ŠIAULIŲ BANKAS

FINANCIAL STATEMENTS

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AUDITOR'S REPORT

To the shareholders of AB Šiaulių bankas

1. We have audited the accompanying balance sheets of AB Šiaulių bankas (hereinafter "the Bank") and its subsidiaries (hereinafter "the Group") as at 31 December 2002 and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2002 and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the IASB.

24 March 2003

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler	Irena Petruškevičienė
Partner	Auditor's Certificate No. 000208

ŠIAULIŲ BANKAS

(All amounts are in LTL thousand, if not otherwise stated)

THE GROUP AND BANK INCOME STATEMENT

		Year ended			
		31 December 2002		31 December 2001	
	Notes	Group	Bank	Group	Bank
Interest income		27,836	26,248	21,431	21,020
Interest expense		(12,467)	(12,504)	(10,535)	(10,611)
Net interest income	1	**15,369**	**13,744**	**10,896**	**10,409**
Expenses for provisions for loans and accrued interest	2	(1,283)	(1,275)	(1,116)	(1,116)
Net interest income after provisions		**14,086**	**12,469**	**9,780**	**9,293**
Fee and commission income		6,944	5,478	5,716	4,785
Fee and commission expense		(817)	(815)	(772)	(767)
Net interest, fee and commissions income		**20,213**	**17,132**	**14,724**	**13,311**
Net gain on operations with securities and financial instruments	3	875	1,729	1,704	1,670
Net foreign exchange gain		2,084	2,171	1,189	1,197
Operating income		**23,172**	**21,032**	**17,617**	**16,178**
Operating expenses	4	(16,990)	(15,847)	(13,588)	(12,627)
Provisions for other doubtful assets	5	(243)	111	(116)	(39)
Other income		687	267	293	241
Other expenses	6	(2,850)	(2,223)	(1,543)	(1,416)
Profit before tax and minority interest		**3,776**	**3,340**	**2,663**	**2,337**
Profit tax	7	(182)	106	(103)	78
Profit after tax before minority interest		**3,594**	**3,446**	**2,560**	**2,415**
Minority interest		(148)	-	(145)	-
Net profit		**3,446**	**3,446**	**2,415**	**2,415**
Earnings per share (in LTL per share)	8	5.15	5.15	3.60	3.60

The accounting policies and notes on pages 8 to 36 are an integral part of these financial statements.

ŠIAULIŲ BANKAS

(All amounts are in LTL thousand, if not otherwise stated)

THE GROUP AND BANK BALANCE SHEET

		Year ended			
		31 December 2002		31 December 2001	
	Notes	Group	Bank	Group	Bank
Assets					
Cash and balances with central banks	9	32,602	32,599	32,451	32,446
Treasury bills		-	-	497	497
Due from other banks and financial institutions	10	10,089	61,327	21,319	40,251
Trading securities	11	4,320	4,320	462	462
Derivative financial instruments	12	88	88	38	38
Loans	13	249,315	249,372	165,251	165,243
Leasing	14	30,312	-	10,928	-
Investment securities:					
– available-for-sale	15	23,307	21,219	36,494	32,705
– held-to-maturity	15	50,264	49,824	10,301	10,301
Investments in subsidiaries and associates	16	1,914	3,499	1,344	1,807
Negative goodwill and other intangible assets	17	1,396	2,095	2,048	2,036
Fixed assets	18	23,956	21,659	18,710	16,954
Other assets	19	31,300	8,509	12,100	7,478
Total assets		**458,863**	**454,511**	**311,943**	**310,218**
Liabilities					
Due to other banks and financial institutions	20	106,787	106,790	76,922	77,030
Derivative financial instruments	12	48	48	35	35
Deposits	21	291,584	291,590	185,995	185,995
Special and lending funds	22	60	60	88	88
Other liabilities	23	12,339	8,915	9,204	7,717
Total liabilities		**410,818**	**407,403**	**272,244**	**270,865**
Minority interest		937	-	346	-
Shareholders' equity					
Share capital	24	38,021	38,021	34,021	34,021
Less: treasury shares		-	-	(671)	(671)
Fixed asset revaluation reserve		303	303	303	303
Restricted earnings reserve		774	774	803	803
Other reserves		4,314	4,314	1,326	1,326
Retained earnings		3,696	3,696	3,571	3,571
Total shareholders equity		**47,108**	**47,108**	**39,353**	**39,353**
Total liabilities and equity		**458,863**	**454,511**	**311,943**	**310,218**

Other reserves

These financial statements have been approved by the Board on 24 March 2003 and signed on its behalf by:

Chairman of the Board
Algirdas Butkus

Chief Financial Officer
Vita Adomaitytė

The accounting policies and notes on pages 8 to 36 are an integral part of these financial statements.

ŠIAULIŲ BANKAS

(All amounts are in LTL thousand, if not otherwise stated)

THE GROUP AND BANK STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Notes	Registered share capital	Treasury shares	Fixed asset revaluation reserve	Restricted earnings reserve	Other reserves	Retained earnings	Total
As at 31 December 2000		**34,021**	**(391)**	**424**	**446**	**1,326**	**2,266**	**38,092**
Dividends		-	-	-	-	-	(680)	(680)
Transfer to restricted earnings reserve		-	-	-	500	-	(500)	-
Revaluation reserve adjustment		-	-	(121)	-	-	70	(51)
Treasury share net acquisition at nominal value		-	(280)	-	-	-	-	(280)
Net premium paid on transactions with treasury shares		-	(143)	-	-	-	-	(143)
Transfer to restricted earnings reserve		-	143	-	(143)	-	-	-
Net profit for the year		-	-	-	-	-	2,415	2,415
As at 31 December 2001		**34,021**	**(671)**	**303**	**803**	**1,326**	**3,571**	**39,353**
Dividends	24	-	-	-	-	-	(333)	(333)
Transfer to reserves						2,988	(2,988)	-
Issue of share capital	24	4,000	-	-	-	-	-	4,000
Treasury share net disposal at nominal value	24	-	671	-	-	-	-	671
Net premium paid on transactions with treasury shares		-	(29)	-	-	-	-	(29)
Transfer to restricted earnings reserve	24	-	29	-	(29)	-	-	-
Net profit for the year		-	-	-	-	-	3,446	3,446
As at 31 December 2002	**24**	**38,021**	**-**	**303**	**774**	**4,314**	**3,696**	**47,108**

The accounting policies and notes on pages 8 to 36 are an integral part of these financial statements.

