, %	**13,92**	**14,06**	**13,90**	**13,90**

(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 profit or loss , 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 2010 would be higher or lower by LTL 4,019 thousand (2009: LTL 2,118 thousand) and LTL 3,893 thousand (2009: LTL 2,014 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 2010 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.

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

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 2010 and in the statement of comprehensive income for the year then ended:

	Šiauliai region	Vilnius region	Klaipėda region	Head-quarters	Leasing	Investment management	Real estate development	Eliminations	Total Group
Internal	2,490	14,615	5,293	(12,557)	(5,950)	(1,663)	(2,228)	-	-
External	11,363	(7,684)	2,542	12,777	10,470	840	1,487	-	31,795
Net interest income	13,853	6,931	7,835	220	4,520	(823)	(741)	-	31,795
Internal	2,272	14,572	5,229	(12,025)	(6,151)	(1,664)	(2,233)	-	-
External	15,468	(2,978)	4,587	9,652	10,395	870	1,812	-	39,806
Net interest, fee and commissions income	17,740	11,594	9,816	(2,373)	4,244	(794)	(421)	-	39,806
Impairment expenses	(8,606)	(29,350)	(5,889)	-	(1,916)	3	(203)	-	(46,031)
Internal	-	-	-	36	(164)	(35)	(32)	195	-
External	(2,883)	(6,644)	(3,187)	(12,572)	(1,858)	(605)	(1,885)	-	(29,634)
Operating expenses	(2,883)	(6,644)	(3,187)	(12,536)	(2,022)	(640)	(1,917)	195	(29,634)
Amortisation charges	-	(7)	(3)	(252)	(2)	-	(2)	-	(266)
Depreciation charges	(421)	(1,049)	(456)	(1,134)	(945)	(14)	(102)	-	(4,121)
Internal	(1,072)	(343)	(113)	1,726	(1)	3,507	(64)	(3,640)	-
External	1,255	1,165	550	3,587	809	(251)	1,589	-	8,704
Net other income	183	822	437	5,313	808	3,256	1,525	(3,640)	8,704
Profit (loss) before tax	6,013	(24,634)	718	(11,052)	167	1,811	(1,120)	(3,445)	(31,542)
(Loss) before income tax from the subsidirary that is held for sale	-	-	-	-	-	-	-	(1,594)	(1,594)
Income tax	-	-	-	4,806	38	-	-	-	4,844
Profit (loss) per segment after tax	6,013	(24,634)	718	(6,246)	205	1,811	(1,120)	(5,039)	(28,292)
Non-controlling interest	-	-	-	-	-	-	-	-	-
Profit (loss) for the year attributable to equity holders of the Bank	6,013	(24,634)	718	(6,246)	205	1,811	(1,120)	(5,039)	(28,292)
Total segment assets	597,937	1,088,993	408,610	2,573,768	124,204	45,062	96,812	(266,118)	2,334,614
Total segment liabilities	591,924	1,113,627	407,892	2,043,571	121,824	42,223	90,108	(249,229)	2,083,433
Net segment assets (shareholders' equity)	6,013	(24,634)	718	530,197	2,380	2,839	6,704	(16,889)	251,181

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

SEGMENT INFORMATION (CONTINUED)

Below, there is a summary of major indicators for the main business segments of the Group included in the Statement of financial position as at 31 December 2009 and in the statement of comprehensive income for the year then ended:

	Šiauliai region	Vilnius region	Klaipėda region	Head-quarters	Leasing	Investment management	Real estate development	Eliminations	Total Group
Internal	509	7,678	1,556	4,776	(9,841)	(2,437)	(2,241)	-	-
External	10,688	(2,105)	4,923	(429)	14,551	636	935	-	29,199
Net interest income	11,197	5,573	6,479	4,347	4,710	(1,801)	(1,306)	-	29,199
Internal	420	7,778	1,522	5,155	(10,195)	(2,438)	(2,242)	-	-
External	15,113	2,554	7,159	(3,569)	14,485	659	946	-	37,347
Net interest, fee and commissions income	15,533	10,332	8,681	1,586	4,290	(1,779)	(1,296)	-	37,347
Internal	-	-	-	(4,773)	3,000	927	846	-	-
External	(6,970)	(35,041)	(3,410)	400	(4,781)	(846)	204	-	(50,444)
Impairment expenses	(6,970)	(35,041)	(3,410)	(4,373)	(1,781)	81	1,050	-	(50,444)
Internal	(931)	(325)	(228)	1,512	(193)	(25)	(27)	217	-
External	(3,061)	(8,108)	(3,635)	(13,141)	(2,182)	(607)	(1,203)	-	(31,937)
Operating expenses	(3,992)	(8,433)	(3,863)	(11,629)	(2,375)	(632)	(1,230)	217	(31,937)
Amortisation charges	-	(10)	(5)	(390)	(3)	-	(3)	-	(411)
Depreciation charges	(446)	(1,284)	(537)	(1,124)	(827)	(17)	(64)	-	(4,299)
Internal	46	(10)	2	6,557	(1)	-	-	(6,594)	-
External	568	979	449	1,031	461	2,372	2,504	-	8,364
Net other income	614	969	451	7,588	460	2,372	2,504	(6,594)	8,364
Profit (loss) before tax	4,739	(33,467)	1,317	(8,342)	(236)	25	961	(6,377)	(41,380)
Income tax	-	-	-	5,639	219	-	(29)	-	5,829
Profit (loss) per segment after tax	4,739	(33,467)	1,317	(2,703)	(17)	25	932	(6,377)	(35,551)
Non-controlling interest	-	-	-	-	-	-	-	-	-
Profit (loss) for the year attributable to equity holders of the Bank	4,739	(33,467)	1,317	(2,703)	(17)	25	932	(6,377)	(35,551)
Total segment assets	606,673	1,058,928	392,396	891,799	127,888	44,775	41,723	(1,090,384)	2,073,798
Total segment liabilities	601,934	1,092,395	391,079	610,351	125,713	41,634	37,508	(1,081,000)	1,819,614
Net segment assets (shareholders' equity)	4,739	(33,467)	1,317	281,448	2,175	3,141	4,215	(9,384)	254,184

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

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Interest income:				
on loans to other banks and financial institutions and placements with credit institutions	1,122	7,072	2,647	12,488
on loans to customers	83,838	84,193	117,413	118,945
on debt securities	16,942	16,114	9,569	9,041
- held to maturity	8,561	7,968	6,413	6,149
- available for sale	5,677	5,677	2,753	2,753
-at fair value through profit or loss	2,704	2,469	403	139
on finance leases	8,527	-	13,171	-
Total interest income	110,429	107,379	142,800	140,474
Interest expense:				
on liabilities to other banks and financial institutions and amounts due to credit institutions	(7,300)	(7,206)	(13,357)	(12,634)
on customer deposits and other repayable funds	(63,713)	(63,713)	(92,899)	(92,899)
compulsory insurance of deposits	(7,378)	(7,378)	(6,326)	(6,326)
on debt securities issued	(243)	(243)	(1,019)	(1,019)
Total interest expense	(78,634)	(78,540)	(113,601)	(112,878)
Net interest income	**31,795**	**28,839**	**29,199**	**27,596**

NOTE 2 NET FEE AND COMMISSION INCOME

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Fee and commission income:				
for money transfer operations	7,456	7,565	6,520	6,669
for payment card services	1,618	1,621	2,109	2,111
for base currency exchange	1,373	1,373	1,869	1,870
for operations with securities	130	130	113	113
other fee and commission income	1,901	1,636	2,009	2,172
Total fee and commission income	12,478	12,325	12,620	12,935
Fee and commission expense:				
for payment card services	(3,089)	(3,089)	(3,204)	(3,204)
for money transfer operations	(1,297)	(1,217)	(1,194)	(1,121)
for operations with securities	(69)	(69)	(57)	(57)
for base currency exchange	(2)	(2)	(3)	(4)
other fee and commission expenses	(10)	(10)	(14)	(13)
Total fee and commission expense	(4,467)	(4,387)	(4,472)	(4,399)
Net fee and commission income	**8,011**	**7,938**	**8,148**	**8,536**

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

NOTE 3 NET GAIN (LOSS) ON OPERATIONS WITH SECURITIES

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Trading securities				
Realised gain on trading equity securities	-	-	(268)	(268)
Unrealised gain on trading equity securities	14	14	345	345
Realised gain (loss) on trading debt securities	3,424	3,424	-	-
Unrealised (loss) on trading debt securities	(1,346)	(1,346)	-	-
Net gain on trading securities	**2,092**	**2,092**	**77**	**77**
Realised gain on available-for-sale debt securities	928	928	39	39
Dividend and other income from equity securities held for trading	-	-	23	23
Dividend and other income from available-for-sale equity securities	68	68	4,806	182
Total	**3,088**	**3,088**	**4,945**	**321**

NOTE 4 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Salaries, social security and other related expenses	18,059	15,464	19,367	16,858
Rent and maintenance of premises	3,531	3,451	3,937	3,867
Office equipment maintenance	983	974	951	939
Depreciation of fixed tangible assets	4,121	3,060	4,299	3,391
Transportation, post and communications expenses	2,044	1,762	2,186	1,842
Amortisation of intangible assets	266	262	411	405
Real estate tax and other taxes	1,014	246	551	241
Advertising and marketing expenses	358	330	376	342
Training and business trip expenses	38	30	100	76
Charity	121	96	178	173
Service organisation expenses	627	591	645	606
Legal costs incurred due to debt recovery	1,020	831	900	803
Other operating expenses	1,839	1,475	2,746	2,170
Total	**34,021**	**28,572**	**36,647**	**31,713**

NOTE 5 GAIN ON DISPOSAL OF ASSETS

In 2010 gain on disposal of real estate assets at the Group amounted to LTL 1,212 thousand (Bank LTL 165 thousand gain). In 2009 loss on disposal of real estate assets at the Group level amounted to LTL 113 thousand (Bank recorded a gain of LTL 14 thousand).

NOTE 6 OTHER INCOME

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Income from lease of assets	1,111	342	908	384
Other income	584	445	222	124
Total	1,695	787	1,130	508

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

NOTE 7 IMPAIRMENT LOSSES ON LOANS

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Impairment losses on loans:				
Impairment charge for the year	45,774	44,629	45,554	42,948
Recoveries of loans previously written off	(964)	(790)	(169)	(72)
Total impairment losses on loans	44,810	43,839	45,385	42,876
Impairment losses on finance lease receivables:				
Impairment charge for the year	516		2,064	-
Recovered previously written-off finance lease receivables	(276)		(144)	-
Total impairment losses on finance lease	240		1,920	-
Expenses for provisions on:				
Investments in subsidiaries	-	-	-	4,773
Assets for selling and other assets	981	76	3,139	2,145
Total	46,031	43,915	50,444	49,794

NOTE 8 INCOME TAX

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Current tax	-	-	-	-
Deferred taxes	(4,811)	(4,773)	(5,711)	(5,519)
Adjustments of previous year income tax	(33)	(33)	(118)	(120)
Total	(4,844)	(4,806)	(5,829)	(5,639)

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:

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Profit before income tax	(31,542)	(28,955)	(41,380)	(35,753)
Tax calculated at a tax rate of 15%	(4,731)	(4,343)	(8,276)	(7,151)
Income not subject to tax	(1,206)	(560)	(4,266)	(2,223)
Expenses not deductible for tax purposes	981	370	3,914	1,831
Adjustment of previous year income tax	(33)	(33)	(118)	(120)
Utilisation of tax losses for which no deferred tax asset was recognized	145	(240)	749	46
Effect of change in income tax rate	-	-	2,168	1,978
Income tax charge (income)	(4,844)	(4,806)	(5,829)	(5,639)

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

NOTE 8 INCOME TAX (CONTINUED)

Deferred tax assets	**Group**				**Bank**			
	Revaluation of securities and other assets	**Accruals**	**Taxable losses carried forward**	**Total**	**Revalua-tion of securities**	**Accruals**	**Taxable losses carried forward**	**Total**
At 31 December 2008	(85)	(367)	-	(452)	(85)	(367)	-	(452)
To be credited/(charged) to net profit	(52)	176	(5,725)	(5,601)	77	176	(5,623)	(5,370)
To be credited/ (charged) to equity	2	-	-	2	2	-	-	2
At 31 December 2009	(135)	(191)	(5,725)	(6,051)	(6)	(191)	(5,623)	(5,820)
To be credited/ (charged) to equity	-	-	-	-	-	-	-	-
To be credited/(charged) to net profit	8	18	(4,840)	(4,814)	6	18	(4,840)	(4,816)
At 31 December 2010	(127)	(173)	(10,565)	(10,865)	-	(173)	(10,463)	(10,636)
	-	-	-	-	-	-	-	-

Deferred tax liabilities	**Group**			**Bank**		
	Revaluation of securities	**Fixed assets**	**Total**	**Revaluation of securities**	**Fixed assets**	**Total**
At 31 December 2008	-	550	550	-	550	550
To be credited/(charged) to net profit	-	(110)	(110)	-	(149)	(149)
To be credited/ (charged) to equity	195	-	195	195	-	195
At 31 December 2009	195	440	635	195	401	596
To be credited/(charged) to net profit	-	3	3	40	3	43
To be credited/ (charged) to equity	(180)	-	(180)	(180)	-	(180)
At 31 December 2010	15	443	458	55	404	459

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

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

	2010		**2009**	
	Group	**Bank**	**Group**	**Bank**
Deferred tax assets	(10,865)	(10,636)	(6,051)	(5,820)
Deferred tax liabilities	458	459	635	596
Net deferred tax (asset) liability	(10,407)	(10,117)	(5,416)	(5,224)

(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). As net loss has been accounted both in 2010 and 2009, the potential ordinary shares would be anti-dilutive. Therefore, diluted earnings per share are the same as basic earnings per share.

Weighted average number of shares in issue for the year ended 31 December 2010 was 193,245 thousand (173 days – 180,358 thousand shares, 192 days – 204,858 thousand shares). Weighted average number of shares for the year ended 31 December 2009 was 180,358 thousand.

Earnings per share

Group	**2010**	**2009**
Net profit (in LTL thousand)	(28,292)	(35,551)
Weighted average number of shares in issue during the period (thousand units)	193,245	180,358
(Loss) per share (LTL per share)	(0.15)	(0.20)

Bank	**2010**	**2009**
Net profit (in LTL thousand)	(24,149)	(30,114)
Weighted average number of shares in issue during the period (thousand units)	193,245	180,358
(Loss) per share (LTL per share)	(0.12)	(0.17)

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

NOTE 10 CASH AND CASH EQUIVALENTS

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Cash and other valuables	34,605	34,602	34,669	34,651
Balances in bank deposit accounts	68,006	68,006	19,420	19,381
Balances in bank correspondent accounts	12,744	12,744	18,407	18,407
Placements with Central Bank:				
Correspondent account with Central Bank	25,664	25,664	37,422	37,422
Mandatory reserves in national currency	67,381	67,381	58,790	58,790
Total placements with Central Bank	93,045	93,045	96,212	96,212
Total	208,400	208,397	168,708	168,651

Mandatory reserves in Central Bank comprise the funds calculated on a monthly basis as a 4% share of the average balance of deposits of the previous month. The mandatory reserves are held with the Bank of Lithuania in the form of deposits. The Bank of Lithuania pays interest for the required reserves.

NOTE 11 AMOUNTS DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Balances in bank deposit accounts	4,147	4,147	2,214	2,214

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

NOTE 12 TRADING SECURITIES

	2010		2009	
	Group	Bank	Group	Bank
Debt securities:				
Government bonds	63,444	63,444	-	-
Corporate bonds	16,496	13,576	2,973	-
State controlled entities' bonds	1,288	1,288	-	-
Total debt securities	**81,228**	**78,308**	**2,973**	**-**
Equity securities:				
Listed	-	-	-	-
Unlisted	2	2	38	38
Units of investment funds	96	96	83	83
Total equity securities	**98**	**98**	**121**	**121**
Total	**81,326**	**78,406**	**3,094**	**121**
Breakdown of securities by their maturity:				
Short-term (up to 1 year)	52,209	49,289	3,094	121
Long-term (over 1 year)	29,117	29,117	-	-
Total	**81,326**	**78,406**	**3,094**	**121**

Trading securities have not been pledged as at 31 December 2010 and 2009.

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 quated prices in active markets for identical assets and liabilities.

Breakdown of the Bank‘s trading securities as at 31 December 2010 and 2009:

Rating	Treasury bills		Corporate debt securities		Corporate equity securities		Investment fund units	
	2010	2009	2010	2009	2010	2009	2010	2009
From AA- to AA+	-	-	1,689	-	-	-	-	-
From A- to A+	-	-	4,170	-	-	-	-	-
From BBB- to BBB+	63,444		8,173	-	-	-	-	-
From BB- to BB+	-	-	832	-	-	-	-	-
No rating	-	-	-	-	2	38	96	83
Total	63,444	-	14,864	-	2	38	96	83

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

NOTE 12 TRADING SECURITIES (CONTINUED)

Breakdown of the Group's trading securities as at 31 December 2010 and 2009:

Rating	Treasury bills		Corporate debt securities		Corporate equity securities		Investment fund units	
	2010	2009	2010	2009	2010	2009	2010	2009
From AA- to AA+	-	-	1,689	-	-	-	-	-
From A- to A+	-	-	4,170	-	-	-	-	-
From BBB- to BBB+	63,444	-	8,173	-	-	-	-	-
From BB- to BB+	-	-	832	-	-	-	-	-
No rating	-	-	2,920	2,973	2	38	96	83
Total	63,444	-	17,784	2,973	2	38	96	83

NOTE 13 LOANS TO CUSTOMERS

	2010		2009	
	Group	Bank	Group	Bank
Gross loans to customers	1,518,767	1,735,464	1,476,688	1,645,917
Allowance for loan impairment	(80,380)	(77,855)	(42,360)	(40,282)
Net loans to customers	1,438,387	1,657,609	1,434,328	1,605,635
Breakdown of loans to customers according to maturity				
Short-term (up to 1 year)	501,851	727,310	588,262	768,577
Long-term (over 1 year)	936,536	930,299	846,066	837,058
Total	1,438,387	1,657,609	1,434,328	1,605,635

	Group	Bank
Allowance for loan impairment as at 31 December 2008	**11,490**	**11,268**
Allowance for impairment of loans written off during the year as uncollectible	(14,726)	(13,976)
Currency translation differences and other adjustments	42	42
Increase in allowance for loan impairment (Note 7)	45,554	42,948
Allowance for loan impairment as at 31 December 2009	**42,360**	**40,282**
Allowance for impairment of loans written off during the year as uncollectible	(7,800)	(7,102)
Currency translation differences and other adjustments	46	46
Increase in allowance for loan impairment (Note 7)	45,774	44,629
Allowance for loan impairment as at 31 December 2010	**80,380**	**77,855**

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

31 December 2010

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

(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 1 Jan 2010	-	31,947	11	31,958
Change in allowance for loan impairment	-	37,089	(11)	37,078
Loans written off during the year	-	(2,670)	-	(2,670)
Influence of FX rate shift	-	46	-	46
As at 31 Dec 2010	-	66,412	-	66,412

31 December 2009

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 1 Jan 2009	2,258	311	426	356	3,351
Change in allowance for loan impairment	5,331	2,087	2,942	1,270	11,630
Loans written off during the year	(3,499)	-	(1,080)	-	(4,579)
As at 31 Dec 2009	4,090	2,398	2,288	1,626	10,402

31 December 2009

	Group loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 1 Jan 2009	-	8,132	7	8,139
Change in allowance for loan impairment	-	33,920	4	33,924
Loans written off during the year as uncollectible	-	(10,147)	-	(10,147)
Influence of FX rate shift	-	42	-	42
As at 31 Dec 2009	-	31,947	11	31,958

31 December 2010

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

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

NOTE 13 LOANS TO CUSTOMERS (CONTINUED)

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

31 December 2009

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 1 Jan 2009	2,258	311	207	356	3,132
Change in allowance for loan impairment	5,331	2,087	790	1,270	9,478
Loans written off during the year	(3,499)	-	(330)	-	(3,829)
As at 31 Dec 2009	4,090	2,398	667	1,626	8,781

	Bank loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 1 Jan 2009	-	8,129	7	8,136
Change in allowance for loan impairment	-	33,466	4	33,470
Loans written off during the year	-	(10,147)	-	(10,147)
	-	42	-	42
As at 31 Dec 2009	-	31,490	11	31,501