ŠIAULIŲ BANKAS

(All amounts are in LTL thousand, if not otherwise stated)

THE GROUP AND BANK CASH FLOW STATEMENT

		Year ended			
		31 December 2002		31 December 2001	
	Notes	Group	Bank	Group	Bank
Operating activities					
Income (expense)					
Interest income		27,522	25,631	21,402	21,020
Interest expense		(12,631)	(12,669)	(10,535)	(10,611)
Collected previously written-off loans		426	426	4	4
Net income from operations in foreign currency		2,367	2,363	1,532	1,532
Net income from operations in securities		1118	719	580	141
Net income from service and commission fees		6,127	4,663	4,944	4,018
Salaries and related expenses		(9,168)	(8,270)	(7,111)	(6,537)
Other expenses		(7,881)	(6,716)	(6,045)	(5,711)
Operating result		7,880	6,147	4,771	3,856
(Increase) decrease in short-term assets					
Increase in compulsory reserves with the central bank		(1,640)	(1,640)	(796)	(796)
(Increase) decrease in loans to credit and financial institutions		2,939	(29,367)	(2,400)	(18,535)
Increase in loans granted		(107,017)	(87,352)	(54,468)	(46,643)
(Increase) decrease in other short-term assets		(18,013)	(271)	(3,494)	235
Change in short-term assets		(123,731)	(118,630)	(61,158)	(65,739)
Increase (decrease) in liabilities					
Increase in liabilities to credit and financial institutions		29,833	29,734	41,470	41,576
Increase in deposits and letters of credit		105,593	105,593	62,798	62,798
Increase in other liabilities		2,637	1,081	2,291	1,178
Change in liabilities		138,063	136,408	106,559	105,552
Net cash flow from operating activities before tax		**22,212**	**23,925**	**50,172**	**43,669**
Tax (paid) recovered		-	-	(72)	(69)
Net cash flow from operating activities		**22,212**	**23,925**	**50,100**	**43,600**
Investing activities					
Purchase of tangible and intangible fixed assets		(6,706)	(6,034)	(3,522)	(1,744)
Investments in securities		(32,151)	(34,534)	(28,509)	(23,751)

The accounting policies and notes on pages 8 to 36 are an integral part of these financial statements.

ŠIAULIŲ BANKAS

(All amounts are in LTL thousand, if not otherwise stated)

THE GROUP AND BANK CASH FLOW STATEMENT (CONTINUED)

		Year ended			
		31 December 2002		31 December 2001	
	Notes	Group	Bank	Group	Bank
Dividends received		10	10	58	26
Net cash flow from investing activities		**(38,847)**	**(40,558)**	**(31,973)**	**(25,469)**
Financing activities					
Issue of share capital		4,000	4,000	-	-
Net purchase of treasury shares		642	642	(423)	(423)
Dividends paid		(333)	(333)	(680)	(680)
Other		-	-	233	233
Net cash flow from financing activities		**4,309**	**4,309**	**(870)**	**(870)**
Net increase (decrease) in cash and cash equivalents		**(12,326)**	**(12,324)**	**17,257**	**17,261**
Cash and cash equivalents at 1 January		52,037	52,032	34,780	34,771
Cash and cash equivalents at 31 December	**26**	**39,711**	**39,708**	**52,037**	**52,032**

The accounting policies and notes on pages 8 to 36 are an integral part of these financial statements.

ŠIAULIŲ BANKAS

(All amounts are in LTL thousand, if not otherwise stated)

GENERAL BACKGROUND

AB Šiaulių bankas 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. At the end of the reporting period the Bank had 11 branches and 21 client service units.

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

The Bank owns the following subsidiaries:

- UAB Šiaulių Banko Lizingas;
- UAB Šiaulių Banko Investicijų Valdymas;
- UAB Šiaulių Banko Faktoringas, registered on 30 July 2002 and;
- UAB Šiaulių Banko Turto Fondas, registered on 13 August 2002, and this company has the following subsidiary;
    - UAB Pajūrio Alka, control of which was acquired on 21 October 2002.

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

ACCOUNTING POLICIES

Basis of preparation

The financial statements of the company are prepared in accordance with International Financial Reporting Standards. The financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities, financial assets and financial liabilities held for trading and all derivative contracts.

The preparation of financial statements in conformity with generally accepted accounting principles requires 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.

The Group adopted IAS 39 Financial Instruments: Recognition and Measurement in 2001. The financial effects of adopting IAS 39 were reported in the previous year's financial statements.

Amounts shown in these financial statements are presented in the local currency, Litas (LTL). The exchange rate of the Litas was fixed to US Dollar throughout the period since incorporation to 1 February 2002 at a rate of 4 LTL = 1 USD. On 2 February 2002 the exchange rate of the Litas was pegged to Euro at a rate of 3.4528 LTL = 1 EUR.

(All amounts are in LTL thousand, if not otherwise stated)

Consolidation

Assets and liabilities of subsidiaries are consolidated on a line-by-line basis, following elimination of inter-group balances. Investments in associates are accounted for by the equity method.

Subsidiaries are defined as companies in which the Group, directly or indirectly, has control, i.e. the power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up and liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Associates are entities over which the Group has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control.

In the Bank's statements, investments in the subsidiaries are accounted for using equity method. An increase or decrease in investment value during the reporting year is included in the Bank's income statement.

Financing of acquisitions of shares by strategic investors

When acquisitions of shares by strategic investors are financed, the Group recognises the amounts receivable as assets, although in some cases the Group formally acquires the ownership of the shares of the investee and at the same time contractually commits itself to sell the investment to the strategic investor over a certain period. At the time of the transaction, the receivable is accounted for at the value equal to the cost incurred by the Group. Interest on the financing provided is charged to income over the period of financing at the effective interest rate calculated at the time of the transaction.

Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into Lithuanian litas (LTL) at the official rate of the Bank of Lithuania prevailing at the reporting period end. Gains and losses arising from this translation are included in the income statement for the period. All non-monetary items are translated at historical rates.

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

Derivative financial instruments

Derivative financial instruments including foreign exchange forwards and swaps are initially recognised in the balance sheet at cost and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices or applying pricing models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

(All amounts are in LTL thousand, if not otherwise stated)

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in income.

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 positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in income.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 12.

Recognition of income and expenses

Interest income and expense are recognised in the income statement on an accrual basis using the effective yield method based on the actual purchase price. Interest due on non-performing commitments is no longer accrued when one interest payment period elapsed from the date when debt servicing was due. Interest accrued but not paid is provided for at the same percentage rate as the principal amount to which it relates.

Commission fees, certain taxes and other similar income and expenses that are recognised as gained or incurred.

Cash received during an accounting period which is not recognised as income of this period is shown in the balance sheet as liabilities and expenses made during an accounting period which are not recognised as expenses of an accounting period are shown in the balance sheet as assets.

Taxation

Profit tax

In accordance with the Lithuanian Law on Corporate Profit Tax, the current profit tax rate is 15% (2001: 15%) on taxable income. Expenses related with taxation charges and included in these financial statements are based on calculations made by the management in accordance with Lithuanian tax legislation.

Deferred taxation is provided on all temporary differences between the accounting and taxation treatment of income and expenses. Where an overall deferred taxation asset arises, this is only recognised in the financial statements to the extent that its recoverability can be foreseen by the management as being probable.

Other taxes

Road tax of 1% is imposed on income from interest margin and on other income. Real estate tax rate is 1% on the tax value of property, plant and equipment and foreclosed assets. These taxes are included in other expenses in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise the cash, other valuables, correspondent bank account balances, correspondent account and term deposits with the Bank of Lithuania and short-term treasury bills.

Trading securities

Trading securities are securities which

(All amounts are in LTL thousand, if not otherwise stated)

were either acquired 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 cost (which includes transaction costs) and subsequently re-measured at fair value, which is based on quoted bid prices or derived from a discounted cash flow model if market price is unreliable measure. All related realised and unrealised gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income. Dividends received are included in Other income from equity securities.

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

Investment securities

Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognised at cost (which includes transaction costs). Available-for-sale financial assets are subsequently re-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 investment securities classified as available-for-sale are recognised as they arise in the income statement.

Held-to-maturity investments are carried 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.

Interest earned whilst holding investment securities is reported as interest income. Dividends receivable are included separately in dividend income when a dividend is received.

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

Originated loans and provisions for loan impairment

Loans originated by the Group by providing money directly to the borrower (or to a sub-participation agent at draw down) are categorised as loans originated by the Group and are carried at amortised cost. All loans and advances are recognised when cash is advanced to borrowers.

A credit risk provision for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash

(All amounts are in LTL thousand, if not otherwise stated)

flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception.

General provisions on the loan portfolio are established to take account of losses that experience indicates exist but not yet specifically identified in the loan portfolio taken as a whole.

Specific provisions on interest already accrued but not paid and for guarantees issued are calculated in the same way as for loans.

Amounts receivable from finance lease

Rights and liabilities arising from finance lease activities are recognised at the date of transfer of the asset to the lessee. Until that day, the payment from the prospective lessee is considered as a prepayment.

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.

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.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associate at the date of acquisition. Goodwill is reported in the balance sheet as an intangible asset and is amortised using the straight-line method over its estimated useful life. At each balance sheet date the Group assesses whether there is any indication of impairment. A write down is made if the carrying amount exceeds the recoverable amount.

Negative goodwill represents the excess, as at the date of the exchange transaction, of the Group's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is reported in the balance sheet as a deduction from intangible assets.

The amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets is recognised as income on a straight-line basis over the remaining weighted average useful life of the identifiable acquired depreciable assets and negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is recognised as income immediately.

The gain or loss on disposal of an entity includes the related unamortised balance of goodwill relating to the entity disposed.

Fixed assets

Fixed assets are held at historical cost plus revaluation less accumulated depreciation. Depreciation is provided on a straight-line basis to write off proportionally the cost of each asset over its estimated useful life. Revaluation of fixed assets was performed by indexation of cost of fixed assets and accumulated depreciation and by recording the change in the revaluation reserves using the revaluation indices for the different asset categories set by the Government in 1993 to 1995.

(All amounts are in LTL thousand, if not otherwise stated)

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately. Gains and losses on disposals of fixed assets are determined by reference to their carrying amount and are charged to the income statement.

Acquisition of assets with the estimated useful life of less than one year and the cost of no more than LTL 500 are charged to the income statement during the period of their acquisition.

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

Investment property

Land and buildings that are held to earn rentals or for capital appreciation or both are accounted for as investment property.

An investment property is measured initially at its cost (including transaction costs). After initial recognition, the investment property is measured at its fair value, except for in the exceptional cases that there is clear evidence when an enterprise first acquires an investment property that the enterprise will not be able to determine the fair value of certain investment property reliably on a continuing basis, the investment property is measured at depreciated acquisition cost.

A gain or loss arising from a change in the fair value of investment property is included in net profit or loss for the period in which it arises.

Foreclosed assets

Buildings foreclosed from defaulted loan customers, which qualifies for being classified as investment property, is accounted for as investment property.

Other assets foreclosed from defaulted loan customers and other assets kept for sales are stated at the lower of cost and estimated market value, determined by the independent valuers or the Bank's internal valuers.

Borrowings

Borrowings are recognised initially at 'cost', being their issue proceeds net of transaction costs incurred. Subsequently borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective yield method.

Dividends

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

Treasury shares

The nominal value of treasury shares held is accounted for as a deduction from registered share capital. All premiums and discounts to nominal value of trading in treasury shares are accounted for under shareholders' equity. The net gain or loss is charged against a restricted earnings reserve specifically allocated by the shareholders for that purpose.

(All amounts are in LTL thousand, if not otherwise stated)

Fiduciary activities

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

Fair value of assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. Where, in the opinion of the Board, fair values of financial assets and liabilities differ materially from book values, such fair values are separately disclosed in the notes to the financial statements.

FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

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

The 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 performance, and other bonds.

Capital adequacy

The capital adequacy ratio is calculated in accordance with the rules approved by the Bank of Lithuania, which are based on the Basel Committee recommendations. The Bank of Lithuania requires local commercial banks to maintain a minimum capital adequacy ratio of 10%.

	Group					Bank
	31 December 2002	31 December 2001	31 March 2002	30 June 2002	30 September 2002	31 December 2002
Calculated capital	45,712	35,691	35,207	36,122	36,967	41,866
Risk weighted assets and off balance sheet items	356,496	219,891	242,034	286,351	307,750	349,444
Capital adequacy ratio	12.82	16.23	14.55	12.61	12.01	11.98

(All amounts are in LTL thousand, if not otherwise stated)

Credit risk

The Group takes on exposure to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers and to industry segments. Such risks are monitored on a rolling basis and subject to an annual or more frequent review. The structures of borrowers and lessees by are disclosed in Notes 13 and 14, respectively.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to them, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused amount since most commitments are contingent upon customers maintaining specific credit standards.

Liquidity risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

Note 27 analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The Group's (Bank's) liabilities on demand exceed assets with similar duration, however, the Bank's liquidity ratio, calculated using the methodology approved by the Bank of Lithuania, is 44.61% (2001: 62.61%). The Bank of Lithuania requires that the liquidity ratio should not be less than 30%. In the opinion of the management of the Bank, the Group and Bank's liquidity is sufficient to meet its operating needs.

Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Bank's exposure to foreign currency exchange rate risk is summarised in Note 28.

Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken. The Bank's exposure to interest rate risk is summarised in Note 29.

ŠIAULIŲ BANKAS

(All amounts are in LTL thousand, if not otherwise stated)

BUSINESS SEGMENTS

The main business of the Group and Bank is conducted in Lithuania.

Below, there is a summary of major indicators for the main segments of the Group for the year ended on 31 December 2002:

	Retail banking	Business banking	Other	Total banking	Leasing	Factoring	Investment management	Real estate management	Total Group
Interest income	1,846	18,848	4,010	24,704	3,097	-	25	10	27,836
Interest expense	(6,243)	(2,339)	(2,378)	(10,960)	(1,255)	(55)	(152)	(45)	(12,647)
Net interest income	(4,397)	16,509	1,632	13,744	1,842	(55)	(127)	(35)	15,369
Net interest income after provisions	(4,212)	14,873	1,808	12,469	1,842	(55)	(135)	(35)	14,086
Net interest and commissions income	(3,627)	19,553	1,008	16,934	2,764	126	394	(5)	20,213
Operating income	(2,181)	21,356	499	19,674	2,644	127	732	(5)	23,172
Other income				247	403	-	32	5	687
Other expenses				(17,954)	(1,729)	(47)	(496)	143	(20,083)
Profit before tax				1,967	1,319	80	267	143	3,776
Profit tax gain (expense)				106	(236)	(12)	(45)	5	(182)
Segment's profit after tax				2,073	1,083	68	222	148	3,594
Minority interest				-	-	-	(85)	(63)	(148)
Net profit				**2,073**	**1,083**	**68**	**137**	**85**	**3,446**
Total assets of the segment				**398,213**	**34,329**	**8,785**	**9,725**	**7,811**	**458,863**
Capital expenditure:				6,679	137	24	522	9	7,371
Amortisation of intangible assets				(487)	(12)	-	(2)	-	(501)
Depreciation				(1,507)	(72)	(1)	(50)	(1)	(1,631)

(All amounts are in LTL thousand, if not otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 NET INTEREST INCOME