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

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 2009	47,673	49,520	25,155	122,348
Change during 2010	(14,649)	4,522	14,129	4,002
Balance at 31 December 2010	33,024	54,042	39,284	126,350
Unearned finance income on finance leases:				
Balance at 31 December 2009	5,338	7,867	5,205	18,410
Change during 2010	(898)	1,215	1,683	2,000
Balance at 31 December 2010	4,440	9,082	6,888	20,410
Net investments in leasing before provisions:				
At 31 December 2009	42,335	41,653	19,950	103,938
At 31 December 2010	28,584	44,960	32,396	105,940
Changes in provisions:				
Balance as at 31 December 2008	-	1,659	-	1,659
Additional provisions charged	-	2,064	-	2,064
Provisions for finance lease debts written off	-	(1,197)	-	(1,197)
Balance at 31 December 2009	-	2,526	-	2,526
Additional provisions charged	-	516	-	516
Provisions for finance lease debts written off	-	(1,090)	-	(1,090)
Balance at 31 December 2010	-	1,952	-	1,952
Net investments in leasing after provisions:				
At 31 December 2009	42,335	39,127	19,950	101,412
At 31 December 2010	28,584	43,008	32,396	103,988

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

	2010			2009		
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
As at 1 January	1,578	948	2,526	926	733	1,659
Change in allowance for finance lease impairment	191	325	516	1,623	441	2,064
Amounts written off during the year	(777)	(313)	(1,090)	(971)	(226)	(1,197)
As at 31 December	992	960	1,952	1,578	9,48	2,526

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

NOTE 15 INVESTMENT SECURITIES

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Securities available for sale:				
Equity securities:				
Unlisted equity securities	15,614	1,391	14,668	515
Investment fund units	358	358	286	286
Total	15,972	1,749	14,954	801
Debt securities:				
Local government bonds	46,594	46,594	29,545	29,545
Local corporate debt securities	3,216	3,216	41,737	41,737
Treasury debt securities of foreign countries	27,595	27,595	-	-
Foreign countries corporates debt securities	10,221	10,221	-	-
Total	87,626	87,626	71 282	71 282
Total securities available for sale	103,598	89,375	86,236	72,083
Breakdown of securities available for sale according to maturity				
Short-term (up to 1 year)	52,209	49,289	66,076	66,076
Long-term (over 1 year)	29,117	29,117	20,160	6,007
Total	103,598	89,375	86,236	72,083

Breakdown of the Bank‘s securities available for sale as at 31 December 2010 and 2009:

Rating	**Treasury bills**		**Corporate debt securities**		**Corporate equity securities**		**Investment fund units**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
From AA- to AA+	6,347	-	-	-	-	-	-	-
From A- to A+	10,795	-	9,768	36,737	-	-	-	-
From BBB- to BBB+	50,291	29,545	3,669	5,000	-	-	-	-
From BB- to BB+	6,756	-	-	-	-	-	-	
No rating	-	-	-	-	1,391	515	358	286
Total	74,189	29,545	13,437	41,737	1,391	515	358	286

(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 2010 and 2009:

Rating	**Treasury bills**		**Corporate debt securities**		**Corporate equity securities**		**Investment fund units**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
From AA- to AA+	6,347	-	-	-	-	-	-	-
From A- to A+	10,795	-	9,768	36,737	-	-	-	-
From BBB- to BBB+	50,291	29,545	3,669	5,000	-	-	-	-
From BB- to BB+	6,756	-	-	-	-	-	-	
No rating	-	-	-	-	15,614	14,668	358	286
Total	74,189	29,545	13,437	41,737	15,614	14,668	358	286

	2010		**2009**	
	Group	**Bank**	**Group**	**Bank**
Held-to-maturity securities:				
Local government bonds	166,602	166,602	114,842	114,842
Local corporate bonds	6,420	-	2,973	-
Foreign government bonds	29,250	29,250	21,779	21,779
Foreign corporate bonds	11,783	11,783	6,447	6,447
Total held-to-maturity securities	**214,055**	**207,635**	**146,041**	**143,068**
Breakdown of held to maturity securities according to maturity				
Short-term (up to 1 year)	11,690	5,270	7,392	4,419
Long-term (over 1 year)	202,365	202,365	138,649	138,649
Total	**214,055**	**207,635**	**146,041**	**143,068**

The cash flows of held-to-maturity securities:

	2010	**2009**
As at 1 January	143,068	147,038
Acquisitions	28,664	2,846
Redemptions	5,725	6,322
Accrued interest	7,968	6,149
Received coupon payment	8,463	6,691
Reclassifications	42,156	48
Disposals	-	-
Foreign currency exchange rate impact	(33)	-
As at 31 December	207,635	143, 068

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

NOTE 15 INVESTMENT SECURITIES (CONTINUED)

During 2010 Bank has reclassified a part of its available for sale debt securities portfolio to held-to-maturity securities. Management of the bank has assesed that it has an intention to hold these securities to their maturity. Carrying amount of the reclasified securities as at 31 December LTL 2010 is LTL 42,003 thousand, the fair value - LTL 42,771 thousand. During 2010 other comprehensive income recognized in relation to the revaluation of these debt securities - LTL 1,897 thousnad. If the reclassification had not been performed, other comprehensive income recognized in 2010 in relation to these securities would be equal to LTL 2,665 thousand.

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

	2010		2009	
	Fair value	Carrying amount	Fair value	Carrying amount
Local government bonds	168,739	166,602	107,200	114,842
Local corporate bonds	-	-	-	-
Foreign government bonds	27,710	29,250	21,826	21,779
Foreign corporate bonds	11,672	11,783	6,466	6,447
Total held-to-maturity securities	208,121	207,635	135,492	143,068

No investment securities were pledged as at 31 December 2010 and 2009.

Breakdown of the Bank‘s held-to-maturity securities as at 31 December 2010 and 2009:

Rating	Treasury bills		Municipality debt securities		Corporate debt securities	
Bank	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
AAA	8,120	-	-	-	-	-
From AA- to AA+	-	-	-	-	6,785	-
From A- to A+	10,662	10,653	-	-	-	-
From BBB- to BBB+	173,666	125,247	709	721	4,998	5,027
From BB- to BB+	2,695	-	-	-	-	1,420
No rating	-	-	-	-	-	-
Total	195,143	135,900	709	721	11,783	6,447

Breakdown of the Group‘s held-to-maturity securities as at 31 December 2010 and 2009:

Rating	Treasury bills		Municipality debt securities		Corporate debt securities	
Group	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
AAA	8,120	-	-	-	-	-
From AA- to AA+	-	-	-	-	6,785	-
From A- to A+	10,662	10,653	-	-	-	-
From BBB- to BBB+	173,666	125,247	709	721	4,998	5,027
From BB- to BB+	2,695	-	-	-	-	1,420
No rating	-	-	-	-	6,420	-
Total	195,143	135,900	709	721	18,203	6,447

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

NOTE 16 INVESTMENTS IN SUBSIDIARIES

			2010				2009
Bank	**Share in equity**	**Acquisition cost**	**Carrying amount**	**Share in equity**	**Acquisition cost**	**Impairment provision**	**Carrying amount**
Investments in consolidated subsidiaries:							
ŠB Lizingas UAB	100.0%	5,000	2,000	100.0%	5,000	3,000	2,000
ŠB Investicijų Valdymas UAB	100.0%	4,040	3,113	100.0%	4,040	927	3,113
ŠB Turto Fondas UAB	100.0%	5,117	4,271	100.0%	5,117	846	4,271
ŠBTF UAB	100.0%	2,000	2,000	-	-	-	-
Minera UAB	100.0%	5,505	5,505	-	-	-	-
Total		18,662	16,889	_	14,157	4,773	9,384

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

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

(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 2008:		
Cost	5,649	5,395
Accumulated amortisation	(4,858)	(4,615)
Net book value	791	780
Year ended 31 December 2009:		
Net book value at 1 January	791	780
Acquisitions	225	225
Write-offs		
Amortisation charge	(411)	(405)
Net book value at 31 December	605	600
As at 31 December 2009:		
Cost	5,117	4,863
Accumulated amortisation	(4,512)	(4,263)
Net book value	605	600
Year ended 31 December 2010:		
Net book value at 1 January	605	600
Acquisitions	271	269
Write-offs	(2)	(1)
Amortisation charge	(266)	(262)
Net book value at 31 December	608	606
As at 31 December 2010:		
Cost	5,336	5,121
Accumulated amortisation	(4,728)	(4,515)
Net book value	608	606
Economic life (in years)	3 - 9	3 - 9

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

NOTE 18 TANGIBLE FIXED ASSETS

Group	Buildings and premises	Vehicles	Office equipment	Construction in progress	Total
As at 31 December 2008:					
Cost/revalued amount	45,167	9,873	17,596	-	72,636
Accumulated depreciation	(4,214)	(2,291)	(9,772)	-	(16,277)
Net book value	40,953	7,582	7,824	-	56,359
Year ended 31 December 2009:					
Net book value at 1 January	40,953	7,582	7,824	-	56,359
Acquisitions	810	1,531	711	121	3,173
Disposals and write-offs	(2,093)	(638)	(211)	(88)	(3,030)
Reclassification	-	852	(852)	-	-
Depreciation charge	(948)	(1,092)	(2,259)	-	(4,299)
Net book value at 31 December	38,722	8,235	5,213	33	52,203
As at 31 December 2009:					
Cost/revalued amount	43,884	11,315	15,911	33	71,143
Accumulated depreciation	(5,162)	(3,080)	(10,698)	-	(18,940)
Net book value	38,722	8,235	5,213	33	52,203
Year ended 31 December 2010:					
Net book value at 1 January	38,722	8,235	5,213	33	52,203
Acquisitions	16,540	1, 964	1,219	78	19,801
Disposals and write- offs	(206)	(1,113)	(89)	(111)	(1,519)
Depreciation charge	(989)	(1,430)	(1,702)	-	(4,121)
Reclassification	144	792	(144)	-	792
Net book value at 31 December	54,211	8,448	4,497	-	67,156
As at 31 December 2010:					
Cost	61,873	11,786	16,673	-	90,332
Accumulated depreciation	(7,662)	(3,338)	(12,176)	-	(23,176)
Net book value	54,211	8,448	4,497	-	67,156
Economic life (in years)	15-50	5-12	3-20	-	-

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

NOTE 18 TANGIBLE FIXED ASSETS (CONTINUED)

The total balance of the Group's assets in the table above includes assets leased under operating lease agreements as at 31 December 2010, as follows:

Group	**Buildings and premises**	**Vehicles**	**Equipment**	**Total**
As at 31 December 2008:				
Cost	7,526	3,742	43	11,311
Accumulated depreciation	(454)	(1,126)	(28)	(1,608)
Net book value	7,072	2, 616	15	9,703
Year ended 31 December 2009:				
Net book value at 1 January	7,072	2,616	15	9,703
Acquisitions	44	3,445	7	3,496
Disposals and write-offs	(2,093)	(180)	(6)	(2,279)
Depreciation charge	(165)	(616)	(4)	(785)
Net book value at 31 December	4,858	5,265	12	10,135
As at 31 December 2009:				
Cost	5,477	6,892	44	12,413
Accumulated depreciation	(619)	(1,627)	(32)	(2,278)
Net book value	4,858	5,265	12	10,135
Year ended 31 December 2010:				
Net book value at 1 January	4,858	5,265	12	10,135
Acquisitions	16,058	1,519	3	17,580
Disposals and write-offs	-	(489)	-	(489)
Depreciation charge	(174)	(749)	(5)	(928)
Net book value at 31 December	20,742	5,546	10	26,298
As at 31 December 2010:				
Cost	21,529	7,460	39	29,028
Accumulated depreciation	(787)	(1,914)	(29)	(2,730)
Net book value	20,742	5,546	10	26,298
Economic life (in years)	15-50	6-12	6-15	-

As at 31 December 2010 and 31 December 2009, there were no tangible fixed assets pledged to third parties.

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

	2010			**2009**		
	up to 1 year	1-5 years	over 5 years	up to 1 year	1-5 years	over 5 years
Bank	244	87	7	254	30	9
Group	970	827	153	509	394	20

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

NOTE 18 TANGIBLE FIXED ASSETS (CONTINUED)

Bank	**Buildings and premises**	**Vehicles**	**Office equipment**	**Construction in progress**	**Total**
As at 31 December 2008:					
Cost/revalued amount	41,282	3,729	15,371	-	60,382
Accumulated depreciation	(3,881)	(1,291)	(8,920)	-	(14,092)
Net book value	37,401	2,438	6,451	-	46,290
Year ended 31 December 2009:					
Net book value at 1 January	37,401	2,438	6,451	-	46,290
Acquisitions	810	1,402	651	121	2,984
Disposals and write-offs	-	(586)	(30)	(88)	(704)
Depreciation charge	(819)	(620)	(1,952)	-	(3,391)
Net book value at 31 December	37,392	2,634	5,120	33	45,179
As at 31 December 2009:					
Cost/revalued amount	42,092	3,730	15,350	33	61,205
Accumulated depreciation	(4,700)	(1,096)	(10,230)	-	(16,026)
Net book value	37,392	2,634	5,120	33	45,179
Year ended 31 December 2010:					
Net book value at 1 January	37, 392	2,634	5,120	33	45,179
Acquisitions	118	855	981	78	2 032
Disposals and write-offs		(329)	(12)	(111)	(452)
Depreciation charge	(818)	(577)	(1,665)	-	(3,060)
Net book value at 31 December	36,692	2,583	4,424	-	43,669
As at 31 December 2010:					
Cost	42,210	3,756	15,980	-	61,946
Accumulated depreciation	(5,518)	(1,173)	(11,556)	-	(18,247)
Net book value	36,692	2,583	4,424	-	43,699
Economic life (in years)	15-50	5-12	3-20	-	-

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

NOTE 19 OTHER ASSETS

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Financial assets:				
Amounts receivable	35,254	12,025	26,775	1,215
Breakdown of financial assets according to maturity				
Short-term (up to 1 year)	6,470	6	25,723	163
Long-term (over 1 year)	28,784	12,019	1,052	1,052
Non-financial assets:				
Breakdown of non-financial assets according to maturity				
Short-term (up to 1 year)	11,515	1,703	1,241	1,546
Long-term (over 1 year)	41,703	2,388	43,057	2,129
Inventories	42,961	-	34,845	-
Deferred charges	2,791	2,528	2,652	2,487
Prepayments	4,491	918	3,579	412
Foreclosed assets	1,442	246	2,380	241
Other	1,533	399	842	535
Total other assets	88,472	16,116	71,073	4,890

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

Breakdown of inventories according to type	2010		2009	
	Group	Bank	Group	Bank
Appartments held for sale	7,247	-	8,481	-
Property held for sale or development	35,714	-	26,364	-
Total inventories	42,961	-	34,845	-

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

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

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

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

Profit (loss), net assets and cash flow information of the subsidiary for the year ended 31 December 2010 are presented in the tables below.

	Year ended as at 31 of December 2010
Sales income	4,376
Cost of goods sold	3,886
Gross profit (loss)	490
Sales and marketing expenses	-
Operating expenses	2,065
Other income (expenses)	-
Operating profit (loss)	(1,575)
Net profit (loss) from financial activities	(19)
(Loss) profit before income tax	(1,594)
Income tax	-
(Loss) profit from before impairment provision	(1,594)
(Loss) related to an impairment provision regarding the impairment of assets held (see below)	-
Net profit (loss) for the year	(1,594)

Impairment test for the assets held by this subsidiary company has been performed as at 31 December 2010 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.

	As at 31 of December 2010
Long term assets	10,535
Short term assets (except for cash & cash equivalents)	1,919
Cash & cash equivalents	1
Total assets	12,455
Long term liabilities	-
Short term liabilities	882
Total liabilities	882
Total net asets related to discontinued operations	11,573 ,
Net assets attributable to Group	11,573

Cash flows related to the subsidiary that is held for sale for the financial year ended as at 31 December 2010 are provided below.

	2010
Net cash flow from (used in) operating activities	(2,271)
Net cash flow from (used in) investing activities	(10,556)
Net cash flow (used in) financing activities	12,828
Total net cash flow	1

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

NOTE 21 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Correspondent accounts and deposits of other banks and financial institutions:				
Correspondent accounts and demand deposits	26,417	26,441	6,145	6,187
Time deposits	62,317	62,317	23,232	23,233
Total correspondent accounts and deposits of other banks and financial institutions	88,734	88,758	29,377	29,420
Loans received from:				
Other banks	89,919	89,919	107,447	98,447
International organisations (see note 33)	133,163	133,163	57,293	57,293
Other organisations	57,251	57,251	52,155	52,155
Total loans received	280,333	280,333	216,895	207,895
Total	369,067	369,091	246,272	237,315
Short-term (up to 1 year)	114,645	114,669	95,712	86,755
Long-term (over 1 year)	254,422	254,422	150,560	150,560
Total	369,067	369,091	246,272	237,315

NOTE 22 DUE TO CUSTOMERS

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Demand deposits:				
National government institutions	28,388	28,388	2,361	2,361
Local government institutions	58,364	58,364	26,920	26,920
Governmental and municipal companies	49,940	49,940	11,045	11,045
Corporate entities	127,925	128,020	96,898	96,914
Non-profit organisations	8,361	8,361	7,153	7,153
Individuals	129,131	129,131	97,428	97,428
Unallocated amounts due to customers	3,698	3,698	5,829	5,829
Total demand deposits	405,807	405,902	247,634	247,650
Time deposits:				
National government institutions	10,037	10,037	4,733	4,733
Local government institutions	801	801	8,531	8,531
Governmental and municipality companies	102,771	102,771	145,644	145,644
Corporate entities	154,510	154,510	157,421	157,421
Non-profit organisations	8,589	8,589	7,286	7,286
Individuals	989,784	989,784	957,575	957,575
Total time deposits	1,266,492	1,266,492	1,281,190	1,281,190
Total	1,672,299	1,672,394	1,528,824	1,528,840
Breakdown of due to customers according to maturity				
Short-term (up to 1 year)	1,613,172	1,613,267	1,492,945	1,492,961
Long-term (over 1 year)	59,127	59,127	35,879	35,879
Total	1,672,299	1,672,394	1,528,824	1,528,840

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

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

NOTE 23 SPECIAL AND LENDING FUNDS

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Special funds	9,289	9,289	4,612	4,612
Lending funds	18,722	18,722	26,680	26,680
Total	28,011	28,011	31,292	31,292
Breakdown of special and lending funds according to maturity				
Short-term (up to 1 year)	11,475	11,475	8,616	8,616
Long-term (over 1 year)	16,536	16,536	22,676	22,676
	28,011	28,011	31,292	31,292

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

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

NOTE 24 DEBT SECURITIES IN ISSUE

On 10 July 2009, the Bank issued 370-day bonds in the amount of EUR 1.22 million. Interest rate of 7.8 per cent. Bonds were repurchased on 15 July 2010.
On 4 November 2009, the Bank issued 370-day bonds in the amount of EUR 4.12 million. Interest rate of 5.0 per cent. Bonds were repurchased on 2 December 2010.
On 18 October 2010, the Bank issued 260-day bonds in the amount of EUR 5.25 million. Interest rate of 3.8 per cent. Maturity date is 5 July 2011.

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
260 day bonds denominated in LTL with interest rate of 3.8 %, maturity date 5 July 2011	5,291	5,291	-	-
370 day bonds denominated in EUR with interest rate of 7.8 %, maturity date 15 July 2010	-	-	464	464
370 day bonds denominated in EUR with interest rate of 5.0 %, maturity date 2 December 2010	-	-	3,691	3,691
Total	5,291	5,291	4,155	4,155

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

NOTE 25 OTHER LIABILITIES

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Financial liabilities:				
Finance lease liabilities	1,503	-	2,110	-
Breakdown of other financial liabilities according to maturity				
Short-term (up to 1 year)	1,503	-	2,110	-
Long-term (over 1 year)	-	-	-	-
Non-financial liabilities:				
Accrued charges	3,399	2,934	3,305	2,903
Advance amounts received from the buyers of assets	1,699	-	1,972	-
Deferred income	922	519	1,340	455
Other liabilities	360	267	344	273
Total non-financial liabilities	6,380	3,720	6,961	3,631
Breakdown of other non-financial liabilities according to maturity				
Short-term (up to 1 year)	4,698	2,338	5,516	2,310
Long-term (over 1 year)	1,682	1,382	1,445	1,321
Total other liabilities	7,883	3,720	9,071	3,631

NOTE 26 NON-CONTROLLING INTEREST

	2010	2009
	Group	**Group**
Balance at 1 January	-	4,967
Profit for the accounting period	-	-
Effect of dividends paid	-	(3,923)
Increase (decrease) in non-controlling interest	-	(1,044)
Balance at 31 December	-	-

NOTE 27 SHARE CAPITAL

As at 31 December 2009, the Bank's share capital comprised 180,357,533 ordinary registered shares with par value of LTL 1 each. During 2010 Bank's share capital has been increased to LTL 204,857,533 by an additional issue of 24,500 thousand of ordinary shares with par value of LTL 1 each and issue price LTL 1.04 each. Excess of issue price over nominal amount totalled LTL 980 thousand and was recorded as share premium. Largest shareholder of the Bank contributed to the share capital through conversion of LTL 17,680 thousand of convertable loan (for more details see note 33). Increase of share has been registered in register of legal entities as at 22 June 2010.