	2002		2001	
	Group	Bank	Group	Bank
Interest income:				
on loans to credit and financial institutions and placements with credit institutions	411	1,910	369	1,045
on other loans	23,723	20,694	19,043	17,956
on debt securities acquired	3,702	3,644	2,019	2,019
Total interest income	27,836	26,248	21,431	21,020
Interest expense:				
on liabilities to central banks	(388)	(388)	(402)	(402)
on liabilities to credit and financial institutions and amounts due to credit institutions	(3,497)	(3,534)	(3,009)	(3,085)
on deposits and other repayable funds	(8,582)	(8,582)	(7,124)	(7,124)
Total interest expense	(12,467)	(12,504)	(10,535)	(10,611)
Net interest income	**15,369**	**13,744**	**10,896**	**10,409**

NOTE 2 EXPENSES FOR PROVISIONS FOR LOANS AND ACCRUED INTEREST

	For loans	For accrued interest	Total
Group			
Increase (decrease) of specific provisions, net	1,468	(9)	1,459
Increase of general provisions	250	-	250
Recovered written off loans	(426)	-	(426)
Expenses for provisions in 2002	**1,292**	**(9)**	**1,283**
Increase of specific provisions, net	806	14	820
Increase of general provisions	300	-	300
Recovered written off loans	(4)	-	(4)
Expenses for provisions in 2001	**1,102**	**14**	**1,116**
Bank			
Increase (decrease) of specific provisions, net	1,460	(9)	1,451
Increase of general provisions	250	-	250
Recovered written off loans	(426)	-	(426)
Expenses for provisions in 2002	**1,284**	**(9)**	**1,275**
Increase of specific provisions, net	806	14	820
Increase of general provisions	300	-	300
Recovered written off loans	(4)	-	(4)
Expenses for provisions in 2001	**1,102**	**14**	**1,116**

(All amounts are in LTL thousand, if not otherwise stated)

NOTE 3 NET GAIN ON OPERATIONS WITH SECURITIES AND FINANCIAL INSTRUMENTS

	2002		2001	
	Group	Bank	Group	Bank
Debt securities, including treasury bills:				
Realised gain	852	850	82	82
Unrealised gain (loss)	(1)	(1)	844	844
Net income from debt securities	851	849	926	926
Equity securities:				
Realised gain (loss)	266	(131)	498	59
Unrealised loss	(252)	(228)	(14)	(14)
Other income from equity securities	10	10	58	26
Net income from equity securities	24	(349)	542	71
Net income from other financial instruments	-	-	236	236
Associated companies:				
Revaluation of investments in associated companies	-	1.229	-	437
Total	**875**	**1,729**	**1,704**	**1,670**

NOTE 4 OPERATING EXPENSES

	2002		2001	
	Group	Bank	Group	Bank
Salaries, social insurance and other related expenses	9,168	8,270	7,111	6,537
Rent of premises and maintenance expenses	2,318	2,255	1,359	1,339
Transportation, post and communications expenses	1,603	1,499	1,185	1,131
Advertising and marketing expenses	278	258	291	266
Training and business trip expenses	242	140	153	118
Other operating expenses	1,511	1,431	1,828	1,674
Amortisation of negative goodwill	(262)	-	-	-
Amortisation of other intangible assets	501	487	337	320
Depreciation of fixed assets	1,631	1,507	1,324	1,242
Total	**16,990**	**15,847**	**13,588**	**12,627**

NOTE 5 PROVISIONS FOR OTHER DOUBTFUL ASSETS

	2002		2001	
	Group	Bank	Group	Bank
Expenses for (release of) provisions on:				
foreclosed assets and investment properties	(232)	(232)	39	39
receivables for sold foreclosed assets	121	121	-	-
finance lease receivable	354	-	77	-
Total	**243**	**(111)**	**116**	**39**

(All amounts are in LTL thousand, if not otherwise stated)

NOTE 6 OTHER EXPENSES

	2002		2001	
	Group	Bank	Group	Bank
Fees for compulsory insurance of deposits	1,107	1,107	656	656
Taxes	570	383	645	553
Other expenses	1,173	733	242	207
Total	**2,850**	**2,223**	**1,543**	**1,416**

NOTE 7 PROFIT TAX

	2002		2001	
	Group	Bank	Group	Bank
Calculated profit tax for the year (see below)	293	-	181	-
Corrections of previous year profit tax	-	-	(103)	(103)
Change of deferred tax liability (see below)	(111)	(106)	25	25
Total	**182**	**(106)**	**103**	**(78)**

Profit tax for the year

	2002		2001	
Bank				
Profit before tax	3,446		2,337	
Calculated profit tax at 15% rate (2001: 24%)		517		561
Permanent differences:				
Non-taxable income	(5,450)		(2,682)	
Non-deductible expenses	1,052		714	
Total permanent differences	(4,398)		(1,968)	
Temporary differences:				
Unrealised profit from revaluation of securities	(491)		(885)	
Other	248		(105)	
Total temporary differences	(243)		(990)	
Total differences	(4,155)		(2,958)	
Profit tax adjustment		(517)		(561)
Profit tax of the Bank		**-**		**-**
Subsidiaries				
Profit before tax	1,664		763	
Calculated profit tax at 15% rate (2001: 24%)		250		183
Permanent differences:				
Non-taxable income, limited to amount of profit before tax	(199)		(245)	
Non-deductible expenses	533		122	
Total permanent differences	334		(123)	
Temporary differences:	(46)		115	
Profit tax adjustment		43		(2)
Profit tax of the Group		**293**		**181**

(All amounts are in LTL thousand, if not otherwise stated)

NOTE 7 PROFIT TAX (CONTINUED)

Deferred tax

	2002		2001	
	Group	Bank	Group	Bank
Deferred tax liability brought forward	**(106)**	**(106)**	**(81)**	**(81)**
Adjustment because of change of tax rate	-	-	30	30
Adjusted deferred tax liability brought forward	(106)	(106)	(51)	(51)
Changes of deferred tax (at the rate of 15%):				
Because of tax loss	190	179	94	94
Because of temporary differences arising during the year	(43)	(36)	(132)	(149)
Calculated deferred tax asset (liability)	41	37	(89)	(106)
Recovery allowance for deferred tax asset	(41)	(37)	(17)	-
Deferred tax liability arising on acquisition of Pajūrio Alka UAB				
Balance at the acquisition	(120)	-	-	-
Change during the year	5	-	-	-
Closing deferred tax liability	**(115)**	**-**	**(106)**	**(106)**
Deferred tax (gain) expenses during the year	**(111)**	**(106)**	**25**	**25**

NOTE 8 EARNINGS PER SHARE

Earnings per share were calculated by dividing the Group's (Bank's) net profit for the period by the weighted average number of ordinary registered shares issued during the period.

Group (Bank)	2002	2001
Net profit	3,446	2,415
Weighted average number of issued shares	669,294	671,262
Earnings per share (in LTL)	**5.15**	**3.60**

NOTE 9 CASH AND BALANCES WITH CENTRAL BANKS

	2002		2001	
	Group	Bank	Group	Bank
Cash and other valuables	11,787	11,784	10,320	10,315
Placements with Central Bank:				
Correspondent account with central bank	-	-	9,885	9,885
Mandatory reserves in national currency	14,226	14,226	7,297	7,297
Mandatory reserves in foreign currency	6,589	6,589	4,949	4,949
Total placements with Central Bank	20,815	20,815	22,131	22,131
Total	**32,602**	**32,599**	**32,451**	**32,446**

(All amounts are in LTL thousand, if not otherwise stated)

NOTE 9 CASH AND BALANCES WITH CENTRAL BANKS (CONTINUED)

Mandatory reserves comprise the funds calculated on a monthly basis as an 6% (2001: 8%) 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 non-interest bearing deposits under the Bank of Lithuania's regulations. Mandatory reserves in foreign currency are not available to finance the Bank's day-to-day operations.

NOTE 10 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	2002		2001	
	Group	Bank	Group	Bank
Due from banks and financial institutions:				
Correspondent bank accounts	5,928	5,928	14,219	14,219
Time deposits with banks	1,561	1,511	6,600	6,600
Total due from banks and financial institutions	7,489	7,439	20,819	20,819
Loans granted to financial institutions	2,600	53,888	500	19,432
Total	**10,089**	**61,327**	**21,319**	**40,251**

NOTE 11 TRADING SECURITIES

Trading securities comprise equity securities of entities incorporated in Lithuania, which are acquired by the Group with the objective to earn profit during a short term.

NOTE 12 DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilises the following derivative instruments:

- Currency forwards, which represent commitments to purchase foreign and domestic currency in the future.
- Currency swaps, which are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. The Group's credit risk represents the potential cost to replace the swap contracts if counter parties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses the creditworthiness of the counter parties.

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

(All amounts are in LTL thousand, if not otherwise stated)

NOTE 12 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The fair values of derivative instruments (foreign exchange forwards and swaps) held as at 31 December 2002 are set out in the following table:

Group (Bank)	2002	2001
Nominal amount		
Purchase	18,829	8,506
Sale	(18,789)	(8,503)
Fair values:		
Assets	88	38
Liabilities	(48)	(35)

NOTE 13 LOANS

All loans are originated by the Bank.

	2002		2001	
	Group	Bank	Group	Bank
Gross loans granted	251,061	251,113	168,542	168,534
Specific provisions	(1,196)	(1,191)	(2,991)	(2,991)
General provisions	(550)	(550)	(300)	(300)
Total	**249,315**	**249,372**	**165,251**	**165,243**

Impairment of loans

As at 31 December 2002, the outstanding principal amount of loans on which interest income is no longer accrued amounted to kLTL 4,956 (2001: kLTL 3,766).

Movement in provisions for impairment is as follows:

	Group (Bank)
Balance sheet	
Provisions at 31 December 2000	3,309
Provisions for loans written off	(1,118)
Exchange rate and other adjustments	(6)
Increase in specific provisions (see Note 2)	806
Increase in general provisions (see Note 2)	300
Provisions at 31 December 2001	**3,291**
Provisions for loans written off	(3,223)
Exchange rate and other adjustments	(37)
Increase in specific provisions (see Note 2)	1,460
Increase in general provisions (see Note 2)	250
Provisions at 31 December 2002	**1,741**

(All amounts are in LTL thousand, if not otherwise stated)

NOTE 13 LOANS (CONTINUED)

Segment information

Bank	2002	2001
Gross loans granted to corporate entities by industry sectors:		
Agriculture, hunting and forestry	12,495	8,883
Manufacturing	54,002	38,510
Utilities	5,143	3,686
Construction	33,189	18,581
Trading	67,941	59,505
Transportation	19,492	6,641
Real estate, rent	14,003	7,462
State governance and compulsory social security	5,988	10,594
Other industry sectors	19,090	6,141
Total gross loans to corporate entities	231,343	160,003
Loans to individuals	19,770	8,531
Total	**251,113**	**168,534**

As at 31 December 2002 and 2001, all loans were granted to Lithuanian residents and companies incorporated in Lithuania.

NOTE 14 LEASING

	Up to one year	From 1 to 5 years	Total
Gross investments in leasing:			
Balance at 31 December 2001	8,247	4,087	12,334
Change during 2002	17,734	4,258	21,992
Balance at 31 December 2002	25,981	8,345	34,326
Unearned finance income on finance leases:			
Balance at 31 December 2001	821	505	1,326
Change during 2002	1,570	692	2,262
Balance at 31 December 2002	2,391	1,197	3,588
Net investments in leasing before provisions:			
31 December 2001	7,426	3,582	11,008
31 December 2002	23,590	7,148	30,738
Changes in provisions:			
Balance as at 31 December 2000			8
Increase (decrease) in provisions			72
Balance as at 31 December 2001			80
Increase in provisions			346
Balance as at 31 December 2002			426
Net investments in leasing after provisions:			
31 December 2001			10,928
31 December 2002			30,312

(All amounts are in LTL thousand, if not otherwise stated)

NOTE 14 LEASING (CONTINUED)

Segment information

	2002	2001
By type of lessees:		
Individuals	16,385	7,915
Corporate entities	14,353	3,093
Net investments before provisions	**30,738**	**11,008**
By type of assets:		
Computers and computer equipment	6,834	2,374
Cargo vehicles	3,347	2,146
Equipment	6,641	1,903
Automobiles	2,889	1,793
Television and audio devices	4,950	875
Software	1,064	600
Plastic windows	1,500	504
Commercial premises	1,764	492
Other	1,749	321
Net investments before provisions	**30,738**	**11,008**

All lessees operate in Lithuania.

NOTE 15 INVESTMENT SECURITIES

	2002		2001	
	Group	Bank	Group	Bank
Securities available-for-sale:				
Government bonds of the Republic of Lithuania	20,405	20,405	29,716	29,716
Unlisted equity securities	2,902	814	6,778	2,989
Total securities available-for-sale	23,307	21,219	36,494	32,705
Securities held-to-maturity:				
Debt securities of the Republic of Lithuania	50,264	49,824	10,055	10,055
Unlisted corporate bonds	-	-	246	246
Total securities held-to-maturity	50,264	49,824	10,301	10,301
TOTAL INVESTMENT SECURITIES	**73,571**	**71,043**	**46,795**	**43,006**

(All amounts are in LTL thousand, if not otherwise stated)

NOTE 16 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Group

Investments in associates consist of investments by the investment subsidiary that are not expected to be disposed of within 12 months from the acquisition.

Bank			2002		2001
	Share in equity	Acquisition cost	Carrying value	Acquisition cost	Carrying value
Investments in consolidated subsidiaries:					
Šiaulių Banko Lizingas, UAB	100.0%	1.000	2,232	1,000	1,278
Šiaulių Banko Investicijų Valdymas, UAB	60.4%	453	810	302	529
Šiaulių Banko Faktoringas, UAB	100.0%	10	72	-	-
Šiaulių Banko Turto Fondas, UAB	60.4%	302	385	-	-
Total			**3,499**		**1,807**

In 2002, the Bank participated in increase of share capital of Šiaulių Banko Investicijų Valdymas, UAB and retained its share in the capital and voting rights of this Company.

NOTE 17 NEGATIVE GOODWILL AND OTHER INTANGIBLE ASSETS

		Group		Bank
	Negative goodwill	Software and licences	Total	Software and licences
31 December 2001:				
Cost	-	2,629	2,629	2,598
Accumulated amortisation	-	(581)	(581)	(562)
Net book value	**-**	**2,048**	**2,048**	**2,036**
Year ended on 31 December 2002:				
Net book value at 1 January	-	2,048	2,048	2,036
Acquisitions	(983)	570	(413)	546
Amortisation charge	262	(501)	(239)	(487)
Net book value at 31 December	(721)	2,117	1,396	2,095
31 December 2002:				
Cost	(983)	3,199	2,216	3,144
Accumulated amortisation	262	(1,082)	(820)	(1,049)
Net book value	**(721)**	**2,117**	**1,396**	**2,095**
Economic life (in years)	1-5	1-5		3-5

No Bank's intangible assets were leased as a 31 December 2002 (2001: assets of net book value of kLTL 826 were leased from the leasing subsidiary).