As of 31 December 2010, 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	22.44
Gintaras Kateiva	7.18
Algirdas Butkus	5.17
Total	34.79

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

NOTE 27 SHARE CAPITAL (CONTINUED)

Another 17 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.

Sixteen 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, Justas Baguckas, Vita Adomaitytė, Jonas Bartkus, Daiva Kiburienė, and Donatas Savickas form a group which has a permit of the Bank of Lithuania to acquire a qualified share of the authorised capital and votes of the Bank equal to and exceeding 50 per cent. As of 31 December 2009, this group possessed 48.26 percent of the authorised capital and votes of the Bank.

As at 31 December 2010, the Bank had 3,601 shareholders (as at 31 December 2009: 3,525).

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

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

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

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 2010 and as at 31 December 2009 no provisions were established for possible costs related to off-balance sheet commitments.

Contingent tax liabilities
The Tax Authorities have not carried out a full-scope tax audit of the Bank for the period from 2001 to 2010. The Tax Authorities may at any time during 5 successive years after the end of the reporting tax year carry out an inspection of the Bank's books and accounting records and impose additional taxes or fines. Management is not aware of any circumstances that might result in a potential material liability in this respect.

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

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Financial guarantees issued	62,025	62,070	50,307	50,240
Letters of credit	4,472	4,472	2,904	2,904
Commitments to grant loans	94,145	89,495	72,733	70,180
Commitments to grant finance lease and acquire assets	-	-	-	-
Other commitments	2,745	2,745	10,913	10,814
Total	163,387	158,782	136,857	134,138

NOTE 29 DIVIDENDS

Dividends are declared during the annual general meeting of shareholders of the Bank when appropriation of profit for the reporting period is performed. In March 2010, the annual general meeting of shareholders decided not to pay any dividends to the holders of ordinary shares. There were no dividends payable as at 31 December 2009 also.

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

NOTE 30 LIQUIDITY RISK

The structure of the Group's assets and liabilities by maturity as at 31 December 2010 was as follows:

	On demand	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 3 years**	**More than 3 years**	**Maturity undefined**	**Total**
Assets									
Cash and cash equivalents	200,395	8,005	-	-	-	-	-	-	208,400
Due from other banks	-	-	122	652	401	2,955	-	17	4,147
Trading securities	-	-	25,194	20,666	6,349	10,826	18,193	98	81,326
Loans granted to customers, finance lease receivables	-	46,653	130,427	194,716	156,680	537,774	412,391	63,734	1 542,375
Investment securities	-	-	-	-	-	-	-	-	-
- available-for-sale securities	-	-	6,897	2,985		8,426	69,318	15,972	103,598
- held-to-maturity securities	-	-	-	1,419	10,271	98,519	103,846	-	214,055
Intangible assets	-	-	-	-	-	-	-	608	608
Tangible fixed assets	-	-	-	-	-	-	-	67,156	67,156
Other assets	98	17,253	3,960	341	8,804	36,186	9,680	36,627	112,949
Total assets	200,493	71,911	166,600	220,779	182,505	694,686	613,428	184,212	2, 334,614
Due to other banks and financial institutions	26,419	5,971	21,807	25,342	35,107	94,644	159,777	-	369,067
Due to customers	414,205	212,079	271,759	363,912	362,893	63,820	11,640	2	1,700,310
Debt securities in issue	-	-	-	-	5,291	-	-	-	5,291
Other liabilities	1,002	4,129	250	293	532	422	24	2,113	8,765
Shareholders' equity	-	-	-	-	-	-	-	251,181	251,181
Total liabilities and shareholders' equity	441,626	222,179	293,816	389,547	403,823	158,886	171,441	253,296	2,334,614
Net liquidity gap	(241,133)	(150,268)	(127,216)	(168,768)	(221,318)	535,800	441,987	(69,094)	-

The structure of the Group's assets and liabilities by maturity as at 31 December 2009 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	149,492	103,781	152,073	146,707	354,262	581,397	482,562	103,524	2,073,798
Total liabilities and shareholders' equity	257,980	304,051	411,823	332,871	302,329	92,608	116,834	255,302	2, 073,798
Net liquidity gap	(108,488)	(200,270)	(259,750)	(186,164)	51,933	488,789	365,728	(151,778)	-

(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 2010 was as follows:

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
Assets									
Cash and cash equivalents	200,392	8,005	-	-	-	-	-	-	208,397
Due from other banks	-	-	122	652	401	2,955	-	17	4,147
Trading securities	-	-	25,194	20,666	3,429	10,826	18,193	98	78,406
Loans granted to customers, finance lease receivables	-	76 ,64	177,513	251,647	221,186	506,889	364,288	59,122	1,657,609
Investment securities	-	-	-	-	-	-	-	-	-
- available-for-sale securities	-	-	6,897	2,985	-	8,426	69,318	1,749	89,375
- held-to-maturity securities	-	-	-	1,419	3,851	98,519	103,846	-	207,635
Investments in subsidiaries	-	-	-	-	-	-	-	16,889	16,889
Intangible assets	-	-	-	-	-	-	-	606	606
Tangible fixed assets	-	-	-	-	-	-	-	43,699	43,699
Other assets	3	13,103	252	334	465	925	455	12,354	27,891
Total assets	200,395	98,072	209,978	277,703	229,332	628,540	556,100	134,534	2,334,654
Due to other banks and financial institutions	26,443	5,971	21,807	25,342	35,107	94,644	159,777	-	369,091
Due to customers	414,300	212,079	271,759	363,912	362,893	63,820	11,640	2	1,700,405
Debt securities in issue	-	-	-	-	5,291	-	-	-	5,291
Other liabilities	76	1,868	119	127	148	130	24	1,228	3,720
Shareholders' equity	-	-	-	-	-	-	-	256,147	256,147
Total liabilities and shareholders' equity	440,819	219,918	293,685	389,381	403,439	158,594	171,441	257,377	2,334,654
Net liquidity gap	(240,424)	(121,846)	(83,707)	(111,678)	(174,107)	469,946	384,659	(122,843)	-

The structure of the Bank's assets and liabilities by maturity as at 31 December 2009 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	149,272	177,835	156,166	157, 969	371,548	536,322	447,182	62,976	2,059,270
Total liabilities and shareholders' equity	256,000	301,606	402,555	332,646	301,990	92,486	116,795	255,192	2,059,270
Net open position	(106,728)	(123,771)	(246,389)	(174,677)	69,558	443,836	330,387	(192,216)	-

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

NOTE 31 FOREIGN EXCHANGE TRANSACTIONS AND OPEN CURRENCY POSITIONS

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

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets						
Cash and cash equivalents	7,029	1,747	8,776	25,437	174,187	208,400
Due from other banks	-	-	-	4,147	-	4,147
Trading securities	3,466	-	3,466	24,524	53,336	81,326
Loans granted to customers, finance lease receivables	26,469	-	26,469	528,961	986,945	1,542,375
Investment securities		-	-	-	-	-
- available-for-sale securities	538	-	538	44,377	58,683	103,598
- held-to-maturity securities	6,853	-	6,853	104,637	102,565	214,055
Intangible assets	-	-	-	-	608	608
Tangible fixed assets	-	-	-	-	67,156	67,156
Other assets	12	-	12	8,221	104,716	112,949
Total assets	44,367	1,747	46,114	740,304	1,548,196	2,334,614
Liabilities and shareholders' equity						
Due to other banks and financial institutions	98	-	98	254,847	114,122	369,067
Due to customers	42,516	904	43,420	464,653	1,192,237	1,700,310
Bonds issued	-	-	-	-	5,291	5,291
Other liabilities	31	18	49	388	8,328	8,765
Shareholders' equity	486	-	486	(939)	251,634	251,181
Total liabilities and shareholders' equity	43,131	922	44,053	718,949	1 ,571,612	2,334,614
Net balance sheet position	1,236	825	2,061	21,355	(23,416)	-
Open currency exchange transactions	(783)	-	(783)	783	-	-
Net open position	453	825	1,278	22,138	(23,416)	-

The Group's open positions of prevailing currencies as at 31 December 2009 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets	42,430	1,087	43,517	808,083	1,222,198	2,073,798
Liabilities and shareholders' equity	43,382	409	43,791	667,087	1,362,920	2,073,798
Net balance sheet position	(952)	678	(274)	140,996	(140,722)	-
Open currency exchange transactions	240	84	324	10,034	(10,358)	-
Net open position	(712)	762	50	151,030	(151,080)	-

(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 2010 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets						
Cash and cash equivalents	7,029	1,747	8 ,776	25,437	174,184	208,397
Due from other banks	-	-	-	4,147	-	4,147
Trading securities	3,466	-	3,466	21,604	53,336	78,406
Loans granted to customers, finance lease receivables	26,469	-	26,469	555,546	1,075,594	1,657,609
Investment securities	-	-	-	-	-	-
- available-for-sale securities	538	-	538	44,377	44,460	89,375
- held-to-maturity securities	6,853	-	6,853	101,717	99,065	207,635
Investments in subsidiaries	-	-	-	-	16,889	16,889
Intangible assets	-	-	-	-	606	606
Tangible fixed assets	-	-	-	-	43,699	43,699
Other assets	11		11	1,756	26,124	27,891
Total assets	44,366	1,747	46,113	754,584	1,533,957	2,334,654
Liabilities and shareholders' equity						
Due to other banks and financial institutions	98	-	98	254,847	114,146	369,091
Due to customers	42,516	904	43 ,420	464,653	1,192,332	1,700,405
Bonds issued	-	-	-	-	5,291	5,291
Other liabilities	31	18	49	67	3,604	3,720
Shareholders' equity	486	-	486	(939)	256,600	256,147
Total liabilities and shareholders' equity	43,131	922	44,053	718,628	1,571,973	2,334,654
Net balance sheet position	1,235	825	2,060	35,956	(38,016)	-
Open currency exchange transactions	(783)	-	(783)	783	-	-
Net open position	452	825	1,277	36,739	(38,016)	-

The Bank's open positions of prevailing currencies as at 31 December 2009 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets	42,430	1,087	43,517	806,334	1,209,419	2,059,270
Liabilities and shareholders' equity	43,382	409	43,791	667,087	1,348,392	2,059,270
Net balance sheet position	(952)	678	(274)	139,247	(138 ,973)	-
Open currency exchange transactions	240	84	324	10,034	(10,358)	-
Net open position	(712)	762	50	149,281	(149,331)	-

*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.

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

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

NOTE 32 INTEREST RATE RISK

The table below summarizes the Group's and the Bank's interest rate risks as at 31 December 2010. The Bank's assets and liabilities shown at their carrying amounts categorized by the earlier of contractual repricing or maturity dates. Details of the Group's interest rate risk as at 31 December 2010 are given below:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Non interest bearing	Total
Assets							
Cash and cash equivalents	7,980	-	-	-	-	200,420	208,400
Due from other banks	-	122	652	401	2,955	17	4,147
Trading securities	-	25,194	20,666	6,349	29,019	98	81,326
Loans granted to customers, finance lease receivables	258,863	455,563	646,032	41,322	86,407	54,188	1,542,375
Investment securities	-	-	-	-	-	-	-
- available-for-sale securities	-	6,897	2,985		77,744	15,972	103,598
- held-to-maturity securities	-	-	1,419	10,271	202,365	-	214,055
Intangible assets	-	-	-	-	-	608	608
Tangible fixed assets	-	-	-	-	-	67,156	67,156
Other assets	-	-	-	1,387	-	111,562	112,949
Total assets	266,843	487,776	671,754	59,730	398,490	450,021	2,334,614
Due to other banks and financial institutions	85,975	120,835	106,080	22,430	4,751	28,996	369,067
Due to customers	217,207	281,399	355,703	356,614	54,663	434,724	1,700,310
Bonds issued	-	-	-	5,291	-	-	5,291
Other liabilities	-	-	-	-	-	8,765	8,765
Shareholders' equity	-	-	-	-	-	251,181	251,181
Total liabilities and shareholders' equity	303,182	402,234	461,783	384,335	59,414	723,666	2,334,614
Interest rate sensitivity gap	(36,339)	85,542	209,971	(324,605)	339,076	(273,645)	-

Details of the Group's interest rate risk as at 31 December 2009 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	286,605	472,954	614,231	132,420	228,567	339,021	2,073,798
Total liabilities and shareholders' equity	384,640	504,619	329,762	283,954	37,543	533,280	2,073,798
Interest rate sensitivity gap	(98,035)	(31,665)	284,469	(151,534)	191,024	(194,259)	-

(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 2010 are given below:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Non interest bearing	Total
Assets							
Cash and cash equivalents	7,980	-	-	-	-	200,417	208,397
Due from other banks	-	122	652	401	2,955	17	4,147
Trading securities	-	25,194	20,666	3,429	29,019	98	78,406
Loans granted to customers, finance lease receivables	279,815	456,226	680,315	111,930	82,485	46,838	1,657,609
Investment securities	-	-	-	-	-	-	-
- available-for-sale securities	-	6,897	2,985		77,744	1,749	89,375
- held-to-maturity securities	-	-	1,419	3,851	202,365	-	207,635
Investments in subsidiaries	-	-	-	-	-	16,889	16,889
Intangible assets	-	-	-	-	-	606	606
Tangible fixed assets	-	-	-	-	-	43,699	43,699
Other assets	-	-	-	-	-	27,891	27,891
Total assets	287,795	488,439	706,037	119,611	394,568	338,204	2,334,654
Due to other banks and financial institutions	85,975	120,835	106,080	22,430	4,751	29,020	369,091
Due to customers	217,207	281,399	355,703	356,614	54,663	434,819	1,700,405
Bonds issued	-	-	-	5,291	-	-	5,291
Other liabilities	-	-	-	-	-	3,720	3,720
Shareholders' equity	-	-	-	-	-	256,147	256,147
Total liabilities and shareholders' equity	303,182	402,234	461,783	384,335	59,414	723,706	2,334,654
Interest rate sensitivity gap	(15,387)	86,205	244,254	(264,724)	335,154	(385,502)	-

Details of the Bank's interest rate risk as at 31 December 2009 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	354,972	450,390	607,277	176,854	215,928	253,849	2,059,270
Total liabilities and shareholders' equity	384,640	495,619	329,762	283,954	37,543	527,752	2,059,270
Interest rate sensitivity gap	(29,668)	(45,229)	277,515	(107,100)	178,385	(273,903)	-

(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 2010 LTL	31 December 2010 Other currencies	31 December 2009 LTL	31 December 2009 Other currencies
Assets				
Due from Central bank	0.56	-	0.45	-
Due from other banks	1.65	3.19	0.67	0.82
Debt securities	4.01	4.82	6.16	4.34
Finance lease receivables	5.98	4.93	9.75	4.80
Loans granted (before provisions)	4.89	4.48	9.51	4.10
Liabilities				
Due to other banks	1.96	2.89	5.45	2.31
Due to financial institutions	4.28	2.17	2.30	2.72
Deposits	3.16	2.21	6.85	4.97
Debt securities in issue	3.93	4.76	-	5.71

NOTE 33 RELATED-PARTY TRANSACTIONS

Related parties with the Bank are classified as follows:

a) management of the Bank, includes the members of the Bank's Supervisory Council and Board;
b) subsidiaries of the Bank, includes Šiaulių banko lizingas UAB, Šiaulių banko investicijų valdymas UAB, Šiaulių banko turto fondas UAB, SBTF UAB, Minera UAB and Kėdainių oda UAB;
c) other related parties, include shareholders acting jointly in accordance with the Agreement of Shareholders (see Note 27), the close family members of these shareholders and management of the Bank, legal entities that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entities resides with these shareholders and management of the Bank.

During 2010, 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 2010	31 December 2009	2010	2009	31 December 2010	31 December 2009	2010	2009
Members of the Council and the Board	921	589	4.29	6.00	6,784	5,987	5.42	5.13
Other related parties (excluding subsidiaries of the Bank)	4,705	10,156	1.81	4.96	233,488	280,881	4.50	5.45

As at 31 December 2010 balance of allowances for impairment losses that are related to balances of loans to related parties was equal to LTL 7,554 thousand (as at 31 December 2009: LTL 4,470 thousand). During 2010 losses incurred due to the increase in the allowances for impairment losses were LTL 3,084 thousand.

Transactions with EBRD:

The Bank has received loans from the EBRD, balance of which as at 31 December 2010 was equal to LTL 95,950 thousand (31 December 2009: LTL 57,293 thousand). Loan related interest and other expenses for year 2010 amounted to LTL 3,029 thousand (2009: LTL 2,726 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.

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 2010	31 December 2009	2010	2009	31 December 2010	31 December 2009	2010	2009
Non-financial institutions	95	16	0.15	0.00	128,466	78,955	3.50	7.59
Financial institutions	24	43	0.00	0.00	118,772	111,430	4.60	7.04

Transactions with subsidiaries: Šiaulių Banko Turto Fondas UAB (the Bank’s holding is 100%), Šiaulių banko investicijų valdymas UAB (the Bank‘s holding is 100%), Šiaulių banko lizingas UAB (the Bank‘s holding is 100%), ŠB TF UAB (the Bank‘s holding is 100%), Minera UAB (the Bank‘s holding is 100%), Kėdainių oda UAB (indirect control of 100%).

	2010	2009
Assets		
Demand deposits	-	-
Loans	247,238	190,385
Other assets	21	28
Liabilities and shareholders’ equity		
Demand deposits	119	59
Bank’s investment	16,889	9,384

Income and expenses arising from transactions with subsidiaries:

	2010	2009
Income		
Interest	9,840	14,519
Commission income	207	356
Income from foreign exchange operations	6	1
Other income	192	217
Expenses		
Operating expenses	36	28

Remuneration of the management of the Bank

During 2010, the total amount of salaries and bonuses, including social security contributions and guarantee fund payments, to the Bank’s Board members was LTL 1,670 thousand (2009: LTL 1,876 thousand). Both in 2010 and 2009 the Bank has not made payments to the Bank’s Supervisory Council members.

NOTE 33 CONCENTRATION EXPOSURE

As at 31 December 2010, 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 55.0 million (the whole amount represents commitments to provide credit facilities), i.e. 21.68% of the Bank’s calculated capital (2009: LTL 61.8 million and 24.56 % of the Bank’s calculated capital).

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

NOTE 35 FINANCIAL GROUP INFORMATION

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

STATEMENT OF FINANCIAL POSITION

	31 December 2010		31 December 2009	
	Fin. group	**Bank**	**Fin. group**	**Bank**
ASSETS				
Cash and cash equivalents	208,400	208,397	168,696	168,651
Due from other banks	4,147	4,147	2,214	121
Trading securities	78,406	78,406	121	2,214
Loans to customers	1,549,828	1,657,609	1,507,461	1,605,635
Finance lease receivables	103,995	-	101,412	-
Investment securities:				
- available-for-sale	89,375	89,375	72,083	72,083
- held to maturity	207,635	207,635	143,068	143,068
Investments in subsidiarines	14,889	16,889	7,384	9,384
Intangible assets	608	606	603	600
Tangible fixed assets	50,674	43,699	52,048	45,179
Prepayment of income tax	1,598	1,598	2,221	2,221
Deferred tax asset	10,436	10,177	5,445	5,224
Other assets	18,052	16,116	10,903	4,890
Total assets	**2,338,043**	**2,334,654**	**2,073,659**	**2,059,270**
LIABILITIES				
Due to other banks and financial institutions	369,067	369,091	246,272	237,315
Due to customers	1,672,394	1,672,394	1,528,840	1,528,840
Special and lending funds	28,011	28,011	31,292	31,292
Debt securities in issue	5,291	5,291	4,155	4,155
Current incom tax liabilities	-	-	-	-
Deferred income tax liabilities	-	-	-	-
Other liabilities	6,753	3,720	8,888	3,631
Total liabilities	**2,081,516**	**2,078,507**	**1,819,447**	**1,805,233**
EQUITY				
Capital and reserves attributable to equity holders of the Bank				
Share capital	204,858	204,858	180,358	180,358
Share Premium	46,661	46,661	45,681	45,681
Reserve capital	2,611	2,611	2,611	2,611
Other reserves	10,000	10,000	10,000	10,000
Statutory rezerve	6,522	6,422	6,081	5,981
Financial assets revaluation rezerve	1,369	1,369	590	590
Retained earnings	(15,494)	(15,774)	8,891	8,816
Total equity	**256,527**	**256,147**	**254,212**	**254,037**
Total liabilities and equity	**2,338,043**	**2,334,654**	**2,073,659**	**2,059,270**

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

NOTE 35 FINANCIAL GROUP INFORMATION (CONTINUED)

STATEMENT OF COMPREHENSIVE INCOME

		2010		2009	
		Fin. group	**Bank**	**Fin. group**	**Bank**
Interest and similar income		111,993	107,379	145,907	140,474
Interest expense and similar charges		(78,634)	(78,540)	(113,601)	(112,878)
Net interest income		**33,359**	**28,839**	**32,306**	**27,596**
Fee and commission income		12,127	12,325	12,588	12,935
Fee and commission expense		(4,465)	(4,387)	(4,472)	(4,399)
Net fee and commission income		**7,662**	**7,938**	**8,116**	**8,536**
Provision for impairment losses		(45,831)	(43,915)	(51,575)	(49,794)
Net gain from operations with securities		3,088	3,088	321	321
Net foreign exchange gain		2,714	2,715	2,401	2,402
Gain from disposal of assets		29	165	(299)	14
Other income		1,589	787	1,113	508
Administrative and other operating expenses		(31,398)	(28,572)	(34,749)	(31,713)
Operating profit (loss)		**(28,788)**	**(28,955)**	**(42,366)**	**(42,130)**
Dividends from investments in subsidiaries		-	-	4,877	6,377
Profit (loss) before income tax		**(28,788)**	**(28,955)**	**(37,489)**	**(35,753)**
Income tax expense		4,844	4,806	5,858	5,639
Profit (loss) for the year		**(23,944)**	**(24,149)**	**(31,631)**	**(30,114)**
Other comprehensive income					
Gain (loss) from revaluation of financial assets		599	599	1,467	1,467
Deferred income tax on gain (loss) from revaluation of financial assets		180	180	(197)	(197)
Other comprehensive income, net of tax		779	779	1,270	1,270
Total comprehensive income		**(23,165)**	**(23,370)**	**(30,361)**	**(28,844)**
(Loss) attributable to:					
Equity holders of the Bank		(23,944)	(24,149)	(31,631)	(30,114)
Non-controlling interest	25	-	-	-	-
		(23,944)	(24,149)	(31,631)	(30,114)
Total comprehensive (loss) attributable to:					
Equity holders of the Bank		(23,165)	(23,370)	(30,361)	(28,844)
Non-controlling interest		-	-	-	-
		(23,165)	(23,370)	(30,361)	(28,844)
Basic and diluted earnings (loss) per share (in LTL per share)		(0.12)	(0.12)	(0.18)	(0.17)

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

NOTE 35 FINANCIAL GROUP INFORMATION (CONTINUED)

STATEMENT OF CASH FLOWS

		Year ended			
		31 December 2010		31 December 2009	
	Notes	Fin. group	Bank	Fin.group	Bank
Operating activities					
Interest received		101,746	96,019	144,284	138,683
Interest paid		(78,390)	(78,296)	(110,093)	(109,370)
Fees and commissions received		12,127	12,325	12,588	12,935
Fees and commissions paid		(4,465)	(4,387)	(4,472)	(4,399)
Cash inflows from trade in trading securities		4,352	4,352	(268)	(268)
Net income from foreign exchange operations		2,731	2,732	2,615	2,616
Recoveries on loans previously written off		1,240	790	313	72
Salaries and related payments to and on behalf of employees		(16,735)	(15,590)	(19,132)	(17,809)
Other cash receipts, sale of assets		1,589	787	1,113	508
Other cash payments		(12,045)	(10,652)	(14,629)	(13,486)
Income tax paid		-	-	(2,646)	(2,627)
Net cash flow from operating activities before change in operating assets and liabilities		**12,150**	**8,080**	**9,673**	**6,855**
Change in operating assets and liabilities:					
(Increase)/decrease in trading securities		(77,066)	(77,066)	977	977
(Increase)/decrease in loans to credit and financial institutions		5,968	(1,375)	14,706	43,343
(Increase) in loans to customers		(106,097)	(102,253)	7,763	(16,592)
(Increase) in other current assets		(6,923)	(11,046)	6,869	5,673
Increase in liabilities					
Increase/(decrease) in liabilities to credit and financial institutions		36,847	45,828	(206,352)	(206,419)
Increase in deposits		143.584	143.584	263,366	263,366
Increase/(decrease) in special and lending funds		(3.281)	(3.281)	593	593
Increase/(decrease) in other liabilities		(1.351)	873	(2,383)	(201)
Change		**(8,319)**	**(4,736)**	**85,539**	**90,740**
Net cash flow from/ (used in) operating activities		**3,831**	**3,344**	**95,212**	**97,595**
Investing activities					
(Purchase) of tangible and intangible fixed assets		(4.005)	(2.190)	(3,392)	(3,209)
Disposal of tangible and intangible fixed assets		2.642	1.356	3,031	2,932
(Purchase) of held-to-maturity securities		(70.820)	(70.820)	(2,846)	(2,846)
Proceeds from redemption of held-to-maturity securities		14.220	14.220	6,816	6,816
Dividends received		68	68	5,082	6,582
(Purchase) of available-for-sale securities		(176.148)	(176.148)	(125,560)	(125,560)
Sale of available-for-sale securities		165.133	165.133	76,279	76,279
Repurchase of shares of subsidiary companies from non-controlling		(7.505)	(7.505)	(8,022)	(12,022)
Net cash flow used in investing activities		**(76.415)**	**(75.886)**	**(48,612)**	**(51,028)**
Financing activities					
Increase in share capital	27	7,800	7,800	-	-
Proceeds from convertable loan received from the shareholder	33	103,584	103,584		
Dividends paid		(2)	(2)	(1)	(1)
Debt securities in issue		20.134	20.134	40,387	40,387
Redemption of debt securities in issue		(19.228)	(19.228)	(61,229)	(61,229)
Net cash flow from financing activities		**112,288**	**112,288**	**(20,843)**	**(20,843)**
Net increase in cash and cash equivalents		**39.704**	**39.746**	**25,757**	**25,724**
Cash and cash equivalents at 1 January		**168.696**	**168.651**	**142,939**	**142,927**
Cash and cash equivalents at 31 December	10	**208.400**	**208.397**	**168,696**	**168,651**

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

NOTE 35 FINANCIAL GROUP INFORMATION (CONTINUED)

STATEMENT OF CHANGES IN EQUITY

		Share capital	Share premium	Reserve capital	Financial assets revaluation	Statutory reserve	Other reserves	Retained earnings	Total
31 December 2008		**180,358**	**45,681**	**2,611**	**(680)**	**3,505**	**-**	**53,098**	**284,573**
Formation of statutory reserve		-	-	-	-	2,576	-	(2,576)	-
Formation of other reserves		-	-	-	-	-	10,000	(10,000)	-
Total comprehensive income		-	-	-	1,270	-	-	(31,631)	(30,361)
31 December 2009		**180,358**	**45,681**	**2,611**	**590**	**6,081**	**10,000**	**8,891**	**254,212**
Formation of statutory reserve	27	-	-	-	-	441	-	(441)	-
Increase in share capital	27	24,500	980	-	-	-	-	-	25,480
Total comprehensive loss		-	-	-	779	-	-	(23,944)	(23,165)
31 December 2010		**204,858**	**46,661**	**2,611**	**1,369**	**6,522**	**10,000**	**(15,494)**	**256,527**

CONSOLIDATED ANNUAL REPORT OF ŠIAULIŲ BANKAS AB FOR 2010

Contents

1. Reporting period, for which the consolidated annual report has been prepared

This report of Šiaulių bankas AB has been prepared for the period from 1 January 2010 to 31 December 2010.

2. Contact information of the Bank

Name –Šiaulių bankas AB
Legal form – public limited liability company (Lithuanian: akcinė bendrovė, abbreviated as "AB")
Registration date – 4 February 1992
Registrar – State Enterprise Centre of Registers (Valstybės Įmonė Registrų Centras)
Company code – 112025254
Head Office – Tilžės St. 149, LT-76348 Šiauliai
Telephone: (8 41) 595 607
Fax (8 41) 430 774
E-mail info@sb.lt
Website www.sb.lt

3. The Bank's strategy

Šiaulių bankas' AB strategy is focused on the development and modernisation of banking services and based on partnership relations and corporate clients.

Vision

- Partner of small- and medium-sized business.
- Long-term relations with customers based on reliability.

Mission

- To encourage the development of small- and medium-sized business in the country.
- To finance municipal and regional projects.
- To become a reliable bank providing qualified services to customers and to strengthen market positions.

Values

- Attention to the customer.
- Prompt decision-making.
- Flexibility of services with their adjustment to specific customer needs.
- Accessibility of employees of all levels to customers; direct communication.
- Attention to market changes and focus on innovation.

Objectives

- Provision of effective and comprehensive service to the Bank's customers.
- To be a universal bank focused on complex provision of services to small- and medium-sized business and individuals.
- To develop the Bank's network and to expand the market share held by the Bank.

Šiaulių Bank seeks to be a partner not only in business, but also in public and cultural life, and provides support to culture and sport projects, local communities, and participates in charity events.

4. Character of the activities of the Bank

Šiaulių bankas is engaged in the activities of commercial banks. The Head Office of the Bank is located in Šiauliai. Šiaulių bankas was granted a licence of the Bank of Lithuania to perform all the Bank's operations, listed in the Law on Banks of the Republic of Lithuania. The major direction of Šiaulių bankas' activity is crediting. The Bank actively participates in the economic development programme implemented by the country by granting credits to SMEs, local authorities and natural persons. The priority area of Šiaulių bankas is financing of small- and medium-sized business.

In its activities, the Bank follows the laws and other legal acts of the Republic of Lithuania, the Statute of the Bank and agreements concluded. Šiaulių bankas is engaged in usual activity for commercial banks and provides the following services:
- accepts funds to customers' banking accounts and administers them;
- extends loans and intermediates in provision thereof (provides guarantees, issues money securities etc);
- issues credit cards, debit cards, installs and services ATMs;
- performs payment transactions with payment documents (cheques, letters of credit, bonds etc), intermediates in monetary transfers (inter-bank and travelers cheques);
- renders investment services;
- develops internet banking services;
- accepts valuables from customers for storage and rents safe cells in the Bank's depository for the storage of valuables and documents;
- intermediates in currency transactions;
- issues and administers credit monetary instruments;
- provides consultations on issues of banking activities, administration of financial and customers' investments etc.

As of 31 December 2010, AB Šiaulių bankas had 51 customer service divisions in 31 Lithuanian cities and towns. The network of Šiaulių bankas covered the main Lithuanian cities and financially active regional centres.

5. Šiaulių bankas group of companies

As of 31 December 2010 Šiaulių bankas AB had following subsidiaries:

Šiaulių banko lizingas UAB (hereinafter – Šiaulių banko lizingas):
- assets – LTL 124.20 million;
- character of activities: finance leases (leasing) and leases.

Šiaulių banko turto fondas UAB (hereinafter – Šiaulių banko turto fondas):
- assets – LTL 30.73 million;
- character of activities: real estate management activity.

Šiaulių banko investicijų valdymas UAB (hereinafter – Šiaulių banko investicijų valdymas):
- assets – LTL 44.61 million;
- character of activities: investment management activity.

SBTF UAB (hereinafter – SBTF):
- assets – LTL 40.60 million;
- character of activities: management and administration of liquid real estate and movable estate, ensuring and realization of current activity.

Minera UAB (hereinafter – Minera):
- assets – LTL 25.48 million;
- character of activities: management, development and realization of real estate projects, requiring long-term and additional investments.

Kėdainių oda UAB (hereinafter – Kėdainių oda)
- assets – 12.46

- character of activities: leather processing and production.

A share of Šiaulių bankas in the group of Bank's subsidiaries as of 31 December, 2010 is provided in the table.

Name of the enterprise	Share of the authorized capital owned by the Bank, per cent
Šiaulių banko lizingas UAB	100.00
Šiaulių banko investicijų valdymas UAB	100.00
Šiaulių banko turto fondas UAB	100.00
SBTF UAB	100.00
Minera UAB	100.00
Kėdainių oda UAB (managed indirectly through other subsidiary)	100.00

6. Contact information of the companies belonging to the Bank's Group

Šiaulių banko lizingas UAB

Legal form – private limited liability company (Lithuanian: uždaroji akcinė bendrovė; abbreviated as "UAB")
Registration date – 16 August 1999
Registrar – State Enterprise Centre of Registers
Company code – 145569548
Head Office – Vilniaus St. 167, LT-76352 Šiauliai
Telephones: (8 41) 420 855, 502 990
Fax: (8 41) 423 437
E-mail: lizingas@sb.lt
Website: www.sblizingas.lt

Šiaulių banko turto fondas UAB

Legal form – private limited liability company
Registration date – 13 August 2002
Registrar – State Enterprise Centre of Registers
Company code – 145855439
Head Office – Vilniaus St. 167, LT-76352 Šiauliai
Telephone: (8 41) 525 322
Fax: (8 41) 525 321
E-mail: turtofondas@sb.lt
Website: www.sbturtofondas.lt

Šiaulių banko investicijų valdymas UAB

Legal form – private limited liability company
Registration date – 31 August 2000
Registrar – State Enterprise Centre of Registers
Company code – 145649065
Head Office – Vilniaus St. 167, LT-76352 Šiauliai
Telephone: (8 41) 429 227
Fax: (8 41) 525 285
E-mail: valdymas@sb.lt
Website: www.sbiv.lt

SBTF UAB

Legal form – private limited liability company
Registration date – 24 November 2004

Registrar – State Enterprise Centre of Registers
Company code – 300069309
Head Office – Vilniaus St. 167, LT-76352 Šiauliai
Telephone: (8 41) 525 322
Fax: (8 41) 525 321
E-mail: z.kilciauskiene@sb.lt

⏭ Minera UAB

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

⏭ Kėdainių oda UAB

Legal form – private limited liability company
Registration date – 29 October 2008
Registrar – State Enterprise Centre of Registers
Company code –302190537
Head Office – Biochemikų St. 7, LT-57234 Kėdainiai
Telephone: (8 347) 55 089
Fax: (8 347) 55 857

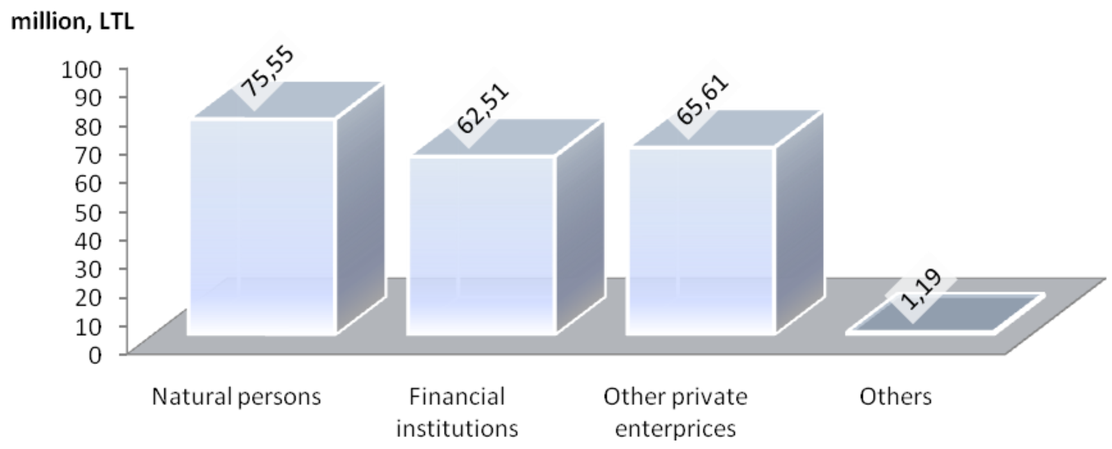
7. Involvement in associated structures

Organisations, associations, and associated structures in the activities of which Šiaulių bankas participates:

- Association of Lithuanian Banks;
- Šiauliai Chamber of Commerce, Industry and Crafts;
- Šiauliai Association of Industrialists;
- Association of Lithuanian Financial Brokers;
- Vilnius Stock Exchange – AB NASDAQ OMX Vilnius;
- Lithuanian business confederation ICC Lithuania;
- Lithuanian Business Employers' Confederation;
- S.W.I.F.T. Association;
- VISA Europe;
- MasterCard Worldwide
- UN International Initiative – Global Compact – voluntary company social responsibility initiative.

8. Authorised capital; shareholders of the Bank

As of 22 June 2010, the authorised capital of Šiaulių bankas was LTL 204 857 533. 70.88 per cent of the authorised capital of Šiaulių bankas belongs to companies registered in Lithuania and individuals. The major shareholder of the Bank is the European Bank for Reconstruction and Development (EBRD), which controls 22.44 per cent of the shares.



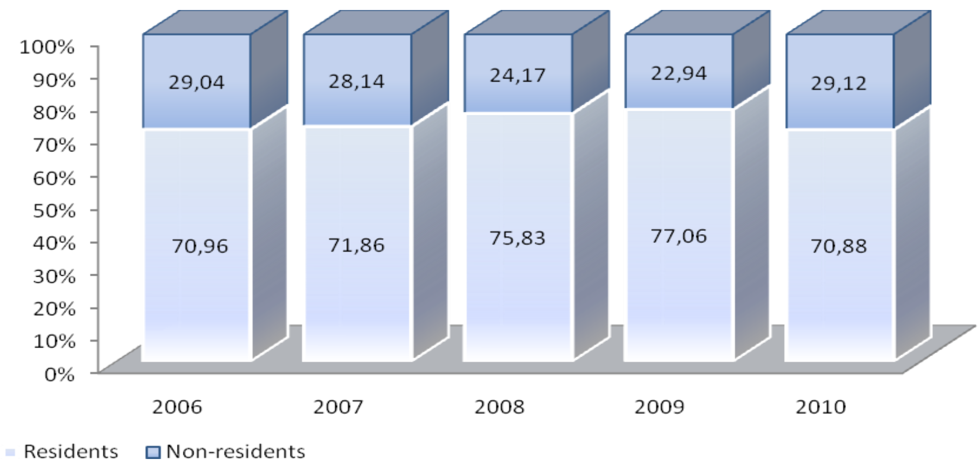
Distribution of the authorised capital by types of shareholders (million, LTL)

In total, during the last five years the authorised capital of the Bank was increased by LTL 130.1 million: LTL 89.5 million from additional contributions of the shareholders and LTL 40.6 million from the Bank's funds.

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

Type of shares	Number of shares, units	Nominal value, LTL	Total nominal value, LTL
Ordinary registered shares, ISIN LT0000102253	204 857 533	1	204 857 533

As of 31 December 2010, Šiaulių bankas had 3 601 shareholders (In the same period of 2009 - 3.525). All issued shares grant shareholders equal rights provided for in the Law on Companies of the Republic of Lithuania and the Statute of the Bank.



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

The shareholders of the Bank have the following property rights:

⏭ to receive a share of the Bank's profit (dividend);

⏭ to receive a share of the assets of the bank being liquidated;

⏭ to receive shares free of charge if the authorised 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 authorise 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 authorised capital and (or) voting rights of the Bank: in case of the raise of the authorised capital of the Bank – from the date of registration of the changes related to the raise of the authorised capital and (or) voting rights of the Bank; in other cases – from the emergence of the property right to the share of the authorised capital and (or) voting rights of the Bank.

The shareholders of the Bank who owned more than 5 per cent of the authorised capital of the Bank as of 31 December 2010 are as follows:

No	Shareholder	Number of shares held on the right of ownership, units	Share of the authorised capital held on the right of ownership, %	Share of votes held on the right of ownership, %	Share of votes held together with the related persons, %
1.	The European Bank for Reconstruction and Development (EBRD); address: One Exchange Square, London, Great Britain	45 965 344	22.44	22.44	48.26
2.	Gintaras Kateiva	14 710 214	7.18	7.18	48.26
3.	Algirdas Butkus	10 590 328	5.17	5.17	48.26

Sixteen shareholders of Šiaulių bankas including the European Bank for Reconstruction and Development, Prekybos Namai Aiva UAB, Mintaka UAB, Įmonių Grupė Alita AB, Algirdas

Butkus, Gintaras Kateiva, Arvydas Salda, Kastytis Jonas Vyšniauskas, Sigitas Baguckas, Vigintas Butkus, Vytautas Junevičius, Justas Baguckas, Vita Adomaitytė, Jonas Bartkus, Daiva Kiburienė and Donatas Savickas form a group which has a permit of the Bank of Lithuania to acquire a qualified share of the authorised capital and votes of the Bank equal to and exceeding 50 per cent. As of 31 December 2010, this group possessed 48.26 per cent of the authorised 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 of the Republic of Lithuania and the Statute of the Bank.