Negative goodwill is arisen on the acquisition of Pajūrio Alka, UAB.

(All amounts are in LTL thousand, if not otherwise stated)

NOTE 18 FIXED ASSETS

	Buildings and premises	Vehicles	Office equipment	Construction in progress	Total
Group					
31 December 2001:					
Cost/valuation	15,491	1,190	6,059	9	22,749
Accumulated depreciation	(799)	(608)	(2,632)	-	(4,039)
Net book value	**14,692**	**582**	**3,427**	**9**	**18,710**
Year ended on 31 December 2002:					
Net book value at 1 January	14,692	582	3,427	9	18,710
Acquisitions	5,471	952	2,603	-	9,026
Disposals and write-offs	(2,151)	(59)	(6)	(9)	(2,225)
Reclassifications from/to other assets	76	-	-	-	76
Depreciation charge	(220)	(229)	(1,182)	-	(1,631)
Net book value at 31 December	17,868	1246	4,842	-	23,956
31 December 2002:					
Cost/valuation	18,910	1,685	8,206	-	28,801
Accumulated depreciation	(1,042)	(439)	(3,364)	-	(4,845)
Net book value	**17,868**	**1,246**	**4,842**	**-**	**23,956**
Economic life (in years)	5-80	5-6	3-22	-	
Bank					
31 December 2001:					
Cost/valuation	13,888	1,117	5,888	9	20,902
Accumulated depreciation	(780)	(590)	(2,578)	-	(3,948)
Net book value	**13,108**	**527**	**3,310**	**9**	**16,954**
Year ended on 31 December 2002:					
Net book value at 1 January	13,108	527	3,310	9	16,954
Acquisitions	5,061	725	2,530	-	8,316
Disposals and write-offs	(2,111)	(59)	(1)	(9)	(2,180)
Reclassifications from/to other assets	76	-	-	-	76
Depreciation charge	(199)	(189)	(1,119)	-	(1,507)
Net book value at 31 December	15,935	1,004	4,720	-	21,659
31 December 2002:					
Cost/valuation	16,939	1,383	7,983	-	26,305
Accumulated depreciation	(1,004)	(379)	(3,263)	-	(4,646)
Net book value	**15,935**	**1,004**	**4,720**	**-**	**21,659**
Economic life (in years)	5-80	5	3-22	-	

As at 31 December 2002 and 31 December 2001, the fixed assets were not pledged to a third party.
No Bank's fixed assets were leased as a 31 December 2002 (2001: assets of net book value of kLTL 622 were leased from the leasing subsidiary).

(All amounts are in LTL thousand, if not otherwise stated)

NOTE 19 OTHER ASSETS

	2002		2001	
	Group	Bank	Group	Bank
Factoring receivable	8,886	-	3,037	-
Investment properties (see table below)	6,152	1,087	1,137	1,137
Real estate projects under development	2,426	-	-	-
Investment financing receivables	1,441	-	-	-
Foreclosed assets, other than investment properties	930	930	1,752	1,752
Accrued interest income, net of provisions	1,891	1,803	1,195	1,133
Deferred expenses	828	713	683	623
Other assets	8,746	3,976	4,296	2,833
TOTAL	**31,300**	**8,509**	**12,100**	**7,478**

Investment properties

Investment properties are valued at fair value, which is estimated by professional independent valuers, based on expected unforced sales price of the property in the short or medium term.

Movement of investment properties in 2002 is as follows:

	Group	Bank
At 31 December 2001	1,137	1,137
Decrease of fair value in 2002	(50)	(50)
Acquisitions (resulted from acquisition of Pajūrio Alka, UAB)	5,065	-
At 31 December 2002	6,152	1,087

NOTE 20 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	2002		2001	
	Group	Bank	Group	Bank
Funds of credit and financial institutions:				
Correspondent accounts and demand deposits	9,293	9,296	876	984
Time deposits	31,599	31,599	14,320	14,320
Other liabilities	35,520	35,520	34,224	34,224
Total funds of credit and financial institutions	76,412	76,415	49,420	49,528
Loans received:				
Loans from international organisations	17,264	17,264	17,636	17,636
Loan from the Bank of Lithuania	9,658	9,658	9,866	9,866
Loan from other banks	3,453	3,453	-	-
Total loans from banks	30,375	30,375	27,502	27,502
Total	**106,787**	**106,790**	**76,922**	**77,030**

(All amounts are in LTL thousand, if not otherwise stated)

NOTE 20 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS (CONTINUED)

Loans from the Bank of Lithuania comprise loans received according to the EU PHARE Small and Medium Sized Enterprise Financing Programme.

NOTE 21 DEPOSITS

	2002		2001	
	Group	Bank	Group	Bank
Demand deposits:				
National government institutions	1,237	1,237	802	802
Local government institutions	11,315	11,315	10,137	10,137
Governmental and municipality companies	8,188	8,188	6,103	6,103
Corporate entities	52,893	52,899	37,323	37,323
Non-profit organisations	2,389	2,389	1,302	1,302
Individuals	20,843	20,843	10,044	10,044
Total demand deposits	96,865	96,871	65,711	65,711
Term deposits:				
National government institutions	8,536	8,536	968	968
Local government institutions	503	503	1,700	1,700
Governmental and municipality companies	1,788	1,788	3,357	3,357
Corporate entities	23,153	23,153	13,870	13,870
Non-profit organisations	406	406	384	384
Individuals	160,333	160,333	100,005	100,005
Total term deposits	194,719	194,719	120,284	120,284
Total	**291,584**	**291,590**	**185,995**	**185,995**

NOTE 22 SPECIAL AND LENDING FUNDS

Special and lending funds consist from compulsory social and health insurance funds. Special funds have to be available to their providers on their first demand.

NOTE 23 OTHER LIABILITIES

	2002		2001	
	Group	Bank	Group	Bank
Accrued expenses	1,784	1,472	1,352	1,352
Deferred income	226	6	160	9
Deferred tax liabilities (Note 7)	115	-	106	106
Other	10,214	7,437	7,586	6,250
TOTAL	**12,339**	**8,915**	**9,204**	**7,717**

(All amounts are in LTL thousand, if not otherwise stated)

NOTE 24 SHARE CAPITAL

The share capital of the Bank is divided into 760,420 ordinary shares with the nominal value of LTL 50 each as at 31 December 2002. In 2002, 80,000 new shares were issued at their nominal value of LTL 50. The increased share capital was registered on 18 December 2002. All shares are fully paid.

As of 31 December 2002 the key shareholders of the Bank are listed in the table below:

Shareholders	Number of shares	%
Prekybos namai Aiva and related parties, UAB	76,032	9.9987
Mintaka, UAB	69,025	9.1
Kaminera, UAB	58,792	7.7
Šiaulių plentas and related parties, AB	41,949	5.5
Šiaulių titanas and related parties, AB	40,651	5.3
G.Kateiva	38,443	5.1
Total	**324,892**	**42.7**

Another 8 shareholders or shareholder groups each had more than 3% of the Bank's share capital. As at 31 December 2002, there were approximately 720 shareholders of the Bank (2001: approximately 760).