The shareholders who have special control rights and descriptions of those rights. The shareholders control the Bank through the elected Supervisory Board. Its functions are stipulated by the Law on Companies of the Republic of Lithuania.

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 patronising the shareholder when the shareholder is a legal entity.

The person or persons acting jointly, having decided to acquire a qualified share of the authorised capital and (or) voting rights of the Bank or to raise it to such extent that the available share of the authorised 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 supervisory authority of the Bank of Lithuania specifying the qualified share of the authorised 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 of the Republic of Lithuania. 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 authorised 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 2010, 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 authorised 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.

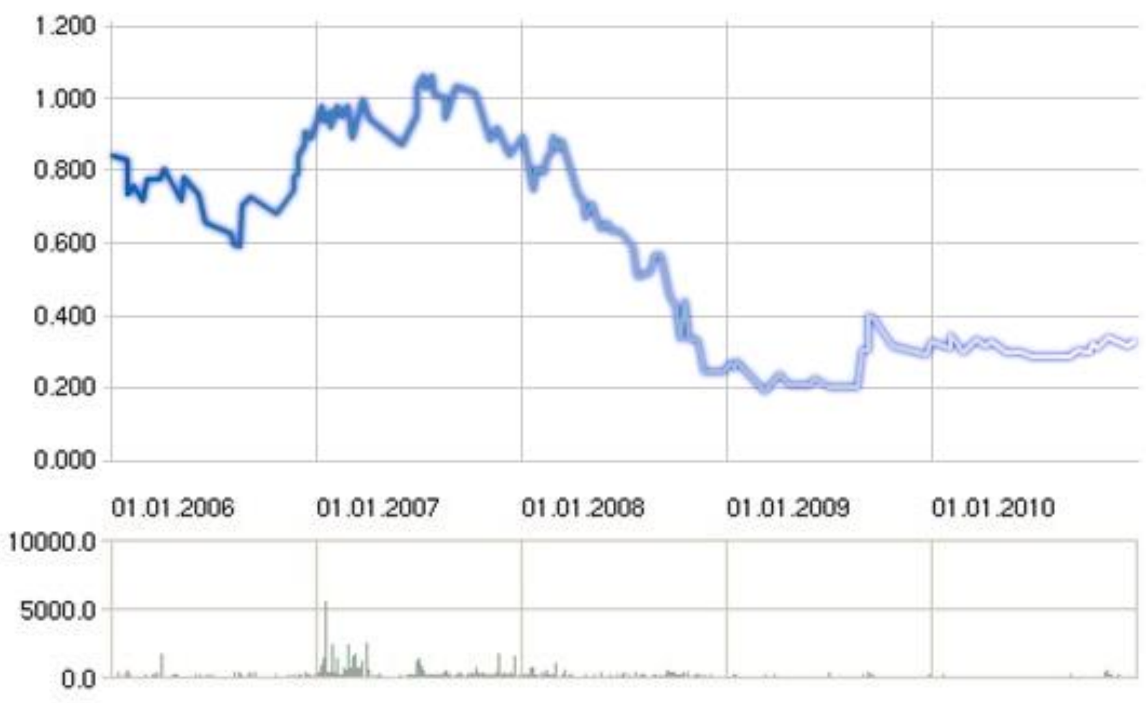
Pursuant to the Law on Corporate Income Tax of the Republic of Lithuania, the profit of Lithuanian legal entities received from securities sold shall be subject to the tax on profit of 15 per cent from the income from an increase in the value of the assets. The income from an increase in the value of 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. A loss can be carried over for five tax periods. Later on loss can not be carried over.

9. Trade in shares of the companies of the Bank's group in regulated markets

In the official trading list of AB NASDAQ OMX Vilnius, only the shares of Šiaulių bankas AB are quoted. ISIN code LT0000102253; the number of shares: 204 857 533. Shares of the Bank's subsidiary companies are issued for non-public circulation.

Shares issued by Šiaulių bankas AB are included in the comparative index of the OMX Baltic states securities market OMX Baltic Benchmark, which comprises shares of the highest capitalisation 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 Dow Jones STOXX Eastern Europe TMI, Dow Jones STOXX Eastern Europe TMI Small, and Dow Jones STOXX EU Enlarged TMI.

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

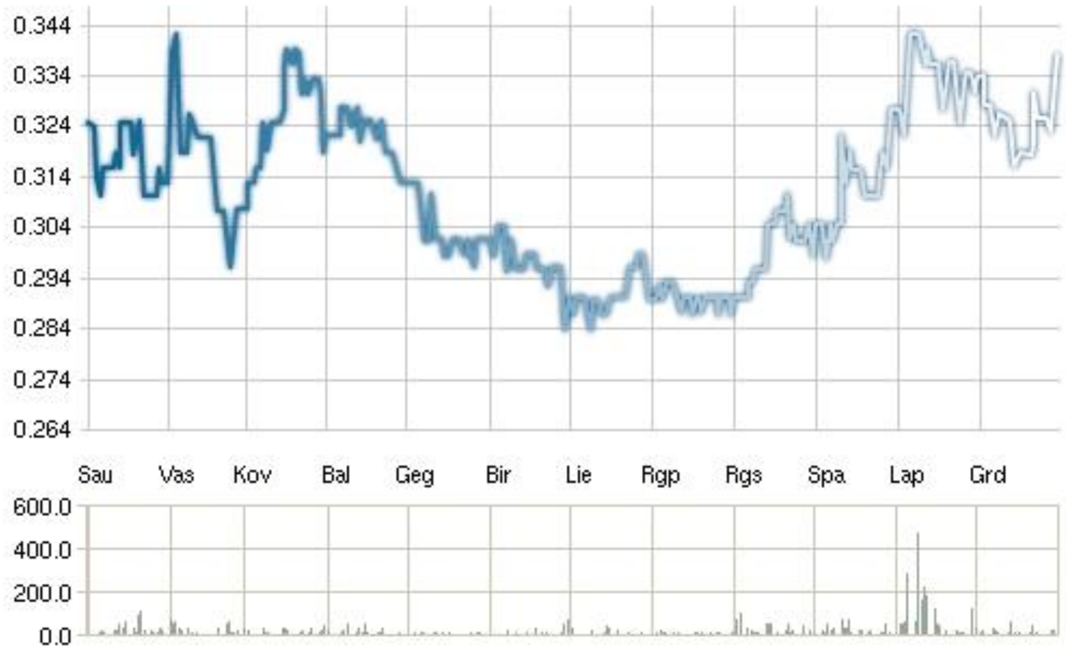


Share price movement, 2006-2010
Source: AB NASDAQ OMX Vilnius website
http://www.nasdaqomxbaltic.com/market/?instrument=LT0000102253&list=2&pg=details&tab=historical&lang=lt&currency=0&downloadcsv=0&date=&start_d=1&start_m=1&start_y=2006&end_d=31&end_m=12&end_y=2010

Turnover of shares during the period of 2007-2010:

Year	Price of the last trading session, EUR	Maximum price, EUR	Minimum price, EUR	Amount of shares, units	Turnover, million EUR
2006	1.129	1.135	0.846	8 898 992	3.89
2007	0.999	1.245	0.936	63 592 580	71.25
2008	0.269	0.235	1.014	41 718 397	24.33
2009	0.324	0.446	0.180	20 746 641	5.54
2010	0.337	0.345	0.264	17 784 012	5.65

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



Change of the price of the Bank's shares and turnover in 2010
Source: AB NASDAQ OMX Vilnius website
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=2010&end_d=31&end_m=12&end_y=2010

Below, the OMX Vilnius index, OMX Baltic Benchmark, and Šiaulių bankas AB share price change charts for 2010 are provided.

Data of the chart:

Index/Shares	01-01-2010	31-12-2010	+/-, %
OMX Baltic Benchmark GI	314.42	533.9342	69.83
OMX Vilnius	261.77	409.65	56.49
SAB1L	0.32 EUR	0.34 EUR	3.89

Source: AB NASDAQ OMX Vilnius website
http://www.nasdaqomxbaltic.com/market/?pg=charts&lang=lt&idx_main%5B%5D=OMXBBGI&idx_main%5B%5D=OMXV&add_index=OMXBBPI&add_equity=LT0000128266&idx_equity%5B%5D=LT0000102253&period=other&start_d=1&start_m=1&start_y=2010&end_d=31&end_m=12&end_y=2010

Šiaulių bankas' share capitalisation was LTL 238.37 million (EUR 69.04 million) on 31 December 2010 and amounted to LTL 202 million (EUR 58.50) on 31 December 2009.

The capitalisation of shares of Šiaulių bankas and AB NASDAQ OMX Vilnius trading list as of the last trading day of 2009 and 2010 are as follows:

Baltic share list	30-12-2009	30-12-2010	Change
SAB1L	EUR 58 503 370,59	EUR 69 036 988,62	+18.01%
Vilnius market, total	EUR 3 219 512 569,74	EUR 4 219 761 406,81	+31.07%

Source: AB NASDAQ OMX Vilnius website
http://www.nasdaqomxbaltic.com/market/?pg=capital&currency=0&market=XVSE&stocktype%5B%5D=main&period=other&start_d=1&start_m=1&start_y=2010&end_d=31&end_m=12&end_y=2010

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

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

In 2010, two bond issues of the Bank were controlled in the debt securities list of AB NASDAX OMX Vilnius:

- the issue LT1000401299; amount – EUR 41 187; nominal value – EUR 100, interest rate - 5 per cent; issue is redeemed on 2 December 2010. No transactions in these securities were concluded;
- the issue LT1000401240; amount of the issue – EUR 12 198; nominal value – EUR 100, interest rate – 7.8 per cent. Issue is redeemed on 15 July 2010. No transactions in these securities were concluded during the reporting period.

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

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

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

Šiaulių bankas AB has an agreement with Ūkio bankas AB regarding protection of the interests of the owners of bonds issued by the Bank, redeemed in 2010.

11. 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 Šiaulių bankas AB. The Bank has not acquired its own shares and has not transferred them to other entities.

12. Information on the execution of all the standards limiting the Bank's operational risk

In 2010, Šiaulių bankas executed all the standards limiting the operational risk stipulated by the Bank of Lithuania. Information about their implementation is listed in part 15 of this report.

13. Risk management

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

The risk management policy is approved by the Board of the Bank. The procedures for the management of various types of risks prepared on the basis of the policy help to ensure the integrity of the risk management process throughout the group of the Bank. Since various risks encountered by the group of the Bank are interdependent, their management is centralised. One of the main objectives of the Bank's Risk Management Committee is the establishment and coordination of an appropriate risk management system.

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

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.

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.

14. Ratings assigned by international agencies and their revisions

On 26 June 2009, the international rating agency Moody's Investors Service determined the following revised ratings for Šiaulių bankas AB:

⏭ long-term credit rating	Ba3
⏭ short-term credit rating	NP
⏭ financial strength rating	D
⏭ outlook	negative.

15. Information about activity results

Although the economy of Lithuania was further affected by the recession in 2010, but the activity results of Šiaulių bankas and Šiaulių bankas' Group reflected marginal general recovery tendencies of national economy during the reporting period.

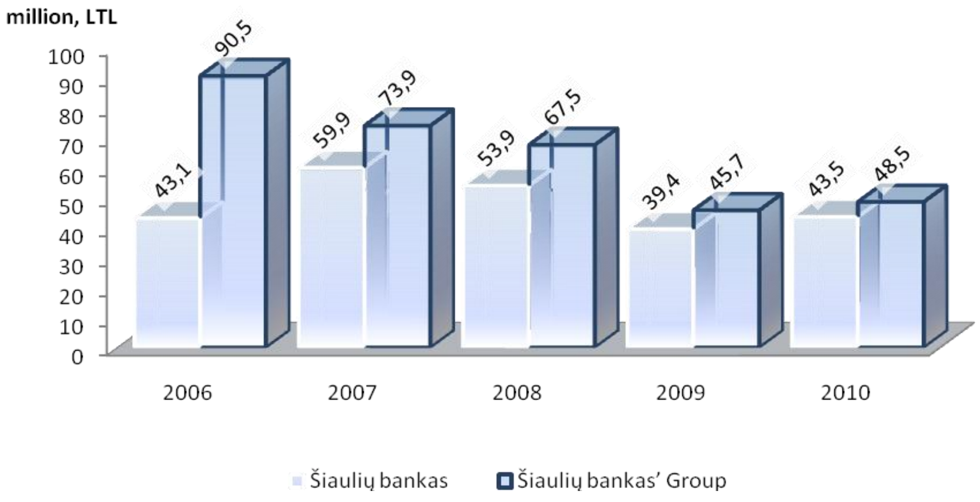
Šiaulių bankas earned LTL 15 million operating profit in 2010, i.e. by almost twice as much compared with 2009, when operating result totaled LTL 7.7 million (having eliminated dividends paid by subsidiaries to the Bank, profit tax and special provisions).

The most important Bank's operating income – net interest income – were growing gradually growing each quarter of 2010. Although in line with the conservative crediting policy and with the marginal increase of loan portfolio, the Bank received by 23.6 (LTL 107.38 million) per cent less of interest income within 2010 compared with 2009; however, with the noticeable decrease of deposit interest rate in the market, interest costs were further decreasing and comprised LTL 78.54 million in 2010 (i.e. by 30.4 per cent less than in 2009). At the end of reporting year 78.4 per cent of interest income was comprised of income for the loans granted to customers – it is by 6 percentage points less than in 2009. In 2010 net interest income of the Bank totaled LTL 28.84 million or was by 4.5 per cent bigger comparing with the year before. This income comprised 66.2 per cent of total operating income of the Bank and was in particular growing during the last quarter of 2010.

Net interest and commission income decreased by 7 per cent over the last year and comprised LTL 7.94 million; this fall was influenced by the decrease of the clients' activity and number of transactions. However, other and financial operations income grew by almost twice as much to LTL 6.76 million. In 2010 the Bank increased income from trade in debt securities due to the favorable price changes, i.e. during the reporting period the Bank earned a profit from securities in the amount of more than LTL 3 million. In 2010 the Bank's profit from changes in currency exchange rates comprised almost LTL 2.72 million. At the end of reporting year the Bank issued more than 43.3 thou of payment cards: their number changed insignificantly within a year, i.e. since the end of 2009 till the end of 2010 a number of payment cards decreased by 2 percentage points.

A number of payment orders to other banks registered in Lithuania executed via SB linija comparing with the total number of payment orders of this type executed in the Bank increased in 2010 and at the end of the year comprised 89 per cent of total payments.

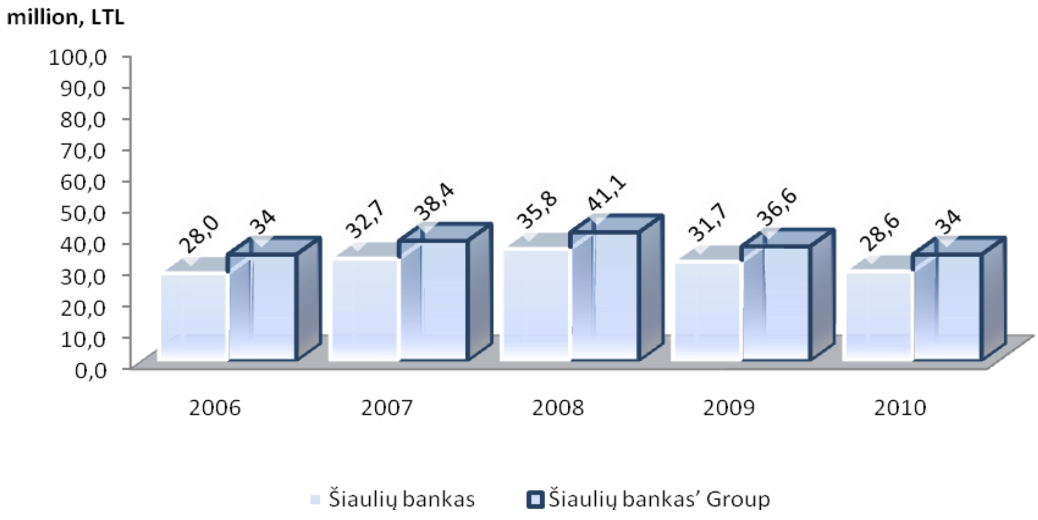
In 2010 total Bank's operating income increased by one tenth and totaled LTL 43.53 million (LTL 39.38 million in 2009).



Total operating income of Šiaulių bankas and Šiaulių bankas' Group, 2006-2010 (in LTL million).

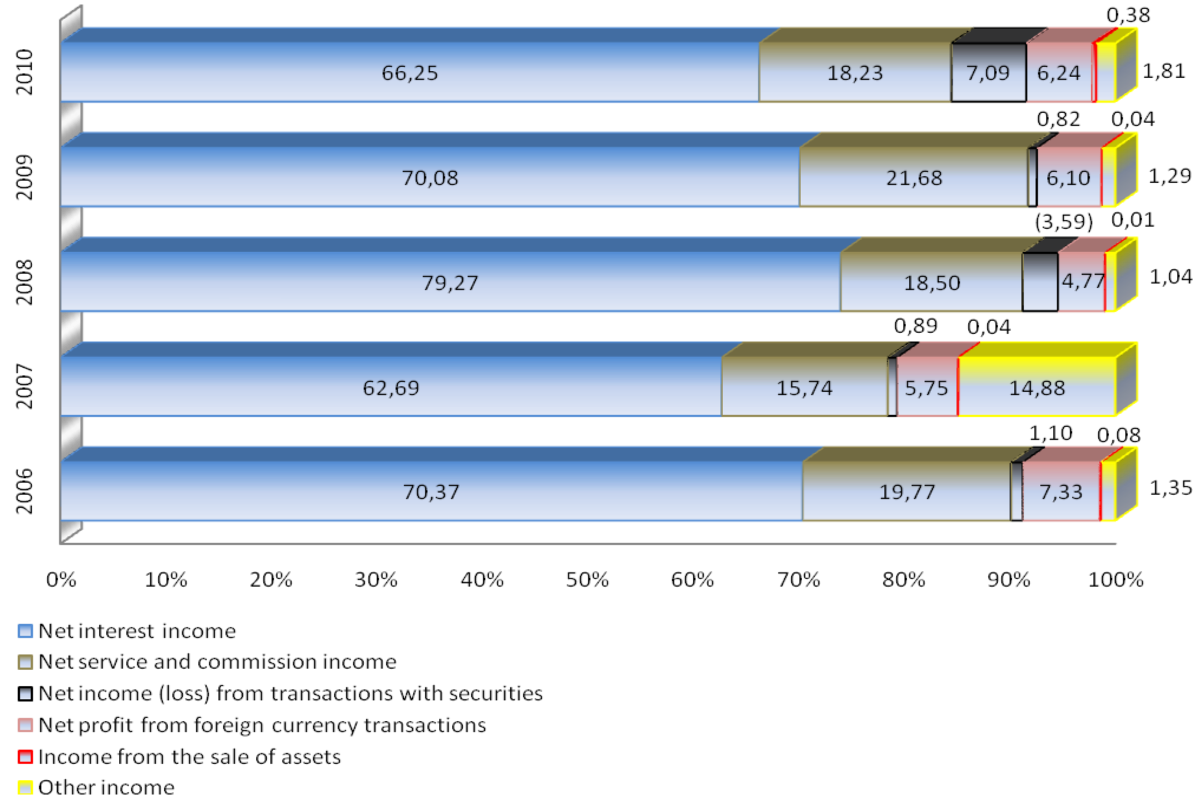
According to the data as of 31 December 2010 net interest income of Šiaulių bankas' Group comprised LTL 31.80 million, a year before this income was by LTL 2.60 million less and totaled LTL 29.20 million. Total operating income of the Bank's Group amounted to LTL 48.51 million at the end of reporting period, i.e. grew by 6.1 per cent.

In 2010 Šiaulių bankas paid particular attention to the operational efficiency. Strict management of operating costs allowed reducing operating costs by 10 per cent, which comprised LTL 28.57 million at the end of the year. All the items related with the operating costs were decreasing, in the most extent – personnel. Personnel costs decreased by 8.3 per cent within a year, i.e. by LTL 1.39 million. Amortization and depreciation of other costs, to which operating costs are attached, as well as other operational costs of the Bank reduced by 11.8 per cent.

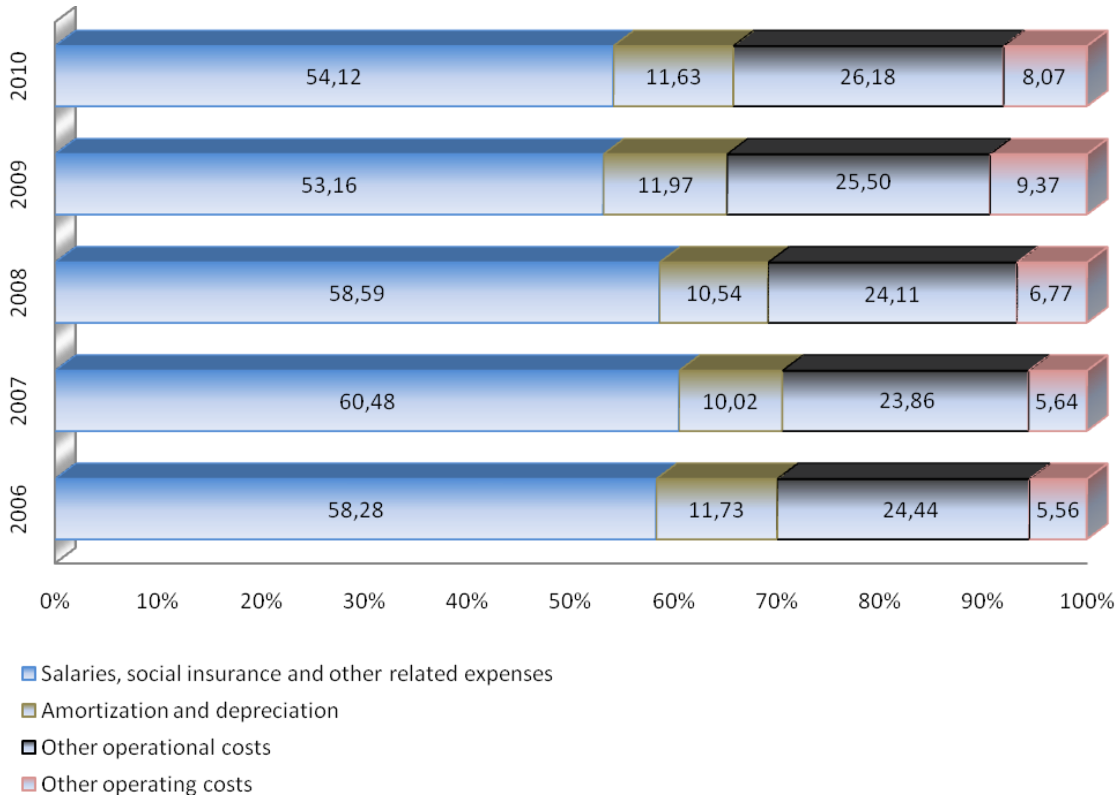


Operating costs of Šiaulių bankas and Šiaulių bankas' Group, 2006-2010 (in LTL million).

The structure of the main operating income and operating costs of Šiaulių bankas remained similar to the previous years. Further two graphs show the change of Šiaulių bankas' operating income and costs within the last five years in per cent.



The structure of operating income of Šiaulių bankas, 2006-2010 (per cent)



The structure of operating costs of Šiaulių bankas, 2006-2010 (per cent)

During the reporting year with the increase of income and decrease of costs the Bank’s efficiency indicator improved by almost 12 percentage points, i.e. costs/income ratio fell from 75.71 per cent to 63.78 per cent.

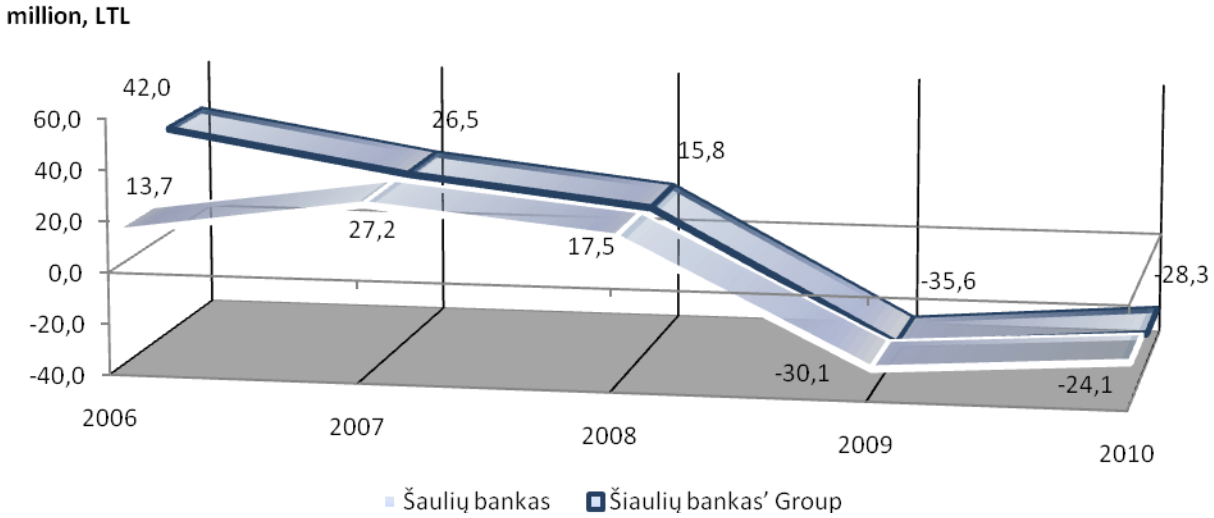
Costs/income ratio, %

	2006	2007	2008	2009	2010
Bank	63,56	47,63	55,59	75,71	63,78
Financial group	63,60	47,99	56,73	71,81	62,77
Entire group	37,35	49,94	59,27	78,42	67,85

As in 2009, during the reporting year volumes of loans impairment remained high enough in Šiaulių bankas: within 2010 special provisions of LTL 43.92 million were formed (in 2009 – LTL 49.79 million). Special provisions expenses influenced negative financial operating result of the Bank: Šiaulių bankas ended 2010 with LTL 24.15 million net loss. Incurred loss was by fifth less than in 2009: at that time it totaled LTL 30.11 million.

The main reason of the worsening of Šiaulių bankas' Group and Šiaulių bankas' activity financial results remained formation of special provisions to bad loans. Although it was decreasing within the reporting year, while the operating income of the Bank's Group was increasing, however, it was not enough for the positive financial result of the Group. Šiaulių bankas' Group incurred a loss of LTL 28.29 million during 2010. The final result of the Group was influenced by special provisions, which expenditures totaled LTL 46.03 million in 2010. A loss of Šiaulių bankas' Group having formed special provisions of LTL 50.44 million comprised LTL 35.55 million in 2009, i.e. by LTL 7.26 million bigger than in 2010.

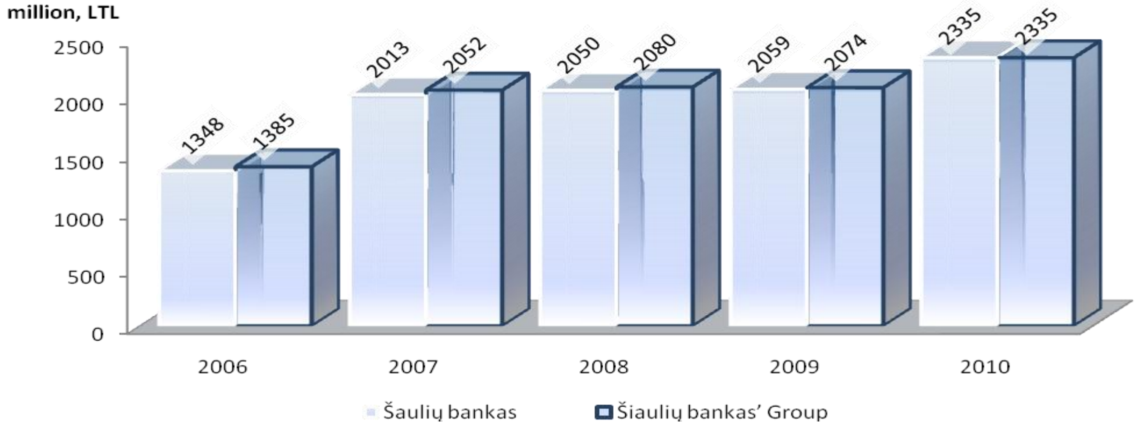
As of March 2010 the Bank acquired 100 per cent of authorised capital and votes of SBTF UAB as well as 100 per cent of authorised capital and votes of Minera UAB. The acquired enterprises to date belonged to the subsidiaries of the Bank; they are engaged in real estate management. Two subsidiaries of the whole Šiaulių bankas' Group finished the year in profit: Šiaulių banko lizingas earned a profit in the amount of LTL 0.21 million and SBTF earned 0.02 million LTL in profit. The rest subsidiaries of the Bank finished the year with loss: the loss of Šiaulių banko investicijų valdymas amounted to LTL 1.5 million, Šiaulių banko turto fondas – LTL 0.9 million and Minera – LTL 0.25 million.



Net profit (loss) of Šiaulių bankas and Šiaulių bankas' Group, 2006-2010 (in LTL million)

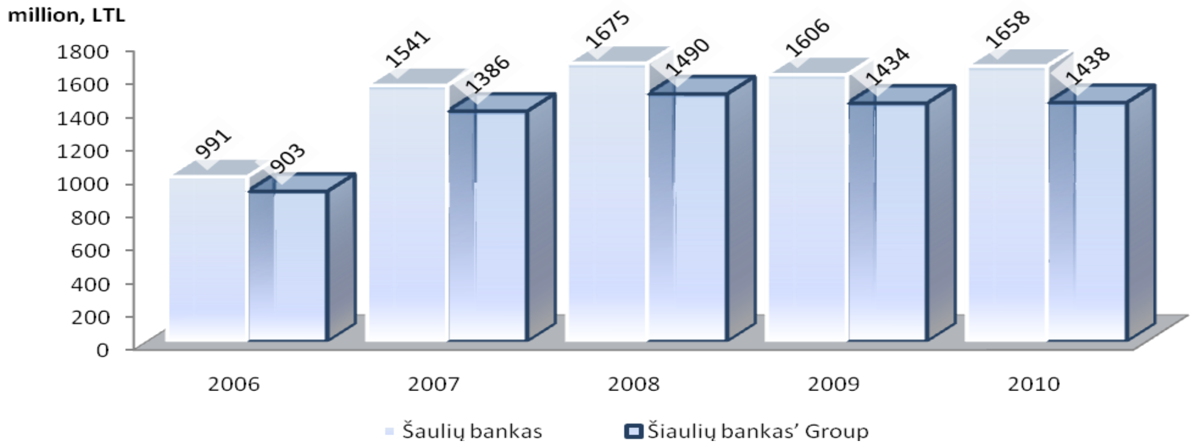
The assets of Šiaulių bankas grew by 13.4 per cent to LTL 2 334.65 million over the year, while, the assets of the whole banking sector decreased by 3 per cent. The growth of assets of Šiaulių bankas was influenced not by the loan portfolio comprising the largest part but by the investment into liquid assets. Strengthening a base of liquid assets, the Bank was increasing securities portfolio during 2010, which increased even by 74.4 per cent over the year – to LTL 375.42 million.

At the end of reporting year the assets of Šiaulių bankas' Group in the amount of LTL 2 334.61 million were by 12.6 per cent bigger comparing with the end of 2009.



Assets of Šiaulių bankas and Šiaulių bankas' Group, 2006-2010 (in LTL million)

The major part of the Banks assets was comprised of loans – 71 per cent. Despite of the fact that in 2010 unemployment level remained high, a part of enterprises ceased their activity, credit risk of debtors remained high and the loan portfolio of the whole banking sector was decreasing by 5.2 per cent, Šiaulių bankas was improving business conditions to its customers and increasing lending volumes. An increasing number of customers wishing to borrow was observed in 2010. Within 2010 the loan portfolio grew by 3.2 per cent, i.e. LTL 52 million and at the end of the year comprised LTL 1 657.61 million, in spite of reduction of loan portfolio in the total assets of the Bank by almost 7 per cent. The biggest portion of the loan portfolio comprises loans to corporate clients, i.e. legal entities: a portion of loans to legal entities in the total loan portfolio grew by 2.3 percentage points. Special provisions/loan portfolio ratio of the Bank comprised 4.49 per cent (2.45 per cent in 2009). Within the reporting year residents' loan portfolio decreased by 14 per cent to LTL 191 million in the Bank, while loans share to residents in the total loan portfolio of the Bank decreased: at the end of the year it comprised 11.5 per cent (13.9 per cent in the same period of 2009).

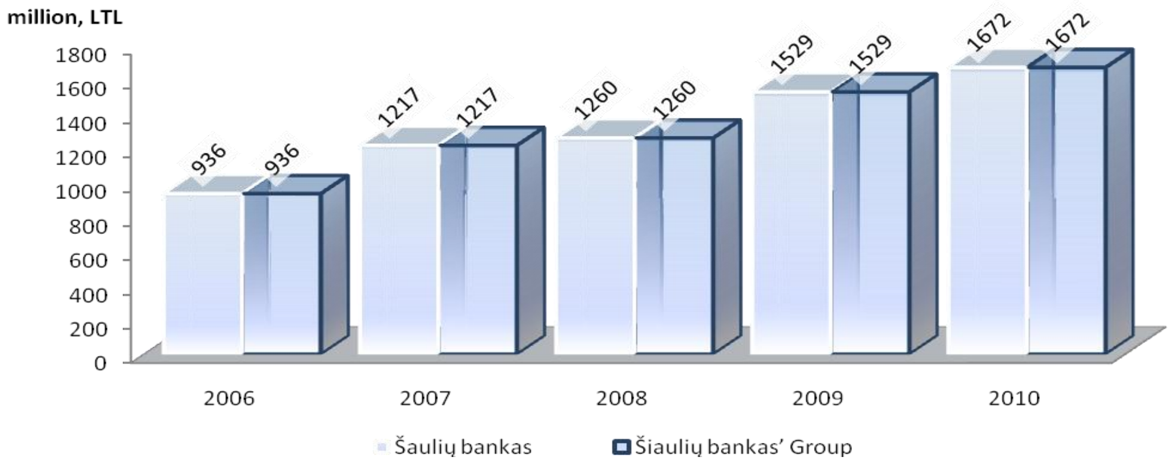


Loan portfolio of Šiaulių bankas and Šiaulių bankas' Group, 2006-2010 (in LTL million)

Šiaulių bankas by strengthening its positions as a financial partner of SMEs, was successfully participating in the economy stimulation programmes initiated by the Government of the Republic of Lithuania and expanding cooperation with international financial institutions. In 2010 the Bank signed a cooperation agreement with the European Investment Fund (EIF) and started implementation of a modern financial engineering instrument in Lithuania under the JEREMIE initiative, i.e. provision of shared-risk loans to SMEs. It is received EUR 5 million from EIF intended for crediting of small and medium-sized businesses in Lithuania. In the same year the Bank also became the first financial partner of the European Investment Bank (EIB) in Lithuania: a first agreement was signed regarding the financing of renovation programme of multi-apartment buildings using JESSICA financial instrument. Pursuant to the terms of agreement for renovation of multi-apartment buildings Šiaulių bankas will provide the loans for a total amount of EUR 6 million (over LTL 20 million). At the end of reporting year a second agreement regarding LTL 15 million (more than LTL 51 million) was concluded with the EIB, intented for the investments in energy efficiency improvement measures in multi-apartment buildings.

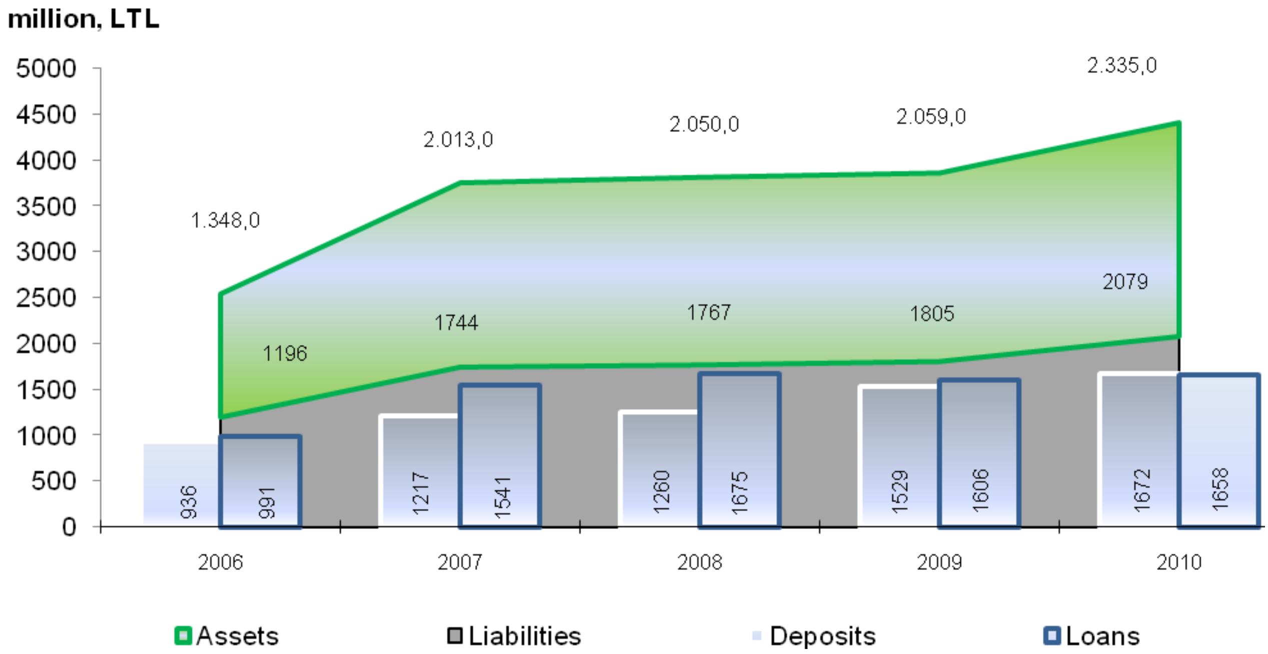
In 2010 the Bank used credit lines and loans previously granted by the European Bank for Reconstruction and Development (EBRD), World Bank, Public Institution Central Project Management Agency, Public Institution of Lithuanian Environmental and Investment Fund, KfW Bankengruppe and Nordic Investment Bank as well as by the Council of Europe Development Bank. It also used loans for crediting of SME from Investicijų ir verslo garantijos UAB and for crediting of agricultural sector from the Loan Fund, which is managed by the Rural credit Guarantee Fund.

In 2010 Šiaulių bankas succeeded to attract a number of residents’ savings in the domestic market: the amount of deposits held in the Bank increased. Within a year deposits of customers increased by 9.4 per cent to LTL 1 672,39 million. Deposits of residents grew by 6.1 per cent to LTL 1 118.92 million. However, a portion of deposits of individuals in the total deposit portfolio was reduced from 69 per cent at the end of 2009 to 66.9 per cent in 2010. Residents held their funds in the Bank mostly in the form of time deposits. Deposits of corporate clients increased by 16.8 per cent over 2010: their portion in the total deposit portfolio totaled 33.1 per cent at the end of 2010 (31 per cent in 2009). A change of deposits reflects that during the analysed period economy was influenced by the positive change, general financial situation of the country started improving and public confidence in banks was strengthened.



Deposits of Šiaulių bankas and Šiaulių bankas’ Group, 2006-2010 (in LTL million)

In the reporting year liabilities of Šiaulių bankas’ Group comprised LTL 2 083.43 million, Šiaulių bankas’ – LTL 2 078.51 million: annual growth was 14.5 and 15.1 respectively.



Changes of the Bank's assets, liabilities, deposits and credits granted to customers, 2006-2010 (in LTL million)

The main fianancial ratios describing the Bank's profitability of the activities – assets return (ROAA) and equity return (ROAE).