Shares of 2 subsidiaries of the bank were held by individuals related to the shareholders of the Bank:

		UAB Šiaulių banko investicijų valdymas		UAB Šiaulių banko turto fondas	
Shareholders	Related shareholder of the Bank	Number of shares (nominal value: LTL 10)	%	Number of shares (nominal value: LTL 100)	%
A. Butkus	Prekybos namai Aiva UAB	4,332	5.8	180	3.6
A. Armalas	Šiaulių plentas AB	-	-	180	3.6
S. Valius	Šiaulių titanas AB	1,485	2.0	180	3.6
G. Kateiva	G.Kateiva	-	-	180	3.6
D. Vyšniauskas	D.Vyšniauskas	-	-	180	3.6
K.-J. Vyšniauskas	D.Vyšniauskas	4,332	5.8	180	3.6
V. Junevičius	Alita AB	4,332	5.8	180	3.6
S. Baguckas	Namų statyba AB	4,332	5.8	180	3.6
A. Salda	Šiaulių LEZ valdymo bendrovė UAB	4,332	5.8	180	3.6
R. Valskis	Šiaulių vandenys UAB	4,332	5.8	180	3.6
Subtotal		**27,477**	**36.6**	**1,800**	**36.0**
Investicija TŪB		2,223	3.0	-	-
G. Šaulys		-	-	180	3.6
Šiaulių bankas AB		45,300	60.4	3,020	60.4
Total		**75,000**	**100.0**	**5,000**	**100.0**

(All amounts are in LTL thousand, if not otherwise stated)

NOTE 24 SHARE CAPITAL (CONTINUED)

Dividends

In 2002, the annual general meeting decided to pay 1% dividends to the holders of the ordinary shares (2001: 2%).

Restricted earnings reserve

The restricted earnings reserve has been set up in accordance with regulatory requirements to allow the Bank to trade in its own shares.

Own share purchases at prices different from the ruling market price

In 2002, all purchases of treasury shares were made in the central market of the NSEL. In addition, the Bank entered one over the counter transaction at which disposed all 15,785 treasury shares held, at the price equal to that in the central market at the time of the transaction. In 2002, the average price of AB Šiaulių bankas shares in the NSEL was as follows: in the central market: LTL 47 per share, in over the counter transactions: LTL 59 per share.

In 2001, the average purchase price of treasury shares was LTL 55.4 per share and average sales price was LTL 48.5 per share. The average market price of AB Šiaulių bankas shares on the National Stock Exchange of Lithuania during 2001 fluctuated around its nominal value of LTL 50.

NOTE 25 CONTINGENT LIABILITIES AND COMMITMENTS

Legal claims. As at 31 December 2002 there was one known legal case against the Bank outstanding, amounting to approximately LTL 1 million. In the opinion of the management, the claim is not grounded and will not require outflow of resources to settle it.

Guarantees, letters of credit, commitments to grant loans and other commitments. As at 31 December 2002 the Bank had outstanding guarantees, letters of credit and commitments to grant loans amounting to kLTL 18,083, kLTL 6,222 and kLTL 37,083, respectively. No provisions were established for these commitments as at 31 December 2002.

Commitments to grant finance lease and acquire assets. As at 31 December 2002, the leasing subsidiary had effective agreements signed with sellers regarding assets meant for finance lease for the total of kLTL 360 (in 2001: kLTL 1,697). Furthermore, as at 31 December 2002, the leasing subsidiary had not yet transferred assets to the clients according to some leasing agreements in effect. The total value of such leasing agreements amounted to kLTL 266.

(All amounts are in LTL thousand, if not otherwise stated)

NOTE 26 CASH AND CASH EQUIVALENTS

	2002		2001	
	Group	Bank	Group	Bank
Cash	11,784	11,781	10,317	10,312
Other valuables	3	3	3	3
Correspondent accounts with other banks	5,928	5,928	14,219	14,219
Correspondent accounts with the central bank	0	0	9,885	9,885
Compulsory reserves with central bank	14,226	14,226	7,297	7,297
Short term treasury bills	7,770	7,770	10,316	10,316
Total	**39,711**	**39,708**	**52,037**	**52,032**

NOTE 27 LIQUIDITY RISK

The structure of the Bank's assets and liabilities by maturity as at 31 December 2002 is 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 balances with central banks	26,010	-	-	-	-	-	-	6,589	32,599
Due from other banks	5,928	21,381	32,007	-	2,000	-	-	11	61,327
Trading securities	-	-	-	-	-	-	-	4,320	4,320
Derivative financial instruments	-	74	-	14	-	-	-	-	88
Loans	-	13,004	23,251	35,744	72,127	74,175	29,482	1,589	249,372
Investment securities									
– available-for-sale	-	548	111	1,083	2,852	6,069	7,396	3,160	21,219
– held-to-maturity	-	-	-	1,073	9,377	6,737	22,982	9,655	49,824
Investments in associates	-	-	-	-	-	-	-	3,499	3,499
Intangible assets	-	-	-	-	-	-	-	2,095	2,095
Fixed assets	-	-	-	-	-	-	-	21,659	21,659
Other assets	736	1,895	367	354	637	1,149	718	2,653	8,509
Total assets	**32,674**	**36,902**	**55,736**	**38,268**	**86,993**	**88,130**	**60,578**	**55,230**	**454,511**
Liabilities and shareholders' equity									
Due to other banks	3,596	23,364	2,973	6,413	6,336	42,625	21,477	6	106,790
Derivative financial instruments	-	35	-	13	-	-	-	-	48
Deposits	96,871	34,429	52,019	45,601	48,009	11,408	3,250	3	291,590
Special and lending funds	60	-	-	-	-	-	-	-	60
Other liabilities	3,730	1,892	2,819	326	-	-	-	148	8,915

(All amounts are in LTL thousand, if not otherwise stated)

NOTE 27 LIQUIDITY RISK (CONTINUED)

	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
Shareholders' equity	-	-	-	-	-	-	-	47,108	47,108
Total liabilities and shareholders' equity	**104,257**	**59,720**	**57,811**	**52,353**	**54,345**	**54,033**	**24,727**	**47,265**	**454,511**

The structure of the Bank's assets and liabilities by maturity as at 31 December 2001 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	41,970	29,761	31,486	24,010	50,677	68,656	27,560	36,098	310,218
Liabilities and shareholders' equity	71,365	29,660	32,908	33,061	56,258	22,020	25,351	39,595	310,218

The Bank's liquidity ratios calculated using the rules approved by the Bank of Lithuania were as follows at the end of each month of the reporting period:

	Liquid assets	Current liabilities	Liquidity ratio (per cent)
31 December 2001	99,685	159,224	62.61
31 January 2002	100,262	159,318	62.93
28 February 2002	105,362	170,567	61.77
31 March 2002	91,368	172,728	52.90
30 April 2002	101,909	179,709	56.71
31 May 2002	87,582	184,461	47.48
30 June 2002	93,564	187,983	49.77
31 July 2002	92,641	206,904	44.77
31 August 2002	76,783	210,195	36.53
30 September 2002	101,848	224,614	45.34
31 October 2002	121,556	240,273	50.59
30 November 2002	120,645	259,364	46.52
31 December 2002	115,639	259,195	44.61

(All amounts are in LTL thousand, if not otherwise stated)

NOTE 28 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS

The Bank's open positions of prevailing currencies as at 31 December 2002 were as follows:

	EUR	USD	Other currencies	Total currencies	LTL	TOTAL
Assets						
Cash and balances with central banks	2,355	8,472	408	11,235	21,364	32,599
Due from other banks	2,490	5,562	849	8,901	52,426	61,327
Trading securities	-	-	-	-	4,320	4,320
Derivative financial instruments	-	-	-	-	88	88
Loans, gross	37,500	49,524	-	87,024	162,348	249,372
Investment securities						
– available-for-sale	-	-	-	-	21,219	21,219
– held-to-maturity	-	-	-	-	49,824	49,824
Investments in associates	-	-	-	-	3,499	3,499
Intangible assets	-	-	-	-	2,095	2,095
Fixed assets	-	-	-	-	21,659	21,659
Other assets, gross	767	451	1	1,219	7,290	8,509
Total assets	**43,112**	**64,009**	**1,258**	**108,379**	**346,132**	**454,511**
Liabilities and shareholders' equity						
Due to other banks	30,375	14,050	-	44,425	62,365	106,790
Derivative financial instruments	-	-	-	-	48	48
Deposits	14,397	58,865	554	73,816	217,774	291,590
Special and lending funds	-	-	-	-	60	60
Other liabilities	1,811	4,755	81	6,647	2,268	8,915
Shareholders' equity	-	-	-	-	47,108	47,108
Total liabilities and shareholders' equity	**46,583**	**77,670**	**635**	**124,888**	**329,623**	**454,511**
Net balance sheet position	**(3,471)**	**(13,661)**	**623**	**(16,509)**	**16,509**	**-**
Off-balance sheet position	**2**	**13,677**	**(141)**	**13,538**		
Net open position	**(3,469)**	**16**	**482**	**(2,971)**		

The Bank's open positions of prevailing currencies as at 31 December 2001 were as follows:

	EUR	USD	Other currencies	Total currencies	LTL	TOTAL
Assets	36,162	87,030	432	123,624	186,594	310,218
Liabilities and shareholders' equity	35,803	86,548	252	122,603	187,615	310,218
Net balance sheet position	**359**	**482**	**180**	**1,021**	**(1,021)**	
Off balance position	(2)	3	-	1	(1)	-
Net position	**357**	**485**	**180**	**1,022**	**(1,022)**	**-**

(All amounts are in LTL thousand, if not otherwise stated)

NOTE 28 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS (CONTINUED)

According to the regulations approved by the Bank of Lithuania, the overall open 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.

The Bank has also extended 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 29 INTEREST RATE RISK

The table below summarizes the Bank's interest rate risks as at 31 December 2002. The Bank's assets and liabilities shown at their carrying amounts categorized by the earlier of contractual repricing or maturity dates.

	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 balances with central banks	-	-	-	-	-	32,599	32,599
Due from other banks	21,381	32,007	-	2,000	-	5,939	61,327
Trading securities	-	-	-	-	-	4,320	4,320
Derivative financial instruments	-	-	-	-	-	88	88
Loans, gross	30,324	21,170	88,116	60,105	47,645	2,012	249,372
Investment securities							
– available-for-sale	548	111	1,083	2,852	16,625	-	21,219
– held-to-maturity	-	-	1,073	9,377	39,374	-	49,824
Investments in associates	-	-	-	-	-	3,499	3,499
Intangible assets	-	-	-	-	-	2,095	2,095
Fixed assets	-	-	-	-	-	21,659	21,659
Other assets, gross	-	-	-	-	-	8,509	8,509
Total assets	**52,253**	**53,288**	**90,272**	**74,334**	**103,644**	**80,720**	**454,511**
Liabilities and shareholders' equity							
Due to other banks	47,137	2,973	23,677	12,836	16,565	3,602	106,790
Derivative financial instruments	-	-	-	-	-	48	48
Deposits and special and lending funds	34,452	52,139	51,571	54,685	1,870	96,933	291,650
Other liabilities	-	-	-	-	-	8,915	8,915
Shareholders' equity	-	-	-	-	-	47,108	47,108
Total liabilities and shareholders' equity	**81,589**	**55,112**	**75,248**	**67,521**	**18,435**	**156,606**	**454,511**
Interest rate sensitivity gap	**(29,336)**	**(1,824)**	**15,024**	**6,813**	**85,209**	**(75,886)**	

(All amounts are in LTL thousand, if not otherwise stated)

NOTE 29 INTEREST RATE RISK (CONTINUED)

The table below summarizes the Bank's interest rate risks as at 31 December 2001:

	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	48,485	38,559	32,307	42,776	69,444	78,647	310,218
Liabilities and shareholders' equity	54,418	32,754	43,043	45,801	20,295	113,907	310,218
Interest rate sensitivity gap	**(5,933)**	**5,805**	**(10,736)**	**(3,025)**	**49,149**	**(35,260)**	**-**

NOTE 30 RELATED PARTY TRANSACTIONS

In accordance with the Lithuanian Law on Commercial Banks, related parties are defined as follows: owners of a block of shares in the bank and its subsidiaries, their spouses, parents and children or enterprises in which these persons have acquired or hold, directly and/or indirectly, more than 20% of equity capital, as well as members of the council and the board of the bank and its subsidiaries, auditors, chief executive officers and bank branch managers and their spouses, parents and children or enterprises in which these persons have acquired or hold, directly and/or indirectly, more than 20% of equity capital.

For the purposes of these financial statements, parties are also considered to be related if one party has the ability to control, or exercise significant influence over, the other party in making financial or operational decisions.

In the normal course of business, the Bank enters into banking transactions with large shareholders, members of the Council and the Board as well as subsidiaries. During 2002, a number of banking transactions were entered into with related parties in the normal course of business. These include settlements, loans, deposits and foreign currency transactions.

The balances of loans granted by the Bank to related parties, except for subsidiaries and associated companies, and their average annual interest rates (calculated as weighted average) was as follows:

	31 December 2002		31 December 2001	
	Principal of loans outstanding	Average annual interest rate, per cent	Principal of loans outstanding	Average annual interest rate, per cent
Shareholders and related parties	27,881	6.4	16,912	8.7
Other related parties	-	-	1,157	9.9
Total	**27,881**		**18,069**	

As at 31 December 2002 and during the year deposits from related parties were accepted on an arm's length principle.

(All amounts are in LTL thousand, if not otherwise stated)

Note 31 CONCENTRATION EXPOSURE

As at 31 December 2002, the largest single exposure comprising loans to several related borrowers treated as a single borrower, not secured by Government guarantees, amounted to LTL 9.8 million (all amount represents commitments to provide credit facilities), which is 23.4% of the Bank's calculated capital.

NOTE 32 STOCK BROKERAGE DEPARTMENT ACTIVITIES

The volume of activities of Stock brokerage department of the bank is disclosed below:

	2002	2001
Number of contracts for managing securities accounts and for transactions	144	422
Total value of transactions in the NSEL	99,020	43,100
Number of issuers, whose securities are accounted by the department	4	4

As at 31 December the size of the portfolio managed by Stock brokerage department is as follows:

	2002	2001
Bank's:		
Treasury bills and government bonds	52,494	33,019
Equity securities	2,894	1,264
Total Bank's	**55,388**	**34,283**
On behalf of clients:		
Treasury bills and government bonds	4,558	4,138
Equity securities	23,651	18,341
Equity securities of issuers	7,673	7,372
Equity securities of the Bank	8,992	7,905
Total on behalf of clients	**44,874**	**37,756**

Income that is allocated to the Stock brokerage department is as follows:

	2002	2001
Interest income for Lithuanian treasury bills and government bonds	3,644	2,019
Income from debt securities	850	82
Income from debt securities	42	194
Commission charged	71	59
Income for distribution of Savings bonds of the government	22	116
Dividends received	10	26
Other income	20	19
Total income	**4,659**	**2,515**