	Profitability ratios	2006	2007	2008	2009	2010
Bank	ROAA, % ROAE, %	1,14 11,26	1,62 12,92	0,86 6,34	-1,47 -11,22	-1,10 -9,47
Financial group	ROAA, % ROAE, %	1,15 11,53	1,64 13,08	0,84 6,22	-1,53 -11,74	-1,09 -9,38
Entire group	ROAA, % ROAE, %	1,86 17,50	1,42 10,93	0,65 4,64	-1,71 -12,96	-1,28 -11,20

Due to the loss-making activities assets return ratios of Šiaulių bankas and Šiaulių bankas' Group remained negative in reporting period, but they were improving. Assets return of Šiaulių bankas from the lowest position within the whole period of its activity (negative 1.47 per cent), which was recorded in 2009, slightly grew to negative 1.10 per cent in 2010. ROAA of Šiaulių bankas' Group increased from negative 1.71 per cent to negative 1.28 per cent. The improvement of the ratio means that a part of more profitable assets was increased, while negative value shows that large number of special provisions continued to be formed intended to cover bad loans.

Equity return ratio (ROAE) comparing with 2009 also changed: ratio of Šiaulių bankas improved by 1.75 percentage points and comprised 9.47 per cent; equity return of Šiaulių bankas' Group was negative 11.20 per cent.

Authorized capital of Šiaulių bankas was increased by LTL 24.5 million by issuing a new share issue, which was redeemed by the European Bank for Reconstruction and Development (EBRD) and other major shareholders of the Bank. At the end of the reporting year the authorized capital of the Bank comprised LTL 204.86 million. The major shareholder of Šiaulių bankas, the European Bank for Reconstruction and Development (EBRD) owned 22.44 per cent of total shares of the Bank, companies registered in Lithuania and individuals – 70.88 per cent of the authorized capital of the Bank.

Capital adequacy ratio was 14.06 per cent. The Bank's liquidity remained strong and comprised 46 per cent.

	Prudential requirements limiting the activity risk	2006	2007	2008	2009	2010
Bank	Capital adequacy, % (> 8%) Liquidity, % (>30%) Maximum loan per borrower, % (<25%) Big exposure standard, % (< 800%) General open position in foreign currency, %(<25%)	13,73 40,74 17,37 240,20 1,39	15,07 44,03 13,29 156,99 1,40	15,08 38,75 21,30 166,20 0,41	13,90 38,23 24,56 198,85 0,31	14,06 46,00 21,68 391,24 0,55
Financial group	Capital adequacy, % (> 8%) Maximum loan per borrower, % (<25%) Big exposure standard, % (< 800%) General open position in foreign currency, % (<25%)	13,70 18,14 195,32 1,37	14,33 13,88 115,98 1,39	15,19 21,12 111,86 1,30	13,90 24,38 152,08 0,31	14,17 21,50 341,23 0,54
Entire group	Capital adequacy, % General open position in foreign currency, %	13,80 1,34	14,62 1,32	15,21 1,26	13,90 0,31	13,92 0,55

In 2010 the efficiency of the available client service centers as well as branches was evaluated; uneconomic outlet in Nida was closed. As of 31 December 2010 Šiaulių bankas had 51 territorial outlets operating in 31 towns and cities of Lithuania. At the end of the year 481 employees were working in Šiaulių bankas and its branches. 545 employees of the Bank's Group were working there.

The main clients of the Bank are private persons and business representatives using services rendered by the Bank as well as performing different financial operations. The number of customers of Šiaulių bankas was slightly growing within the analyzed period. A big growth of corporate clients was recorded: their number increased by almost 6 per cent within a year. At the end of reporting year Šiaulių bankas serviced 128.4 thousand of customers.

A number of customers using Internet banking exceeded 46 thousand during the analyzed period, i.e. the number of clients increased by 18.4 per cent within a year.

A number of e-trading partners was increased: at the end of 2010 a network of Internet shops possessed by the Bank included 65 shops. This list of partners Šiaulių bankas is expanding intensively and supplementing it with the newest and most popular Internet shops.

After "Metasite Business Solutions" performed the analysis of electronic banking services of the Banks of Baltic countries, the results shows that SB linija of Šiaulių bankas was ranked 5th according to functionality among the 12 Banks operating in Lithuania with the electronic banking services.

In 2010 Šiaulių bankas successfully completed projects regarding the eligibility of "Visa" and "MasterCard" with the new technological requirements and starting from the second half of 2010 started issuing of the safest cards corresponding to the standard of EMV DDA. Seeking to optimize settlements by payment cards, the process of performance of operations with cards was changed, i.e. it was shifted to the performance of operations in the banking system in a real time in the Bank's outlets and it was also refused of additional cards servicing equipment (POS terminals): it was aimed to decrease the Bank's expenses.

In 2010 the renovation process of ATM's according to the new EMV standards ("Europay", "MasterCard" and "Visa") was started. A number of ATM was increased to 36 units within 2010.

16. Activity plans, development and prognosis

Stabilisation of business environment of the country and improving financial indexes of a part of companies strengthens a belief in economic recovery; however, residents and business entities quite often face difficulties of compliance with financial commitments. Thus, Šiaulių bankas and other enterprises of the Bank's Group will closely cooperate with customers, consult them, will offer actual and clear financial decisions as well as will react in each particular moment to every particular situation in order to ensure a further successful growth, expansion of provided services and improvement of their quality.

In 2011 the activity of Šiaulių bankas and Šiaulių bankas' Group will be based on the principle of cost effectiveness, a big attention will be paid towards the risk management; risk management system will be continued developing, which would allow to achieve optimum risk/profit ratio.

Šiaulių bankas seeking to finance as large a number of different projects as possible and to contribute towards the faster growth of the country's economy, will continue expanding attraction opportunities of international financial institutions.

The main highlights of subsequent year:

- strengthening of the team of the Bank's management;
- development of organizational structure;
- increase of loan portfolio;
- sales expansion of banking products and services;
- attraction of new clients;
- increase of functionality of payment cards seeking to attract new cardholders;
- improvement of clients service quality;
- increase of popularity of the Bank's trademark;
- optimization of activity of outlets;
- expansion of ATMs network.

The Bank will be further developing an exceptional competence while stimulating development of SMEs in Lithuania.

17. The most important events during the accounting period

- On 20 January 2010 the European Investment Fund (EIF) and Šiaulių Bankas AB signed a cooperation agreement regarding the EUR 40 million for financing of Small and Medium-sized enterprises in Lithuania. Due to this transaction Šiaulių Bankas increased lending volumes and by implementing JEREMIE financial instrument allocated funds towards provision of risk-sharing loans.

- On 12 February 2010 Šiaulių bankas signed the agreement with the Finance Ministry of the Republic of Lithuania and became the participant of the Government Securities Auction of the Republic of Lithuania. The Bank is enabled to directly buy the Government's Securities on its and other clients' behalf in the auctions during the priority distribution, that are implemented by AB NASDAQ OMX Vilnius.

- On 23 March 2010 Šiaulių bankas AB acquired 100 per cent of shares and votes of SBTF UAB and Minera UAB. Purchased companies belonged to the Bank's subsidiaries before. At the time of acquisition authorised capitals of these enterprises was around LTL 1 million.

⏭ On 31 May 2010 Šiaulių bankas and the European Investment Bank (EIB) have signed an agreement regarding the LTL 20.72 million (EUR 6 million) intended for financing of modernisation projects of multi-apartment buildings. JESSICA financial instrument that assists in implementation of this programme is the initiative of the European Commission and the European Investment Bank intended to stimulate the investment of coherent urban projects' development. According to this modernisation programme preferential loans are provided for the period up to 20 years. Annual interest rate does not exceed 3 per cent.

⏭ On 22 June 2010 the amended Charter of Šiaulių bankas AB with the increased up to LTL 204 857 533 (EUR 59 330 843) authorized capital was registered in the Register of Legal Entities. The authorized capital increased by LTL 24 500 000.

⏭ On 29 November 2010 Šiaulių bankas and the European Investment Bank (EIB) signed the agreement of EUR 15 million regarding the additional modernization loans intended for the investments in energy efficiency improvement measures in multi-apartment buildings. Using JESSICA financial instrument, the received funds intended for the renovation programmes of multi-apartment buildings, implemented according to the previously approved modernization programme of multi-apartment buildings by the Government of the Republic of Lithuania, i.e. before the 1st September 2009.

⏭ On 2 December 2010 Šiaulių bankas joined to the global money transfer network of "MoneyGram International", which provides fast international money transfers in more than 190 countries.

18. Social responsibility

It is now three years since Šiaulių bankas is the member of the United Nations World Agreement; therefore, social responsibility, using of canons of the World Agreement in its activity as well as motivation of employees and partners to comply with the principles of responsible business is inseparable part of the Bank's activity. Šiaulių bankas seeks to be responsible to society, take charge of its employees, be honest and open with customers and environment friendly.

In 2010 Šiaulių bankas was actively working with small and medium-sized businesses by providing preferential loans to entrepreneurs, farmers and communities of multi-apartment buildings. The Bank together with the partners: Šiauliai Chamber of Commerce, Industry and Crafts, local authorities, business incubators, Public Institution Lithuanian Innovation Centre, Investicijų ir verslo garantijos UAB (INVEGA) and the European Investment Fund organized cycles of seminars, which lasted two months, where it was presented crediting opportunities in detail as well as new financial engineering instruments n Lithuania.

Šiaulių bankas actively participates in public and social life. For a number of years Šiaulių bankas and Šiauliai University are joined by a successful and mutual partnership. During the contest "For the best projects for Šiauliai city and business" organised by the City Municipalities, Šiauliai Chamber of Commerce, Industry and Crafts and Association of Šiauliai Industrialists since 2005 Šiaulių bankas each year grants premiums and incentive prizes to the students of the best ideas. In 2010 Šiaulių bankas supported "The sea festival, 2010", "The days of Šiauliai 2010", the opening night of "Vilnius Ballet" of the Theatre of Choreographic Project, a concert "Žvaigždės ir žvaigždės" organized by the Lithuanian Musicians' Support Fund and the International commemoration of disabled people "We are together". The Bank also contributed to the republican academic competition "F.IX. Junior'2010" to the pupils of gymnasium organized by Šiauliai University, to the republican horse race "Varėna 2010", awarded the winners of the competition "The best TAVA (Association of entrepreneurs of Tauragė district) enterprise", granted nominations during the international conference "A young entrepreneur Alytus-Suvalkai 2010" and to the participants of a conference "Business days 2010" and other.

A voluntary blood donation action became a nice continuous tradition. In 2010 the seventh campaign united the employees of Šiaulių bankas and Šiaulių bankas' Group as well as relatives and friends of the employees. During the reporting years the employees gathered to donate blood even for two times.

Environmental actions of Šiaulių bankas' Group are related with the reduction of paper use. With the usage of electronic documents' management systems the Bank and its subsidiary companies motivate the employees to reduce printing of unimportant documents, invite the customers to use electronic applications and suggest performing a lot of usual services via the Internet. The Bank motivates society by such actions to pay attention to certain unreasonable printing costs of documents and reminds on saving ways of money and time.

Šiaulių bankas is the family-friendly company. Each year summer sport event and Christmas events are organized to the employees and their family members. Šiaulių bankas for the third successive year participated in the charity campaign "The Kindness Day", arranged by LNK television, which was intended for fight with cancer.

Šiaulių bankas' Group is fostering responsible relations with employees. During the recession the enterprises belonging to the Bank's Group did not implement redundancy policy, did not force the employees to go on unpaid leave: it was some intellectual investment into the future, motivation of employees and ensuring of social guaranties. The Bank supports and honors the world human rights defense and is against the violation of human rights. The principles of democracy, person's physical and social safety as well as respect for individual freedom are fostered in the enterprises of Šiaulių bankas' Group

19. Paid dividends

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:

List of Baltic shares	2006	2007	2008	2009	2010
Per cent from the nominal value	2.00	2.00	2.00	0.00	0.00
Amount of dividends per share, in LTL	0.02	0.02	0.02	0.00	0.00
Amount of dividends, in LTL	1 694 400	2 180 784	3 220 670	0	0

Taxation of dividends. Profit taxation of legal entities is regulated by the Profit Law of the Republic of Lithuania No. IX-675 as of 20 December, 2001 and on its bases decisions and other legal acts adopted by the Government of the Republic of Lithuania. Paid dividends are charged with 15 per cent payment**.** Dividends of Lithuanian unit, possessing 10 per cent of issuer‘s capital for longer than one year, are not charged (with exceptions that are described in the Profit Law of the Republic of Lithuania). Dividends of foreign units are charged by applying a fee of 15 per cent income tax. If a foreign unit holds shares granting at least 10 per cent of votes for a period of at least 12 months, dividends paid to that foreign entity are not charged, except for the cases when a foreign entity receiving dividends is registered or differently organized in 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, the latter changes of this law as well as decisions adopted on the bases of this law.

Dividends are charged by 20 per cent tax, which is deducted and paid to the budget by the Bank in the established order.

20. Principles of the Internal audit performance

Internal Audit activity purposes, authorizations and functions are foreseen in the Internal Audit Staff Regulation, Methodology of the Internal Audit, which are prepared in accordance with the general organization regulations of the Internal Audit of the Bank approved by the Board of the Bank of Lithuania, International Internal Audit standards and the Code of ethics and are also approved in the Internal Audit Committee.

The Internal Audit Division by implementing its functions performs financial, eligibility, activity, management and informational system audit. A purpose of the Internal Audit: to independently and objectively audit the Banks' activity, to thoroughly and systematically evaluate the Bank's activity risk management, the efficiency of the internal control system processes, to assist the Bank in implementation of objectives by seeking to ensure that the objectives of the internal control could be achieved at the lowest cost and the functions of internal control would be efficiently implemented, which are foreseen in the normative documents of the Bank of Lithuania and Šiaulių bankas.

The Internal Audit Division is under direct control of the Internal Audit Committee and reports to the Internal Audit Committee at least every quarter. The Bank's Internal Audit Committee consists of 4 members: 3 supervisory council members of the Bank and one non-attached member. The purpose of the Internal Audit Committee – supervision of the bank's activity, internal control, risk management and internal audit system, the improvement of the Internal Audit Division work and ensuring of independent activity of internal audit division. The Internal Audit Committee performs functions foreseen in the regulations of the Internal Audit Committee approved by the Supervisory Council of the Bank. The Internal Audit Committee reports on its activity to the Bank Supervisory Council once a year.

The Internal Audit Division performs its functions by implementing annual and long-term 2009-2011activity plans, which are approved by the Internal Audit Committee. The employees of the Internal Audit Division follow the principles of good faith, objectivity, confidentiality and competence.

The employees of the Internal Audit prepare the inspection programme before each audit, which shall foresee the purpose, volume and time of audit. Inspection programme shall be coordinated with the Head of Internal Audit division. The prepared draft report is coordinated with the Head of Internal Audit Division, the Head of audited entity and relevant head of division. The prepared and coordinated report is submitted to the members of the Board.

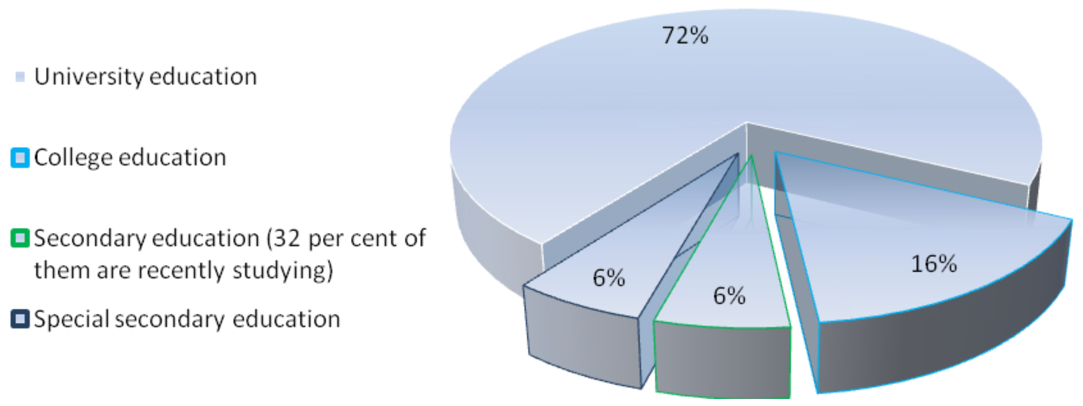
The heads of the Bank's divisions considering the recommendations and comments of the Internal Audit, approves the measures implementation plan of Recommendations prepared by the head of the audited subject and submitted in the report of Internal Audit. The Head of Internal Audit division considering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

Monitoring progress includes the overcoming shortcomings established during the inspection by the external audits and the Bank of Lithuania as well as implementation inspections of provided recommendations.

21. Employees

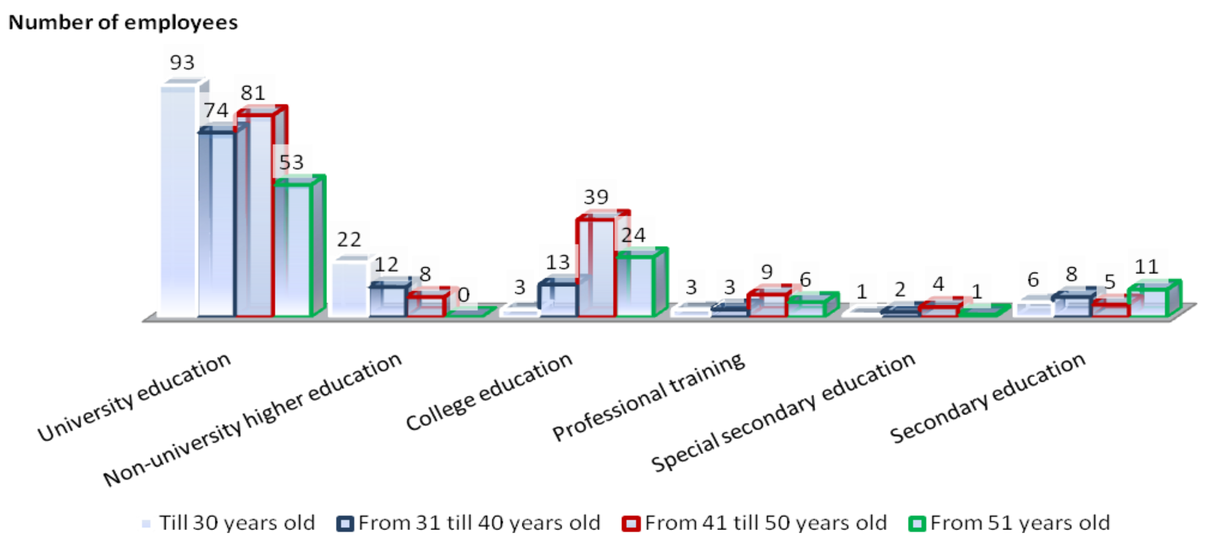
As of December 31st 2010, Šiaulių bankas employed 481 staff members. In comparison with 2009 the number of employees in the Bank increased by 1 per cent. At the end of the reporting period the enterprises of Šiaulių bankas Group employed 545 staff members.

72 per cent of the total number of Šiaulių bankas' employees had the university education, 16 per cent had college, 6 per cent - secondary education (32 per cent of them are recently studying) and 6 per cent had special secondary education.



Education of Šiaulių bankas' employees as of 31 December 2010

At the end of 2010 the average age of the Bank's employees was 39 years.



Education of Šiaulių bankas' employees by age as of 31 December 2010

Implementing the Human Resource policy the Bank seeks creating and developing the long-tem collaboration with its employees. 23 per cent of employees have been working in the bank for more than 10 years. The Bank's employees while providing financial services for the clients are helpful, reliable, effective and flexible. In 2010 the Remuneration Policy was approved where the attention is focused to the internal justice and external competitiveness principles.

The Bank seeks providing conditions for the employees to reveal themselves and develop; the Bank also creates modern work environment and seeks for opportunities to combine the employees' satisfaction and their commitments and thus ensuring the good quality of the performed tasks. The employees are provided with the opportunities to improve their competencies and skills in the internal and external seminars.

For the efficient use of the employees' competence, the Bank organizes internal contests to take up new positions, by providing career development possibilities for the employees. The enterprises of Šiaulių bankas group actively search for new employees among students.

The competent Bank employees participate in various events, conferences as lecturers. They also conduct seminars by presenting currents financial programs implemented by the Government of the Republic of Lithuania. The bank also assists in implementing these programs.

Each year Šiaulių bankas takes part in "Career days" in Šiaulių University , constantly is searching for the students wishing to be admitted for traineeship in the bank or offers to combine work and studies. Not only Šiaulių bankas but also Šiaulių bankas' Groups are actively searching for future employees among students, organize apprenticeships by providing a possibility for the future graduates to acquire necessary experience, form their working skills as well organize trainings at their work. The Bank seeking that the employees would quickly adapt to the fast changing environment and needs of clients, encourage the employees to provide offers on development of the Bank's products.

A team of professional and reliable staff is of great importance, because on their work quality depends whether customers will be satisfied with the services provided by the Bank. Each year the inspection of the Bank's outlets is performed. Based on the results the implemented Clients' service standard in the Bank is being developed and corrected.

Motivating the employees, the Bank's Group is implementing flexible and motivation stimulating decisions: creates programmes, revises the remunerations; the Bank‘s group each year organizes „The person of the year“ elections.

A responsible behavior with the employees, provided accident insurance, prophylactic medicine services, payments on personal occasions, gym membership, the Bank's summer and winter sport and free time festivities: it is only a part of activity with the personnel implemented by the Bank. The Bank took part in the election of most attractive employer where it was provided with the nomination "For the internal company's image"

Average monthly salary of the relevant employee group before taxes:

Employees' group	2008		2009		2010	
	Average Number of employees	Average monthly salary, LTL	Average Number of employees	Average monthly salary, LTL	Average Number of employees	Average monthly salary, LTL
Management	8	23 039	8	17 106	8	14 910
Officers	484	2 410	454	1 980	441	1 967

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 canceled 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 canceled because of changes in the bank‘s control.

Information about the Remuneration Committee: there is no Remuneration Committee in Šiaulių bankas.

22. The Bank's bodies

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

Exclusively the General Shareholders' Meeting:

- Amends Charter of the Bank, except of the cases, provided in the laws;
- Elects the Council or its individual members;
- Recalls the Council or its individual members;
- Elects and recalls the audit company, sets terms of payment for audit services;
- Approves annual financial statements of the Bank and business plan 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 Bbank 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 of the cases, provided in the laws;

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

The Council shall:

- Elect members of the Board and remove them from office, make recommendations to the Board regarding the candidature for the Chairman of the Board. Prior approval of the Council is necessary to obtain before setting salaries of the Board members who hold other positions in the Bank, Chief Executive Officer and his deputies, as well as other terms of labour contract. If the Bank operates at a loss, the Council must consider the suitability of the Board members for their positions;
- Elect members of the Internal Audit Committee;
- Supervise activities of the Board and the Chief Executive Officer;
- Supervise the implementation of business plans of the Bank, analyze the Bank's income and expenses, own investments and capital adequacy issues;
- Adopt Council work regulation;
- Approve business plans of the Bank and annual budget;
- Approve any type of policies related to the Bank's activities including the risk management policy;
- Approve the business strategy of every entity controlled by the Bank;
- Ensure the effective internal control system in the Bank;
- Make proposals and comments to the General Shareholders' Meeting on the Bank's work strategy, the Bank's annual financial statements, the draft of the profit (loss) distribution and the report on the Bank's activities as well as activities of the Board and the Chief Executive Officer of the Bank;
- Approve loan granting policy and set order of borrowing subject to Supervisory Board's

approval;

⏭ Make proposals to the Board and the Chief Executive Officer to cancel their resolutions that contradict the laws and other legal acts, this Charter or resolutions of the Meeting;

⏭ Set the list of transactions and resolutions, making or implementation of which is subject to the Council's approval;

⏭ Adopt resolutions, assigned to the Council's competence according to the orders, approved by the Council; such order shall be adopted by the Council following the laws, this Charter or resolutions of the Meeting;

⏭ Consider other matters, subject to its consideration or solution, provided for in the laws of this Charter or in the resolutions adopted by the Meeting.

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

The Board shall consider and approve:

⏭ The 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 execute the resolutions, adopted by the General Shareholders' Meeting and the Bank's Council.
The Board shall analyze and evaluate the material submitted by the Chief Executive Officer on:
⏭ Implementation of the Bank's activities strategy;
⏭ Arrangement of the Bank's activities;
⏭ Financial state of the Bank;
⏭ Results of economic activities, income and expenditure estimates, stock-taking data and other records of valuables.
⏭ The Board shall also analyze, assess the Bank's draft annual financial statements and draft of the profit (loss) allocation and submit them to the Board and Meeting. The Board shall determine the methods of estimating material asset amortization and intangible property depreciation.
⏭ 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;
⏭ Sets calculation rates for assets depreciation, applied in the Bank;
⏭ 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 statememnts;
⏭ 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.

23. Members of the Collegial bodies

The Bank's Supervisory Council

⏭ **Arvydas Salda** – a consultant of Šiaulių banko turto fondas UAB. The member of the Supervisory Council of Šiaulių bankas AB since 1991 (the Chairman of the Council since 1999).
⏭ **Sigitas Baguckas** – Procurist of Namų statyba UAB. Deputy Chairman of the Council of Šiaulių bankas AB since 2000, member of Council since 1991.
⏭ **Gintaras Kateiva** – an advisor of the director of Litagros mažmena UAB. Director General of Litagra UAB; a member of the Supervisory Council of Šiaulių bankas AB since 2008;
⏭ **Kastytis-Jonas Vyšniauskas** – Chairman of the Board of Sulinkiai UAB; member of the Supervisory Council of Šiaulių bankas AB since 1996.
⏭ **Vigintas Butkus** – Director of Mintaka UAB; Director of trade house Aiva UAB (secondary capacity). A member of the Supervisory Council of Šiaulių bankas AB since 2004.
⏭ **Vytautas Junevičius** – a consultant of Director General of Alita AB. A member of the Supervisory Council of Šiaulių bankas AB since 2006.
⏭ **Michael Anthony Hesketh** – Principal banker of the European Bank for Reconstruction and Development (EBRD). A member of the Supervisory Council of Šiaulių bankas AB since 2010.

The Bank's Board

⏭ **Algirdas Butkus** – the Chairman of the Board, Chief Executive Officer.
⏭ **Donatas Savickas** – Deputy Chairman of the Board, Deputy Chief Executive Officer, Head of Finance and Credit Division.
⏭ **Vita Adomaitytė** – member of the Board, Chief Financial Officer, Head of Accounting and Reporting Division.
⏭ **Jonas Bartkus** – member of the Board, Deputy Chief Executive Officer, Head of Business Development Division.
⏭ **Daiva Kiburienė** – member of the Board, Deputy Chief Executive Officer, Head of Corporate and Retail Banking Division.

Name, surname	Beginning/end of tenure	Share of capital under the right of ownership, %	Share of votes together with the related entities, %
Arvydas Salda	Beginning 27-03-2008 End 2012	2.97	48.26
Sigitas Baguckas	Beginning 27-03-2008 End 2012	0.75	48.26
Kastytis Jonas Vyšniauskas	Beginning 27-03-2008 End 2012	1.12	48.26
Vigintas Butkus	Beginning 27-03-2008 End 2012	0.44	48.26
Vytautas Junevičius	Beginning 27-03-2008 End 2012	0.15	48.26
Michael Anthony Hesketh	Beginning 29-03-2010 End 2012	-	-
Gintaras Kateiva	Beginning 27-03-2008 End 2012	7.18	48.26
Algirdas Butkus	Beginning 27-03-2008 End 2012	5.17	48.26
Donatas Savickas	Beginning 27-03-2008 End 2012	<0.01	48.26
Vita Adomaitytė	Beginning 27-03-2008 End 2012	0.02	48.26
Jonas Bartkus	Beginning 27-03-2008 End 2012	<0.01	48.26
Daiva Kiburienė	Beginning 27-03-2008 End 2012	0.01	48.26

Information on participation of the members of the Collegial Bodies and Chief Financial Officer in the activity and capital of other companies:

Name, surname	Participation in the activity of other companies (name of the company, position)	Participation in the capital of other companies (percentage in the capital over 5%)

Arvydas Salda	⏭ Member of the Council of Šiauliai University ⏭ Member of the Board of Klaipėdos LEZ valdymo bendrovė UAB ⏭ Member of the Board of LEZ Projektų valdymas UAB ⏭ A consultant of Šiaulių banko turto fondas UAB ⏭ Member of the Board of Pavasaris UAB	⏭ SLEZVB UAB – 11.05% ⏭ STIV UAB – 14.61%
Sigitas Baguckas	⏭ Procurist of Namų statyba UAB	⏭ Namų statyba UAB – 47.12%
Kastytis Jonas Vyšniauskas	⏭ Chairman of the Board of Sulinkiai UAB	⏭ Sulinkiai UAB – 13.82%
Vigintas Butkus	⏭ Director of trade house Aiva UAB ⏭ Director of Mintaka UAB (secondary capacity)	⏭ Šiaulių komercija AB – 9.82% ⏭ Aiva UAB – 9.25% ⏭ Mintaka UAB – 9.80%
Vytautas Junevičius	⏭ Companies' group Alita AB, Chairman of the Board and a consultant of Director General ⏭ Chairman of the Board of Anykščių vynas AB	⏭ ALT investicijos AB – 41.89% ⏭ Companies' group Alita AB – 41.90% ⏭ ,Aunuva UAB – 50.00%
Gintaras Kateiva	⏭ Director General and Chairman of the Board of Litagra UAB ⏭ Aan advisor of the Director of Litagros mažmena UAB	⏭ Litagra UAB – 49.11%
Michael Anthony Hesketh	⏭ Principal banker of the European Bank for Reconstruction and Development (EBRD). ⏭ Member of the Supervisory Council of TBC Bank (Georgia).	-
Algirdas Butkus	-	⏭ Trade house Aiva UAB – 66.35% ⏭ Šiaulių komercija AB – 19.99% ⏭ Visnorus UAB – 24.94% ⏭ Mintaka UAB – 68.08%
Donatas Savickas	-	-
Vita Adomaitytė	-	-
Jonas Bartkus	-	-
Daiva Kiburienė	-	-

Loans granted to the members of the Council and the Board of Šiaulių bankas as of December 31st 2010:

Members of management bodies	Granted loans, in thou LTL
Members of the Bank's Council	6 769
Members of the Bank's Board	16
TOTAL	6 785

There were no guarantees or warranties issued in 2010 regarding the fulfillment of liabilities of management bodies' members.

24. Transactions with related parties

There were transactions entered with related parties in the course of 2010. The related parties of the Bank are as follows: the members of the Bank's Supervisory Council and the Bank's Board, shareholders acting together under the Shareholders' Agreement, close family members of the mentioned related parties as well the Bank's subsidiaries and the companies which are controlled by the related parties, jointly controlled companies or companies, in which these related parties have a significant influence. All the transactions have been entered into normal market conditions. The comprehensive description of the transactions is provided in the explanatory note of the financial statement of Šiaulių bankas AB for 2010.

25. Data on the publicly disclosed information

Publicly disclosed information in the course of 2010:

- 27-01-2010 Opinion of the Board of Šiaulių bankas AB about the submitted mandatory non-competitive tender offer to buy shares of the Bank;
- 17-02-2010 The report on implementation of mandatory non-competitive tender offer has been received;
- 22-02-2010 Unaudited operating results of Šiaulių Bankas and the Bank's group for 2009;
- 26-02-2010 Interim financial information of Šiaulių bankas AB for 12 months of 2009;
- 03-03-2010 Corrected interim financial information for 12 months of 2009;
- 05-03-2010 Convocation of the Ordinary General Meeting of Shareholders;
- 09-03-2010 The draft resolutions for the Ordinary General Meeting of Shareholders to be held on 29 March 2010 regarding the agenda issues prepared by the Board of Šiaulių bankas AB;
- 10-03-2010 Draft resolutions prepared by the Board for the Ordinary General Shareholders Meeting to be held on 29 March 2010;
- 22-03-2010 Regarding the resignation of Šiaulių bankas AB Supervisory Council member;
- 24-03-2010 Enterprises for real estate management have been acquired;
- 29-03-2010 Resolutions of the Ordinary General Meeting of Shareholders;
- 30-03-2010 Audited annual information for 2009;
- 15-04-2010 Convocation of the Extraordinary General Meeting of Shareholders;
- 26-04-2010 Draft resolutions prepared by the Board for the Extraordinary General Shareholders Meeting to be held on 18 May 2010;
- 05-05-2010 The unaudited activity result for the first quarter of 2010 of Šiaulių bankas AB and the Bank's Group;
- 18-05-2010 Decisions of the Extraordinary General Meeting of Shareholders;
- 28-05-2010 Financial statements of Šiaulių bankas AB for the first quarter of 2010;
- 22-06-2010 Amended Charter with increased authorized capital has been registered;
- 07-07-2010 registered base prospectus of non-equity securities issue in the amount of LTL 200 000 000;
- 03-08-2010 Operating results of Šiaulių bankas for the first half-year of 2010;
- 31-08-2010 Interim financial information of Šiaulių bankas AB for 6 months of 2010;
- 15-10-2010 Convocation of the Extraordinary General Meeting of Shareholders;
- 15-10-2010 The draft resolutions prepared by the Board for the Extraordinary General Meeting of Shareholders to be held on 18 November 2010;
- 18-10-2010 New bonds issue;
- 21-10-2010 Regarding registration of non-equity securities;
- 29-10-2010 Unaudited Operating results of Šiaulių Bankas and the Bank's group for 9 months 2010;
- 09-11-2010 Changes in the draft resolutions of the Board for the Extraordinary General Meeting of Shareholders to be held on 18-11-2010;
- 17-11-2010 Interim information for the 9 months 2010;
- 18-11-2010 Resolutions of the Extraordinary General Meeting of Shareholders;
- Reports regarding the transactions with the Bank's shares made by the Bank's senior management.

Šiaulių bankas AB has informed the Securities Commission of the Republic of Lithuania and Vilnius Stock Exchange (AB NASDAQ OMX Vilnius) about all the stock events in accordance with the procedures set by the Charter and the legal acts of the Republic of Lithuania. Reports are announced in the Central regulated information base and on the Šiaulių bankas' website www.sb.lt.

Reports on the Meetings of Shareholders are additionally announced in the daily newspapers "Lietuvos rytas" and "Šiaulių kraštas".

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 in 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 annexed enclosed to the present report together with the financial statements of 2010. The entire information is also available on the website of Šiaulių bankas www.sb.lt.

Chairman of the Board Algirdas Butkus

04-03-2011

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	The Bank prepares (activity) business plans and provides them to the Bank of Lithuania. Only made and already implemented particular decisions are declared publicly. General purposes of the Bank, in attaining of which the Bank fulfills its mission, and the main business areas, aiming at exceptional competence, are made public: are available on the website of the Bank.
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	At the Bank the recommended management function is performed by the Board, supervision of the management bodies - the Bank's Supervisory Council.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Not applica ble	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 5 members; the Supervisory Council consists of 7 members. Taking into consideration the Bank's size, scope of activities and the number of shareholders such number of members is the most optimal. 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.
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. In the Bank's annual report the information on the Bank's Supervisory Council

		members‘ work activities as well as their participation in the activity of the other companies is presented.
3.4 In order to maintain a proper balance in terms of the current qualifications possessed by the members of collegial body, the collegial body should determine its desired composition with regard to the company's structure and activities, and evaluate this periodically. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration determination policy.	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 remuneration committee is not established in the Bank.
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	The members of the Supervisory Council perform their duties and seek avoiding the conflict of interests. The General Shareholders' Meeting makes a decision on whether to have or not to have an independent member and elected are those who receive the biggest number of votes. The shareholders offering the candidates to the Supervisory Council have their own opinion concerning what candidates will represent their interest in the Council best.
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:	No	The Supervisory Council does not have an independent member. See section 3.6.

1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;
2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;
3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);
4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);
5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group;
6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;
7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;
8) He/she has not been in the position of a member of the collegial body for over than 12 years;
9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.

3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.

3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Not applicable	See sections 3.6; 3.7.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Not applicable	See sections 3.6; 3.7
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.	Not applicable	See sections 3.6; 3.7.
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance	Yes	The Supervisory Council performs all the control and monitoring functions within its competence assigned by the company regarding the management performance. The Supervisory Council shall submit its responses and offers to each General Shareholders' Meeting.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes/No	The members of the Supervisory Council act in good faith with regard to the Bank and according to 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. There is no independent member in the Supervisory Council.

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 are concluded according standard conditions performing usual banking activities. Not all transactions are approved by the collegial body.
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/No	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. The remuneration committee is not established in the Bank.
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	Yes/No	The Bank has formed the Audit Committee. The Nomination and Remuneration Committees are not formed. The functions of these committees are performed by the Supervisory Council itself.

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.		
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should act independently and based on integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes/No	The Audit Committee submits the Supervisory Council recommendations regarding its decisions. The Nomination and Remuneration Committees are not formed. The functions of these committees are performed by the Supervisory Council itself.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to refresh membership and that undue reliance is not placed on particular individuals.	Yes/No	The Audit Committee consists of 4 members. It consists of 3 Bank Supervisory Council members and 1 independent member. The Nomination and Remuneration Committees are not formed.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes/No	The authority delegated to the Audit Committee as well as its accounting are set in the Committee's provisions approved by the Supervisory Council. The Bank 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.
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.

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.	No	There is no Nomination Committee at the Bank. The Supervisory Council itself performs the activity attributed to this Committee.
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.		
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: • Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; • Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; • 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	No	There is no Remuneration Committee at the Bank.

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: • 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	Yes	The Audit Committee in the Bank consists of 4 members: 3 Supervisory Council members and 1 independent member.

applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; • Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		

4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No/Yes	The Bank does not have practice of assessment of the Supervisory Council's performance and making it public. Information about the internal organisation of Supervisory Council (chairman, deputy and members) is announced on the website of the Bank, annual and interim reports. Composition of the Audit Committee is provided in the Prospects of securities issue.
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.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month	Yes	The Meetings of the Supervisory Council are carried not less than 4 times a year. The interval between two meetings cannot be longer than 4 months. The Meetings of the Bank's Board are carried not less than once a month.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	

5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The ordinary registered shares that comprise the Bank's authorized capital grant the same rights all their holders.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares	Yes	The rights provided by the newly issued shares are described in the Securities prospects.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No/Yes	The decisions regarding the long-term assets the balance value of which exceeds 1/20 of the Bank's authorized capital, purchase, pledge or hypothec as well as liabilities of other persons the amount of which exceeds 1/20 of the Bank's authorized capital are made by the Bank's Board. Shareholders are aware of important transactions by the Bank's announcement on stock events.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	

6.5. If is possible, in order to ensure the foreigners the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting, including decisions projects of the meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The Bank's shareholders may participate in the general shareholders' meeting in person or through their representative. The voting is possible by filling the general voting bulletin.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by providing opportunity to the shareholders to vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	No	The Bank is not ready and does not suppose it is necessary to use the modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. Foreigners shareholders participate in the meeting via their representatives, the voting instructions to whom usually provide with the SWIFT notifications.

Principle VII:
The avoidance of conflicts of interest and their disclosure

The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.

7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	
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.	No	The Bank does not prepare a report of the company's remuneration policy and does not declares it publicly being of the opinion that such information is not to be published. In the scope set by the valid requirements, the average salaries are declared in the Bank's annual reports and prospects of securities issue.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	Not applicable	See section 8.1.
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 ;	Not applicable	See section 8.1.

•Sufficient information on retention of shares after vesting, as referred to in point 8.15 of this Code; •Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; •A description of the main characteristics of supplementary pension or early retirement schemes for directors. •The remuneration report can not contain confidential information in a commercial view.		
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	See section 8.1.
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; • 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;	Not applicable	See section 8.1

• 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.	Not applicable	See section 8.1
8.7. Award of variable components of remuneration should be subject to predetermined and measurable activity's results evaluation criteria.	Not applicable	See section 8.1
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.	Not applicable	See section 8.1
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.	Not applicable	See section 8.1
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	See section 8.1
8.11. Termination payments should not be paid if the termination is due to inadequate activity's results	Not applicable	See section 8.1
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.	Not applicable	See section 8.1
8.13. Shares should not vest for at least three years after their award in case the remuneration is share-based.	Not applicable	Heads of the bank are not rewarded with shares, share options or the other rights to acquire shares for the work
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,	Not applicable	See section 8.13.

should be subject to predetermined and measurable activity's results evaluated criteria.		
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).	Not applica ble	See section 8.13.
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Not applica ble	See section 8.13.
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	See section 8.1
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.	Not applica ble	See section 8.13.
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.	Not applica ble	See section 8.13.
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'	Not applica ble	See section 8.13.

approval.		
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 8.22.

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 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. 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. 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 Yes Yes/No 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. The information regarding the professional experience of the Supervisory Council and the Bank Board, and capacities taken in other companies is provided in the Annual Reports of the Bank as well as international reports. The information regarding received remuneration of the particular person is not published. The information regarding income in average values is published in the Annual Report of the Bank.
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	

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	
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Yes/No	The Bank's firm of auditors during the accounting year provided non-audit services to the Bank: organized trainings and consultations. A report about this information was not prepared; the Bank's Council is informed on this issue.

Chairman of the Board Algirdas Butkus

04-03-2011